



FOLEY FAMILY WINES

FOLEY FAMILY WINES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017



**FOLEY FAMILY WINES
ANNUAL REPORT**

FOR THE YEAR ENDED 30 JUNE 2017

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FOLEY FAMILY WINES

DIRECTORS AND CEO REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The Directors of Foley Family Wines Limited (FFW) wish to announce the 2017 operating results and annual report for the 12 months ended 30 June 2017.

Operating performance

The 2017 year has been a difficult year due to the November earthquake and a full year of post Brexit exchange rates. FFW recorded an operating profit before revaluations and income tax ("operating earnings") of \$4,979,000, compared with \$4,339,000 for the previous financial year. Due to the requirement to account for insurance proceeds, approximately \$2,000,000 is accounted for within the operating earnings.

Last year, we advised that exchange rates had major implications for FFW. This is certainly reflected by the new level of the UK pound, where approximately \$1,000,000 of operating earnings has been lost due to the strength of the New Zealand dollar versus the pound.

Profit for the year net of tax, attributable to shareholders was \$3,056,000, down from \$4,956,000 the previous year. A significant reason for the decrease in revaluation gains, is due to the unrealised gain on harvested grapes being down by \$2,524,000. This decrease is directly attributable to the tough conditions over summer and the late high rainfalls.

Case sales and bulk wine

Bottled case sales (000's)	June 2017	June 2016	% change
New Zealand	92	101	-9%
Australia	68	104	-35%
United States/Canada	147	131	12%
United Kingdom/Europe	64	71	-10%
Other/Rest of World	18	15	20%
TOTAL	389	422	7.8%

Net case realisation	June 2017	June 2016	% change
Ave. Price per case (\$)	78	78	0%
Ave. Selling, Promotion and Marketing cost per case (\$)	9	8	13%
Net case realisation (\$)	69	70	-1.4%

The USA market continues to be a critical focus for FFW. Over the last two years, shipments to the USA are up 29% from 2015, and this is after some major disruption due to one of our import partners having an ownership change in the first quarter of 2017. However, FFW believes this new partner will be positive due to scale and capabilities.



FOLEY FAMILY WINES

DIRECTORS AND CEO REPORT

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

While NZ was down 9% for the year, FFW had a much stronger second half of the financial year, with sales up 21% for the last quarter. FFW believes that following the changes which have been made to its sales strategy, this trend will continue, and this was evidenced in our July sales. Furthermore, FFW has continued to focus on the premium segment which is reflected in an 9% increase in revenue per case.

Australia was extremely difficult due to high competition, with a high volume of supermarket and private label competition. The company decided not to drop prices to meet the competition, which had volume implications. However, like New Zealand, the focus on the premium segment saw a 11% lift in revenue per case.

The United Kingdom and Europe was extremely challenging. The currency devaluation post Brexit led to a decrease of 18% in revenue per case, which is exactly in line with industry average. While FFW's strategy is to continue to focus on the premium sector in this market, FFW is unable to compete with the large bulk producers and therefore high quality wine led by Alastair Maling MW, Chief Group Winemaker/Head of Viticulture and his team, will be our point of difference.

In 2016, we stated that FFW's strategy was to build our branded business. Bulk sales was a fall-back strategy to avoid discounting our brands. In this context, it was resolved to sell excess bulk wine from the large 2016 vintage. Bulk wine sales were 46,000 9L equivalents compared to 14,542 9L equivalents last year. FFW will maintain its strategy of only selling bulk to avoid the discounting of its brands.

Average price per case is flat at \$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. Clearly, the United Kingdom significantly impacted the average price per case. However, FFW believes the positive changes in New Zealand and Australia over the last year, reinforce the strategy of focusing on the premium sector, and, in particular wines with an average case rate over \$120 NZD.

Earthquake

As advised last year, the 7.8 Culverden earthquake caused significant damage to the Grove Mill winery with all tanks sustaining some level of damage (from minor repairs to complete write-offs). The timing of the earthquake created a race against time to ensure the winery was rebuilt in time for harvest, but it also created uncertainty in terms of grape intake. FFW wishes to express its gratitude to its staff, insurance advisors, contractors and underwriters who worked together to ensure that the winery was rebuilt in time. Also, FFW wishes to thank the Babich Family who offered to store wine at their facility as Grove Mill had to empty all its tanks to enable repairs to commence.

In terms of financial implications, we acknowledge that the numbers appear complex. In simple terms, FFW received \$4,674,000 in insurance proceeds (note 3). Non-recurring costs (inventory write off, extra costs of working etc) totalled \$2,647,000 (note 4). FFW incurred \$3,168,000 by way of costs on asset replacements. The difference between these reflects the insurance excess of \$1,125,000 and costs not covered of \$16,000.



FOLEY FAMILY WINES

DIRECTORS AND CEO REPORT

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

Balance sheet strength and cash flow

Operating cash flow was \$3,503,000 for the year, compared with \$2,245,000 last year. Unlike last year, FFW decided not to bring the payment forward for growers due to the unbudgeted funding required for earthquake damage. The payment to growers was approximately \$1,400,000 and this was paid in July.

FFW paid down term debt by a further \$1,000,000, thus reducing total term debt to \$10,001,000. At year-end, total assets were \$128,421,000 and equity was \$91,144,000 (2016 \$86,929,000).

The final payment of \$865,000 was received in August as full and final settlement for the earthquake claim.

Capital expenditure

FFW capital expenditure amounted to \$4,886,000, which was significantly influenced by the earthquake expenditure of \$3,168,000 (note that \$1,844,000 was allocated from insurance proceeds as per the statement of cash flows. The difference equates approximately to our insurance excess). The remaining capital expenditure of \$1,718,000 was well down on the prior year of \$2,134,000.

As stated last 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. FFW would have achieved this if the earthquake had not occurred.

Vintage 2017

Vintage 2017 saw FFW harvest 5,527 tonnes of grapes from FFW-owned vineyards, leased vineyards and contract growers. The 2017 harvest is 20% lower than last year's record harvest of 6,954 tonnes, however it is up on the 2015 harvest of 5,300 tonnes.

The 2017 vintage was a challenge due to a cool summer and late season rains. Steps needed to be taken to ensure fruit was harvested in the best possible condition, which due to the risk of Botrytis meant leaving some fruit on the vine. These decisions were made to ensure that our brands had the best possible wine quality. These decisions have already been vindicated by the initial feedback from wine reviewers. We expect our 2017 wines to perform very well in the upcoming wine shows.

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:

Platinum 2

Gold 15

Silver 53

Bronze 103



FOLEY FAMILY WINES

DIRECTORS AND CEO REPORT

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

At the Decanter Wine Awards, Russian Jack 2016 Sauvignon Blanc was awarded the Platinum medal for Best in Show for “Best Value Sauvignon Blanc” and Te Kairanga Runholder 2015 Pinot Noir was awarded Platinum medal for “Best New Zealand Pinot Noir”. In addition to the accolades outlined above, Grove Mill Sauvignon Blanc 2016 was awarded “Outstanding” by the Decanter tasting Panel with 96 points. Vavasour Sauvignon Blanc 2016 was once again chosen in Air New Zealand’s “Fine Wines of New Zealand” list.

The directors would like to extend their gratitude to staff for their commitment to the quality of FFW's wines and for their hard work.

Lighthouse Gin

Lighthouse Gin sales totalled 14,762 bottles for the year, however, in total the actual volume shipped was 32,264 up 95% on the prior year. Due to the terms of shipping, the additional 17,502 bottles will be recorded as sales in the 2018 financial year.

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

Operating results outlook

The directors fully acknowledge that 2017 was a difficult year and FFW did not meet its expectations. However, the directors firmly believe that FFW will become one of New Zealand’s foremost wines groups in the premium segment. The quality of the wine produced will set us apart from competitors.

Nothing has changed from the central theme outlined last year, which is to extract maximum value from our existing assets.

Key priorities are:

- Driving sales growth in line with our winery capacity.
- Focusing 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.
- Continuing to focus on viticulture practices delivering the appropriate yields at the right cost for the price point.
- Continuing to focus on process improvement and driving cost savings.



FOLEY FAMILY WINES

DIRECTORS AND CEO REPORT

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

Dividend

The directors have resolved to maintain a final fully imputed dividend of 3 cents per share. This reflects the board's desire to maintain a dividend policy to shareholders and the confidence it has in the business. As outlined last year, 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.

NZX listing and new acquisitions

Notwithstanding the proposed changes with the NZX, FFW is committed to moving to the NZX within the next financial year. The intention is to confirm this at the Annual Shareholders' Meeting.

Furthermore, as advised in June, with the strength of the FFW balance sheet, the company is actively seeking new opportunities. Fundamentally, the company needs to now start building scale to maximise the long term returns to shareholders.

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 2017

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 2017 and the results of their operations and cash flows for the year ended 30 June 2017.

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

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

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

The Directors are pleased to present the financial statements of Foley Family Wines Limited and Group for the year ended 30 June 2017.

This annual report is dated 29 August 2017 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 2017

	Note	Group 2017 \$'000	Restated Group 2016 \$'000
Revenue	3	37,821	34,846
Expenses			
Cost of sales		(23,006)	(23,316)
Selling, marketing and promotion expenses		(3,429)	(3,284)
Administration and corporate governance expenses		(2,629)	(2,659)
Non-recurring expenses	4	(2,647)	-
Expenses excluding interest		<u>(31,711)</u>	<u>(29,259)</u>
Operating Profit before interest, impairment, revaluations & income tax		6,110	5,587
Interest revenue		9	64
Interest expense	5	(1,135)	(1,320)
Net finance costs		<u>(1,126)</u>	<u>(1,256)</u>
Operating Profit before impairment, revaluations & income tax		4,984	4,331
Impairment			
Impairment of trade and other receivables	2.2 (d)	1	(1)
Impairment of inventory	2.2 (d)	(6)	9
Operating Profit before revaluations & income tax		4,979	4,339
Revaluation gains and losses			
Unrealised gain in fair value of financial asset/liabilities	25(k)	196	276
Unrealised gain on harvested grapes	21	246	2,770
Realised reversal of gain on harvested grapes		(1,330)	(322)
Revaluation of property, plant & equipment	2.3.9	(108)	(131)
Profit before income tax		3,983	6,932
Income tax expense	6.1	(927)	(1,976)
Profit for the year net of tax, attributable to Shareholders of the Parent Company		<u>3,056</u>	<u>4,956</u>
Basic Earnings per share cps (after tax)	7	5.85	9.49
Diluted Earnings per share cps (after tax)	7	5.09	8.25

These financial statements should be read in conjunction with the Notes to the financial statements on pages 13 to 49.



FOLEY FAMILY WINES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group 2017 \$'000	Restated Group 2016 \$'000
Profit for the year		3,056	4,956
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	2.3.9	3,383	3,108
Income tax on items taken directly to or transferred from equity	6.2	(657)	(723)
Other comprehensive income for the year, net of tax		2,726	2,385
Total comprehensive income for the year, net of tax		5,782	7,341

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

Group	Note	Fully Paid Ordinary Shares \$'000	Asset Revaluation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Equity at 1 July 2016		66,518	7,547	12,864	86,929
Profit for the year		-	-	3,056	3,056
Other comprehensive income for the year		-	2,655	71	2,726
Total comprehensive income for the year		-	2,655	3,127	5,782
Distributions to owners	8	-	-	(1,567)	(1,567)
Transactions with owners during the year		-	-	(1,567)	(1,567)
Added to equity during the year		-	2,655	1,560	4,215
Equity at 30 June 2017		66,518	10,202	14,424	91,144
Dividends paid per share cps	8				3.0
Equity at 1 July 2015		66,518	3,227	10,887	80,632
Bearer plant asset revaluation change of accounting standard	2.3.24.1	-	2,088	(2,088)	-
		66,518	5,315	8,799	80,632
Profit for the year		-	-	4,956	4,956
Other comprehensive income for the year		-	2,232	153	2,385
Total comprehensive income for the year		-	2,232	5,109	7,341
Distributions to owners	8	-	-	(1,044)	(1,044)
Transactions with owners during the year		-	-	(1,044)	(1,044)
Added to equity during the year		-	2,232	4,065	6,297
Equity at 30 June 2016		66,518	7,547	12,864	86,929
Dividends paid per share cps	8				2.0

These financial statements should be read in conjunction with the Notes to the financial statements on pages 13 to 49.



FOLEY FAMILY WINES
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	Group 2017 \$'000	Restated Group 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents		263	2,315
Trade and other receivables	17	9,564	7,721
Other financial assets	16	182	22
Inventories	18	32,587	32,202
Biological work in progress	19 & 21	706	696
Prepaid expenses		303	617
		<u>43,605</u>	<u>43,573</u>
NON-CURRENT ASSETS			
Property, plant and equipment	20	71,651	66,780
Intangible assets	22	13,053	13,053
Deferred tax assets	6.4	112	86
		<u>84,816</u>	<u>79,919</u>
TOTAL ASSETS		<u>128,421</u>	<u>123,492</u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 13 to 49.



FOLEY FAMILY WINES
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017 (CONTINUED)

	Note	Group 2017 \$'000	Restated Group 2016 \$'000
CURRENT LIABILITIES			
Trade and other payables	12	4,321	3,050
Loans and borrowings	13	1,001	1,001
Finance lease	14	-	15
Convertible notes	15	10,900	10,900
Current tax liabilities	6.3	609	211
		<u>16,831</u>	<u>15,177</u>
NON-CURRENT LIABILITIES			
Loans and borrowings	13	9,000	10,000
Other financial liabilities	16	51	88
Deferred tax liabilities	6.4	11,395	11,298
		<u>20,446</u>	<u>21,386</u>
TOTAL LIABILITIES		<u>37,277</u>	<u>36,563</u>
EQUITY			
Share capital	9	66,518	66,518
Reserves	10	10,202	7,547
Retained earnings	11	14,424	12,864
TOTAL EQUITY		<u>91,144</u>	<u>86,929</u>
TOTAL LIABILITIES AND EQUITY		<u>128,421</u>	<u>123,492</u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 13 to 49.



FOLEY FAMILY WINES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group 2017 \$'000	Group 2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to)			
Receipts from customers		36,292	37,276
Insurance proceeds – earthquake related		1,965	-
Interest received		9	64
Payments to suppliers and employees		(32,513)	(32,454)
Interest and other costs of finance paid		(1,135)	(1,320)
Income tax paid		(1,115)	(1,321)
Net cash flow from operating activities	23	<u>3,503</u>	<u>2,245</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was obtained from (applied to)			
Sale of property, plant and equipment		69	70
Sale of property, plant and equipment – insurance proceeds – earthquake related		1,844	-
Purchase of property, plant and equipment and biological assets – excluding earthquake related items		(1,718)	(2,134)
Purchase of property, plant and equipment – earthquake related		(3,168)	-
Net cash flow from investing activities		<u>(2,973)</u>	<u>(2,064)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Cash was provided for (applied to)			
Dividends paid	8	(1,567)	(1,044)
Loans repaid		(1,015)	(1,114)
Net cash flow from financing activities		<u>(2,582)</u>	<u>(2,158)</u>
Net increase in cash held		(2,052)	(1,977)
Cash and cash equivalents at beginning of year		<u>2,315</u>	<u>4,292</u>
Cash and cash equivalents at end of year		<u>263</u>	<u>2,315</u>
Comprising: Cash and cash equivalents		<u>263</u>	<u>2,315</u>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 13 to 49.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 also comply with International Financial Reporting Standards ("IFRSs").

The financial statements were authorised for issue by the Directors on 29 August 2017.

2.2 BASIS FOR PREPARATION

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

Judgements, Estimates and Assumptions and Accounting Policies

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

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



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (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 Land, Land Improvements and Buildings*

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

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

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

(c) *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 an impairment of inventory of \$6,000 for the Group has been recorded in the current year (2016: recorded reversal of impairment of \$(9,000)).

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 \$Nil for the Group in the current year (2016: \$1,000).



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (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)*

During the year the Group received significant damage to property, plant and equipment and inventory located at the Grove Mill Winery site in Marlborough during the 14 November 2016 Culverden earthquakes. The Group is fully insured for loss of assets and business interruption, and insurance claim relating to the losses incurred was accepted by the Group insurer QBE. Insurance proceeds have been recognised as Other income in the Income Statement (refer note 3) and expenses relating to the earthquake damage including the insurance excess have been included as Non-recurring expenses (refer note 4).

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

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

During the year the Group was required to adopt the changes to accounting standards NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* in relation to the treatment of bearer assets (grape vines). Certain costs and equity items have been restated in the 2016 comparative information in order to conform with current year presentation. Refer note 34 for a reconciliation to the reported comparatives.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.2 BASIS FOR PREPARATION (CONTINUED)

Comparative Information (Continued)

During the year the Group also changed its accounting policy in relation to the recognition of deferred tax on acquired indefinite life (brand) intangible assets in accordance with the IFRIC clarification issued in November 2016. This has resulted in recognition of a deferred tax value in use liability of \$2,212,000 and an increase in value of goodwill in the current year. The 2016 comparatives for goodwill and deferred tax have also been adjusted by this same amount.

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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3.3 IMPAIRMENT OF ASSETS OTHER THAN GOODWILL AND INDEFINITE LIFE INTANGIBLES (CONTINUED)

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.

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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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

2.3.9 PROPERTY, PLANT AND EQUIPMENT

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

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

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



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3.9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

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

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



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3.15 INCOME TAX

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

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



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3.17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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 2017 (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 except as noted in 2.3.24.1 below and note 6.4 in relation to deferred tax on indefinite life intangibles.

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 2016, 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:

- Amendments to NZ IFRSs arising from the Annual Improvements Project (2012-2014) – mandatory for annual periods beginning on or after 1 January 2016.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

2.3.24.1 Standards and interpretations effective in the current year (continued)

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 2016, lead to a change in the Group's accounting policies. The measurement or recognition impact on the periods presented in these financial statements is outlined in note 34:

Amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* for bearer plants – The amendments to NZ IAS 16 and NZ IAS 41 change the scope of NZ IAS 16 to include biological assets that meet the definition of bearer plants (e.g. fruit trees, grape vines).

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 (2014) *Financial Instruments* - will replace NZ IAS 39 *Financial Instruments* and all previous versions of NZ IFRS 9. This standard is effective for reporting periods beginning on or after 1 January 2018.
- 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.
- NZ IFRS 16 *Leases* – replaces NZ IAS 17 *Leases* - mandatory for annual periods beginning on or after 1 January 2019.
- Amendments to NZ IFRSs arising from the Annual Improvements Project (2014-2016) – mandatory for annual periods beginning on or after 1 January 2017 and 2018.

The Group's management have completed an initial assessment of the new standards and except for the NZ IFRS 16 *Leases* do not expect the adoption of these standards to have a material financial impact on the financial statements of the Group but may affect disclosure. In relation to NZ IFRS 16 *Leases* the Group has a number of operating leases including those for vineyard land leases that the Group will be required to recognise a 'Right of-use Asset' and a corresponding 'Finance Liability' in the statement of financial position for all of these leases. This change will also affect the profile of expenses (interest and depreciation) and the timing of these expenses relative to the lease payments which are currently recognised. Management will work through a full analysis of each standard and will provide further information on the expected impact of adoption of these standards in future reports ahead of their effective dates. The Group does not expect to adopt these standards before their effective date.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (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 2017 \$'000	Group 2016 \$'000
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3. PROFIT FOR THE YEAR

Included in profit before income tax for the year are the following:

REVENUE:

Sales revenue – sale of goods – bottled wine	30,197	32,985
Sales revenue – other	2,950	1,861
Total sales revenue	<u>33,147</u>	<u>34,846</u>
Other revenue – insurance proceeds for inventory lost in earthquake including loss of profits (note 4)	1,100	-
Other revenue – insurance proceeds – material damage – plant and equipment (note 4)	2,962	-
Other revenue – insurance proceeds – business interruption (note 4)	612	-
Other revenue – insurance proceeds	<u>4,674</u>	
Total revenue	<u>37,821</u>	<u>34,846</u>

EXPENSES:

Bad debts (net of bad debts recovered)	-	-
Depreciation	2,547	2,702
Directors' fees	170	150
Employee benefits expense:		
- Short-term employee benefits	6,745	6,074
Excise duty and ALAC levy	2,402	2,622
Fees paid to auditors (PwC):		
- Audit of the financial statements (including fees and disbursements)	66	65
Fees paid to Grant Thornton:		
- Audit of the share registry	-	1
Operating lease rentals	832	738



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Restated Group 2016 \$'000
4. NON-RECURRING EXPENSES		
Earthquake damage expenses	2,647	-
<p>During the year the Group received significant damage to property, plant and equipment and inventory located at the Grove Mill Winery site in Marlborough during the 14 November 2016 Culverden earthquakes. The Group is fully insured for loss of assets (material damage) and business interruption, and an insurance claim relating to the losses incurred was accepted by the Group insurer QBE. The insurance proceeds based on the settlement agreement signed by the Group are shown in note 3 as Other revenue. The insurance claim proceeds receivable at year end is shown in note 17. In addition to the expenses noted above which include the insurance excess of \$1,125,000 the Group has spent \$3,168,000 on asset replacements which are included in property, plant and equipment (note 20).</p>		
5. INTEREST EXPENSE		
Loan interest and other costs of finance paid	1,135	1,320
6. INCOME TAX		
6.1 INCOME TAX RECOGNISED IN PROFIT		
Tax expense comprises:		
Current tax expense – current year	1,512	1,303
Current tax expense/(benefit) – adjustment to prior year	-	(1)
Current tax expense	1,512	1,302
Deferred tax expense/(benefit) – origination & reversal of temporary differences	(585)	674
Deferred tax expense – adjustment to prior year	-	-
Deferred tax expense/(benefit)	(585)	674
Total income tax expense	927	1,976
Reconciliation of income tax expense:		
Profit before income tax	3,983	6,932
Income taxation expense calculated at current rate of 28%	1,115	1,941
Non-deductible expenses	42	22
Non-taxable income	(165)	-
Other deferred movements	(65)	13
Income tax expense as reported	927	1,976
6.2 INCOME TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
The following current and deferred amounts were charged/(credited) directly to other comprehensive income during the year:		
Deferred tax: Revaluation of property, plant and equipment	657	723



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Restated Group 2016 \$'000
6. INCOME TAX (CONTINUED)		
6.3 CURRENT TAX ASSETS AND LIABILITIES		
Current tax assets: Tax refund receivable	-	-
Current tax liabilities: Tax payable	609	211

6.4 DEFERRED TAX BALANCES

Taxable and deductible temporary differences arise from the following:

	Balance Sheet		Income Statement	
	Group 2017 \$000	Group 2016 \$000	Group 2017 \$000	Group 2016 \$000
(i) Deferred tax liabilities				
Tax and accounting book differences – property, plant and equipment	8,809	8,159	(6)	(146)
Brand intangible assets (value-in-use deferred tax)	2,212	2,212	-	-
Inventories and biological work in progress	191	781	(590)	745
Fair value through profit or loss financial assets/liabilities	36	-	36	-
Other including WET rebate receivable	147	146	1	(10)
Gross deferred tax liabilities	<u>11,395</u>	<u>11,298</u>	<u>(559)</u>	<u>589</u>
(ii) Deferred tax assets				
Annual, sick leave and employee entitlements, accruals and provisions	(112)	(67)	(45)	8
Fair value through profit or loss financial assets/liabilities	-	(19)	19	77
Gross deferred tax assets	<u>(112)</u>	<u>(86)</u>	<u>(26)</u>	<u>85</u>
Net deferred tax liabilities	<u>11,283</u>	<u>11,212</u>		
Deferred tax expense/(income)			<u>(585)</u>	<u>674</u>

All deferred tax assets and liabilities are disclosed as non-current. Approximately \$115,000 for the Group (2016: \$762,000) are expected to be recovered within the next 12 months.

At 30 June 2017, taxable temporary differences that are unrecognised tax losses that are associated with the Group's investments in subsidiaries totalled \$Nil (2016: \$Nil).

During the year the Group changed its accounting policy in relation to the recognition of deferred tax on acquired indefinite life (brand) intangible assets in accordance with the IFRIC clarification issued in November 2016. No deferred tax was recognised in relation to the Group's indefinite life brands at the time of their acquisition on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, it is expected to be recovered entirely through sale. Following the additional guidance, the Group has reviewed the expected recovery of the carrying amount of the indefinite life brands and concluded that their carrying amount is expected to be recovered through use of the brands within its business. As a result, the Group has recognised a deferred tax liability of \$2,212,000 with a corresponding increase in the carrying value of goodwill.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Restated Group 2016 \$'000
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6. INCOME TAX (CONTINUED)

6.5 IMPUTATION CREDITS

Imputation credits available for subsequent reporting periods based on a tax rate of 28%

2,454	1,551
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The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

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

7. EARNINGS PER SHARE

	Group 2017 cents per shares	Restated Group 2016 cents per shares
Basic Earnings per share	5.85	9.49

The calculation of basic earnings per share in respect of 2017 is based on profit of \$3,056,000 (2016: Restated \$4,956,000) and the weighted average of 52,222,534 ordinary shares on issue during the year (2016: 52,222,534).

	Group 2017 cents per shares	Restated Group 2016 cents per shares
Diluted Earnings per share	5.09	8.25

The calculation of diluted earnings per share in respect of 2017 is based on profit of \$3,056,000 (2016: Restated \$4,956,000) and the weighted average of 60,085,559 ordinary shares on issue during the year (2016: 60,085,559).

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 2017 Number of shares	Group 2016 Number of shares
Weighted average number of ordinary shares (Basic)	52,222,534	52,222,534
Convertible notes outstanding at year end	7,863,025	7,863,025
Weighted average number of ordinary shares (Diluted)	60,085,559	60,085,559

8. DISTRIBUTION TO OWNERS

The Company paid a final dividend for 2016 of 3 cents per share fully imputed on 4 October 2016 totalling \$1,567,000 (2016: \$1,044,000: 2 cents per share paid 2 October 2015). 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 29 August 2017 for payment on 3 October 2017 (refer note 31).



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Parent 2017 Number of shares issued	Parent 2016 Number of shares issued	Group 2017 \$'000	Group 2016 \$'000
9. SHARE CAPITAL				
FULLY PAID UP ORDINARY SHARES				
Balance at beginning of financial year	52,222,534	52,222,534	66,518	66,518
Movements in share capital	-	-	-	-
Balance at end of financial year	<u>52,222,534</u>	<u>52,222,534</u>	<u>66,518</u>	<u>66,518</u>

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 (2016: Nil).

Shares reserved for issuance: Convertible notes on issue at year end – convertible to 7,863,025 ordinary shares – refer note 15 (2016: 7,863,025).

	Group 2017 \$'000	Restated Group 2016 \$'000
10. RESERVES		
ASSET REVALUATION RESERVE		
Balance at beginning of financial year	7,547	3,227
Bearer plant asset revaluation change of accounting standard (note 34)	-	2,088
Revaluation increments/(decrements)	3,383	3,108
Reversal of previous revaluation decrements taken through profit & loss	(71)	(153)
Deferred tax liability arising on revaluation (note 6.2)	<u>(657)</u>	<u>(723)</u>
Balance at end of financial year	<u>10,202</u>	<u>7,547</u>

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

The property, plant & equip. reserve was extinguished in 2010. Refer to note 20 for further details.

11. RETAINED EARNINGS

Balance at beginning of financial year	12,864	10,887
Bearer asset revaluation change of accounting standard (note 34)	-	(2,088)
Profit for the year net of tax, attributable to Shareholders of the Parent Co.	3,056	4,956
Dividends paid relating to 2016 (2016: 2015)	<u>(1,567)</u>	<u>(1,044)</u>
	14,353	12,711
Reversal of previous revaluation reserve taken through profit & loss (note 20)	<u>71</u>	<u>153</u>
Balance at end of financial year	<u>14,424</u>	<u>12,864</u>



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Group 2016 \$'000
12. TRADE AND OTHER PAYABLES		
Trade creditors	3,037	1,700
Employee entitlements	655	606
Other accruals	629	744
	4,321	3,050

13. LOANS AND BORROWINGS

	Interest Rate Review Date	Expiry Date	Group 2017 \$'000	Group 2016 \$'000	
At amortised cost:					
Bank of New Zealand Term Loan	3.45% pa	31/7/17	31/8/20	10,001	11,001
TOTAL LOANS AND BORROWINGS			10,001	11,001	
Weighted average effective interest rate on Term Loans			3.45%	3.95%	
Loans due within 1 year			1,001	1,001	
Total current loans and borrowings			1,001	1,001	
Loans due 1 to 2 years			9,000	10,000	
Loans due 2 to 5 years			-	-	
Loans due after 5 years			-	-	
Total non-current loans and borrowings			9,000	10,000	
Total loans and borrowings			10,001	11,001	

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.

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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

13. LOANS AND BORROWINGS (CONTINUED)

BANK OF NEW ZEALAND FACILITIES (CONTINUED)

- 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 2017 \$'000	Group 2016 \$'000
14. FINANCE LEASES		
Not later than 1 year	-	15
Later than 1 year and not later than 2 years	-	-
Later than 2 years and not later than 5 years	-	-
Total minimum lease payments	<u>-</u>	<u>15</u>
Disclosed as:		
Current finance lease liability	-	15
Non current finance lease liability	<u>-</u>	<u>-</u>
	<u>-</u>	<u>15</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 2017 (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.

	Group 2017 \$'000	Group 2016 \$'000
16. OTHER FINANCIAL ASSETS/(LIABILITIES)		
At fair value:		
Foreign currency forward contracts	176	22
Foreign currency option contracts	6	
Other financial assets – held for trading – Current	182	22
Other financial assets – held for trading – Non Current	-	-
Other financial assets – held for trading – Total	182	22
Other financial liabilities – held for trading – Current	-	-
Interest rate swap contracts	(51)	(88)
Other financial liabilities – held for trading – Non Current	(51)	(88)
Other financial liabilities – held for trading – Total	131	(66)

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 2017 (CONTINUED)

	Group 2017 \$'000	Group 2016 \$'000
17. TRADE AND OTHER RECEIVABLES		
Trade receivables	7,998	6,953
Impairment of trade receivables	-	(1)
Other receivables	701	769
Other receivables – insurance proceeds receivable	865	-
	<u>9,564</u>	<u>7,721</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	7,938	6,952
Past Due 1-30 days	60	-
Past Due 31-60 days	-	-
Past Due 61-90 days	-	-
Past Due > 91 days	-	1
	<u>7,998</u>	<u>6,953</u>

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2017 trade receivables there were no debts (2016: \$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 \$Nil in the current year (2016: \$1,000). Bad debts of \$Nil were written off during the year (2016: \$Nil), \$Nil of which was subsequently recovered (2016: \$Nil). \$Nil was recovered from a bad debt written off in the previous financial year (2016: \$Nil). The gross debt relating to the trade receivables which were considered to be impaired at balance date was \$Nil (2016: \$1,000).

	Group 2017 \$'000	Group 2016 \$'000
Impairment of trade receivables:		
Opening balance	1	-
Written off during the year (net of amounts recovered)	(1)	-
Impairment charge reversal during the year	(1)	-
Impairment charge during the year	-	1
Charged during the year	1	-
Closing balance	<u>-</u>	<u>1</u>



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Group 2016 \$'000
18. INVENTORIES		
Raw materials	440	507
Consumable stores	118	66
Work in progress	22,214	21,840
Finished goods	9,823	9,790
Impairment of inventory	(8)	(2)
Total inventories at lower of cost and net realisable value	<u>32,587</u>	<u>32,201</u>
Impairment of Inventory:		
Opening balance	2	11
Impairment charge reversal during the year	-	(9)
Impairment charge during the year	6	-
Closing balance	<u>8</u>	<u>2</u>

19. BIOLOGICAL WORK IN PROGRESS

Growing costs related to next harvest	<u>706</u>	<u>696</u>
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The growth on the vines in the period from harvest to 30 June 2017 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 \$706,000 (2016: \$696,000).

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
Year ended 30 June 2017					
At 1 July 2016, net of accumulated depreciation and impairment	16,710	12,621	24,244	13,205	66,780
Additions	-	118	256	4,674	5,048
Disposals	-	-	(106)	(638)	(744)
Revaluations	1,173	804	1,137	-	3,114
Depreciation charge for the year	-	(257)	(342)	(1,948)	(2,547)
At 30 June 2017, net of accumulated depreciation and impairment	<u>17,883</u>	<u>13,286</u>	<u>25,189</u>	<u>15,293</u>	<u>71,651</u>
At 30 June 2017:					
Cost or fair value	17,883	13,286	25,189	29,707	86,065
Accumulated depreciation (accum impairment nil)	-	-	-	(14,414)	(14,414)
Net carrying amount	<u>17,883</u>	<u>13,286</u>	<u>25,189</u>	<u>15,293</u>	<u>71,651</u>



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (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
Year ended 30 June 2016 (Restated)					
At 1 July 2015, net of accumulated depreciation and impairment	16,256	12,592	7,346	13,446	49,640
Biological bearer assets reclassified due to accounting standard changes	-	-	14,777	-	14,777
Additions	-	98	370	1,800	2,268
Disposals	-	-	-	(45)	(45)
Revaluations	454	197	2,191	-	2,842
Depreciation charge for the year	-	(266)	(440)	(1,996)	(2,702)
At 30 June 2016, net of accumulated depreciation and impairment	16,710	12,621	24,244	13,205	66,780
At 30 June 2016:					
Cost or fair value	16,710	12,621	24,244	27,122	80,697
Accumulated depreciation (accum impairment nil)	-	-	-	(13,917)	(13,917)
Net carrying amount	16,710	12,621	24,244	13,205	66,780

Commitments: At balance date the Group had capital commitments of \$Nil (2016: Nil).

Revaluation of Land, Buildings and Land Improvements

Land, buildings and land improvements (which includes biological bearer assets) shown at valuation were valued at fair value under the principle of highest and best use by Alexander Hayward Limited, registered independent valuers, for the Marlborough properties, and Telfer Young, registered independent valuers, for the Martinborough properties, on 30 June 2017 (2016: 30 June 2016). 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 \$Nil (2016: \$10,000).

The carrying amount of land, buildings and land improvements had they been recognised under the historic cost model would have been \$8,607,000, \$8,987,000 and \$16,648,000 respectively (2016: \$8,607,000, \$8,869,000, \$16,552,000 (restated)).

Land Improvements comprise of vineyards including biological bearer plants (grape vines) which have reclassified in accordance with changes to NZ IAS 16 *Property, Plant and Equipment* (refer note 34 for the impact of the reclassification on the comparative information). The valuation of bearer plants at 30 June 2017 was \$17,964,000 (2016: \$16,932,000).



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

21. BIOLOGICAL ASSET PRODUCE

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

At 30 June 2017 the Group held approximately 229 hectares of land owned or leased by the Company in Marlborough (2016: 229) and 190 hectares of land owned or leased by the Group in Martinborough (2016: 190). 206 hectares are currently in commercial production in Marlborough (2016: 206) and 146 hectares in Martinborough (2016: 146).

During the year ended 30 June 2017 the Company harvested 2,807 tonnes of grapes (2016: 3,899). 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 2017 harvest was \$246,000 (2016: \$2,770,000). Refer to note 19 for recognition of the biological transformation between the time of harvest and balance date.

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

	Group 2017 \$'000	Group 2016 \$'000
22. INTANGIBLE ASSETS		
Trademarks		
At start of period, net of impairment	151	151
Additions during the year	-	-
At 30 June, net of impairment	151	151
Cost (gross carrying value)	151	151
Accumulated impairment losses	-	-
Net carrying amount	151	151

Trademarks pertain to the registration of trademarks in local and overseas jurisdictions for the Company's brands.

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



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group 2017 \$'000	Restated Group 2016 \$'000
22. INTANGIBLE ASSETS (CONTINUED)		
Goodwill		
At start of period, net of impairment	4,727	4,727
Additions during the year	-	-
At 30 June, net of impairment	<u>4,727</u>	<u>4,727</u>
Cost (gross carrying value)	<u>4,727</u>	<u>4,727</u>
Accumulated impairment losses	-	-
Net carrying amount	<u>4,727</u>	<u>4,727</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. During the year the Group changed its accounting policy to recognise a deferred tax liability on acquired indefinite life intangibles (brands). This resulted in an increase of \$2,212,000 in the value of Goodwill recognised at balance date.

Brands and Intellectual Property

At start of period, net of impairment	8,175	8,175
Additions - current year additions	-	-
Impairment	-	-
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	-	-
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.

(a) Impairment tests for goodwill and intangibles with indefinite useful lives

The Group has determined that in the current year the value of the goodwill and intangible assets was supported by value-in use calculations performed for the cash generating unit, being the whole business. The recoverable amount of the cash generating unit was determined based on pre-tax cash flow projections based on the current results of the Group and the following key assumptions: Earnings Before Interest and Tax estimated growth rate: 3% pa; Terminal value of 3%; a period of projection of six years and a pre-tax discount rate 6.4% pa (2016: 10.3% pa). The discount rate used is consistent with companies operating in the same industry. No reasonable possible change in assumptions would lead to an impairment. The recoverable amount determined did not indicate any impairment and no adjustment was deemed to be required.

TOTAL INTANGIBLE ASSETS	<u>13,053</u>	<u>13,053</u>
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FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

23. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group 2017 \$'000	Restated Group 2016 \$'000
PROFIT AFTER INCOME TAX FOR THE YEAR	3,056	4,956
NON-CASH ITEMS:		
Depreciation	2,547	2,702
Increase/(decrease) in deferred tax	(586)	673
Impairment loss/(gain) recognised on trade and other receivables	(1)	1
Impairment loss/(gain) recognised on inventories	6	(9)
Adjustments resulting from revaluation of grapes	1,084	(2,448)
Loss/(gain) on disposal of property, plant and equipment	(1,170)	(25)
Loss/(gain) on asset revaluations	108	131
	<u>1,988</u>	<u>1,025</u>
MOVEMENTS IN WORKING CAPITAL BALANCES:		
Trade and other receivables	(1,842)	439
Inventories	(1,475)	(2,309)
Biological work in progress	(10)	(115)
Prepaid expenses	314	(335)
Trade and other payables	1,271	(1,124)
Other financial assets/liabilities	(197)	(275)
Current tax assets/liabilities	398	(17)
	<u>(1,541)</u>	<u>(3,736)</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>3,503</u>	<u>2,245</u>

24. OPERATING LEASE COMMITMENTS

Not later than 1 year	793	852
Later than 1 year and not later than 5 years	2,916	3,149
Later than 5 years	6,711	7,545
	<u>10,420</u>	<u>11,546</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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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 2016.

(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 \$15 million (2016: \$14 million).

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

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(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 2017 \$'000	Group 2016 \$'000
Cash and cash equivalents	221	1,574
Trade and other receivables	6,113	6,205
Trade and other payables	<u>(171)</u>	<u>(200)</u>
Net exposure at balance date	<u>6,163</u>	<u>7,579</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 \$304,000, \$67,000, \$156,000 and \$33,000 respectively for the Group (2016: \$329,000, \$126,000, \$202,000 and \$32,000). 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 \$372,000, \$82,000, \$191,000 and \$41,000 respectively for the Group (2016: \$402,000, \$154,000, \$247,000 and \$39,000). 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 \$3,603,000 (2016: \$337,000). The aggregate notional principal of foreign exchange option contracts outstanding at balance date was a net of \$273,000 (2016: \$Nil).

(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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Interest rate risk management (continued)

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 \$83,000 (2016: \$72,000) 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 \$1,127,000 (2016: \$1,225,000). The interest rates applicable to the interest rate swap contracts during the year were 5.30% pa – 6.01% pa (2016: 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.

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.



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

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 \$15 million (2016: \$14 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
Group 2017				
Trade and other payables	4,021	-	-	-
Loans and borrowings	1,327	1,292	8,301	-
Convertible notes	11,609	-	-	-
	<u>16,957</u>	<u>1,292</u>	<u>8,301</u>	<u>-</u>
Group 2016				
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>



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (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 2017				
Interest rate swaps – net settled cash flows	(20)	(38)	(13)	(2)
Forward exchange contracts – cash inflows	3,603	-	-	-
Forward exchange contracts – cash outflows	(3,423)	-	-	-
Foreign currency option contracts – cash inflows	273	-	-	-
Foreign currency option contracts – cash outflows	(262)	-	-	-
	<u>171</u>	<u>(38)</u>	<u>(13)</u>	<u>(2)</u>
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>

(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 2017 (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

	Group 2017 \$'000	Group 2016 \$'000
Financial assets held for trading		
Other financial assets (derivative financial assets) – Current	182	22
Other financial assets (derivative financial assets) – Non-Current	-	-
Total financial assets	<u>182</u>	<u>22</u>
Financial liabilities held for trading		
Other financial liabilities (derivative financial liabilities) – Current	-	-
Other financial liabilities (derivative financial liabilities) – Non-Current	51	88
Total financial liabilities	<u>51</u>	<u>88</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	154	214
Foreign currency option contracts	6	21
Interest rate swaps	36	41
	<u>196</u>	<u>276</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>1,800</u>	<u>1,739</u>
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FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (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 2016: 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 % 2017	Ownership Interest % 2016
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%
Martinborough Terraces Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%
Burnt Spur Ltd	Non-operating	Foley Family Wines Ltd	NZ	100%	100%

(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 2017 \$000	Group 2016 \$000
Certain Directors and key management personnel have interests in contracts with the Group as follows. All transactions were at normal commercial rates.		
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	473	449
AM Turnbull (Lighthouse Distillery Ltd – charges from FFW for labour, rent, electricity and administration)	117	39



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

27. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Transactions with Other Related Parties

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

- (i) Sales were made to Foley Family Wines, Inc., a 100% owned subsidiary of Foley Family Wines Holdings, Inc., the ultimate parent of Foley Family Wines Limited. Sales for the year were \$7,312,000 (2016: \$6,631,000).
- (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 \$109,000 (2016: \$108,000).
- (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 15). Interest paid/payable for the year was \$709,000 (2016: \$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 \$8,098,000 (2016: \$9,046,000). Management fees and the funding of promotional activity such as bonus stock relating to these sales were paid during the year of \$773,000 (2016: \$927,000). Sales from EuroVintage to the Group totalled \$22,000.
- (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 \$29,000 (2016: \$27,000). Administration Charges for the year totalled \$5,000 (2016: \$5,000). Accommodation, meals and events provided by Wharekauhau to the Company during the year totalled \$56,000 (2016: \$49,000).
- (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 \$Nil (2016: \$122,000).

	Group 2017 \$000	Group 2016 \$000
Amounts owing to related parties as at balance date:		
Foley Family Wines Inc.	17	17
Foley Family Wines Holdings, New Zealand Limited – convertible note	10,900	10,900
EuroVintage Limited	77	84
Wharekauhau Country Estate Limited	-	7
Lighthouse Distillery Limited	84	108
Amounts owing from related parties as at balance date:		
Foley Family Wines, Inc.	2,336	1,809
Epic Ventures, Inc.	-	60
EuroVintage Limited	916	726
Wharekauhau Country Estate Limited	4	1
Lighthouse Distillery Limited	14	37



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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 \$8,098,000 (2016: \$9,046,000), \$7,312,000 (2016: \$6,631,000), \$1,793,000 (2016: \$2,650,000), \$1,280,000 (2016: \$1,552,000), \$1,237,000 (2016: \$2,391,000) and \$1,111,000 (2016: \$2,083,000) 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 2017 or 2016. The largest customers are related parties – refer note 27.

The Group derived sales revenue from New Zealand customers of \$11,408,000 and overseas customers of \$21,739,000 (2016: NZ \$11,115,000; Overseas \$23,731,000).

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 (2016: Nil).

30. CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2016: Nil).

31. SUBSEQUENT EVENTS

On 31 July 2017 the interest rate on the BNZ Term Loan facility was reviewed. The new interest rate on this facility is 3.43% pa.

On 15 August 2017 the final payment in respect of the earthquake insurance claim (refer note 4) of \$865,000 excluding GST (note 17) was received from QBE.

On 29 August 2017 the Board approved a final dividend of 3 cents per share, fully imputed, for payment on 3 October 2017.

No other material events have occurred since balance date.

32. NET TANGIBLE ASSETS PER SHARE

	Group 2017 \$	Group 2016 \$
Net tangible assets per share	1.50	1.41

The calculation of net tangible per share in respect of 2017 is based on net tangible assets of \$78,091,000, being Net assets \$91,144,000 less intangible assets \$13,053,000 (2016: \$73,876,000 being \$86,929,000 less \$13,053,000) and the 52,222,534 ordinary shares on issue at balance date (2016: 52,222,534).



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

33. FOREIGN CURRENCY EXCHANGE RATES

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

NZ \$1.00 =	30 June 2017		30 June 2016	
	FFW Buy	FFW Sell	FFW Buy	FFW Sell
Australian dollar	0.9465	0.9525	0.9539	0.9604
United States dollar	0.7266	0.7320	0.7091	0.7142
Great British pound	0.5591	0.5634	0.5281	0.5320
Euro	0.6350	0.6402	0.6383	0.6433

34. EXPLANATION OF CHANGES IN ACCOUNTING POLICIES DUE TO CHANGES IN STANDARDS AND INTERPRETATIONS

Amendments to NZ IAS 41 *Agriculture* and NZ IAS 16 *Property, Plant and Equipment* adds a definition of a bearer plant and includes bearer plants within the scope of NZ IAS 16 instead of NZ IAS 41. Bearer plants (grape vines) are accounted for in the same way as Property, Plant and Equipment (refer note 20). The produce growing on bearer plants continues to be measured at its fair value in accordance with IAS 41 (refer note 21).

In November 2016 IFRIC issued an interpretation statement in relation to the recognition of deferred tax on acquired indefinite life (brand) intangible assets. This results in recognition of a deferred tax value in use liability of \$2,212,000 and an increase in value of goodwill in the current and prior year.

The comparatives shown in the Group's financial statements for the year ended 30 June 2016 have been restated in the reconciliation below.

	Reported Group 2016 \$	Effect of transition \$	Restated Group 2016 \$
(a) Effect on the Balance Sheet			
CURRENT ASSETS – TOTAL	43,573	-	43,573
NON CURRENT ASSETS			
Property, plant and equipment	49,848	16,932	66,780
Biological assets	16,932	(16,932)	-
Intangible assets	10,841	2,212	13,053
Deferred tax assets	86	-	86
TOTAL NON CURRENT ASSETS	77,707	2,212	79,919
TOTAL ASSETS	121,280	2,212	123,492
CURRENT LIABILITIES -TOTAL	15,177	-	15,177
NON CURRENT LIABILITIES – TOTAL	19,174	2,212	21,386
TOTAL LIABILITIES	34,351	2,212	36,563
EQUITY			
Share Capital	66,518	-	66,518
Reserves	4,000	3,547	7,547
Retained earnings	16,411	(3,547)	12,864
TOTAL EQUITY	86,929	-	86,929
TOTAL LIABILITIES AND EQUITY	121,280	2,212	123,492



FOLEY FAMILY WINES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

34. EXPLANATION OF CHANGES IN ACCOUNTING POLICIES DUE TO CHANGES IN STANDARDS AND INTERPRETATIONS (CONTINUED)

	Reported Group 2016 \$	Effect of transition \$	Restated Group 2016 \$
(b) Effect on Income Statement			
Revenue	34,846	-	34,846
Expenses excluding interest	(29,259)	-	(29,259)
Net finance costs	(1,256)	-	(1,256)
Operating Profit before impairment, revaluations & income tax	4,331	-	4,331
Impairment	8	-	8
Operating Profit before revaluations & income tax	4,339	-	4,339
Revaluation gains and losses			
Unrealised gain/(loss) in fair value of financial asset/liabilities	276	-	276
Unrealised gain on biological assets	2,003	(2,003)	-
Unrealised (loss)/gain on harvested grapes	2,770	-	2,770
Realised reversal of (gain)/loss on harvested grapes	(322)	-	(322)
Revaluation of property, plant & equipment	(35)	(96)	(131)
Profit before income tax	9,031	(2,099)	6,932
Income tax expense	(2,574)	598	(1,976)
Profit for the year net of tax	6,457	(1,501)	4,956
Basic Earnings per share cps (after tax)	12.36		9.49
Diluted Earnings per share cps (after tax)	10.75		8.25
(c) Effect on Statement of Comprehensive Income			
Profit for the year	6,457	(1,501)	4,956
Other comprehensive income			
Revaluation of property, plant and equipment	1,008	2,099	3,107
Income tax on items taken directly to or transferred from equity	(124)	(598)	(723)
Total other comprehensive income for the year, net of tax	884	1,501	2,385
Total comprehensive income for the year, net of tax	7,341	-	7,341



Independent auditor's report

To the shareholders of Foley Family Wines Limited

The consolidated financial statements comprise:

- the statement of financial position as at 30 June 2017;
- 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 financial statements, which include a summary of accounting policies.

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 2017, 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) and International Financial Reporting Standards (IFRS).

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.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: \$331,470 which represents 1% of total sales revenue excluding insurance claim income. We chose sales revenue as our benchmark because in our view, it is the most stable benchmark against which the performance of the Group can be measured.

We determined that they only key audit matter was the valuation of land, land improvements and buildings

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Effectually there is one operating entity over which we conducted a full scope audit.



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter								
<p>Valuation of land, land improvements and buildings</p> <p>As disclosed in note 20 of the financial statements, the company has recorded the following assets at fair value:</p> <table border="0"> <tr> <td>Freehold land</td> <td style="text-align: right;">\$17.88 million</td> </tr> <tr> <td>Freehold buildings</td> <td style="text-align: right;">\$13.28 million</td> </tr> <tr> <td>Land improvements</td> <td style="text-align: right;"><u>\$25.19 million</u></td> </tr> <tr> <td>Total held at fair value</td> <td style="text-align: right;">\$56.36 million</td> </tr> </table> <p>Land improvements comprise vineyards including \$17.96 million of grape vine biological assets. As per note 34, the biological assets were previously separated. This is no longer required under NZ IAS 41.</p> <p>Management used independent valuers to determine the fair values of the assets at balance date. The valuations are prepared using a “comparative sales” basis and include an assumption over the comparability of certain key inputs, such as location, soil quality, type and number of buildings, variety of vines and growing conditions at each of the wineries and vineyards. The assumption is that these key elements of the properties held by the company are comparable with those selected for the purposes of performing the valuation.</p> <p>The valuers have determined a value for each property as a whole taking into account current market conditions and recent sales within each area, based on available market transaction data, to arrive at a range of valuation outcomes, from which they derive a fair value estimate for the property’s components of land, buildings and land improvements.</p> <p>The valuation of these assets is a key audit matter due to the subjectivity of these judgements.</p>	Freehold land	\$17.88 million	Freehold buildings	\$13.28 million	Land improvements	<u>\$25.19 million</u>	Total held at fair value	\$56.36 million	<p>Our audit focused on the judgments used to determine the fair value of the land, buildings and land improvements.</p> <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Assessing the independence, objectivity and competence of each valuer • Meeting with the valuers to understand the procedures and processes they performed in undertaking the valuations and the methodology they used. We discussed the following with each valuer: <ul style="list-style-type: none"> ○ Valuation methodology used including their peer review process ○ How they selected comparative sales transactions ○ How they obtained knowledge of the characteristics of each vineyard for example by site inspections to confirm soil type, location, and grape variety. • Using our internal PwC valuation expert we have assessed the methodology adopted by the valuers to confirm that the basis of valuation is appropriate for assets of this nature. • Sighted supporting documentation and re-performed calculations made by the valuers. Supporting documentation reviewed included: <ul style="list-style-type: none"> ○ Comparative sales data from Real Estate Institute of New Zealand (REINZ) ○ Detailed spreadsheets used by the valuer in performing their calculations • On a sample basis, we confirmed details of soil quality, type and number of buildings, yield data and variety of vines to source data such as title deeds, vineyard production reports, photographs of the sites and our own knowledge gained during site visits. <p>As a result of the audit procedures performed, there were no matters to report.</p>
Freehold land	\$17.88 million								
Freehold buildings	\$13.28 million								
Land improvements	<u>\$25.19 million</u>								
Total held at fair value	\$56.36 million								



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 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.

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 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/Page1.aspx

This description forms part of our auditor's report.



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.

The engagement partner on the audit resulting in this independent auditor's report is Victoria Lawson.

For and on behalf of:

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

Chartered Accountants
29 August 2017

Napier



FOLEY FAMILY WINES

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

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 overarching 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 2017 (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 2017 (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 \$170,000 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 2017 (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 2017

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 plus years as a director and executive officer of FNF, his experience as a board member and executive officer of public and private companies in a wide variety of industries, and his strong track record of building and maintaining shareholder value and successfully negotiating and implementing mergers and acquisitions.

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 2017 (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: Nil (2016: AM Turnbull purchased 10,000 shares on 1 September 2015 for \$1.50 per share).

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

There were no transactions during the year (2016: Nil).

TRANSACTIONS	2017 \$000	2016 \$000
Certain Directors have interests in contracts with Foley Family Wines Limited. All transactions were at normal commercial rates.		
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	473	449
AM Turnbull (Lighthouse Distillery Ltd – charges from FFW for labour, rent, electricity and administration)	117	39

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:

DIRECTORS' FEES	2017 \$000	2016 \$000
WP Foley II	100	100
AJ Anselmi	35	25
JA Jamieson	35	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 \$785,000 (2016: \$790,000).



FOLEY FAMILY WINES

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017 (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	1
\$110,000-\$119,999	1
\$120,000-\$129,999	1
\$130,000-\$139,999	1
\$140,000-\$149,999	2
\$230,000-\$239,999	1
\$240,000-\$249,999	1
\$350,000-\$359,999	1

5. DONATIONS

Foley Family Wines Limited made no cash donations during the year (2016: \$Nil).

6. SHAREHOLDER BREAKDOWN

Shareholding as at 30 June 2016	Number of shareholders	Total shares held	% of share capital
1-999	531	120,366	0.23%
1,000-9,999	232	726,916	1.39%
10,000-49,999	80	1,572,237	3.01%
50,000-99,999	15	1,034,360	1.98%
100,000-499,999	22	4,559,369	8.73%
500,000+	6	44,209,286	84.66%
	886	52,222,534	100.00%

7. DIRECTORS' SHAREHOLDING

As at 30 June 2017 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 (2016: 59%). This interest was 62.8% including the shares to be issued under the Convertible Note (note 15) (2016: 62.8%).

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% (2016: 1.5%) through his shareholding in FFWH-NZ (1.5%; 2016 1.5%) and through the ownership of 10,000 ordinary FFW shares (0.02% 2016: 0.02%). This interest was 1.6% including the shares to be issued under the Convertible Note (note 15) (2016: 1.6%).



FOLEY FAMILY WINES

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

8. 20 LARGEST REGISTERED HOLDERS

	Ordinary shares held	% of share capital
Ordinary shares held at 30 June 2016:		
Foley Family Wines Holdings, New Zealand Limited *	34,708,796	66.46%
National Nominees New Zealand Limited on behalf of Milford Asset Management Limited *	4,042,553	7.74%
Accident Compensation Corporation	2,441,339	4.67%
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	455,363	0.87%
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%
Leveraged Equities Finance Limited	285,658	0.55%
Public Trust RIF Nominees Limited - NZCSD	283,837	0.54%
FNZ Custodians Limited	202,927	0.39%
CM & BW Doig	198,794	0.38%
BNP Paribas Nominees (NZ) Limited - NZCSD	185,000	0.35%
BNP Paribas Nominees (NZ) Limited - NZCSD	176,687	0.34%
Oceania Securities Limited	162,090	0.31%
JD Orchard, CS Orchard & JG Orchard	160,000	0.31%
Custodial Services Limited	139,232	0.27%
Sub-total	47,828,985	91.59%
Others (866 Shareholders)	4,393,549	8.41%
TOTAL	52,222,534	100.00%

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



FOLEY FAMILY WINES

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

DIRECTORS:	WP Foley, II (Chairman) AJ Anselmi JA Jamieson AM Turnbull (CEO)
HEAD OFFICE ADDRESS:	13 Waihopai Valley Road RD6, Blenheim, 7276, Marlborough, New Zealand Telephone +64 3 572 8200 Facsimile +64 3 572 8211
POSTAL ADDRESS:	PO Box 67, Renwick 7243, Marlborough, New Zealand
EMAIL:	info@ffw.co.nz
WEBSITES:	www.ffw.co.nz www.grovemill.co.nz www.vavasour.com www.tekairanga.com www.martinborough-vineyard.co.nz
NATURE OF BUSINESS:	Production and distribution of wine
AUDITORS:	PricewaterhouseCoopers, Napier
SOLICITORS:	Bell Gully, Auckland Anthony Harper, Auckland
BANKERS:	Bank of New Zealand, Auckland
REGISTRATION NO.	307139
REGISTERED OFFICE:	13 Waihopai Valley Road, RD6 Blenheim 7276, Marlborough, New Zealand
SHARE REGISTRAR:	Computershare Investor Services Limited 159 Hurstmere Road, Takapuna, North Shore City 0622 Private Bag 92119, Auckland 1142 Telephone +64 9 488 8777 Facsimile +64 9 488 8787 Email: enquiry@computershare.co.nz (please quote CSN or shareholder number) Website for shareholders to change address or payment instructions or view investment portfolio: www.computershare.co.nz/investorcentre
SHARE TRADING:	NZX – NZAX Market Security Code “FFW”