



FOLEY FAMILY WINES

**FOLEY FAMILY WINES LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2016**



**FOLEY FAMILY WINES  
ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2016**

**CONTENTS**

	<b>PAGE/S</b>
<b>DIRECTORS AND CHIEF EXECUTIVE OFFICER (CEO) REPORT</b>	<b>2-4</b>
<b>FINANCIAL STATEMENTS</b>	
DIRECTORS' RESPONSIBILITY STATEMENT	5
INCOME STATEMENT	6
STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF FINANCIAL POSITION	8-9
STATEMENTS OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11-46
<b>AUDITOR'S REPORT</b>	<b>47-48</b>
<b>CORPORATE GOVERNANCE STATEMENT</b>	<b>49-52</b>
<b>STATUTORY INFORMATION</b>	<b>53-56</b>



# FOLEY FAMILY WINES

## DIRECTORS AND CEO REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

The Directors of Foley Family Wines Limited (FFW) are pleased to announce the 2016 operating results and annual report for the 12 months ended 30 June 2016.

#### Performance highlights

- Bottled Sales revenue of \$33m – up 4.7%
- Operating Profit before revaluations and tax \$4.3m – up 23%
- Reported Net Profit after tax \$6.5m – up 418%
- Final dividend 3 cents per share – up 50%
- Capital expenditure \$2.1m – down 40%

#### Operating performance

The 2016 year has been another year of solid progress with FFW recording an operating profit before revaluations and income tax (“operating earnings”) of \$4,339,000, compared with \$3,534,000 for the previous financial year. The directors believe that operating earnings is a key indicator in assessing the performance which FFW is making year to year. Operating EBIT margin increased to 16% this year up from 13.8% last year. In 2014, Operating EBIT margin was 7.7%, meaning Operating EBIT margin has increased 108% in the last 3 financial years.

The Brexit outcome in late June which resulted in unfavorable exchange rate movements adversely affected the final result due to the unrealised losses on the revaluation of financial assets at year end.

Profit for the year net of tax, attributable to shareholders was \$6,457,000 up from \$1,246,000 the previous year, up 418%. A significant component of the revaluation gains are the unrealised gain on harvested grapes amounting to \$2,770,000. This is significantly up on 2015 reflecting the better growing season, improved viticulture practices and the increase in the market value of the grapes.

#### Case sales and bulk wine

Bottled case sales (000's)	June 2016	June 2015	% change
New Zealand	101	118	-14%
Australia	106	105	1%
United States/Canada	131	114	15%
United Kingdom/Europe	71	48	48%
Other/Rest of World	15	11	36%
<b>TOTAL</b>	<b>424</b>	<b>396</b>	<b>7.1%</b>

Net case realisation	June 2016	June 2015	% change
Ave. Price per case (\$)	78	80	-2.5%
Ave. Selling, Promotion and Marketing cost per case (\$)	8	9	-11%
Net case realisation (\$)	70	71	-1.4%

The United Kingdom and Europe market has been a strong performer for FFW, up 48% for the year. This compares favourably with the industry average which showed a 1% decline. Further, this represented branded sales rather than private label business, which is prevalent in this market. Once again, the USA delivered growth of 15%, slightly better than the industry average of 14%. Although our Australian cases were flat, this was much better than the 8% industry average market decline.

The China market is showing some green shoots, albeit on small scale. We are cautiously optimistic that there are genuine growth opportunities in this market, however, we are taking a prudent approach to the market in terms of not over committing resources until quality distribution channels are secured.

Our New Zealand market performance was disappointing, with a decline of 14%.

On 1 July 2016, FFW appointed Blair Robinson to the role of Australasian Sales and Marketing Director. Blair was previously at Villa Maria as their Market Manager for New Zealand and Asia. Blair has a clear mandate to grow sales in New Zealand and Australia. We are confident that the New Zealand market will return to growth this year.



## FOLEY FAMILY WINES

### DIRECTORS AND CEO REPORT

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

The emphasis on selling branded product along with the smaller 2015 vintage has led to bulk wine sales for the year being equivalent to 14,542 cases, well down from 91,577 cases in 2015. At FFW, our strategy is to build our branded business and selling bulk is a fall-back strategy to avoid discounting our brands.

Average price per case is down 2.5% to \$78 for the year. As outlined last year, these numbers need to be assessed in the context of the FFW business model. Specifically, FFW prices on an FOB basis and distributors pay the cost from the port, and importantly, they provide the sales resources and in-market logistics. Given the currency fluctuations of the previous 12 months, we believe that that the net case realisation has remained satisfactory.

#### **Balance sheet strength and cash flow**

Operating cash flow was \$2,245,000 for the year, compared with \$4,919,000 last year. The major reason for the decrease this year was the decision to pay growers their final payment in May as opposed to July. This payment totalled approximately \$2,300,000, distorting the comparative figures.

FFW paid down term debt by a further \$1,075,000 thus reducing total term debt to \$11,001,000. At year end, total assets were \$121,280,000 and equity was \$86,929,000.

#### **Capital expenditure**

FFW capital expenditure amounted to \$2,134,000, which was significantly down on the last year's expenditure of \$3,559,000. The major item in 2015 was the new warehouse at Grove Mill totalling \$2,200,000, delivering a \$390,000 saving in third party warehouse and freight costs. At the 2014 annual shareholders' meeting (ASM), the board signalled that capital expenditure for the 2016 financial year would reduce substantially to approximately half of that in 2015.

A major item of the 2016 capital expenditure was a new automated palletizer amounting to approximately \$500,000. This expenditure was brought forward to enable FFW to reap the benefit for the entire 2017 financial year.

The directors are committed to keeping capital expenditure below the annual depreciation level other than in a year that requires capex for production expansion.

#### **Vintage 2016**

Vintage 2016 saw FFW harvest 6,954 tonnes of grapes from FFW-owned vineyards, leased vineyards and contract growers. The 2016 harvest is 1,654 tonnes or 31% higher than last year's harvest of 5,300 tonnes.

FFW owned vineyards in Marlborough performed relatively well being 42% up on last year. FFW owned vineyards in Martinborough was 106% on the prior year. As outlined last year, the vineyards in Martinborough had suffered from a lack of investment over several previous years. While the growing season was an improvement from the prior year, the vineyards are benefitting from a disciplined approach to viticulture, coupled with the appropriate level of investment.

The improved yields in Martinborough will lead to a significant improvement in the cost of goods for wines from the 2016 vintage.

#### **Wine shows**

FFW has had another great year in terms of accolades received in wine shows around the world. Over the course of the last 12 months, FFW has won the following medals:

Gold 15  
Silver 57  
Bronze 71

In addition to the accolades outlined above, Vavasour Sauvignon Blanc 2015 was one of six Sauvignon Blanc wines selected in Air New Zealand's first annual "Fine Wines of New Zealand" list. This was a great honour for the team at Vavasour and was a reflection of many years of consistently producing world-class Sauvignon Blanc.



## FOLEY FAMILY WINES

### DIRECTORS AND CEO REPORT

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

Once again, the directors would like to extend their gratitude to all the staff for their commitment and hard work. It has been another year of producing world-class wine.

#### **Lighthouse Gin**

Lighthouse Gin sales totalled 16,632 bottles which was up 57% on last year.

We continue to receive tremendously positive feedback on the brand and recently Lighthouse received 92 points from Wine Enthusiast Magazine, along with an outstanding silver medal at the recent International Wine and Spirits Competition in London.

FFW's focus continues to be new international distribution opportunities along with building the brand within New Zealand.

#### **Operating results outlook**

Due to the number of variables involved, the directors are unable to give any reliable guidance for the year ahead. The directors are, however, focused on growing underlying earnings at a compounded growth rate of 15% over the medium term.

The central theme over the next two years is extracting maximum value from our existing assets.

Key priorities are:

- Driving sales growth in line with our winery capacity.
- Focus on growing higher price point sales at the super premium and ultra-premium levels (trading up).
- Cementing new distributor relationships that have been recently secured.
- Seeking out new distribution arrangements in markets where our brands are not represented.
- Continued focus of viticulture practices delivering the appropriate yields at the right cost for the price point.
- Continued focus on process improvement and driving cost savings.

However, we are mindful that exchange rates remain extremely volatile and with 75% of our wine being exported, currency can have a major implication on earnings. Also, the 2016 year was another large vintage for the industry and we are already seeing a large volume of bulk wine listed at low prices.

#### **Dividend**

The directors have resolved to pay a final fully imputed dividend of 3 cents per share. This represents a 50% uplift on last year and reflects that FFW 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, declare a dividend subject to current and future capital and acquisition expenditure requirements.

For and behalf of the Board of Directors

**Bill Foley**  
CHAIRMAN

**Mark Turnbull**  
CEO and DIRECTOR



## FOLEY FAMILY WINES

### **DIRECTORS' RESPONSIBILITY STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2016**

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 Family Wines Limited and Group as at 30 June 2016 and the results of their operations and cash flows for the year ended 30 June 2016.

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.

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 Family Wines Limited and Group for the year ended 30 June 2016.

This annual report is dated 30 August 2016 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



# FOLEY FAMILY WINES

## INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
<b>Revenue</b>	3	<b>34,846</b>	<b>37,159</b>
<b>Expenses</b>			
Cost of sales		(23,316)	(26,204)
Selling, marketing and promotion expenses		(3,284)	(3,380)
Administration and corporate governance expenses		(2,659)	(2,445)
<b>Expenses excluding interest</b>		<b>(29,259)</b>	<b>(32,029)</b>
<b>Operating Profit before interest, impairment, revaluations &amp; income tax</b>		<b>5,587</b>	<b>5,130</b>
Interest revenue		64	40
Interest expense	4	(1,320)	(1,634)
<b>Net finance costs</b>		<b>(1,256)</b>	<b>(1,594)</b>
<b>Operating Profit before impairment, revaluations &amp; income tax</b>		<b>4,331</b>	<b>3,536</b>
<b>Impairment</b>			
Impairment of trade and other receivables	2.2 (d)	(1)	1
Impairment of inventory	2.2 (d)	9	(3)
<b>Operating Profit before revaluations &amp; income tax</b>		<b>4,339</b>	<b>3,534</b>
<b>Revaluation gains and losses</b>			
Unrealised gain/(loss) in fair value of financial asset/liabilities	25(k)	276	(591)
Unrealised gain on biological assets	21	2,003	555
Unrealised (loss)/gain on harvested grapes	21	2,770	(600)
Realised reversal of (gain)/loss on harvested grapes		(322)	(740)
Revaluation of property, plant & equipment	20	(35)	(132)
<b>Profit before income tax</b>		<b>9,031</b>	<b>2,026</b>
Income tax expense	5.1	(2,574)	(780)
<b>Profit for the year net of tax, attributable to Shareholders of the Parent Company</b>		<b>6,457</b>	<b>1,246</b>
Basic Earnings per share cps (after tax)	6	12.36	2.39
Diluted Earnings per share cps (after tax)	6	10.75	2.07

These financial statements should be read in conjunction with the Notes to the financial statements on pages 11 to 46.



# FOLEY FAMILY WINES

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
<b>Profit for the year</b>		<b>6,457</b>	<b>1,246</b>
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	20	1,008	1,313
Income tax on items taken directly to or transferred from equity	5.2	(124)	(131)
Reversal of part of prior year gain on purchase	9	-	(33)
<b>Other comprehensive income for the year, net of tax</b>		<b>884</b>	<b>1,149</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>7,341</b>	<b>2,395</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Group	Note	Fully Paid Ordinary Shares \$'000	Asset Revaluation Reserve \$'000	Retained Earnings \$'000	Attributed to Owners of the Parent \$'000	Non- controlling Interests \$'000	Total \$'000
<b>Equity at 1 July 2015</b>		66,518	3,227	10,887	80,632	-	80,632
Profit for the year		-	-	6,457	6,457	-	6,457
Other comprehensive income for the year		-	773	111	884	-	884
<b>Total comprehensive income for the year</b>		-	773	6,568	7,341	-	7,341
Distributions to owners	7	-	-	(1,044)	(1,044)	-	(1,044)
Contributions by owners	8	-	-	-	-	-	-
<b>Transactions with owners during the year</b>		-	-	(1,044)	(1,044)	-	(1,044)
<b>Added to equity during the year</b>		-	773	5,524	6,297	-	6,297
<b>Equity at 30 June 2016</b>		66,518	4,000	16,411	86,929	-	86,929
Dividends paid per share cps							2.0
<b>Equity at 1 July 2014</b>		66,428	2,162	9,557	78,147	90	78,237
<b>Total comprehensive income for the year</b>		-	1,065	1,330	2,395	-	2,395
Contributions by owners	8	90	-	-	90	(90)	-
<b>Transactions with owners during the year</b>		90	-	-	90	(90)	-
<b>Added to equity during the year</b>		90	1,065	1,330	2,485	(90)	2,395
<b>Equity at 30 June 2015</b>		66,518	3,227	10,887	80,632	-	80,632
Dividends paid per share cps							0.0

These financial statements should be read in conjunction with the Notes to the financial statements on pages 11 to 46.





**FOLEY FAMILY WINES**  
**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2016**

	<b>Note</b>	<b>Group 2016 \$'000</b>	<b>Group 2015 \$'000</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,315	4,292
Trade and other receivables	17	7,721	8,161
Other financial assets	16	22	-
Inventories	18	32,201	27,435
Biological work in progress	19	696	581
Prepaid expenses		617	282
		<u>43,572</u>	<u>40,751</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	20	49,848	49,640
Biological assets	21	16,932	14,777
Intangible assets	22	10,841	10,841
Deferred tax assets	5.4	86	171
		<u>77,707</u>	<u>75,429</u>
<b>TOTAL ASSETS</b>		<u><b>121,280</b></u>	<u><b>116,180</b></u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 11 to 46.



**FOLEY FAMILY WINES**  
**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2016 (CONTINUED)**

	<b>Note</b>	<b>Group 2016 \$'000</b>	<b>Group 2015 \$'000</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	3,050	4,174
Loans and borrowings	13	1,001	745
Finance lease	14	15	39
Convertible notes	15	10,900	10,900
Current tax liabilities	5-3	211	227
Other financial liabilities	16	-	253
		<u>15,177</u>	<u>16,338</u>
 <b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	13	10,000	11,331
Finance lease	14	-	15
Other financial liabilities	16	88	89
Deferred tax liabilities	5-4	9,086	7,775
		<u>19,174</u>	<u>19,210</u>
 <b>TOTAL LIABILITIES</b>		 <u>34,351</u>	 <u>35,548</u>
 <b>EQUITY</b>			
Share capital	8	66,518	66,518
Reserves	10	4,000	3,227
Retained earnings	11	16,411	10,887
<b>TOTAL EQUITY</b>		<u>86,929</u>	<u>80,632</u>
 <b>TOTAL LIABILITIES AND EQUITY</b>		 <u>121,280</u>	 <u>116,180</u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 11 to 46.



**FOLEY FAMILY WINES**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Group 2016 \$'000	Group 2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from (applied to)			
Receipts from customers		37,276	39,051
Interest received		64	40
Payments to suppliers and employees		(32,454)	(32,403)
Interest and other costs of finance paid		(1,320)	(1,627)
Income tax paid		(1,321)	(142)
Net cash flow from operating activities	23	<u>2,245</u>	<u>4,919</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was obtained from (applied to)			
Sale of property, plant and equipment		70	46
Purchase of property, plant and equipment and biological assets		(2,134)	(3,559)
Purchase of intangible assets		-	(36)
Net cash flow from investing activities		<u>(2,064)</u>	<u>(3,549)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Cash was provided for (applied to)			
Equity contribution	8	-	-
Dividends paid	7	(1,044)	-
Loans repaid		(1,114)	(902)
Net cash flow from financing activities		<u>(2,158)</u>	<u>(902)</u>
Net increase in cash held		(1,977)	468
Cash and cash equivalents at beginning of year		<u>4,292</u>	<u>3,824</u>
Cash and cash equivalents at end of year		<u>2,315</u>	<u>4,292</u>
Comprising: Cash and cash equivalents		<u>2,315</u>	<u>4,292</u>
		<u>2,315</u>	<u>4,292</u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 11 to 46.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

#### 1. REPORTING ENTITY

Foley Family Wines Limited ("the Company", "the Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZAX Board of the New Zealand Stock Exchange ("NZX"). The Company is an issuer 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 66.54% 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 Family 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 comply with International Financial Reporting Standards ("IFRSs").

The financial statements were authorised for issue by the Directors on 30 August 2016.

##### 2.2 BASIS FOR PREPARATION

The financial statements have been prepared on the historical cost basis except for land and buildings, biological assets (refer note 2.2(b)) 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.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 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 Agricultural Assets*

The fair value of grape vines is determined by an independent valuer. The fair value of vineyards, including land, grapes vines and other vineyard infrastructure 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. The fair value of land and other vineyard infrastructure is deducted from the fair value of vineyards, to determine the fair value of grape vines as shown above. The Directors consider that market data exists to support this basis of valuation.

(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) *Determination of 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 the significant risks and rewards of ownership and the leases are accordingly classified as operating leases.

(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. Given the current uncertain economic environment and industry challenges, management considered that the indications of impairment were significant enough to test the Group's inventories and trade and other receivables for impairment in this (and the prior) reporting period.

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 a reversal of previously recorded impairment of inventory of \$(9,000) for the Group has been recorded in the current year (2015: recorded impairment of \$3,000).



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 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 (continued)*

In relation to trade and other receivables the recoverable amount of each trade receivable balance is determined after taking into consideration the period that has elapsed since the debt fell due and any other factors that are known regarding the customer's financial stability. The Group has reviewed all trade receivable balances at balance date and has recorded an Impairment of Trade Receivables of \$1,000 for the Group in the current year (2015: \$(1,000)).

(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 or market based evidence to support the carrying value. 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) *Taxation*

The Company has estimated it is probable that the tax losses recognised will be able to be utilised in future periods. In calculating the deferred tax assets and liabilities, management has made estimates around the timing of reversal of temporary differences.

(g) *Derivative financial instruments*

The Company 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.

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 and are disclosed in section 2.3.

#### Comparative Information

Certain operating costs have been reclassified in the 2015 comparative information in order to conform with current year presentation. For example, non-recurring expenses of \$1,000 have been reclassified to Administration and corporate governance expenses. These changes have not affected reported profit.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 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 the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue is recognised when the significant risk and rewards of ownership of the goods have been passed to the buyer and the revenue can be measured reliably. Risks and rewards are considered passed 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.

(b) *Rendering of services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the end of the reporting period.

(c) *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. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF 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. 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, 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.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the Statement of Financial Position. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant & equipment acquired under finance leases depreciated over the shorter of the asset's useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a systematic basis that is representative of the time pattern of the benefit to the Group.





## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.8 AGRICULTURE (BIOLOGICAL ASSETS AND BIOLOGICAL WORK IN PROGRESS)

Agriculture comprises grape vines (bearer biological asset) which are valued on initial recognition and at each balance date at fair value less estimated point of sale costs. Any changes in the fair value during the period are recognised in profit or loss.

All costs incurred in deriving produce from the current year's harvest or maintaining agricultural assets 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 picked 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.

The fair value of grape vines (bearer biological asset) on initial recognition is determined with reference to independent valuations of vineyards. Subsequent movements in the fair values of vines in commercial production are determined by valuations which take into account operational reviews of the vineyard portfolio which identify, where applicable, any factors affecting the long term viability and value of vines in use or the current market value of similar relevant properties recently exchanged in the open market. The directors use an independent valuer where appropriate for these purposes.

##### 2.3.9 PROPERTY, PLANT AND EQUIPMENT

Land, land improvements and buildings are valued at fair value less accumulated depreciation. Land is 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, direct labour and an allocation of overhead and financing costs, excluding the grapes vines (biological assets). These are not depreciated until the integrated vineyard asset reaches full commercial production which is typically three years after planting.

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.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All items of property, plant and equipment other than land, 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	2 – 40 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.

##### 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 amortisation and 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.

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. Any difference between the initial recognised amount and the amortised cost is recognised in profit or loss.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

##### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

###### 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.

###### 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.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Zealand dollars using exchange rates prevailing at balance date. Income and expense items are translated at the average exchange rates for each month during the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. New Zealand dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at balance date. Exchange differences arising are recognised in the foreign currency translation reserve which forms part of total equity.

###### 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.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.15 INCOME TAX (CONTINUED)

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 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.

##### 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 treated as held for trading and changes in their fair value are recognised immediately in profit or loss.

The fair value of forward exchange contracts, foreign exchange option contracts and interest rate swaps are based on discounted cash flows using market inputs.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 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.

##### 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 28).



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.21 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.

##### 2.3.22 GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 2.3.21 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.

##### 2.3.23 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

##### 2.3.24 ADOPTION STATUS ON RELEVANT FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

###### 2.3.24.1 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 July 2015, have not and will not lead to any change in the Group's accounting policies with measurement or recognition impact on the period presented in these financial statements:

- 2014 Omnibus Amendments to NZ IFRSs – mandatory for annual periods beginning on or after 1 April 2015.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

##### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

###### 2.3.24.2 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:

- IFRS 9 *Financial Instruments*, was issued by the IASB in July 2014 as a complete version of the standard. This standard adds to the requirements of NZ IFRS 9. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess the impact of this standard and does not expect to adopt it before its effective date.
- NZ IFRS 15 *Revenue from contracts with customers* – replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* – mandatory for annual periods beginning on or after 1 January 2018.
- Amendments to NZ IFRSs arising from the Annual Improvements Project (2012-2014) – mandatory for annual periods beginning on or after 1 January 2016.
- Amendments to NZ IAS 16 and NZ IAS 41 for bearer plants – mandatory for annual periods beginning on or after 1 January 2016. The amendments to NZ IAS 16 and NZ IAS 41 *Agriculture* change the scope of NZ IAS 16 to include biological assets that meet the definition of bearer plants (e.g. fruit trees, grape vines). Agricultural produce growing on bearer plants (e.g. fruit growing on the tree, grapes) will remain within the scope of NZ IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in NZ IAS 16 including the choice between the cost model and revaluation model. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Any difference between the fair value used as deemed cost at that date and the previous carrying amount will be recognised in retained earnings. The Group has significant bearer plant assets, grape vines, that following implementation of this change will fall within the scope of NZ IAS 16 instead of NZ IAS 41. Based on the current accounting policy of revaluing land improvements annually based on independent valuation this change is not expected to impact the net asset position of the Group and is expected to result in some reclassification between items on the Statement of Financial Position.
- NZ IFRS 16 *Leases* – mandatory for annual periods beginning on or after 1 January 2019. The Group is yet to assess the impact of this standard on the Group's financial statements.

With the exception of standards yet to be assessed, as noted above, the adoption of these standards is not expected to have a material financial impact on the financial statements of the Group but may affect disclosure.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 2016 \$'000	Group 2015 \$'000
<b>3. PROFIT FOR THE YEAR</b>		
Included in profit before income tax for the year are the following:		
REVENUE:		
Sales revenue – sale of goods – bottled wine	32,985	31,503
Sales revenue – other	1,861	5,656
Total revenue	<u>34,846</u>	<u>37,159</u>
EXPENSES:		
Bad debts (net of bad debts recovered)	-	-
Depreciation	2,702	2,637
Directors' fees	150	150
Employee benefits expense:		
- Short-term employee benefits	6,074	5,300
Excise duty and ALAC levy	2,622	3,061
Fees paid to auditors (PwC):		
- Audit of the financial statements (including fees and disbursements)	65	61
Fees paid to Grant Thornton:		
- Audit of the share registry	1	2
Operating lease rentals	738	752
<b>4. INTEREST EXPENSE</b>		
Loan interest and other costs of finance paid	<u>1,320</u>	<u>1,634</u>





# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>5. INCOME TAX</b>		
<b>5.1 INCOME TAX RECOGNISED IN PROFIT</b>		
Tax expense comprises:		
Current tax expense – current year	1,303	796
Current tax expense/(benefit) – adjustment to prior year	(1)	2
Current tax expense/(benefit)	<u>1,302</u>	<u>798</u>
Deferred tax expense/(benefit) – origination & reversal of temporary differences	1,272	(184)
Deferred tax expense – adjustment to prior year	-	166
Deferred tax expense/(benefit)	<u>1,272</u>	<u>(18)</u>
Total income tax expense	<u>2,574</u>	<u>780</u>
Reconciliation of income tax expense:		
Profit before income tax	<u>9,031</u>	<u>2,026</u>
Income taxation expense calculated at current rate of 28%	2,529	567
Non-deductible expenses	22	12
Prior period adjustments	-	168
Other deferred movements	<u>23</u>	<u>33</u>
Income tax expense as reported	<u>2,574</u>	<u>780</u>
<b>5.2 INCOME TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME</b>		
The following current and deferred amounts were charged/(credited) directly to other comprehensive income during the year:		
Deferred tax: Revaluation of property, plant and equipment	<u>124</u>	<u>131</u>
<b>5.3 CURRENT TAX ASSETS AND LIABILITIES</b>		
Current tax assets: Tax refund receivable	<u>-</u>	<u>-</u>
Current tax liabilities: Tax payable	<u>211</u>	<u>227</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 5. INCOME TAX (CONTINUED)

##### 5.4 DEFERRED TAX BALANCES

Taxable and deductible temporary differences arise from the following:

	Balance Sheet		Income Statement	
	Group	Group	Group	Group
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
(i) Deferred tax liabilities				
Tax and accounting book differences – property, plant and equipment	4,769	5,001	(356)	65
Fair value biological assets (value-in-use deferred tax)	3,390	2,582	808	190
Inventories and biological work in progress	781	36	745	(336)
Other including WET rebate receivable	146	156	(10)	(139)
Gross deferred tax liabilities	<u>9,086</u>	<u>7,775</u>	<u>1,187</u>	<u>(220)</u>
(ii) Deferred tax assets				
Annual, sick leave and employee entitlements, accruals and provisions	(67)	(75)	8	(15)
Fair value through profit or loss financial assets/liabilities	(19)	(96)	77	(166)
Unused tax losses	-	-	-	383
Gross deferred tax assets	<u>(86)</u>	<u>(171)</u>	<u>85</u>	<u>202</u>
Net deferred tax liabilities	<u>9,000</u>	<u>7,604</u>		
Deferred tax expense/(income)			<u>1,272</u>	<u>(18)</u>

All deferred tax assets and liabilities are disclosed as non-current. Approximately \$762,000 for the Group (2015: \$242,000) are expected to be recovered within the next 12 months.

At 30 June 2016, taxable temporary differences that are unrecognised tax losses that are associated with the Group's investments in subsidiaries totalled \$Nil (2015: \$Nil).

##### 5.5 IMPUTATION CREDITS

	Group	Group
	2016	2015
	\$'000	\$'000
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	<u>1,551</u>	<u>654</u>

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

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



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 6. EARNINGS PER SHARE

	Group 2016 cents per shares	Group 2015 cents per shares
Basic Earnings per share	12.36	2.39

The calculation of basic earnings per share in respect of 2016 is based on profit of \$6,457,000 (2015: \$1,246,000) and the weighted average of 52,222,534 ordinary shares on issue during the year (2015: 52,217,243).

	Group 2016 cents per shares	Group 2015 cents per shares
Diluted Earnings per share	10.75	2.07

The calculation of diluted earnings per share in respect of 2016 is based on profit of \$6,457,000 (2015: \$1,246,000) and the weighted average of 60,085,559 ordinary shares on issue during the year (2015: 60,080,268).

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 2016 Number of shares	Group 2015 Number of shares
Weighted average number of ordinary shares (Basic)	52,222,534	52,217,243
Convertible notes outstanding at year end	7,863,025	7,863,025
Weighted average number of ordinary shares (Diluted)	60,085,559	60,080,268

#### 7. DISTRIBUTION TO OWNERS

The Company paid a final dividend for 2015 of 2 cents per share fully imputed on 2 October 2015 totalling \$1,044,000 (2015: nil). 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 30 August 2016 for payment on 4 October 2016 (refer note 31).

	Parent 2016 Number of shares issued	Parent 2015 Number of shares issued	Group 2016 \$000	Group 2015 \$000
--	--	--	------------------------	------------------------

#### 8. SHARE CAPITAL

##### FULLY PAID UP ORDINARY SHARES

Balance at beginning of financial year	52,222,534	52,159,047	66,518	66,428
Movements in share capital	-	63,487	-	90
Balance at end of financial year	52,222,534	52,222,534	66,518	66,518

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 (2015: During July 2014 the Company issued 63,487 ordinary shares at an issue price of \$1.40 per share following a Takeover Offer for all of the shares in Martinborough Vineyard Estates Limited (MVEL) to the MVEL shareholders who accepted the Takeover Offer – refer note 9. These shares were issued as part of the Compulsory Acquisition phase of the Takeover as follows: 17 July 2014: 6,606 shares; 24 July 2014 13,806 shares; and 31 July 2014 43,075 shares. The fair value of the ordinary shares issued was \$90,000, which was also the non-controlling interest as at 30 June 2014).

**Shares reserved for issuance:** Convertible notes on issue at year end – convertible to 7,863,025 ordinary shares – refer note 15 (2015: 7,863,025).



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 9. MARTINBOROUGH VINEYARD ESTATES LIMITED ACQUISITION SHARE ISSUE AND GAIN ON PURCHASE

Foley Family Wines Limited (FFW, the Company) made a full takeover offer (Takeover Offer) dated 26 May 2014 to purchase all of the shares in Martinborough Vineyard Estates Limited (MVEL) pursuant to the Takeovers Code. The Offer became open for acceptance by MVEL shareholders on 26 May 2014 and closed for acceptance at 5.00 pm on 24 June 2014. The Takeover Offer was declared unconditional on 24 June 2014 following satisfaction of the conditions included in the Takeover Offer Document including the grant of consent under the Overseas Investment Act 2005 to purchase 100% of the shares of MVEL. As a result of acceptances received under the Takeover Offer the Company acquired 32,835,889 of the shares of MVEL (being 94.87%) on 30 June 2014 in consideration for the issue of 1,174,817 ordinary shares in FFW: each shareholder in MVEL who accepted the Takeover Offer received one ordinary share in FFW for every 27.95 shares held in MVEL subject to rounding as specified. The remaining 1,773,875 shares in MVEL were acquired in July 2014 by way of compulsory acquisition, in consideration for the issue of 63,487 ordinary shares in FFW. The Company completed the purchase of 100% of the shares in MVEL on 31 July 2014.

Prior period adjustment shown in other comprehensive income in 2015: Upon completion of the Martinborough Vineyard Estates Limited Group financial statements for the year ended 30 June 2014 it was determined that the net assets used in the gain on purchase calculation in 2014 were adjusted by \$33,000.

	Group 2016 \$'000	Group 2015 \$'000
<b>10. RESERVES</b>		
<b>ASSET REVALUATION RESERVE</b>		
Balance at beginning of financial year	3,227	2,162
Revaluation increments/(decrements)	1,008	1,313
Reversal of previous revaluation decrements taken through profit & loss	(111)	(117)
Deferred tax liability arising on revaluation (note 5.2)	(124)	(131)
Balance at end of financial year	<u>4,000</u>	<u>3,227</u>
<b>TOTAL RESERVES</b>	<u>4,000</u>	<u>3,227</u>

The asset revaluation reserve arises on the revaluation of land, buildings and land improvements excluding biological assets. 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. The property, plant & equip. reserve was extinguished in 2010. Refer to note 20 for further details.

<b>11. RETAINED EARNINGS</b>		
Balance at beginning of financial year	10,887	9,557
Profit for the year net of tax, attributable to Shareholders of the Parent Co.	6,457	1,246
Dividends paid relating to 2015	(1,044)	-
	<u>16,300</u>	<u>10,803</u>
Reversal of previous revaluation reserve taken through profit & loss (note 20)	111	117
Reversal of part of prior year gain on purchase (note 9)	-	(33)
Balance at end of financial year	<u>16,411</u>	<u>10,887</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>12. TRADE AND OTHER PAYABLES</b>		
Trade creditors	1,700	3,132
Employee entitlements	606	447
Other accruals	744	595
	<u>3,050</u>	<u>4,174</u>

### 13. LOANS AND BORROWINGS

	Interest Rate Review Date	Expiry Date	Group 2016 \$'000	Group 2015 \$'000	
At amortised cost:					
Bank of New Zealand Term Loan	3.95% pa	29/7/16	31/8/20	11,001	12,076
<b>TOTAL LOANS AND BORROWINGS</b>			<u>11,001</u>	<u>12,076</u>	
Weighted average effective interest rate on Term Loans			<u>3.95%</u>	<u>5.81%</u>	
Loans due within 1 year			<u>1,001</u>	<u>745</u>	
Total current loans and borrowings			<u>1,001</u>	<u>745</u>	
Loans due 1 to 2 years			10,000	11,331	
Loans due 2 to 5 years			-	-	
Loans due after 5 years			-	-	
Total non-current loans and borrowings			<u>10,000</u>	<u>11,331</u>	
Total loans and borrowings			<u>11,001</u>	<u>12,076</u>	

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 25 for further details of interest rate swap contracts.

#### BANK OF NEW ZEALAND FACILITIES

On 7 September 2012 the Company entered into a banking facility arrangement with Bank of New Zealand (BNZ). The arrangement provided for a \$20 million term loan facility and \$5 million multi-option overdraft/cash advance/letter of credit working capital facility. The facility also provides the option of uncommitted interest rate swap and uncommitted forward foreign exchange facilities. An event of review occurs under the facilities if entities owned or controlled by Mr William Foley no longer own at least 50.10% of the Group.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 13. LOANS AND BORROWINGS (CONTINUED)

The terms of the BNZ facilities are as follows:

- The \$20 million term loan facility is available to the Group. 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.
- The \$5 million multi-option facility is provided to be utilised for working capital, general corporate purposes and letters of credit. The facility provides three facilities: market connect overdraft facility, committed cash advance facility and letter of credit facility. Interest is payable at: the BNZ Market Connect Overdraft Base Rate; the BNZ Committed Cash Advance Prime Rate plus 1.00% per annum margin respectively. A commitment fee is payable on the facility which is charged quarterly in advance. The facilities are due to expire on 31 August 2020. All outstanding debt under any of the facilities was repayable on the maturity date.

#### 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.

	Group 2016 \$'000	Group 2015 \$'000
<b>14. FINANCE LEASES</b>		
Not later than 1 year	15	39
Later than 1 year and not later than 2 years	-	15
Later than 2 years and not later than 5 years	-	-
Total minimum lease payments	<u>15</u>	<u>54</u>
Disclosed as:		
Current finance lease liability	15	39
Non current finance lease liability	<u>-</u>	<u>15</u>
	<u>15</u>	<u>54</u>

#### 15. CONVERTIBLE NOTES

Foley Family Wines Holdings, New Zealand Limited	<u>10,900</u>	<u>10,900</u>
Disclosed as:		
Current convertible notes	<u>10,900</u>	<u>10,900</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 15. CONVERTIBLE NOTES (CONTINUED)

As part of the merger transaction with The New Zealand Wine Company Limited (renamed Foley Family Wines Limited ("FFW")) 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 FFW 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 FFW, 7,863,025 shares in FFW 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 FFW 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 FFW 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 FFW 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 FFW 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.

#### 16. OTHER FINANCIAL ASSETS/(LIABILITIES)

At fair value:

	Group 2016 \$'000	Group 2015 \$'000
Foreign currency forward contracts	22	-
Other financial assets – held for trading – Current	22	-
Foreign currency forward contracts	-	-
Other financial assets – held for trading – Non Current	-	-
<b>Other financial assets – held for trading – Total</b>	<b>22</b>	<b>-</b>
Foreign currency forward contracts	-	(192)
Foreign currency option contracts	-	(21)
Interest rate swap contracts	-	(40)
Other financial liabilities – held for trading - Current	-	(253)
Interest rate swap contracts	(88)	(89)
Other financial liabilities – held for trading – Non Current	(88)	(89)
<b>Other financial liabilities – held for trading – Total</b>	<b>(66)</b>	<b>(342)</b>

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 25 for details of financial instruments used by the Group.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>17. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	6,953	7,525
Impairment of trade receivables	(1)	-
Other receivables	769	636
	<u>7,721</u>	<u>8,161</u>

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	6,952	7,524
Past Due 1-30 days	-	1
Past Due 31-60 days	-	-
Past Due 61-90 days	-	-
Past Due > 91 days	1	-
	<u>6,953</u>	<u>7,525</u>

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2016 trade receivables there were no debts (2015: \$Nil) that were past due but not impaired.

The Group has reviewed all trade receivable balances at balance date based on historical experience and the credit worthiness of the counterparty and has recorded an Impairment of Trade Receivables of \$1,000 in the current year (2015: \$(1,000)). Bad debts of \$Nil were written off during the year (2015: \$Nil), \$Nil of which was subsequently recovered (2015: \$Nil). \$Nil was recovered from a bad debt written off in the previous financial year (2015: \$Nil). The gross debt relating to the trade receivables which were considered to be impaired at balance date was \$1,000 (2015: \$Nil).

	Group 2016 \$'000	Group 2015 \$'000
<b>Impairment of trade receivables:</b>		
Opening balance	-	1
Written off during the year (net of amounts recovered)	-	-
Impairment charge reversal during the year	-	(1)
Impairment charge during the year	1	-
Charged during the year	-	-
Closing balance	<u>1</u>	<u>-</u>





# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>18. INVENTORIES</b>		
Raw materials	507	614
Consumable stores	66	90
Work in progress	21,840	16,069
Finished goods	9,790	10,673
Impairment of inventory	(2)	(11)
Total inventories at lower of cost and net realisable value	<u>32,201</u>	<u>27,435</u>
Impairment of Inventory:		
Opening balance	11	8
Impairment charge reversal during the year	(9)	-
Impairment charge during the year	-	3
Closing balance	<u>2</u>	<u>11</u>

### 19. BIOLOGICAL WORK IN PROGRESS

Growing costs related to next harvest	<u>696</u>	<u>581</u>
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The growth on the vines in the period from harvest to 30 June 2016 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 \$696,000 (2015: \$581,000).

### 20. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land at Fair Value \$'000	Freehold Buildings at Fair Value \$'000	Land Improve- ments at Fair Value \$'000	Plant, Equip. & Vehicles at Cost \$'000	Total \$'000
<b>Year ended 30 June 2016</b>					
At 1 July 2015, net of accumulated depreciation and impairment	16,256	12,592	7,346	13,446	49,640
Additions	-	98	218	1,800	2,116
Disposals	-	-	-	(45)	(45)
Revaluations	454	197	188	-	839
Depreciation charge for the year	-	(266)	(440)	(1,996)	(2,702)
At 30 June 2016, net of accumulated depreciation and impairment	<u>16,710</u>	<u>12,621</u>	<u>7,312</u>	<u>13,205</u>	<u>49,848</u>
At 30 June 2016:					
Cost or fair value	16,710	12,621	7,312	27,122	63,765
Accumulated depreciation (accum impairment nil)	-	-	-	(13,917)	(13,917)
Net carrying amount	<u>16,710</u>	<u>12,621</u>	<u>7,312</u>	<u>13,205</u>	<u>49,848</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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
<b>Year ended 30 June 2015</b>					
At 1 July 2014, net of accumulated depreciation and impairment	15,411	11,025	7,121	14,110	47,667
Additions	-	1,988	132	1,352	3,472
Disposals	-	-	-	(34)	(34)
Revaluations	845	18	309	-	1,172
Items reclassified on amalgamation for consistency	-	(195)	195	-	-
Depreciation charge for the year	-	(244)	(411)	(1,982)	(2,637)
At 30 June 2015, net of accumulated depreciation and impairment	16,256	12,592	7,346	13,446	49,640
At 30 June 2015:					
Cost or fair value	16,256	12,592	7,346	26,030	62,224
Accumulated depreciation (accum impairment nil)	-	-	-	(12,584)	(12,584)
Net carrying amount	16,256	12,592	7,346	13,446	49,640

**Commitments:** At balance date the Group had capital commitments of \$Nil (2015: construction of a building at the Vavasour Vineyard site \$43,000).

#### Revaluation of Land, Buildings and Land Improvements

Land, buildings and land improvements 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, and Telfer Young, registered independent valuers, for the Martinborough properties, on 30 June 2016 (2015: 30 June 2015). 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 land, buildings and vineyards comparable in size, location and varietal mix to those held by the Group. Based on these valuation techniques these fair values are included in Level 2 in the fair value hierarchy (refer note 25(j)).

Group: The revaluations in the year ended 31 December 2010 resulting in a revaluation decrease extinguished the asset revaluation reserve and the remaining balance of the asset revaluation reserve was recognised as an expense in the statement of comprehensive income. In 2011 further downward revaluations occurred which were recognised in the statement of comprehensive income as an expense. The carry forward value of future gains on revaluation that can be recognised in the profit and loss is \$10,000 (2015: \$71,000).

The carrying amount of land, buildings and land improvements had they been recognised under the historic cost model would have been \$8,607,000, \$8,869,000 and \$5,038,000 respectively (2015: \$8,607,000, \$9,037,000, \$5,396,000).

#### 21. BIOLOGICAL ASSETS

Biological assets consist of grape vines (bearer biological assets). The Company grows grapes to use in the production of wine, as part of normal operations. Vineyards are located in Marlborough and Martinborough, New Zealand. Grapes are harvested between March and May each year.



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 21. BIOLOGICAL ASSETS (CONTINUED)

At 30 June 2016 the Group held approximately 229 hectares of land owned or leased by the Company in Marlborough (2015: 229) and 190 hectares of land owned or leased by the Group in Martinborough (2015: 190). 206 hectares are currently in commercial production in Marlborough (2015: 206) and 146 hectares in Martinborough (2015: 146).

During the year ended 30 June 2016 the Company harvested 3,899 tonnes of grapes (2015: 2,570). 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 2016 harvest was \$2,770,000 (2015: \$(600,000)). Refer to note 19 for recognition of the biological transformation between the time of harvest and balance date.

	Group 2016 \$000	Group 2015 \$000
Carrying amount at start of period	14,777	14,140
Gain from changes to fair value of vines less estimated point of sale costs	2,003	555
Gain/(Loss) from fair value on harvested grapes	2,770	(600)
Transfer of harvested grapes to inventory	(2,770)	600
Purchases of grape vines	152	82
Carrying amount at 30 June	<u>16,932</u>	<u>14,777</u>

The fair value less estimated point of sale costs of grape vines is determined by independent valuation at balance date. The fair value of vineyards, including land, grapes vines and other vineyard infrastructure were determined by Alexander Hayward Limited, registered independent valuers, for the Marlborough properties, and Telfer Young, registered independent valuers, for the Martinborough properties, under the principle of highest and best use on 30 June 2016 (2015: 30 June 2015). 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 Company. The fair value of land and other vineyard infrastructure is deducted from the fair value of vineyards, to determine the fair value of grape vines as shown above. The fair value of biological assets are included in Level 2 of the fair value hierarchy as the fair value of these assets are not quoted on an active market and are determined by using valuation techniques (refer note 25(j)).

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 and Martinborough regions and through the use of windmills and helicopters for normal frost protection purposes.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>22. INTANGIBLE ASSETS</b>		
<b>Trademarks</b>		
At start of period, net of impairment	151	151
Additions during the year	-	-
At 30 June, net of impairment	<u>151</u>	<u>151</u>
Cost (gross carrying value)	<u>151</u>	<u>151</u>
Accumulated impairment losses	<u>-</u>	<u>-</u>
Net carrying amount	<u>151</u>	<u>151</u>

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.

### Goodwill

At start of period, net of impairment	2,515	2,515
Additions during the year	-	-
At 30 June, net of impairment	<u>2,515</u>	<u>2,515</u>
Cost (gross carrying value)	<u>2,515</u>	<u>2,515</u>
Accumulated impairment losses	<u>-</u>	<u>-</u>
Net carrying amount	<u>2,515</u>	<u>2,515</u>

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 and the acquisition of Martinborough Vineyards on 30 June 2014 (note 9).

### Brands and Intellectual Property

At start of period, net of impairment	8,175	8,139
Additions - current year additions refer note 9 & 29	-	36
Impairment	<u>-</u>	<u>-</u>
At 30 June, net of impairment	<u>8,175</u>	<u>8,175</u>
Cost (gross carrying value)	<u>8,175</u>	<u>8,175</u>
Accumulated impairment losses	<u>-</u>	<u>-</u>
Net carrying amount	<u>8,175</u>	<u>8,175</u>

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.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>22. INTANGIBLE ASSETS (CONTINUED)</b>		
<b>(a) Impairment tests for goodwill and intangibles with indefinite useful lives</b>		
<p>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; Terminal value of 3%; a period of projection of six years and a pre-tax discount rate 10.3% pa (2015: 7.9% 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.</p>		
<b>TOTAL INTANGIBLE ASSETS</b>	<u>10,841</u>	<u>10,841</u>
<b>23. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
	Group 2016 \$'000	Group 2015 \$'000
PROFIT AFTER INCOME TAX FOR THE YEAR	5,920	1,246
NON-CASH ITEMS:		
Depreciation	2,702	2,637
Increase/(decrease) in deferred tax	1,805	(18)
Impairment loss/(gain) recognised on trade and other receivables	1	(2)
Impairment loss/(gain) recognised on inventories	(9)	(9)
Adjustments resulting from revaluation of grapes	(2,448)	1,339
Loss/(gain) on revaluation of biological assets	(2,003)	(555)
Loss/(gain) on disposal of property, plant and equipment	(25)	(31)
Loss/(gain) on asset revaluations	<u>35</u>	<u>132</u>
	58	3,493
MOVEMENTS IN WORKING CAPITAL BALANCES:		
Trade and other receivables	439	(576)
Inventories	(2,309)	706
Biological work in progress	(115)	68
Prepaid expenses	(335)	33
Trade and other payables	(1,124)	(1,282)
Other financial assets/liabilities	(275)	591
Current tax assets/liabilities	<u>(14)</u>	<u>640</u>
	(3,733)	180
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>2,245</u>	<u>4,919</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
<b>24. OPERATING LEASE COMMITMENTS</b>		
Not later than 1 year	852	730
Later than 1 year and not later than 5 years	3,149	2,712
Later than 5 years	7,545	6,710
	<u>11,546</u>	<u>10,152</u>

Operating leases relate substantially to vineyard land where the Group is the lessee with lease terms between 19 years and 364 days and 30 years. The vineyard land lease agreements have normal provisions for periodic rent reviews to market rates.

### 25. 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 8, 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 tangible equity percentage at a level of at least 55% of 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 2015.

#### (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.

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 \$14 million (2015: \$12.9 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.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 25. FINANCIAL INSTRUMENTS (CONTINUED)

##### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 25(e)) and interest rates (refer note 25(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 2016 \$'000	Group 2015 \$'000
Cash and cash equivalents	1,574	-
Trade and other receivables	6,205	7,005
Trade and other payables	<u>(200)</u>	<u>(375)</u>
Net exposure at balance date	<u>7,579</u>	<u>6,630</u>

##### *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 \$329,000, \$126,000, \$202,000 and \$32,000 respectively for the Group (2015: \$293,000, \$89,000, \$186,000 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 \$402,000, \$154,000, \$247,000 and \$39,000 respectively for the Group (2015: \$358,000, \$109,000, \$227,000 and \$43,000). 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 \$337,000 (2015: \$4,751,000). The aggregate notional principal of foreign exchange option contracts outstanding at balance date was a net of \$Nil (2015: \$16,000).



## FOLEY FAMILY WINES

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

##### 25. FINANCIAL INSTRUMENTS (CONTINUED)

###### (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 \$72,000 (2015: \$52,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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 \$1,225,000 (2015: \$6,385,000). The interest rates applicable to the interest rate swap contracts during the year were 4.66% pa – 6.42% pa (2015: 4.66% pa – 6.42% 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.





# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 25. FINANCIAL INSTRUMENTS (CONTINUED)

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.

#### (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 \$14 million (2015: \$12.9 million) to further reduce liquidity risk.

#### Liquidity tables

The following tables detail the Company and 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
<b>Group 2016</b>				
Trade and other payables	3,050	-	-	-
Loans and borrowings	1,290	1,367	9,668	-
Finance lease	23	-	-	-
Convertible notes	11,609	-	-	-
	<u>15,972</u>	<u>1,367</u>	<u>9,668</u>	<u>-</u>
<b>Group 2015</b>				
Trade and other payables	4,174	-	-	-
Loans and borrowings	1,445	1,443	4,330	8,470
Finance lease	56	23	-	-
Convertible notes	11,609	-	-	-
	<u>17,284</u>	<u>1,466</u>	<u>4,330</u>	<u>8,470</u>



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 25. FINANCIAL INSTRUMENTS (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 2016				
Interest rate swaps – net settled cash flows	(19)	(18)	(34)	(14)
Forward exchange contracts – cash inflows	337	-	-	-
Forward exchange contracts – cash outflows	(315)	-	-	-
	<u>3</u>	<u>(18)</u>	<u>(34)</u>	<u>(14)</u>
Group 2015				
Interest rate swaps – net settled cash flows	(32)	(26)	(26)	(33)
Forward exchange contracts – cash inflows	4,489	262	-	-
Forward exchange contracts – cash outflows	(4,641)	(277)	-	-
	<u>(184)</u>	<u>(41)</u>	<u>(26)</u>	<u>(33)</u>

#### (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.

#### (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).



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 25. FINANCIAL INSTRUMENTS (CONTINUED)

	Group 2016 \$'000	Group 2015 \$'000
Financial assets held for trading		
Other financial assets (derivative financial assets) – Current	22	-
Other financial assets (derivative financial assets) – N/Current	-	-
Total financial assets	<u>22</u>	<u>-</u>
Financial liabilities held for trading		
Other financial liabilities (derivative financial liabilities) – Current	-	253
Other financial liabilities (derivative financial liabilities) – N/Current	88	89
Total financial liabilities	<u>88</u>	<u>342</u>

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	214	(584)
Foreign currency option contracts	21	(21)
Interest rate swaps	41	14
	<u>276</u>	<u>(591)</u>

#### 26. 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	<u>1,739</u>	<u>1,307</u>
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# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

### 27. RELATED PARTY DISCLOSURES

#### (a) Investment in Subsidiaries

The Parent entity in the consolidated entity is Foley Family Wines Limited. The Parent entity of Foley Family Wines Limited is Foley Family Wines Holdings, New Zealand Limited who own 66.54% of the shares in Foley Family 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 53.54% of the Company. (Jun 2015: Foley Family Wines Holdings, Inc. owned 80.47% of Foley Family Wines Holdings, New Zealand Limited (which owned 66.54% of the Company) and 53.54% of the Company).

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

Name of Entity	Principal Activity	Parent Company	Country of Incorporation	Ownership Interest % 2016	Ownership Interest % 2015
Vavasour Wines Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Goldwater Wines Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Clifford Bay Wines Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Te Kairanga Wines Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Grove Mill Wine Company Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Sanctuary Wine Company Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
The New Zealand Wine Company Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Martinborough Vineyard Wines Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
The New Zealand Wine Company (Europe) Ltd	Non-operating	Foley Family Wines Ltd	England and Wales	100%	100%
McLeod Vineyard Ltd	Grape growing	Foley Family Wines Ltd	NZ	-	100%*
Martinborough Vineyard Estates Ltd (MVEL)	Wine company	Foley Family Wines Ltd	NZ	-	100%*
Martinborough Vineyard Ltd	Grape growing	MVEL	NZ	-	100%*
Martinborough Terraces Ltd	Non-operating	MVEL/FFW*	NZ	100%	100%
Burnt Spur Ltd	Non-operating	MVEL/FFW*	NZ	100%	100%
Martinborough Vineyard (UK) Ltd	Sales company	MVEL/FFW*	England and Wales	-	100%

On 30 June 2014 the Company purchased 94.87% of the shares in Martinborough Vineyard Estates Limited and the remaining 5.13% of the shares in July 2014 – refer note 9.

\* On 1 September 2014 Foley Family Wines Limited, Martinborough Vineyard Estates Limited, Martinborough Vineyard Limited and McLeod Vineyard Limited amalgamated and continued as Foley Family Wines Limited.

In April 2015 the Company applied to the UK Companies House to have Martinborough Vineyard (UK) Limited struck off. This company was struck off on 18 August 2015.



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 27. RELATED PARTY DISCLOSURES (CONTINUED)

##### (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 26.

	Group 2016 \$000	Group 2015 \$000
Certain Directors and key management personnel have interests in contracts with the Parent & Group as follows. All transactions were at normal commercial rates.		
AM Turnbull (Lighthouse Distillery Ltd formerly Greytown Fine Distillates Ltd – purchase of Lighthouse Gin and Greytown Fine Distillates Brand/Intellectual Property)	-	36
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	449	287
AM Turnbull (Lighthouse Distillery Ltd – charges from FFW for labour, rent, electricity and administration)	39	20

##### (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 Family Wines Limited. Sales for the year were \$6,631,000 (2015: \$5,282,000).
- (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 Family Wines Limited. Marketing support charges for the year were \$108,000 (2015: \$139,000).
- (iii) Interest was paid/payable to Foley Family Wines Holdings, New Zealand Limited the parent of the Foley Family Wines Limited under the convertible note (note 16). Interest paid/payable for the year was \$709,000 (2015: \$709,000).
- (iv) Sales were made to EuroVintage Limited, a 50% associate of the parent company of Foley Family Wines Limited. Sales for the year were \$9,046,000 (2015: \$10,024,000). Management fees and the funding of promotional activity such as bonus stock relating to these sales were paid during the year of \$927,000 (2015: \$858,000).
- (v) Sales were made to, and administration services provided 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 \$27,000 (2015: \$25,000). Administration Charges for the year totalled \$5,000 (2015: \$4,000). Accommodation, meals and events provided by Wharekauhau to the Company during the year totalled \$49,000 (2015: \$56,000).
- (vi) Sales were made to Epic Ventures, Inc., trading as Epic Wines & Spirits, a company owned by Bill Foley, the majority shareholder in the ultimate parent. Sales for the year were \$122,000 (2015: \$65,000).



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 27. RELATED PARTY DISCLOSURES (CONTINUED)

	Group 2016 \$000	Group 2015 \$000
Amounts owing to related parties as at balance date:		
Foley Family Wines Inc.	17	34
Foley Family Wines Holdings, New Zealand Limited – convertible note	10,900	10,900
EuroVintage Limited	84	56
Wharekauhau Country Estate Limited	7	2
Lighthouse Distillery Limited	108	-
Amounts owing from related parties as at balance date:		
Foley Family Wines, Inc.	1,809	2,373
Epic Ventures, Inc.	60	70
EuroVintage Limited	726	828
Wharekauhau Country Estate Limited	1	1
Lighthouse Distillery Limited	37	-

#### 28. 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 \$9,046,000 (2015: \$10,024,000), \$6,631,000 (2015: \$5,282,000), \$2,650,000 (2015: \$2,879,000), \$2,391,000 (2015: \$1,769,000), \$2,083,000 (2015: \$1,639,000) and \$Nil (2015: \$3,646,000) 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 2016 or 2015. The largest customers are related parties – refer note 27.

The Group derived sales revenue from New Zealand customers of \$11,115,000 and overseas customers of \$23,731,000 (2015: NZ \$16,049,000; Overseas \$21,110,000).

#### 29. 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 \$Nil (2015: construction of a building at the Vavasour Vineyard site \$43,000).

#### 30. CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2015: Nil).



# FOLEY FAMILY WINES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### 31. SUBSEQUENT EVENTS

On 29 July 2016 the interest rate on the BNZ Term Loan facility was reviewed. The new interest rate on this facility is 3.86% pa.

On 30 August 2016 the Board approved a final dividend of 3 cents per share, fully imputed, for payment on 4 October 2016.

No other material events have occurred since balance date.

	Group 2016 \$	Group 2015 \$
<b>32. NET TANGIBLE ASSETS PER SHARE</b>		
Net tangible assets per share	1.46	1.34

The calculation of net tangible per share in respect of 2016 is based on net tangible assets of \$76,088,000, being Net assets \$86,929,000 less intangible assets \$10,841,000 (2015: \$69,791,000 being \$80,632,000 less \$10,841,000) and the 52,222,534 ordinary shares on issue at balance date (2015: 52,222,534).

#### 33. FOREIGN CURRENCY EXCHANGE RATES

The following spot foreign exchange rates have been applied at balance date:

NZ \$1.00 =	30 June 2016		30 June 2015	
	FFW Buy	FFW Sell	FFW Buy	FFW Sell
Australian dollar	0.9539	0.9604	0.8889	0.8953
United States dollar	0.7091	0.7142	0.6833	0.6891
Great British pound	0.5281	0.5320	0.4341	0.4383
Euro	0.6383	0.6433	0.6080	0.6135



## ***Independent auditor's report***

To the shareholders of Foley Family Wines Limited

### ***Our opinion***

In our opinion the consolidated financial statements of Foley Family Wines Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

### ***What we have audited***

Foley Family Wines Limited consolidated financial statements comprise:

- the statement of financial position as at 30 June 2016;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), 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 Group.

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### ***Information other than the financial statements and auditor's report***

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise





appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the Directors for the consolidated financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ 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 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 NZ and ISAs 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 financial statements is located at the External Reporting Board's website at:

[https://xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page5.aspx](https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx)

### *Who we report to*

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

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The engagement partner on the audit resulting in this independent auditor's report is Victoria Lawson.  
For and on behalf of:  
*PricewaterhouseCoopers*

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants  
30 August 2016

Napier



## FOLEY FAMILY WINES

### CORPORATE GOVERNANCE STATEMENT

#### FOR THE YEAR ENDED 30 JUNE 2016

This statement is designed to provide an overview for Shareholders to reflect the current governance policies and practices adopted or followed by the Board for Foley Family Wines Limited's ("FFW") adherence to the principles contained in

- the NZX Corporate Governance Best Practice Guide (NZSX Listing Rules Appendix 16); and
- the Financial Markets Authority (FMA) "Corporate Governance in New Zealand - Principles and Guidelines" handbook – released in December 2014 (replacing the handbook produced by the Securities Commission issued 16 March 2004 and reprinted in February 2011).

This statement elaborates on the foregoing with a structured Statement of the Responsibilities to and Role of Shareholders and the Board's Charter, including the operation of the Board, its Committees and the over-arching Code of Conduct to be adopted by directors, management, staff and contractors.

In summary, 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.

#### **THE ROLE OF SHAREHOLDERS**

Under the Companies Act, and the NZAX Listing Rules, all Shareholders have the right to receive Annual and Interim Financial Statements and all Notices of Meetings and to attend all such Meetings in person or by proxy. Resolutions for which requisite Notice are given may be voted upon by show of hands or, if a poll is called, on a one share one vote basis. There are no priority or special voting shares.

FFW is required to maintain the full list of shareholders - with the Register held by Computershare Investor Services - and certain other statutory information available to shareholders at the Company's registered office.

The Company is committed to communicating regularly with Shareholders. However, under the Listing Rules, FFW is obliged to meet the NZX continuous disclosure requirements of all market price sensitive or other material company information to be supplied first to the NZX as soon as practicable (and subject only to specified departures for incomplete information) - prior to communicating that information to shareholders, the general investment or local community, or to the media.

To facilitate this general information flow, the Company maintains a comprehensive web site including an investor section. This contains the constitution, annual and half-yearly reports and financial statements, releases to the NZAX or media and any presentations to third parties.

The Directors have the power to declare dividends from time to time to shareholders subject to complying with the solvency and liquidity test criteria contained in the Companies Act.

#### **BOARD CHARTER**

#### **ROLE OF THE BOARD OF DIRECTORS**

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



## FOLEY FAMILY WINES

### CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### ROLE OF THE BOARD OF DIRECTORS (CONTINUED)

The Board exercises its powers on behalf of all Shareholders, except for those powers specifically required to be exercised by Shareholders by law, the NZAX Listing Rules or the FFW 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 FFW 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.

Apart from any Board-only session during each meeting with the CEO and/or the Chief Financial Officer (CFO), members of the Management Team may attend Board meetings.

Each year the Board will meet with the CEO and full Management Team in a dedicated strategic planning and review meeting.

To assist in this oversight role, and to help discharge these responsibilities, the Board will receive, and management will provide

- timely current financial and operational information and overall and functional performance against operating plans and budgets;
- advice on the risk and competitive environment and issues facing FFW within their review of the current viticultural, winery, marketing and finance functions; and
- overall progress on achieving long term strategic plans and associated threats and opportunities.

The Board shall maintain a Code of Ethics Policy Statement, reviewed annually, to underpin FFW's vision and values and expected standards of conduct for Directors, Managers, employees and contractors. The Board shall also maintain a Health and Safety Policy, reviewed annually, to underpin the Company's commitment to providing a safe working environment for its employees and contractors.

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 FFW 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.



## FOLEY FAMILY WINES

### CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### **Composition of the Board**

Under the constitution there shall be a minimum of 3 and maximum of 8 directors, with power to increase that number. 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.

A minimum of two Directors must be ordinarily resident in New Zealand and at least half the number of Directors must be independent, as defined in the Listing Rules. The Company considers that, at balance date, two of its non-executive Directors were independent.

Directors are elected by shareholders at the first annual meeting after appointment.

After that, at each annual meeting, one-third of Directors shall retire by rotation, determined by length of service since their last election. Directors who have served for more than nine years on the Board shall retire annually.

#### **Conflict of Interest**

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.

#### **Remuneration – Non-executive Directors**

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 \$159,000 per annum.

In the event of an increase in number of Directors the constitution permits an automatic increase in the fee pool by the base director fee (Cl. 14.2)

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.

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.

Directors may claim reimbursement against GST receipts for travelling and other associated reasonable expenses in the course of business as a Board member.

#### **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.



## FOLEY FAMILY WINES

### CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

#### **Independent Professional Advice**

The Board, and individual Directors with the authority of the Chairman and/or the Board, has the ability to retain, at the Company's expense, special independent legal, accounting and other consultants or experts deemed necessary in the proper discharge of its or his duties and responsibilities.

#### **Board Committees**

Due to the current size of the Board there are currently no separate Board Committees in existence. All matters are considered by the full Board including the role of the previous Audit Committee as set out below. The Board may establish an ad hoc Committee at any appropriate time to consider a special issue.

#### **Audit Committee**

The Board aspires to achieve best practice standards in corporate governance and in the preparation and presentation of its published financial statements, as required by the Financial Reporting Act, and that they present a true and fair view of the current state of FFW's financial (and operational) affairs. The primary objective of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities relating to annual reporting, tax planning and compliance, and risk management practices.

Management's monthly financial (and operational) reports are the most significant tools the Board has to monitor the Company's performance.

The underlying internal control and accounting and operational systems determine the accuracy of the financial statements and results presented to the Board. 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 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 responsibility, the External Auditor shall have full access to all board papers and minutes and all financial and related records.

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

The Audit Committee is responsible to ensure the External Auditor's independence is maintained. In the event there is actual or perceived conflict this should be brought to the Board's attention for resolution. If the risk is accepted (e.g. for statutory share register audit, for statutory or other Customs and Wine Maker returns), because it will be outweighed by the value to be achieved by the External Auditor undertaking such activity, such decision must be transparent and is to be recorded in the Minutes of the Board.

#### **Managing Risks**

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 necessary steps to manage and mitigate those risks.



## FOLEY FAMILY WINES

### STATUTORY INFORMATION

#### FOR THE YEAR ENDED 30 JUNE 2016

##### 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. Effective March 2012, Mr. Foley became the Vice Chairman of the Board of Fidelity National Information Services, Inc.; prior to that he served as Executive Chairman from February 2006 through February 2011 and as non-executive Chairman from February 2011 to March 30, 2012. Mr. Foley served as the Chairman of the Board of Lender Processing Services, Inc. from July 2008 until March 2009, and, within the past five years, has served as a director of Florida Rock Industries, Inc. Mr. Foley also serves on the board of directors of the Foley Family 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's qualifications to serve on the Board include his 30 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.

###### **ANTHONY ANSELMI O.B.E.**

Anthony Anselmi (Tony) was appointed to the Board in September 2012. Tony's business career began in footwear retail, and today the family owned business, Overland Footwear Company Ltd. of which Tony is the Chairman, owns and operates retail stores throughout New Zealand and in the State of Victoria, Australia. The Company has been a finalist for the last eleven years in the I.B.M. Kenexa Employment Consultants, Best Places to Work annual awards and a category and overall winner several times. Tony opened a manufacturing plant in 1966 and Fabia Products Ltd. became one of larger footwear manufacturers in New Zealand. He has considerable experience in farming and developed a large area of neglected land into an extensive dairy farming enterprise.

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 an investor in the New Zealand Wine Fund Ltd (Vavasour Wines) and when this was purchased by Foley Family Wines, New Zealand Ltd. at the invitation of Mr Foley he transferred his investment to the new Company.

###### **JAMES ALTON JAMIESON**

James Alton Jamieson (Alton) was elected to the Board in September 1999 and was Chairman of The New Zealand Wine Company Limited from September 2007 to September 2012. Alton's business career has covered banking, transport and waste management services. He has had a 23 year career with waste management services businesses, primarily with NZX and ASX publicly listed Waste Management NZ Limited and was its Managing Director on listing in 1985. Alton spent 5 years based in Sydney from 1991 as CEO and a director of Pacific Waste Management Pty Limited, Australia. He also served as Chairman of Waste Management NZ Limited for 12 years until he retired from the Board in 2002. Alton has been a director of the Blues Franchise Limited and also served as an independent contractor to the New Zealand Rugby Union, working on a number of projects over the 3 years to 2006. Alton is a Chartered Fellow of the Institute of Directors in New Zealand (CFInstD) and is a Fellow of the Institute of Management New Zealand (FIMNZ).



# FOLEY FAMILY WINES

## STATUTORY INFORMATION

**FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

**1. DIRECTOR PROFILES (CONTINUED)**

**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 FAMILY WINES LIMITED**

Share transactions undertaken during the year were as follows: AM Turnbull purchased 10,000 shares on 1 September 2015 for \$1.50 per share (2015: Nil).

**SHARE DEALINGS IN THE SHARES OF FOLEY FAMILY WINES LIMITED SUBSIDIARY COMPANIES**

There were no transactions during the year (2015: Nil).

<b>TRANSACTIONS</b>	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Certain Directors have interests in contracts with Foley Family Wines Limited. All transactions were at normal commercial rates.		
AM Turnbull (Lighthouse Distillery Ltd formerly Greytown Fine Distillates Ltd – purchase of Lighthouse Gin and Greytown Fine Distillates Brand/Intellectual Property)	-	36
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	449	287
AM Turnbull (Lighthouse Distillery Ltd – charges from FFW for labour, rent, electricity and administration)	39	20

**LOANS TO DIRECTORS**

No loans to directors were authorised during the year.

**INDEMNITY 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**

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

<b>DIRECTORS' FEES</b>	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
WP Foley II	100	100
AJ Anselmi	25	25
JA Jamieson	25	25

**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 \$790,000 (2015: \$703,000).



# FOLEY FAMILY WINES

## STATUTORY INFORMATION

**FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

### 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	2
\$140,000-\$149,999	1
\$220,000-\$229,999	1
\$230,000-\$239,999	1
\$330,000-\$339,999	1

### 5. DONATIONS

Foley Family Wines Limited made no cash donations during the year (2015: \$250).

### 6. SHAREHOLDER BREAKDOWN

Shareholding as at 30 June 2016	Number of shareholders	Total shares held	% of share capital
1-999	543	124,462	0.24%
1,000-9,999	238	738,723	1.41%
10,000-49,999	80	1,543,197	2.96%
50,000-99,999	14	952,915	1.82%
100,000-499,999	22	4,628,880	8.86%
500,000+	6	44,234,357	84.71%
	903	52,222,534	100.00%

### 7. DIRECTORS' SHAREHOLDING

As at 30 June 2016 Directors held the following direct interests in the Company.

WP Foley – Individually and with CJ Foley held a direct interest in Foley Family Wines Limited (FFW) of 59% through his shareholding in Foley Family Wines Holdings, Inc. (FFWH), the ultimate parent of Foley Family Wines Holdings, New Zealand Limited (FFWH-NZ) which is the New Zealand based parent company and majority shareholder of FFW and through his shareholding in FFWH-NZ (2015: 58.5%). This interest was 62.8% including the shares to be issued under the Convertible Note (note 15) (2015: 62.3%).

AJ Anselmi – held a direct interest in FFW of 2.1% through his shareholding in FFWH-NZ. This interest was 2.3% including the shares to be issued under the Convertible Note (note 15).

JA Jamieson – held a direct interest in FFW of 1.9% through the ownership of 988,268 ordinary FFW shares.

AM Turnbull – held a direct interest in FFW of 1.5% (2015: 1.5%) through his shareholding in FFWH-NZ (1.5%; 2015 1.5%) and through the ownership of 10,000 ordinary FFW shares (0.02% 2015: Nil). This interest was 1.6% including the shares to be issued under the Convertible Note (note 15) (2015:1.6%).





# FOLEY FAMILY WINES

## STATUTORY INFORMATION

**FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

**8. 20 LARGEST REGISTERED HOLDERS**

Ordinary shares held at 30 June 2016:	Ordinary shares held	% of share capital
<b>Foley Family Wines Holdings, New Zealand Limited *</b>	34,708,796	66.46%
<b>National Nominees New Zealand Limited on behalf of Milford Asset Management Limited *</b>	4,042,553	7.74%
Accident Compensation Corporation	2,465,410	4.72%
New Zealand Permanent Trustees Limited - NZCSD	1,125,000	2.15%
JA Jamieson	988,268	1.89%
Alfa Lea Horticulture Limited	903,330	1.73%
JD Croft	459,363	0.88%
JP Morgan Chase Bank NA NZ Branch - Segregated Clients Acct - NZCSD	392,406	0.75%
Kynance Holdings Limited	348,589	0.67%
CJC & HC Fletcher & Peters Doig Trustee Co Ltd	334,000	0.64%
TJ Fairhall	295,116	0.57%
Public Trust RIF Nominees Limited - NZCSD	283,837	0.54%
Leveraged Equities Finance Limited	277,708	0.53%
FNZ Custodians Limited	228,659	0.44%
CM & BW Doig	198,794	0.38%
BNP Paribas Nominees (NZ) Limited - NZCSD	185,000	0.35%
Custodial Services Limited	178,461	0.34%
BNP Paribas Nominees (NZ) Limited – NZCSD	175,187	0.34%
Oceania Securities Limited	162,090	0.31%
JD Orchard, CS Orchard & JG Orchard	160,000	0.31%
Sub-total	47,913,567	91.75%
Others (883 Shareholders)	4,308,967	8.25%
<b>TOTAL</b>	<b>52,222,534</b>	<b>100.00%</b>

\* 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.



# FOLEY FAMILY WINES

## CONTRIBUTORS

### PERMANENT EMPLOYEES/CONTRACTORS AS AT 30 JUNE 2016

Alastair Maling	Marie Harvey
Ashley Howarth	Margaret Woolley
Bradley Newton	Mark Langlands
Cameron Wilson	Mark Turnbull
Chris Sisson	Mathew Duncan
Craig Vanstone	Neil Bennett
David Barrett	Nicholas McCauley
Donna Ngatai	Nigel Kumeroa
Emile Mckenzie	Paul Mason
Enrico Bragantini	Paul Rayner
Esme Holdsworth	Paul Stevens
Gillian Moore	Paula Namana
Giorgi Pohkhidze	Peter Powell
Glen Stanton	Phillip McArthur
Hamish Smith	Rachel Hall
Hudson Rurai	Rebecca Wheeler
Hugh Arthur	Rowie Nelson
Jacqueline Buckley	Sharon Campbell
James Kenny	Steve Simpson
Jane Trought	Stu Marfell
Jennie Dawson	Susan Van Der Pol
Joeari Turia	Tom Masters
John Kavanagh	Tony Allen
Joshua Chapman	Troy Mckenzie
Judith Riepl	Vaughan Hudson
Kevin Ryan	Wendy Joyce
Lorraine Boost	Wendy Sargent
Luke Orme	Zurab Okropiridze



# FOLEY FAMILY WINES

## ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

<b>DIRECTORS:</b>	WP Foley, II (Chairman) AJ Anselmi JA Jamieson AM Turnbull (CEO)
<b>HEAD OFFICE ADDRESS:</b>	13 Waihopai Valley Road RD6, Blenheim, 7276, Marlborough, New Zealand Telephone +64 3 572 8200 Facsimile +64 3 572 8211
<b>POSTAL ADDRESS:</b>	PO Box 67, Renwick 7243, Marlborough, New Zealand
<b>EMAIL:</b>	info@ffw.co.nz
<b>WEBSITES:</b>	www.ffw.co.nz (www.nzwineco.co.nz) www.grovemill.co.nz www.vavasour.com www.tekairanga.com
<b>NATURE OF BUSINESS:</b>	Production and distribution of wine
<b>AUDITORS:</b>	PricewaterhouseCoopers, Napier
<b>SOLICITORS:</b>	Bell Gully, Auckland Anthony Harper, Auckland
<b>BANKERS:</b>	Bank of New Zealand, Auckland
<b>REGISTRATION NO.</b>	307139
<b>REGISTERED OFFICE:</b>	13 Waihopai Valley Road, RD6 Blenheim 7276, Marlborough, New Zealand
<b>SHARE REGISTRAR:</b>	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
<b>SHARE TRADING:</b>	NZX – NZAX Market Security Code “FFW”