

Results for announcement to the market		
Name of issuer	Delegat Group Limited	
Reporting Period	12 months to 30 June 2020	
Previous Reporting Period	12 months to 30 June 2019	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$304,181	9%
Total Revenue	\$304,181	9%
Operating Profit from ordinary activities after tax (Operating NPAT) ^{1,2}	\$60,827	20%
Operating Profit from ordinary activities before interest, tax and depreciation (Operating EBITDA) ^{1,2}	\$116,840	13%
Reported Profit from continuing operations ¹	\$64,122	37%
Total Net Profit ¹	\$64,122	37%
Final Dividend		
Amount per Quoted Equity Security	\$0.1700000	
Imputed amount per Quoted Equity Security	\$0.0661111	
Record Date	25/09/2020	
Dividend Payment Date	09/10/2020	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$3.95	\$3.48
Authority for this announcement		
Name of person authorised to make this announcement	Murray Annabell	
Contact person for this announcement	Murray Annabell	
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Contact email address	murray.annabell@delegat.com	
Date of release through MAP	28/08/2020	

1. The financial statements for the year ended 30 June 2019 have been restated following the adoption of "NZ IFRS 16: Leases" on 1 July 2019. Refer to Note 1 of the Financial Statements.

2. Operating Performance is a non-GAAP measure and as such does not have a standardised meaning prescribed by GAAP. It may therefore not be comparable to non-GAAP measures presented by other entities.

**200
million**

*glasses of our
wine were
enjoyed by wine
lovers around the
world last year.*

C O N T E N T S

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“Delegat is now the number one New Zealand wine exporter to the world, yet another milestone achieved on our journey to become one of the world’s leading Super Premium wine companies.”

JIM DELEGAT, EXECUTIVE CHAIRMAN

EXECUTIVE CHAIRMAN’S REPORT 2020

On behalf of the Board of Directors of Delegat Group Limited, it is with great pleasure that I present to you yet another record year for Delegat Group Limited on our journey to build a leading global Super Premium wine company. I am pleased to present its operating and financial results for the year ended 30 June 2020, which has been an outstanding year for the Group.

Against a backdrop of uncertainty caused by COVID-19, the strength of our category-leading Super Premium brands, in-market sales teams, distribution networks and strong consumer demand has provided the necessary resilience in these challenging times and a solid foundation which positions us well for future sales growth.

In delivering a record performance this year, Delegat is now the number one New Zealand wine exporter to the world, yet another milestone achieved on our journey to become one of the world’s leading Super Premium wine companies.

PERFORMANCE HIGHLIGHTS

- **Record global case sales of 3,277,000, up 9%.**
- **Record Operating NPAT of \$60.8 million, up 20%.**
- **Record Cash Flows from Operations of \$84.3 million, up 42%.**
- **Number one New Zealand wine exporter to the world.***

The Group presents its financial statements in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

To provide further insight into the Group’s underlying operational performance, the Group has also included in this report an Operating Performance Report. This excludes the impact of fair value adjustments required under NZ IFRS for grapes, derivative instruments, and the tax effects of the reintroduction of depreciation deductions on buildings. As a fully integrated winemaking and sales operation, Operating

*New Zealand Winegrowers Inc. 30 June 2020

Profit includes the fair value adjustment in respect of grapes when packaged wine is sold, rather than on harvest of the grapes, and the fair value adjustment on derivative instruments when these foreign exchange contracts and interest rate swaps are realised.

The Group has included a reconciliation of Operating Profit to Reported Profit which eliminates from each line in the Statement of Financial Performance all fair value adjustments.¹

OPERATING PERFORMANCE

A record Operating NPAT of \$60.8 million was generated compared to \$50.8 million* in the previous 12 months. Operating EBIT of \$95.2 million is \$11.9 million higher than last year. Operating Expenses (before NZ IFRS adjustments) at \$56.1 million are \$1.0 million higher than last year.

Delegat achieved Operating Revenue of \$302.9 million on global case sales of 3,277,000 in the year. Revenue is up \$24.9 million on last year, due to a 9% increase in global case sales and the favourable impact of foreign exchange rate changes.

The Group's case sales performance and foreign currency rates achieved are detailed in table 2.

NZ IFRS FAIR VALUE ADJUSTMENTS

In accordance with NZ IFRS, the Group is required to account for certain assets at 'fair value' rather than at historic cost. All movements in these fair values are reflected in and impact the Statement of Financial Performance. The Group records adjustments in respect of three significant items at the year-end as described below and detailed in table 3.

Table 1 OPERATING PERFORMANCE

NZ\$ millions	June 2020	June 2019 Restated*	% change vs 2019
Operating Revenue ¹	302.9	278.0	9%
Operating Gross Profit ²	151.3	138.4	9%
Operating Gross Margin	50%	50%	
Operating Expenses ³	(56.1)	(55.1)	-2%
Operating EBIT ⁴	95.2	83.3	14%
Operating EBIT % of Revenue	31%	30%	
Interest and Tax	(34.4)	(32.5)	-6%
Operating NPAT ⁴	60.8	50.8	20%
Operating NPAT % of Revenue	20%	18%	
Operating EBITDA ⁴	116.8	103.8	13%
Operating EBITDA % of Revenue	39%	37%	

Notes:

- Operating Revenue is before fair value movements on derivative instruments (if gains).
- Operating Gross Profit is before the net fair value movements on biological produce (harvest adjustment) and the NZ IFRS adjustments excluded in Note 1.
- Operating Expenses are before fair value movements on derivative instruments (if losses).
- Operating EBIT, EBITDA and NPAT are before any fair value adjustments.

1. Operating Performance is a non-GAAP measure and as such does not have a standardised meaning prescribed by GAAP. It may therefore not be comparable to non-GAAP measures presented by other entities. The Executive Chairman and Managing Director's reports are read by the auditors as part of their responsibilities in respect of other information as disclosed in their audit report.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Lease on 1 July 2019. Refer to Note 1 of the financial statements.

- Harvest Provision Release (Grapes) – Inventory is valued at market value, rather than costs incurred, at harvest. Any fair value adjustment is excluded from Operating Performance for the year, by creating a Harvest Provision. This provision is then released through Cost of Sales when inventory is sold in subsequent years. This represents the reversal of prior periods' fair value adjustments in respect of biological produce as finished wine is sold in subsequent years. In 2020, the market value of the Company grapes exceeded the costs incurred by \$16.3 million (2019: \$14.0 million). This write-up is higher than last year due to a higher-yielding 2020 vintage. This write-up, less the impact of prior years' vintages being sold, has resulted in a net write-down of \$0.7 million for the year (2019: write-down of \$4.2 million).
- Derivative Instruments are held to hedge the Group's foreign currency and interest rate exposure. The mark-to-market movement of these instruments at balance date resulted in a fair value write-up of \$1.3 million (2019: write-down of \$1.5 million).
- The tax effect of reinstatement of depreciation in relation to the reintroduction of depreciation deductions on buildings has resulted in a tax write-up of \$2.9 million (2019: \$nil).

The above adjustments, net of taxation, amount to a write-up of \$3.3 million for the year (2019: write-down of \$4.0 million).

RECONCILIATION OF REPORTING TO OPERATING PERFORMANCE

Accounting for all fair value adjustments under NZ IFRS, the Group's reported audited financial performance for the year ended 30 June 2020 is reconciled to Operating Profit as detailed in table 4.

Table 2 **CASE SALES AND FOREIGN CURRENCY**

	June 2020	June 2019	% change vs 2019
Case Sales (000s)			
UK, Ireland and Europe	1,101	896	23%
North America (USA and Canada)	1,438	1,332	8%
Australia, NZ and Asia Pacific	738	780	-5%
Total Cases	3,277	3,008	9%
Foreign Currency Rates			
GB£	0.5025	0.5146	2%
AU\$	0.9313	0.9320	0%
US\$	0.6493	0.6774	4%
CA\$	0.8648	0.8888	3%

CASH FLOW

The Group generated record Cash Flows from Operations of \$84.3 million in the current year, which is an increase of \$24.7 million or 42% on the previous year. This increase is due to strong cash collections from customers and lower net interest paid. A total of \$29.0 million was paid for additional property, plant and equipment during the year, this includes vineyard developments in New Zealand, and development of the Hawke's Bay and Marlborough wineries, which will provide earnings growth into the years ahead. The Group distributed \$17.2 million to Shareholders in dividends. A net repayment of \$23.5 million was made to reduce borrowings during the year.

Having secured a \$330.0 million syndicated Senior Debt facility in 2019 the Group is well positioned to fund its current operations as well as future capital investment in both New Zealand and Australia. The Group's net debt at 30 June 2020 amounted to \$239.5 million, a decrease of 11% compared to last year and well within the Group's long-term bank debt facilities.

DIVIDENDS

The Directors consider that the underlying operational performance and continued strong cash flows justify maintaining the dividend in line with last year. Accordingly, the Directors are pleased to advise they have approved a fully imputed dividend payout of 17.0 cents per share. The dividend will be paid on 9 October 2020 to Shareholders on record at 25 September 2020.

Table 3 **IMPACT OF FAIR VALUE ADJUSTMENTS**

NZ\$ millions	June 2020	June 2019 Restated*	% change vs 2019
Operating NPAT	60.8	50.8	20%
Operating NPAT % of Revenue	20%	18%	
NZ IFRS Fair Value Items			
Biological Produce (Grapes)¹	(0.7)	(4.2)	83%
Derivative Instruments	1.3	(1.5)	n/m²
Total Fair Value Items	0.6	(5.7)	n/m²
Taxation of NZ IFRS fair value items	(0.2)	1.7	n/m²
Reinstatement of Building tax depreciation	2.9	-	100%
Fair Value Items after Tax	3.3	(4.0)	n/m²
Reported NPAT	64.1	46.8	37%

Notes:

- Biological Produce (Grapes) is the difference between market value paid for grapes and the cost to grow grapes. The Harvest Provision is reversed and only recognised when the finished wine is sold.
- n/m means not meaningful.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Lease on 1 July 2019. Refer to Note 1 of the financial statements.

INVESTING FOR GROWTH

The record results achieved in 2020 are testament to the strength of the Group's business model as it continues to invest for growth.

Delegat is investing to support our strategic goal of building a leading global Super Premium wine company. During the year under review, \$28.7 million was invested in growth assets including development of the Group's wineries, land acquisition and vineyard development in New Zealand and the Barossa Valley, Australia.

Delegat plans to invest an additional \$52.2 million in 2021 to provide earnings growth in the years ahead. This capital investment supports the Group's plan to grow sales to 3,840,000 cases by 2023 and will provide for further growth beyond that period.

OUR GREAT WINE PEOPLE

The Board would like to take this opportunity to acknowledge our Delegat Great Wine People around the world. Our global team has once again shown great resolve and resilience while facing unique challenges. Our team came together and by living our values set new performance records on our journey to build a leading global Super Premium wine company. It is inspiring to work with such a talented team who are committed to winning together.



JIM DELEGAT EXECUTIVE CHAIRMAN

Table 4 **RECONCILIATION OF REPORTING TO OPERATING PERFORMANCE**

NZ\$ millions	2020			2019 Restated*		
	Operating	Fair Value Adjustment	Reported	Operating	Fair Value Adjustment	Reported
Revenue	302.9	1.3	304.2	278.0	-	278.0
Cost of Sales	(151.6)	(0.7)	(152.3)	(139.6)	(4.2)	(143.8)
Gross Profit	151.3	0.6	151.9	138.4	(4.2)	134.2
Operating Expenses	(56.1)	-	(56.1)	(55.1)	(1.5)	(56.6)
EBIT¹	95.2	0.6	95.8	83.3	(5.7)	77.6
Interest and Tax	(34.4)	2.7	(31.7)	(32.5)	1.7	(30.8)
NPAT²	60.8	3.3	64.1	50.8	(4.0)	46.8
EBIT¹	95.2	0.6	95.8	83.3	(5.7)	77.6
Depreciation	21.6	-	21.6	20.5	-	20.5
EBITDA³	116.8	0.6	117.4	103.8	(5.7)	98.1

Notes:
1. EBIT means earnings before interest and tax.
2. NPAT means net profit after tax.
3. EBITDA means earnings before interest, tax, depreciation and amortisation.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Lease on 1 July 2019. Refer to Note 1 of the financial statements.

MANAGING DIRECTOR'S REPORT 2020

The 2020 financial year represented a great demonstration of the Group's ability to navigate new challenges and continue our journey towards building a leading global Super Premium wine company. As outlined in the Executive Chairman's Report, the Group achieved record global case sales growth, Operating Net Profit, and net cash flows from operations.

COVID-19 PANDEMIC

The Group performed very well through the global disruptions caused by the emergence of the COVID-19 pandemic in early 2020. The resilience and commitment demonstrated by the Group's global team during this challenging period has been nothing short of inspirational.

The Group is classified as an Essential Business by the New Zealand and Australian governments, allowing viticulture and winemaking teams to complete harvest operations and winemaking processes for the 2020 vintage, albeit with additional safety precautions and procedures in place.

While field sales activities were limited in many global markets by social-distancing requirements and new trading conditions, the Group's in-market sales teams sustained regular and frequent communication with key customers and distributor partners. The Group's ongoing investment in workplace productivity technology enabled our teams to quickly adapt and maintain all critical functions throughout government-imposed lockdowns. As of 30 June 2020 the Group had no reported cases of COVID-19 among staff.

Reduced sales in the hospitality channel from March onwards were offset by increased sales in retail and particularly in e-commerce channels as consumers adjusted their shopping habits in response to lockdown restrictions. The Group observes that during times of uncertainty consumers increasingly choose to purchase brands that they know and trust. As a leading Super Premium wine brand, Oyster Bay holds a position of high awareness and affinity among premium wine consumers. Accordingly, the Group achieved strong sales performance through the final quarter of the financial year.

“The Group observes that during times of uncertainty consumers increasingly choose to purchase brands that they know and trust.”

JOHN FREEMAN, MANAGING DIRECTOR

GLOBAL SALES PERFORMANCE

The Group achieved global case sales growth of 9% over the previous year to reach 3,277,000 cases. Sales continue to be well diversified by market, with 44% in North America, 34% in United Kingdom, Ireland and Europe, and 22% in the Australia, New Zealand and Asia Pacific region.

The Group's market-driven wine business model has delivered long-term sales growth of the Group's brands. The Group has invested in its brands and distribution channels and has established in-market sales offices to support substantial future sales growth. This unique infrastructure of in-market sales offices has delivered high-quality distribution, enduring business relationships, market knowledge and focus.

NORTH AMERICA

The Group again delivered strong growth in North America, increasing sales volumes by 8% to a record 1,438,000 cases.

The United States remains one of the world's most attractive wine markets, demonstrating sustained category growth and strong demand for imported wines, this makes it a major growth market opportunity for the Group.

The Oyster Bay brand continued its strong growth, gaining distribution and rate of sale across the country. Oyster Bay Sauvignon Blanc is a top 5 white wine over US\$10 by value.¹

The Group has in recent years invested in its brands and distribution channels. The Group is well positioned to continue building momentum through its strong relationships with its distributor partners, a key factor in driving success of Oyster Bay and Barossa Valley Estate.

With premiumisation continuing to drive growth for the wine category, Canadian wine consumers are demanding higher-quality wines for which they are willing to pay a premium price (C\$12+). Oyster Bay has delivered consistent strong performance, while maintaining category-leading ranking positions.

UNITED KINGDOM, IRELAND AND EUROPE

The United Kingdom, Ireland and Europe region again performed extremely well, growing sales by 23% to 1,101,000 cases.

The United Kingdom is a highly competitive market. Oyster Bay has outperformed the wine category and contributed significantly to growing consumer demand for New Zealand wines. Through increased exposure and higher rate of sale, Oyster Bay has further strengthened its position as a leading Super Premium wine brand.

Oyster Bay Sauvignon Blanc, Chardonnay and Merlot continue to be the top-selling wines above £8 in their individual varietal categories irrespective of origin.² Barossa Valley Estate Grenache Shiraz Mourvèdre delivered strong sales growth during the year, supporting further growth in brand awareness and affinity.

In Ireland, Oyster Bay maintained its Super Premium category leadership position. Highlights included significant growth for Oyster Bay Sauvignon Blanc, Chardonnay and Pinot Noir during the year. Oyster Bay Chardonnay, Merlot and Pinot Noir remain the top-selling New Zealand wines in their respective varietal categories above €9.³

1. IRI Scans, 52 Weeks Ending 19.04.2020, USD\$10+, 750ml Table Wine

2. AC Nielsen MAT 28.12.2019, £8+

3. AC Nielsen MAT 06.10.2019, €9+

AUSTRALIA, NEW ZEALAND AND ASIA PACIFIC

In the established New Zealand and Australia markets, Oyster Bay continued to perform strongly as a category-leading Super Premium wine brand. The Australia, New Zealand and Asia Pacific region achieved sales of 738,000 cases, 5% lower than in the previous year, as the Group focused on optimising long-term value growth in preference to short-term volume growth.

In Australia, Oyster Bay Sauvignon Blanc continues to lead the category as the top-selling Sauvignon Blanc and bottled white wine by value, and Oyster Bay Chardonnay remains the top-selling premium Chardonnay.⁴

During the year, the Group again experienced very strong growth in China. While China is currently a relatively small emerging market for the Group, it continues to represent an important long-term growth opportunity.

BRANDS AND COMMUNICATIONS

The Group's goal is to establish Oyster Bay and Barossa Valley Estate as leading brands in the Super Premium wine category globally.

Based on wine consumption patterns, the Group classifies markets as Established, Growth or Emerging. Understanding the level of maturity of our markets is essential for setting business strategy. Marketing activities are then tailored to the specific needs of each market and phases of brand development. Marketing programmes are designed to grow consumer awareness and affinity, supporting distribution and rate of sales growth for its brands.

The Group works closely with its retail partners to develop highly effective in-store activations that support rate of sales and nurture long-term brand affinity. In the consumer environment, the Group uses a mix of media channels, both online and offline to attract and engage the premium wine consumer.

In recognition of its market performance and reputation, Oyster Bay continues to be recognised as a Blue Chip Brand by New York's *IMPACT* Magazine, a status reserved only for brands of substantial size and sustained growth over many years. Oyster Bay was also recognised by *IMPACT* Magazine as a 'Hot Brand' for the tenth consecutive year.

INVESTING IN OUR PEOPLE

We are extremely proud of our Delegat Great Wine People who make up our global team. Our people are the key to realising the Group's goals and we have thorough processes for recruiting talented and capable people.

This year we invested in a new Human Resources Information System (HRIS). As this new system is fully implemented it will provide our managers and teams with greater visibility and control over all of our people-related processes, from recruitment through to performance management and Learning and Development planning. We strongly believe in a learning culture, one where both formal and informal learning play important roles in helping us to be more skilled, resilient and productive. This enables us to create an aspirational environment for success where our people can achieve or exceed their own career aspirations.

This year we have continued to progress our Diversity and Inclusion planning which is a positive contributor to the wellness of our people and to the Group's long-term performance. We feel that we benefit greatly from the different backgrounds and perspectives our people bring to their work.

4. IRI National Wine MAT 05.04.2020, AUD \$13+

2020 HARVEST

The 2020 harvest delivered exceptional quality fruit across all three of our wine regions.

The Group harvest of 38,129 tonnes was up 7% from the 2019 vintage.

The Group has appropriate inventories to achieve the 2021 forecast case sales as outlined in this report.

SUSTAINABILITY

Recognition and respect for the environment are reflected in the strong leadership role the Group plays in the practice and promotion of sustainable winegrowing and wine production. As a leader in the New Zealand wine industry and as a founding member since 2002 of Sustainable Winegrowing New Zealand (SWNZ), the Group takes its responsibilities to respect and protect the environment very seriously. The Group's New Zealand vineyards and wineries are 100% accredited by the independently audited SWNZ Sustainability Programme. The Group applies many of these same principles in the Barossa Valley, again as a leader of sustainable winegrowing practices within the Australian wine industry.

GROUP OUTLOOK

The global economic outlook is uncertain, but the 2020 year demonstrated that the Group is well positioned to navigate and succeed in uncertain economic times. The Group continues to see opportunities worldwide to further expand distribution and grow rate of sale per point of distribution, supporting the achievement of sustainable sales and earnings growth in the years ahead.

Delegat plans to grow sales by 17% to 3,840,000 cases over the next three years. The primary drivers of planned growth are Oyster Bay sales in North America, and Barossa Valley Estate sales globally.

With respect to the 2021 year, Delegat plans to grow sales by 2% to 3,346,000 cases and forecasts Operating Profit to be in the range of \$60 to \$65 million.

Table 5 **GROUP OUTLOOK CASE SALES**

Case Sales (000s)	2020 Actual	2021 Forecast	2022 Projection	2023 Projection
Total Cases	3,277	3,346	3,573	3,840

OUR GREAT WINE PEOPLE

I wish to personally thank each of our Delegat Great Wine People for their efforts to aim high, pursue mastery and winning together. This year our global team has faced many new challenges and has performed admirably, delivering an outstanding result of which they can all be very proud. Our global team has again given us great confidence that Delegat is well positioned to continue our journey towards building one of the world's leading Super Premium wine companies.



JOHN FREEMAN MANAGING DIRECTOR

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2020 \$000	2019 \$000 Restated*
Revenue	3	304,181	277,974
Profit before finance costs	4	95,824	77,555
Finance costs	3	10,807	12,374
Profit before income tax		85,017	65,181
Income tax expense	16	20,895	18,386
Profit for the year attributable to Shareholders of the Parent Company		64,122	46,795
Earnings per share			
– Basic and fully diluted earnings per share (cents per share)	5	63.41	46.27

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2020 \$000	2019 \$000 Restated*
Profit after income tax		64,122	46,795
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	6b	1,497	(1,807)
– Net (loss)/gain on hedge of a net investment		(722)	1,283
– Income tax relating to components of other comprehensive income	16	202	(359)
Total comprehensive income for the year, net of tax		65,099	45,912
Comprehensive income attributable to Shareholders of the Parent Company		65,099	45,912

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 30 June 2019		49,815	(3,581)	310,462	356,696
Changes in equity for the year ended 30 June 2020					
<i>Other comprehensive income</i>					
– Translation of foreign subsidiaries	6b	–	1,497	–	1,497
– Net loss on hedge of a net investment		–	(722)	–	(722)
– Income tax relating to components of other comprehensive income	16	–	202	–	202
Total other comprehensive income		–	977	–	977
– Net profit for the year		–	–	64,122	64,122
Total comprehensive income for the year		–	977	64,122	65,099
<i>Equity transactions</i>					
– Dividends paid to Shareholders	7	–	–	(17,215)	(17,215)
Balance at 30 June 2020		49,815	(2,604)	357,369	404,580

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019 RESTATED*

	Notes	Share Capital	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 30 June 2018		49,815	(2,698)	278,844	325,961
Changes in equity for the year ended 30 June 2019					
<i>Other comprehensive income</i>					
– Translation of foreign subsidiaries	6b	–	(1,807)	–	(1,807)
– Net gain on hedge of a net investment		–	1,283	–	1,283
– Income tax relating to components of other comprehensive income	16	–	(359)	–	(359)
Total other comprehensive income		–	(883)	–	(883)
– Net profit for the year		–	–	46,795	46,795
Total comprehensive income for the year		–	(883)	46,795	45,912
<i>Equity transactions</i>					
– Dividends paid to Shareholders	7	–	–	(15,177)	(15,177)
Balance at 30 June 2019		49,815	(3,581)	310,462	356,696

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

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STATEMENT OF FINANCIAL POSITION

	Notes	2020 \$000	2019 \$000 Restated*	2018 \$000 Restated*
Equity				
Share capital	6	49,815	49,815	49,815
Foreign currency translation reserve	6b	(2,604)	(3,581)	(2,698)
Retained earnings		357,369	310,462	278,844
Total Equity		404,580	356,696	325,961
Liabilities				
Current Liabilities				
Trade payables and accruals	8	27,879	32,311	32,883
Derivative financial instruments	9	4,649	2,960	3,020
Income tax payable		9,674	6,445	6,485
Lease liability	15	4,538	4,458	3,823
		46,740	46,174	46,211
Non-Current Liabilities				
Deferred tax liability	16	28,456	28,688	27,064
Derivative financial instruments	9	5,900	6,321	3,711
Interest-bearing loans and borrowings	10	254,296	275,989	285,754
Lease liability	15	79,524	81,971	85,086
		368,176	392,969	401,615
Total Liabilities		414,916	439,143	447,826
Total Equity and Liabilities		819,496	795,839	773,787

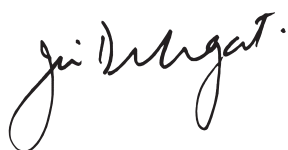
* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION CONTINUED

	Notes	2020 \$000	2019 \$000 Restated*	2018 \$000 Restated*
Assets				
Current Assets				
Cash and cash equivalents		14,755	5,647	4,264
Trade and other receivables	11	41,788	39,984	42,612
Derivative financial instruments	9	3,618	1,088	–
Inventories	12	157,628	157,880	147,431
		217,789	204,599	194,307
Non-Current Assets				
Property, plant and equipment	13	537,708	525,183	510,528
Right-of-use assets	15	58,494	61,107	64,289
Intangible assets	14	5,436	4,950	4,663
Derivative financial instruments	9	69	–	–
		601,707	591,240	579,480
Total Assets		819,496	795,839	773,787

For, and on behalf of, the Board, who authorised the issue of the financial statements on 28 August 2020.



JN Delekat, Executive Chairman



JA Freeman, Managing Director

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The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

	2020 \$000	2019 \$000 Restated*
Operating Activities		
Cash was provided from		
Receipts from customers	300,923	279,963
Net GST received	307	–
	301,230	279,963
Cash was applied to		
Payments to suppliers and employees	189,173	190,374
Net GST paid	–	413
Net interest paid	10,037	12,497
Net income tax paid	17,707	17,114
	216,917	220,398
Net Cash Inflows from Operating Activities	84,313	59,565
Investing Activities		
Cash was provided from		
Proceeds from sale of property, plant and equipment	45	178
Dividends received	1	4
	46	182
Cash was applied to		
Purchase of property, plant and equipment	27,176	30,393
Purchase of intangible assets	424	490
Capitalised interest paid	1,460	1,851
	29,060	32,734
Net Cash Outflows from Investing Activities	(29,014)	(32,552)

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS CONTINUED

	2020 \$000	2019 \$000 Restated*
Financing Activities		
Cash was provided from		
Proceeds from borrowings	10,290	295,642
	10,290	295,642
Cash was applied to		
Dividends paid to Shareholders	17,204	15,169
Borrowing facility fees	989	–
Repayment of borrowings	33,826	301,949
Repayment of lease liability	4,573	4,144
	56,592	321,262
Net Cash Outflows from Financing Activities	(46,302)	(25,620)
Net Increase in Cash Held	8,997	1,393
Cash and cash equivalents at beginning of the year	5,647	4,264
Effect of exchange rate changes on foreign currency balances	111	(10)
Cash and Cash Equivalents at End of the Year	14,755	5,647

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS CONTINUED

	2020 \$000	2019 \$000 Restated*
Reconciliation of Profit for the Year with Cash Flows from Operating Activities		
Reported profit after tax	64,122	46,795
Add/(deduct) items not involving cash flows		
Depreciation expense	21,629	20,469
Other non-cash items	1,569	(2,281)
(Gain)/loss on disposal of assets	(71)	95
Movement in derivative financial instruments	(1,331)	1,462
Movement in deferred tax liability	(232)	1,624
	21,564	21,369
Movement in working capital balances are as follows		
Trade payables and accruals	(4,432)	(572)
Trade and other receivables	(1,804)	2,628
Inventories	252	(10,449)
Income tax	3,229	(40)
Add items classified as investing and financing activities		
Capital purchases included within trade payables and inventories	393	(166)
Borrowing facility fees	989	–
	(1,373)	(8,599)
Net Cash Inflows from Operating Activities	84,313	59,565
Reconciliation of movement in Net Debt:		
Opening balance at 1 July	270,342	281,490
Per statement of cash flows:		
– Repayment of borrowings	(23,536)	(6,307)
– Net increase in cash held	(8,997)	(1,393)
Foreign exchange movement	1,413	(2,690)
Other non-cash movements	319	(758)
Closing balance at 30 June	239,541	270,342

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

REPORTING ENTITY

The financial statements presented are those of Delegat Group Limited and its subsidiaries (the Group). Delegat Group Limited is a company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Parent shares are publicly traded on the New Zealand Stock Exchange.

The financial statements comprise the statement of financial performance, statement of other comprehensive income, statement of changes in equity, statement of financial position and statement of cash flows, as well as the notes to the financial statements. The financial statements for the Group for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 28 August 2020.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013. For the purposes of complying with NZ GAAP, the entity is a for-profit entity. These financial statements are presented in New Zealand Dollars, rounded to the nearest thousand. They are prepared on a historical cost basis, except for derivative financial instruments and biological produce which have been measured at fair value.

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may vary 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 estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

STATEMENT OF COMPLIANCE

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards (NZ IFRS), as applicable to the Group as a profit-oriented entity. The financial statements comply with International Financial Reporting Standards (IFRS).

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2020 and 30 June 2019.

Subsidiaries are those entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its investment in the entity, and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an entity, if and only if, the Group has:

- Power over the entity (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the entity; and
- The ability to use its power over the investee to affect its returns.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. The effects of intercompany transactions are eliminated in preparing the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting as noted on the following pages.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price at the date of the exchange, unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly within equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of financial performance, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to the present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowings could be obtained from an independent financier under comparable terms and conditions.

GOODS AND SERVICES TAX (GST)

The statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows have been prepared so that all components are stated net of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

FOREIGN CURRENCIES

a) Functional and Presentation Currency

The presentation currency of the Group is the New Zealand Dollar. Each subsidiary company in the Group determines its own functional currency and uses that functional currency for its individual financial statements. Subsidiary companies with a different functional currency than that of the Group are translated through converting all reported assets and liabilities at the closing rate at the date of the balance sheet, while income and expenses are translated at exchange rates at the dates of the transactions. Any resulting exchange differences are recognised as a separate component of equity.

b) Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

NET DEBT

Net debt is the sum of the Group's interest-bearing loans and borrowings less cash and cash equivalents.

OTHER ACCOUNTING POLICIES

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates the judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact upon the Group. All judgements, estimates and assumptions made are believed to be reasonable based upon the most current set of circumstances available to management. The actual results may differ from the judgements, estimates and assumptions used. The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are disclosed within the specific financial statement notes as shown below:

Area of Judgement, Estimate or Assumption	Note
Selling, marketing and promotional accruals	Note 3 Segmental Reporting
Fair value of derivative financial instruments	Note 9 Derivative Financial Instruments
Fair value of grapes at point of harvest	Note 12 Inventories
Estimation of useful lives of assets	Note 13 Property, Plant and Equipment
Impairment of property, plant and equipment	Note 13 Property, Plant and Equipment
Impairment of intangible assets	Note 14 Intangible Assets
Lease term and discount rates	Note 15 Leases

To allow the Accounting Policies and Significant Accounting Judgements, Estimates and Assumptions to be easily identified within the notes, Accounting Policies have been identified with an **A** symbol, and Significant Accounting Judgements, Estimates and Assumptions with an **E** symbol.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the adoption of NZ IFRS 16: Leases on 1 July 2019.

On 1 July 2019, the Group adopted NZ IFRS 16: Leases, applying the fully retrospective transition provision. NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases and supersedes NZ IAS 17: Leases. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. A liability has been recognised to pay rentals with a corresponding right-of-use asset, with interest and depreciation recognised separately. The Group has adopted the low value asset exemption in respect of its barrel leases, which continue to be expensed on a straight line basis over the lease terms. Adoption of NZ IFRS 16 results in higher combined depreciation and interest expense than the previously recognised operating expense in the early years of lease terms. The difference over the full life of each lease will be nil and there is no impact on cash flows. In accordance with the requirements of NZ IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the financial statements for the year ended 30 June 2019 have been restated. The effect on the Group's financial statements of the adoption of NZ IFRS 16 has been demonstrated in the following tables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

Impact on the Statement of Financial Performance

30 JUNE 2019

	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Revenue	277,974	–	277,974
Profit before finance costs	77,983	(428)	77,555
Finance costs	12,025	349	12,374
Profit before income tax	65,958	(777)	65,181
Income tax expense	18,598	(212)	18,386
Profit for the year attributable to Shareholders of the Parent Company	47,360	(565)	46,795
Earnings per share			
– Basic and fully diluted earnings per share (cents per share)	46.83	(0.56)	46.27

Impact on the Statement of Other Comprehensive Income

30 JUNE 2019

	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Profit after income tax	47,360	(565)	46,795
<i>Other comprehensive income that may subsequently be classified to the profit and loss:</i>			
– Translation of foreign subsidiaries	(1,812)	5	(1,807)
– Net gain on hedge of a net investment	1,283	–	1,283
– Income tax relating to components of other comprehensive income	(359)	–	(359)
Total comprehensive income for the year, net of tax	46,472	(560)	45,912
Comprehensive income attributable to Shareholders of the Parent Company	46,472	(560)	45,912

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

Impact on the Statement of Financial Position	30 JUNE 2019			30 JUNE 2018		
	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Equity						
Share capital	49,815	–	49,815	49,815	–	49,815
Foreign currency translation reserve	(3,586)	5	(3,581)	(2,698)	–	(2,698)
Retained earnings	328,255	(17,793)	310,462	296,072	(17,228)	278,844
Total Equity	374,484	(17,788)	356,696	343,189	(17,228)	325,961
Liabilities						
Current Liabilities						
Trade payables and accruals	32,344	(33)	32,311	32,941	(58)	32,883
Derivative financial instruments	2,960	–	2,960	3,020	–	3,020
Income tax payable	6,445	–	6,445	6,485	–	6,485
Lease liability	–	4,458	4,458	–	3,823	3,823
	41,749	4,425	46,174	42,446	3,765	46,211
Non-Current Liabilities						
Deferred tax liability	35,588	(6,900)	28,688	33,754	(6,690)	27,064
Derivative financial instruments	6,321	–	6,321	3,711	–	3,711
Interest-bearing loans and borrowings	275,989	–	275,989	285,754	–	285,754
Lease liability	–	81,971	81,971	–	85,086	85,086
	317,898	75,071	392,969	323,219	78,396	401,615
Total Liabilities	359,647	79,496	439,143	365,665	82,161	447,826
Total Equity and Liabilities	734,131	61,708	795,839	708,854	64,933	773,787
Assets						
Current Assets						
Cash and cash equivalents	5,647	–	5,647	4,264	–	4,264
Trade and other receivables	40,014	(30)	39,984	42,635	(23)	42,612
Derivative financial instruments	1,088	–	1,088	–	–	–
Inventories	157,858	22	157,880	147,431	–	147,431
	204,607	(8)	204,599	194,330	(23)	194,307
Non-Current Assets						
Property, plant and equipment	524,574	609	525,183	509,861	667	510,528
Right-of-use assets	–	61,107	61,107	–	64,289	64,289
Intangible assets	4,950	–	4,950	4,663	–	4,663
	529,524	61,716	591,240	514,524	64,956	579,480
Total Assets	734,131	61,708	795,839	708,854	64,933	773,787

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

Impact on the Statement of Cash Flows

30 JUNE 2019

	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Operating Activities			
Cash was provided from			
Receipts from customers	279,963	–	279,963
Net GST received	–	–	–
	279,963	–	279,963
Cash was applied to			
Payments to suppliers and employees	194,875	(4,501)	190,374
Net GST paid	413	–	413
Net interest paid	12,140	357	12,497
Net income tax paid	17,114	–	17,114
	224,542	(4,144)	220,398
Net Cash Inflows from Operating Activities	55,421	4,144	59,565
Investing Activities			
Cash was provided from			
Proceeds from sale of property, plant and equipment	178	–	178
Dividends received	4	–	4
	182	–	182
Cash was applied to			
Purchase of property, plant and equipment	30,393	–	30,393
Purchase of intangible assets	490	–	490
Capitalised interest paid	1,851	–	1,851
	32,734	–	32,734
Net Cash Outflows from Investing Activities	(32,552)	–	(32,552)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

Impact on the Statement of Cash Flows (continued)

30 JUNE 2019

	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Financing Activities			
Cash was provided from			
Proceeds from borrowings	295,642	–	295,642
	295,642	–	295,642
Cash was applied to			
Dividends paid to Shareholders	15,169	–	15,169
Repayment of borrowings	301,949	–	301,949
Repayment of lease liability	–	4,144	4,144
	317,118	4,144	321,262
Net Cash Outflows from Financing Activities	(21,476)	(4,144)	(25,620)
Net Increase in Cash Held	1,393	–	1,393
Cash and cash equivalents at beginning of the year	4,264	–	4,264
Effect of exchange rate changes on foreign currency balances	(10)	–	(10)
Cash and Cash Equivalents at End of the Year	5,647	–	5,647

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION (CONTINUED)

Impact on the Statement of Cash Flows (continued)

30 JUNE 2019

	Previously Reported \$000	Adoption of NZ IFRS 16 \$000	Restated \$000
Reconciliation of Profit for the Year with Cash Flows from Operating Activities			
Reported profit after tax	47,360	(565)	46,795
Add/(deduct) items not involving cash flows			
Depreciation expense	15,581	4,888	20,469
Other non-cash items	(2,302)	21	(2,281)
Net loss on disposal of assets	95	–	95
Movement in derivative financial instruments	1,462	–	1,462
Movement in deferred tax liability	1,834	(210)	1,624
	16,670	4,699	21,369
Movement in working capital balances are as follows			
Trade payables and accruals	(597)	25	(572)
Trade and other receivables	2,621	7	2,628
Inventories	(10,427)	(22)	(10,449)
Income tax	(40)	–	(40)
Add items classified as investing and financing activities			
Capital purchases included within trade payables and inventories	(166)	–	(166)
	(8,609)	10	(8,599)
Net Cash Inflows from Operating Activities	55,421	4,144	59,565
Reconciliation of movement in Net Debt			
Opening balance at 1 July	281,490	–	281,490
Per statement of cash flows:			
– Repayment of borrowings	(6,307)	–	(6,307)
– Net increase in cash held	(1,393)	–	(1,393)
Foreign exchange movement	(2,690)	–	(2,690)
Other non-cash movements	(758)	–	(758)
Closing balance at 30 June	270,342	–	270,342

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and overdrafts, lease liabilities, and trade payables and accruals. The main purpose of these financial liabilities is to raise funding for the Group's ongoing operations. The Group also has financial assets such as trade and other receivables, and cash and cash equivalents, which arise directly from its operations.

The Group is counterparty to derivative financial instruments, principally being foreign currency forward exchange contracts and options, and interest rate swaps. The purpose of entering into foreign currency forward exchange contracts and options is to manage currency risk primarily arising from foreign denominated trade receivables. Interest rate swaps are entered into with the aim of mitigating interest rate risk to movements on floating rate debt facilities.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. Each of the main operational risks are reviewed by the Treasury Management Committee (TMC) and their recommendations are provided to the Board of Directors. The composition of the TMC includes the Managing Director (or Alternate), Chief Financial Officer, Corporate Financial Planning Manager and Independent Treasury Advisors. The Board reviews and agrees policies for managing each of these risks as summarised below. Board approval is required for any movement outside policy.

FOREIGN CURRENCY RISK

The net assets employed through subsidiary companies based overseas exposes the Group to foreign currency risk as a result of changes in the GBP/NZD, AUD/NZD, USD/NZD, EUR/NZD, CAD/NZD, SGD/NZD, JPY/NZD, HKD/NZD and CNY/NZD exchange rates. The Group also has foreign currency risk resulting from sales of product in a currency which is other than that of the New Zealand Dollar. Profits from each export region are repatriated and reported in New Zealand Dollars and the Group is exposed to changes in foreign exchange rates.

To minimise foreign currency risk, the Group enters into forward exchange contracts and options for foreign denominated sales at levels which are considered to be highly probable. The Group attempts to maintain foreign currency cover of between 75% to 100% of highly probable sales in one to three months, 50% to 75% for highly probable sales in four to six months, 25% to 50% for highly probable sales in seven to 12 months, 0% to 50% for sales between 13 to 18 months and between 0% to 25% for sales thereafter. The Group has the option of increasing foreign exchange cover to 100% for any time period upon approval by the Board of Directors.

When the Group is exposed to foreign currency risk as a result of being contractually committed to purchase capital items from an overseas supplier and such expenditure is expected to exceed \$200,000, the Group's policy is to ensure the foreign currency exposure is covered in full. Any capital expenditure between \$100,000 and \$200,000 is to be covered at the discretion of the TMC, based on such factors as timing for payment and expected volatility of currency markets. It is the Group's policy that in no instance is trading for speculative purposes permitted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

At 30 June 2020, had the New Zealand Dollar (NZD) moved as illustrated in the following table with all other variables held constant, post-tax profit and equity would have been affected as follows:

Group	IMPACT ON 2020 REPORTED		IMPACT ON 2019 REPORTED	
	Post-Tax Profits	Equity	Post-Tax Profits	Equity
	\$000	\$000	\$000	\$000
	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)
NZD/USD +5%	1,795	1,795	1,870	1,870
NZD/USD -5%	(1,815)	(1,815)	(2,173)	(2,173)
NZD/GBP +5%	2,075	2,075	1,297	1,297
NZD/GBP -5%	(1,632)	(1,632)	(1,353)	(1,353)
NZD/AUD +5%	759	(736)	55	(1,406)
NZD/AUD -5%	(1,043)	610	(60)	1,554
NZD/CAD +5%	234	234	519	519
NZD/CAD -5%	(273)	(273)	(628)	(628)
NZD/EUR +5%	(54)	(54)	(57)	(57)
NZD/EUR -5%	60	60	63	63

The table above calculates the impact of a change in foreign exchange rates on closing equity and post-tax profits of the Group, as a result of the Group being counterparty to transactions which are foreign currency denominated. Foreign currency denominated balances include trade and other receivables, trade payables and accruals, interest-bearing loans and borrowings, cash and cash equivalents, and unsettled foreign exchange contracts that exist at balance sheet date. The net foreign currency exposure is determined in aggregate and the impact on post-tax profits determined as a result of a +/- 5% movement in foreign exchange rates. A +5% movement reflects the strengthening of the NZD relative to the other currency, whereas a -5% movement reflects the weakening of the NZD relative to the other currency.

The impact upon the Group's equity balance is derived through determining the impact on post-tax profits as noted above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

HEDGE OF NET INVESTMENT IN FOREIGN OPERATION

A For hedges of a net investment in a foreign operation, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of other comprehensive income and accumulated in the foreign currency translation reserve, while any ineffective portion is recognised immediately in the statement of financial performance. On disposal of the foreign operation, the cumulative amount of any such gains or losses accumulated within equity is transferred to the statement of financial performance.

The net assets employed in Barossa Valley Estate Pty Limited (BVE) exposes the Group to foreign currency risk as a result of changes in the AUD/NZD exchange rate.

The foreign currency movement on translation of the net assets of BVE is included in the statement of other comprehensive income. Since the acquisition of BVE the Group has maintained a portion of their external borrowings in AUD to mitigate this risk. The foreign exchange movement on these external borrowings in the absence of hedge accounting is included in the statement of financial performance.

External borrowings of A\$29,350,000 have been designated as a hedge of the net investment in BVE. Gains or losses on the retranslation of this borrowing are transferred to the statement of other comprehensive income to offset any gains or losses on translation of the net assets of BVE. There is no hedge ineffectiveness in the year ended 30 June 2020.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term debt obligations with interest payable based on floating rates of interest. Interest rate risk is monitored by the TMC on an ongoing basis. The recommendation by the TMC to enter into fixed or variable rate debt facilities and decisions to retire existing debt instruments is made after consideration of the economic indicators impacting upon the overnight cash rate, which influences the rates of interest charged by financial institutions. All funding facilities recommended by the TMC must be approved by the Board of Directors.

The Group manages interest rate risk through maintaining a mix of debt instruments having variable and fixed interest rates. The Group's policy is to maintain a level of fixed debt facilities between 40% to 100% of core debt for a period of one year, between 30% to 80% of projected core debt for periods of one to three years, and between 15% to 60% of projected core debt facilities for three to five years. Board approval is required for any fixed rate cover that extends beyond five years.

The Group also manages interest rate risk through being counterparty to a series of interest rate swaps. The Group agrees to settle or has the option to exchange, at specified dates, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These are discussed in Note 9: Derivative Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's post-tax profits and equity:

Group	IMPACT ON 2020 REPORTED		IMPACT ON 2019 REPORTED	
	Post-Tax Profits \$000	Equity \$000	Post-Tax Profits \$000	Equity \$000
2.00% Increase – 200 basis points (2019: 2.00% Increase – 200 basis points)	4,184	4,184	4,196	4,196
0.25% Decrease – 25 basis points (2019: 0.25% Decrease – 25 basis points)	(523)	(523)	(525)	(525)

The key assumptions which impact upon the values presented in the above table are the following:

- Cash and cash equivalents include deposits on call which are at floating interest rates. The estimated impact upon interest revenues from these sources is based upon amounts held on deposit remaining at consistent levels as reported at the balance sheet date. For foreign denominated deposits, the impact on foreign exchange is based on the conversion rate existing at balance sheet date.
- Account balances that are trade receivables or trade payables are generally on 30 to 90 day terms and are non-interest bearing and are not subject to interest rate risk.
- The impact upon the fair value of the interest rate swaps is based upon the differential in rates between the Group paying a fixed rate of interest and receiving the floating New Zealand Bank Bill Rate (BKBM) multiplied by the nominal amount under the swap agreement up until maturity.
- Interest payable on bank debt is based upon the BKBM, plus a margin. The margin is dependent upon the Group achieving certain financial covenants and the margin ranges from 1.02% to 1.50%. The analysis assumes that the margin and principal are held constant at the same rate as at the balance sheet date with the sensitivity calculating the effect on interest expense of movements in the BKBM/BBSY rate. The analysis excludes any future interest that would be capitalised as part of long-term assets.
- Included in the above table is the change in fair value of interest rate swaps, which results from changes in the floating interest rate.

CREDIT RISK

The Group trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis. The maximum exposure to the carrying amount of receivable balances is disclosed in Note 11. The Group does not have any significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level may lead to the Group being unable to meet its day to day funding obligations. To minimise liquidity risk, the Group's policy is to maintain committed funding facilities at a minimum of 105% of the projected peak debt level over the next 12 months (excluding the cash requirements for any business combinations).

A General Security Agreement exists in favour of Westpac New Zealand Limited, Westpac Banking Corporation, Bank of New Zealand Limited, China Construction Bank (New Zealand) Limited, and Hongkong and Shanghai Banking Corporation Limited to secure amounts loaned to the Group. The General Security Agreement covers the existing and future assets of Deleat Group Limited, Deleat Limited, Deleat Australia Pty Limited, and Barossa Valley Estate Pty Limited. The amount of the guarantee in respect of the banking facilities is not included in the table above and is the lower value of the net assets of the Group and the aggregate of the loans advanced at balance date. Loan facilities are disclosed in Note 10.

The table below presents all contractual payments which the Group is legally obliged to make and includes all future interest payments on interest-bearing facilities. The interest cost has been estimated by maintaining the current principal balance and interest rates that exist at balance sheet date. The table also includes the New Zealand Dollar equivalent for the foreign currency amounts, which are to be delivered to fulfil obligations under foreign currency contracts.

<i>Facility Type 30 June 2020</i>	Facility Limit	Drawn at Balance Sheet Date	< 1 year	1 to 2 years	> 2 years
	\$000	\$000	\$000	\$000	\$000
Working Capital facility	48,000	–	–	–	–
Term facility (multi-currency)	220,000	220,196	2,881	2,881	220,432
Headroom facility	20,000	–	–	–	–
Term facility (AUD)	42,794	34,771	410	410	34,804
Lease liability	N/A	84,062	9,990	8,959	133,437
Low value asset leases	N/A	N/A	5,889	4,503	3,937
Derivative financial instruments	N/A	N/A	100,430	7,078	2,889
Trade payables and accruals	N/A	27,286	27,286	–	–
Financial guarantee contracts	N/A	N/A	186	–	–
As at 30 June 2020	330,794	366,315	147,072	23,831	395,499

Included in the table above are financial guarantees which are valued at their highest possible amount that can be called at balance date. For each individual guarantee, if the obligation at balance date is lower than the maximum amount callable under the guarantee then the lower value has been included. The guarantees can be called in favour of the beneficiary if certain acts of non-performance occur. The Directors consider the likelihood of each financial guarantee being called remote.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Facility Type 30 June 2019 Restated*	Facility Limit \$000	Drawn at Balance Sheet Date \$000	< 1 year \$000	1 to 2 years \$000	> 2 years \$000
Working Capital facility	48,000	23,000	652	652	23,705
Term facility (multi-currency)	220,000	220,008	6,094	6,094	226,603
Headroom facility	20,000	–	–	–	–
Term facility (AUD)	41,810	33,971	815	815	34,853
Lease liability	N/A	86,429	10,060	9,745	139,682
Low value asset leases	N/A	N/A	5,486	4,261	4,498
Derivative financial instruments	N/A	N/A	83,647	3,073	3,249
Trade payables and accruals	N/A	31,865	31,865	–	–
Financial guarantee contracts	N/A	N/A	640	–	–
As at 30 June 2019	329,810	395,273	139,259	24,640	432,590

All the above facilities have a floating rate of interest which is tied to the New Zealand BKBM for NZD facility/Australian BBSY for AUD facility plus margin. At balance sheet date the Group has interest rate swaps that cover \$137,620,000 (2019: \$123,745,000) of the principal balance drawn at balance sheet date. Refer to Note 9.

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.

SUMMARY OF FINANCIAL INSTRUMENTS HELD

At the balance sheet date the Group reports the following categories of financial instruments:

	2020 \$000	2019 \$000 Restated*
Financial Assets		
Financial assets at amortised cost	55,222	44,149
Financial assets at fair value through profit and loss	3,687	1,088
	58,909	45,237
Financial Liabilities		
Financial liabilities at amortised cost	359,627	388,973
Financial liabilities at fair value through profit or loss	10,549	9,281
	370,176	398,254

The Group does not have any financial assets or liabilities that are classified as fair value through other comprehensive income (FVOCI).

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is presented in the previous table. For financial instruments measured at fair value, further disclosure is required that allocates the fair values into a measurement hierarchy. The following principles have been applied in classifying these instruments:

Level 1 – the fair value is calculated using quoted prices in active markets;

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

30 June 2020	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial Assets				
Foreign currency forward exchange option contracts	–	2,052	–	2,052
Foreign currency forward exchange contracts	–	1,635	–	1,635
	–	3,687	–	3,687
Financial Liabilities				
Interest rate swap contracts	–	10,549	–	10,549
	–	10,549	–	10,549

The fair value of financial instruments held at balance date that are not traded on an active market include foreign currency forward exchange contracts and options, and net settled interest rate swap contracts. The fair values are derived through valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs come from observable market data the instrument is included in Level 2 of the hierarchy.

30 June 2019	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial Assets				
Foreign currency forward exchange option contracts	–	311	–	311
Foreign currency forward exchange contracts	–	777	–	777
	–	1,088	–	1,088
Financial Liabilities				
Interest rate swap contracts	–	9,281	–	9,281
	–	9,281	–	9,281

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FINANCIAL RISK ASSOCIATED TO BEARER PLANTS

The Group is exposed to financial risks in respect of agricultural activities. The agricultural activities of the Group consist of the management of vineyards to produce grapes for use in the production of wine. The primary risk borne by the Group is caused by the length of time between when cash is expended on the purchase or planting and maintenance of grapevines and on harvesting grapes and the ultimate realisation of proceeds from the sale of finished product (wine). The Group takes reasonable measures to ensure that the current year's harvest is not affected by disease, drought, frost, or other factors that may have a negative effect upon yield and quality. These measures include consultation with experts in viticulture, frost protection measures, and ensuring that each vineyard is managed according to a specifically developed Vineyard Management Calendar.

CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders of the business. The ultimate aim is to maintain a capital structure which provides flexibility to enable future growth of the Group while ensuring the lowest cost of capital is available to the Group.

Management reviews the capital structure of the Group as a result of changes in market conditions which impact upon interest and foreign exchange rates and may adjust the capital structure to take advantage of these changes. Management has no current plans to issue further shares on the market but is intent on growing the business which will require future funding.

The Group is subject to a series of bank covenants over its Senior Debt facilities. These are discussed in Note 10.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL REPORTING

A An operating segment is a reportable segment if the segment engages in business activities in which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker and for which discrete financial information is available.

The Group reviews its operational performance based upon the management and the geographic areas in which their customers are based. Financial information which is available to management in order to assess segment performance and investment opportunities is presented on the same basis. In accordance with NZ IFRS 8: Operating Segments this forms the basis of presentation for Segment Reporting and is in the format adopted below:

- Delegat Limited (Delegat) is party to vineyard leases and has interests in freehold land and winery infrastructure which allows the Company to grow, harvest and make finished wine to be marketed, distributed and sold into the Super Premium wine markets. Delegat sells and markets its product through a combination of subsidiary companies based overseas or to customers and distributors directly in the New Zealand, Canadian, Asian and Pacific Island markets. Delegat Australia Pty Limited, Delegat Europe Limited and Delegat USA, Inc. act as distributors and assist in the marketing of product in their respective geographic regions. Wines are sold all year round to all regions and the Group considers there is no significant variation in revenues throughout the year.

The Group implements appropriate transfer pricing regimes within the operating segments on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the operating results of its business units separately for the purpose of making resource allocations and performance assessments. Segment performance is evaluated based on operating profit or loss, which may be measured differently from operating profit or loss in the consolidated financial statements as segment reporting is based upon internal management reports. The main differences are a result of some deferred tax balances being recognised upon consolidation not being allocated to individual subsidiaries. Also inter-company stock margin eliminations are managed on a group basis and are not allocated to operating segments.

A REVENUE

Revenue is recognised when the Group satisfies its performance obligation to the customer. Satisfaction of a performance obligation occurs when the Group has transferred a promised good to the customer and when the customer obtains control of that good. The following specific recognition criteria have been applied to each individual classification of revenue:

i) Sale of Goods

The primary source of revenue earned by the Group is through providing wine to third party retailers and distributors. Revenue is recognised when control of the wine has passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Control is considered passed to the buyer at the time of delivery of goods to the customer.

ii) Interest Revenue

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL REPORTING (CONTINUED)

E REVENUE

Sales are often made with volume discounts, other rebates and various other payments to customers for promotional support. For volume discounts and other rebates not invoiced at the reporting date, these are estimated based on agreements with customers and estimated depletions during the period. Other payments to customers for promotional support include listing fees, mailer fees and other incentives. For expenses that have not been invoiced at the reporting date, these are estimated based on agreements with customers and estimated achievement of various targets by the customer. At 30 June 2020 the Group has recognised accruals for all these expenses of \$22.4 million (2019: \$22.7 million). The majority of these amounts will be settled within the six months following balance date.

<i>Year ended 30 June 2020</i>	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	Year Ended 30 June 2020
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,8}	65,047	67,202	99,607	143,346	6,630	(79,028)	302,804
Internal sales	271,867	–	–	–	7,620	(279,487)	–
Fair value gain on derivative instruments	1,331	–	–	–	–	–	1,331
Dividend revenue	2	–	–	–	8	–	10
Interest revenue	13	1	–	22	–	–	36
Total segment revenues¹	338,260	67,203	99,607	143,368	14,258	(358,515)	304,181
Operating expenses							
Interest expense ³	9,614	57	6	105	1,025	–	10,807
Depreciation ⁴	18,411	597	183	549	1,889	–	21,629
Income tax expense ⁵	18,453	593	851	868	89	41	20,895
Segment profit	56,233	1,366	3,631	2,601	189	102	64,122
Assets							
Segment assets ⁶	760,312	20,941	20,289	34,994	86,608	(103,648)	819,496
Capital expenditure ⁷	27,681	266	5	–	740	–	28,692
Segment liabilities	399,539	5,181	9,653	19,568	39,784	(58,809)	414,916

Refer to footnotes on page 38

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL REPORTING (CONTINUED)

Year ended 30 June 2019	Delegat Limited	Delegat Australia Pty Ltd	Delegat Europe Limited	Delegat USA, Inc.	Other Segments ¹⁰	Eliminations and Adjustments ¹¹	Year Ended 30 June 2019
Restated*	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating income							
External sales ^{2,9}	61,479	75,069	81,253	123,624	8,717	(72,362)	277,780
Internal sales	247,439	–	–	–	9,133	(256,572)	–
Unrealised foreign exchange (losses)/gains	(44)	–	28	–	(32)	217	169
Dividend revenue	4	–	–	–	7	–	11
Interest revenue	7	5	–	–	1,481	(1,479)	14
Total segment revenues¹	308,885	75,074	81,281	123,624	19,306	(330,196)	277,974
Operating expenses							
Interest expense ³	12,416	68	9	100	1,260	(1,479)	12,374
Depreciation ⁴	17,365	618	186	451	1,849	–	20,469
Income tax expense ⁵	16,213	697	702	641	513	(380)	18,386
Segment profit/(loss)	40,228	1,589	2,953	1,789	1,212	(976)	46,795
Assets							
Segment assets ⁶	737,877	19,397	17,645	33,155	102,652	(114,887)	795,839
Capital expenditure ⁷	30,420	26	2	64	2,355	–	32,867
Segment liabilities	432,817	5,353	10,605	20,830	39,483	(69,945)	439,143

¹ Intersegment revenues are eliminated on consolidation. Intercompany profit margins are also eliminated.

² External sales revenue includes various payments to customers for volume discounts, rebates and other promotional support. For volume discounts, rebates and other promotional support not invoiced at 30 June 2019, the Group recognised accruals of \$22,712,000 (30 June 2018: \$23,137,000). During the year ended 30 June 2020, \$1,373,000 of these accruals have been released (June 2019: \$2,732,000).

³ Interest expense is net of any interest capitalised to long-term assets and inventory. During the year, \$1,461,000 (2019: \$1,851,000) was capitalised to long-term assets. During the year \$5,442,000 (2019 Restated*: \$5,485,000) was capitalised to inventory.

⁴ Depreciation expense presented above is gross of \$18,224,000 (2019 Restated*: \$17,280,000), which has been included within inventory.

⁵ Segment income tax expense does not include the deferred tax impacts of temporary differences arising from intercompany stock margin eliminations or fair value adjustments resulting from the purchase of subsidiary companies as these are managed on a group level.

⁶ Segment assets include the value of investments and loan balances for subsidiaries which reside in Delegat Limited; however this does not include the effects of stock margin eliminations for stock on hand in subsidiaries.

⁷ Capital expenditure consists of additions of property, plant and equipment inclusive of capitalised interest. Capital expenditure is included within each of the reported segment assets noted above.

⁸ During the 2020 financial year, Delegat USA, Inc. had a single customer which comprised 10% or more of group sales amounting to \$65,556,000.

⁹ During the 2019 financial year, Delegat USA, Inc. had a single customer which comprised 10% or more of group sales amounting to \$61,267,000 and Delegat Australia Pty Limited had a single customer which comprised 10% or more of Group sales amounting to \$30,539,000.

¹⁰ Other segments' assets include non-current assets of Barossa Valley Estate Pty Limited of \$48,539,000 (2019: \$48,465,000) which are located in Australia.

¹¹ The eliminations and adjustments of segment profit, assets and liabilities relate to intercompany transactions and balances which are eliminated on consolidation.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. EXPENSES

Expenses by function have been categorised as follows:

	Notes	2020 \$000	2019 \$000 Restated*
Cost of sales		152,251	143,828
Selling, marketing and promotion expenses		39,884	40,770
Corporate governance expenses		941	867
Administration expenses		15,281	13,492
Fair value loss on financial derivative instruments		–	1,462
Specific components of the above expenses include:			
Directors' fees – Delegat Group Limited		320	293
Directors' fees – overseas subsidiaries		50	47
Unrealised foreign exchange loss		853	–
Depreciation ¹	13, 15	21,629	20,469
Wages and salaries ²		44,487	42,084
Defined contribution pension plans ²		1,603	1,519
Termination benefits paid ²		274	53
Auditor Remuneration^{3,4}			
Assurance services			
Audit of the financial statements		214	205
Non-assurance services			
Tax compliance		41	45
Total remuneration		255	250

¹ The depreciation figure presented above represents the gross depreciation charge for the year. Depreciation is recorded in the business function to which the asset relates. Depreciation incurred on assets directly associated with winemaking and viticulture of \$18,224,000 (2019 Restated*: \$17,280,000) is included within the cost of inventories and expensed as a cost of sales when product is sold.

Depreciation on vineyard development commences when the vineyard is considered to be in commercial production, which is generally when the vineyard has produced approximately 60% of the expected yield at full production.

² The employee benefit figures above represent the gross employee benefits expense for the year. Included within inventory is remuneration paid to employees directly associated with winemaking, bottling and packaging. During the year, \$9,414,000 (2019: \$9,027,000) of employee benefits were included within inventory. These costs are included within inventory until the stock to which the expenditure relates is sold.

³ The auditor of Delegat Group Limited is Ernst & Young. Amounts received, or due and receivable, by Ernst & Young are as disclosed above.

⁴ During the year, the Group also paid \$4,000 (2019: \$4,000) to SBA Stone Forest CPA Co. Limited for the audit of the local financial statements of Delegat (Shanghai) Trading Co. Limited.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. EARNINGS PER SHARE



Basic earnings per share is calculated as Group profit after income tax attributable to ordinary shareholders of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares on issue.

Diluted earnings per share is calculated as Group profit after income tax attributable to ordinary shareholders of the Parent adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

The following reflects the earnings used in the calculation of the basic and fully diluted earnings per share:

	2020	2019 Restated*
a) Earnings Used in Calculating Earnings per Share		
Profit for the year – basic and fully diluted (\$'000)	64,122	46,795
b) Weighted Average Number of Shares		
Weighted average number of shares – basic and fully diluted (000s)	101,130	101,130
c) Reported Earnings per Share on statement of financial performance (expressed as cents per share)		
Basic and fully diluted earnings per share	63.41	46.27

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. SHARE CAPITAL



Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

	2020 \$000	2019 \$000
Balance at beginning of the year	49,815	49,815
Balance at end of the year	49,815	49,815

a) Movement in the Number of Ordinary Shares on Issue

	Shares Held	
	000s	000s
Balance at beginning of the year	101,130	101,130
Balance at end of the year	101,130	101,130

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

b) Nature and Purpose of Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. During the year, equity increased by \$1,497,000 upon the translation of foreign subsidiaries (2019 Restated*: \$1,807,000 decrease).

7. DIVIDENDS PAID AND PROPOSED

a) Recognised Amounts

Dividends that were declared and paid on ordinary shares during the year amounted to \$17,215,000 (2019: \$15,177,000), equating to 17.0 cents per share (2019: 15.0 cents per share).

b) Unrecognised Amounts

After the balance sheet date, dividends of 17.0 cents per share were approved by the Board of Directors. These amounts are not recognised in these financial statements as the declaration date was subsequent to year-end.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. TRADE PAYABLES AND ACCRUALS

A Trade payables are initially recognised at fair value and then carried at amortised cost, and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present value of the obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date, are recognised in respect of the employee's services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and is measured at the rates paid or payable.

The Group makes regular contributions to various defined contribution pension plans. Included within the statement of financial performance are amounts paid and payable by the Group into these pension plans, net of any related tax rebates. The Group does not make available or make contributions to any defined benefit superannuation plans.

	2020 \$000	2019 \$000 Restated*
Trade payables	13,416	16,956
Employee entitlements and leave benefits	6,017	5,310
Goods and services tax	593	446
Accrued expenses	7,853	9,599
	27,879	32,311

Trade payables are unsecured, non-interest bearing and are generally settled on 30 to 60 day terms. The carrying amount disclosed above is a reasonable approximation of fair value.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS

A The Group uses derivative financial instruments such as forward currency contracts and options to economically hedge its risks associated with foreign currency fluctuations and interest rate swaps to manage interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured to fair value at balance date. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of financial performance. The fair value of forward exchange contracts and options is determined by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

E The Group's derivative financial instruments are classified as level 2 in the fair value hierarchy, as they have inputs other than observable quoted prices. In calculating the mark-to-market values, management has considered the forward rates.

The Group has the following derivative financial instruments outstanding at the balance sheet date:

a) Foreign Currency Forward Exchange Contracts and Options

i) Forward Exchange Contracts

	AVERAGE CONTRACTED RATE		NOTIONAL VALUE	
	2020	2019	2020 \$000	2019 \$000
<i>Selling Currency/Buying NZD</i>				
Sell AUD, maturity 0 – 5 months	0.9279	0.9106	8,245	1,647
Sell USD, maturity 0 – 10 months	0.5962	0.6635	10,333	13,619
Sell GBP, maturity 0 – 9 months	0.4912	0.5099	12,218	19,122
Sell CAD, maturity 0 – 9 months	0.8359	0.8840	1,975	11,457
Sell SGD, maturity 0 – 3 months	0.8481	0.9034	539	205
Sell JPY, maturity 1 – 4 months	64.0400	71.9095	78	107
Sell HKD	–	5.2424	–	739
<i>Buying Currency/Selling NZD</i>				
Buy EUR, maturity 0 months	0.5729	0.5928	454	1,142
Buy AUD	–	0.9513	–	752
Buy GBP, maturity 1 month	0.5130	–	439	–

The fair value of forward exchange contracts is determined by comparing the market rates for contracts with the same nominal amount, exercise price and length of time to maturity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

a) Foreign Currency Forward Exchange Contracts and Options (continued)

ii) Forward Currency Options

Selling Currency/Buying NZD	AVERAGE CONTRACTED RATE		NOTIONAL VALUE	
	2020	2019	2020 \$000	2019 \$000
Sell USD, maturity 2 – 15 months	0.6284	0.6666	25,737	24,009
Sell GBP, maturity 1 – 13 months	0.4914	0.5171	24,095	9,191
Sell AUD, maturity 2 – 12 months	0.9314	–	13,421	–
Sell CAD, maturity 2 – 9 months	0.8491	0.8852	7,362	3,672



NZ IFRS 9: Financial Instruments requires that derivative financial instruments are classified as fair value through profit or loss for measurement purposes unless they are accounted for as hedges. Under NZ IAS 1: Presentation of Financial Statements, assets and liabilities under the fair value through profit or loss classification would generally be classified as current in the statement of financial position. However, if the intent is not to actually trade the derivative financial instruments with maturities greater than one year but to hold them until maturity, then the derivative financial instruments are more appropriately classified as non-current. The amounts that are classified as non-current reflect the amounts that will not be settled in the next 12 months.

The classification of forward exchange contracts and forward currency options between current and non-current is based on whether the contracts will be settled in the next 12 months. The fair value of open contracts existing at balance sheet date are classified as follows:

	2020		2019	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
<i>Current</i>				
Forward Exchange Contracts	1,635	–	777	–
Foreign Currency Options	1,983	–	311	–
	3,618	–	1,088	–
<i>Non-current</i>				
Forward Exchange Contracts	–	–	–	–
Foreign Currency Options	69	–	–	–
	69	–	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b) Interest Rate Swaps

In order to protect against risks relating to increases in interest rates, the Group has entered into interest rate swap contracts under which the Group receives interest at variable rates and has agreed to pay interest at fixed rates for varying terms of principal and time durations.

At balance sheet date interest rate contracts are in place that cover a total of \$97,500,000 (2019: \$95,000,000) of current New Zealand Dollar denominated Group debt through 11 separate cap rate agreements, which range in maturity from zero to four years, with a weighted average interest rate cap of 3.75% plus bank margin (2019: 4.05% plus bank margin). In addition, interest rate contracts are in place that cover a total of A\$37,500,000 (2019: A\$27,500,000) of current Australian Dollar denominated Group debt through eight separate cap rate agreements, which range in maturity from two to five years, with a weighted average interest rate cap of 2.66% plus bank margin (2019: 2.92% plus bank margin).

At balance sheet date the Group has a further three separate cap rate agreements that cover a total of \$45,000,000 (2019: \$40,000,000) which apply from various future dates to cover future Group indebtedness. These range in maturity from five to six years, with interest rate caps ranging between 0.95% and 3.1% plus bank margin (2019: 2.1% and 3.71% plus bank margin). A further two cap rate agreements are in place that cover a total of A\$10,000,000 (2019: A\$10,000,000) which apply from various future dates, ranging in maturity from five to six years, with an interest rate cap of 0.8% plus bank margin (2019: 1.87% and 1.98% plus bank margin). The application date of these New Zealand Dollar and Australian Dollar denominated future cap rate agreements range between July 2020 and March 2023.

The total fair value of these contracts at balance sheet date is a liability of \$10,549,000 (2019: \$9,281,000 liability).



The Group has elected not to apply hedge accounting to its derivative financial instruments and accordingly the instruments have been classified as fair value through profit and loss.

The classification between current and non-current is based on whether the contracts or portion of contracts will be settled within the next 12 months. The total fair value of these contracts at balance sheet date is classified as follows:

	2020		2019	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
<i>Current</i>				
Interest Rate Swaps	–	4,649	–	2,960
	–	4,649	–	2,960
<i>Non-current</i>				
Interest Rate Swaps	–	5,900	–	6,321
	–	5,900	–	6,321

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. INTEREST-BEARING LOANS AND BORROWINGS

a) Debt Facilities Existing at Balance Sheet Date

A Interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the interest-bearing loans and borrowings. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition or construction of a qualifying asset. When this is the case, they are capitalised as part of that asset. Once the asset is put into productive use, capitalisation of the borrowing costs ceases.

At the balance sheet date the following debt facilities have been drawn upon by the Group:

	Maturity	Effective Interest Rate		2020	2019
		2020	2019	\$000	\$000
Non-Current Debt Obligations					
Term facility (Multi-Currency)	30 July 2022	3.29%	4.00%	219,750	219,347
Term facility (AUD)	30 July 2022	1.18%	2.40%	34,684	33,846
Working capital facility	30 July 2022	N/A	2.83%	(97)	22,856
Headroom facility	30 July 2022	N/A	N/A	(41)	(60)
				254,296	275,989

The carrying amount of the Group's non-current borrowings are the fair values at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

b) Terms and Conditions of Debt Facilities

i) Senior Debt Facilities

The Group has a syndicated Senior Debt facilities agreement with Westpac New Zealand Limited, Westpac Banking Corporation, Bank of New Zealand Limited (BNZ), China Construction Bank (New Zealand) Limited (CCB) and Hongkong and Shanghai Banking Corporation Limited (HSBC). With the syndicated facility a General Security Agreement has been put in place in favour of the banks over the existing and future assets of Delegat Group Limited, Delegat Limited, Delegat Australia Pty Limited and Barossa Valley Estate Pty Limited.

At balance sheet date the Working Capital facility, Term facility (Multi-Currency), Term facility (AUD), and Headroom facility collectively make up the syndicated Senior Debt Facilities of Delegat, which provide funding for the assets of the Group. The maximum limit of the Working Capital facility is NZ\$48,000,000 (2019: NZ\$48,000,000), Term facility (Multi-Currency) is NZ\$220,000,000 (2019: NZ\$220,000,000), Term facility (AUD) is A\$40,000,000 (2019: A\$40,000,000), and the Headroom facility is NZ\$20,000,000 (2019: NZ\$20,000,000). At balance sheet date NZ\$75,828,000 (2019: NZ\$52,832,000) is available for further drawdown on these facilities.

The Term facility (AUD) and a portion of the Term facility (Multi-Currency) are denominated in Australian Dollars (A\$). The amount drawn down in foreign currency at the balance sheet date was A\$61,850,000 (2019: A\$61,850,000).

Interest on these facilities is based on the BKBM/BBSY plus margin. The facility agreement requires that certain banking covenants be met and requires the Group to maintain or better a specified EBITDA and fixed charges coverage ratios, and maintain or better a minimum adjusted equity balance. The Group must also maintain or better a specified total tangible asset backing. At year-end, and at measurement dates during the year, the covenants of the Senior Debt Facilities have been met.

ii) Other Facilities

Delegat also has available an overdraft limit of \$1,000,000 (2019: \$1,000,000). Interest charged on this facility is at the commercial lending rate (2019: commercial lending rate). At 30 June 2020 the commercial lending rate is 4.75% (2019: commercial lending rate 5.85%). No amount is drawn against this facility at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. TRADE AND OTHER RECEIVABLES

A On initial recognition, the Group's trade receivables are recognised at their transaction price as defined in NZ IFRS 15: Revenue from Contracts with Customers. The Group's trade receivable balances are generally short term and do not contain a significant financing component. They are subsequently measured at amortised cost using the effective interest method, less an allowance for expected future credit losses.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Expected credit losses are measured by grouping trade receivables based on shared credit risk characteristics and the days past due. A provision matrix is then determined based on the historical credit loss rates for each group of customers, adjusted for any material expected changes to the future risk for that customer group.

Individual trade receivable balances which are known to be uncollectible are written off where the Group has no reasonable expectation of recovering the trade receivable balance.

	2020 \$000	2019 \$000 Restated*
Trade receivables	36,721	35,486
Prepayments and sundry receivables	3,746	3,016
Goods and services tax	1,321	1,482
	41,788	39,984

As at 30 June 2020 the ageing of trade receivables is as follows:

Ageing of receivables As at 30 June 2020	New Zealand (including Asia Pacific) \$000	Australia \$000	United Kingdom \$000	United States of America \$000	Canada \$000	Group \$000
Current	2,932	12,448	10,280	5,991	4,356	36,007
1 to 30 days	9	–	22	441	126	598
31 to 60 days	–	–	–	–	6	6
61 to 90 days	1	30	–	79	–	110
Total trade receivables	2,942	12,478	10,302	6,511	4,488	36,721

All amounts recognised as trade receivables are unsecured and the maximum credit risk is equivalent to the carrying values noted directly above. Trade receivables are non-interest bearing and generally settled on 30 to 90 day terms. Because of their short-term nature trade receivables are not discounted.

In determining the historical loss rates to be applied to these customer groups and ageing buckets, the Group has reviewed whether there was any provision for credit losses written off over the past five years and has identified that these were \$nil (2019: \$nil). Accordingly the historical loss rates applied to each customer group at 30 June 2020 are 0% (2019: 0%).

Due to the short term nature of the Group's trade receivables, the nature of the Group's customer base and the Group's experience over the past five years, the historical loss rates have not been adjusted for any material expected future changes in credit risk.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. INVENTORIES

A Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs of finished goods sold are assigned on a weighted average cost basis.

GRAPES

Included within the cost of inventory is the fair value of the grapes (agricultural produce) at the time the grapes are harvested. At the point of harvest, the harvest of grapes qualify as agricultural produce under NZ IAS 41: Agriculture and are recorded at fair value at that date. The fair value becomes the basis of cost when accounting for inventories.

Growing Costs

a) Growing Costs where the Group maintains a Beneficial Ownership in Vine Stock

Harvesting of the grape crop is ordinarily performed in late March or early April. Costs incurred in growing the grapes, including any applicable harvest costs, are initially allocated to the cost of inventory as part of the total costs to acquire and grow the agricultural produce. At the point of harvest, a fair value adjustment is made so that the cost per tonne is adjusted to fair value in accordance with NZ IAS 41: Agriculture and NZ IFRS 13: Fair Value Measurement. Any difference between cost and fair value is included within the statement of financial performance as cost of sales.

b) Growing Costs where the Group is not the Beneficial Owner of Vine Stock

The Group is party to long-term vineyard operating lease contracts where the Group is able to access, harvest and grow agricultural produce; however, it does not maintain the beneficial ownership in the underlying bearer plant. Vineyard costs that are incurred subsequent to harvest up to balance sheet date do not qualify as agricultural produce under NZ IAS 41: Agriculture and are accounted under NZ IAS 2: Inventories, as inventories. Where growing costs are incurred and the Group is not the beneficial owner of the bearer plants, growing costs are reported at the lower of cost and net realisable value in accordance with NZ IAS 2: Inventories.

At the point of harvest, management labour and vineyard lease costs (right-of-use asset depreciation and lease liability interest) have been separately identified from the pool of growing costs and do not form part of the difference between cost and fair value. These costs are expensed to the statement of financial performance as cost of sales.

E The fair value of grapes at the point of harvest is determined by reference to the market prices for each variety of grape grown in the local area and the market price paid to independent grape growers. Any difference between cost and fair value is included within the statement of financial performance as cost of sales.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. INVENTORIES (CONTINUED)

	2020 \$000	2019 \$000 Restated*
Current vintage	88,395	80,509
Aged wine	58,329	67,348
Growing costs relating to next harvest	4,788	4,294
Winery ingredients, packaging materials and other	6,116	5,729
	157,628	157,880

During the year, the Group harvested a total of 38,129 tonnes of grapes (2019: 35,500 tonnes) in New Zealand and Australia. Of this amount a total of 11,054 tonnes (2019: 10,686 tonnes) was purchased from independent third party growers. The fair value of agricultural produce from the Group's owned and leased vineyards at the point of harvest was \$53,161,000 (2019: \$47,339,000). A fair value gain of \$16,325,000 (2019: \$14,019,000) was recorded during the year and included within cost of sales. Included within cost of sales is a total of \$168,575,000 (2019 Restated*: \$157,847,000) which represents costs expended in grape growing (inclusive of lease costs), procurement, delivery and materials.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT

A Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, that have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of self-constructed assets includes the cost of all materials used in the construction, direct labour on the project, lease costs and financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised when the asset is ready for productive use. In respect of vineyard improvements, capitalisation of costs continues until the vineyards are ready for productive use, which is when the vineyard has produced approximately 60% of expected yield at full production, ordinarily a period of three years after the planting of vines.

Land and Land Improvement assets are measured at cost and are not subject to depreciation.

IMPAIRMENT

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment trigger exists, the recoverable amount of the asset is determined, being the higher of an asset's fair value, less costs to sell, and value in use. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are valued at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

E DEPRECIATION

Depreciation of property, plant and equipment, other than land, which has an indefinite economic life and hence not depreciated, is charged on a straight-line basis so as to write off the assets to their expected residual value over their estimated useful lives. The estimated useful lives are as follows:

Buildings	10–50 years
Plant and Equipment	3–50 years
Vineyard Improvements	3–50 years
Bearer Plants	50 years

The estimation of the useful lives of assets has been based on historical experience as well as lease terms. The condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation on vineyard improvements commences when the vineyard is considered to be in commercial production, which is when the vineyard has produced approximately 60% of the expected yield at full production, ordinarily a period of three years after the planting of vines. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each financial year.

Capitalised assets on leased vineyards or office premises are depreciated over the shorter of the estimated useful life of the asset and the remaining lease term.

IMPAIRMENT

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. Management considers there are no indicators of impairment in the current year and the recoverable amount of the Group's assets was not required to be determined.

a) Reconciliation of Carrying Amounts at Beginning and End of the Year

<i>Year ended 30 June 2020</i>	Freehold Land and Land Improvements	Vineyard Improvements	Bearer Plants	Buildings	Plant and Equipment	Capital Work in Progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Net book value at 1 July 2019	126,297	77,675	44,205	111,868	133,602	31,536	525,183
Additions/Transfers	3,800	10,805	565	929	11,140	1,072	28,311
Disposals	–	–	–	–	(34)	–	(34)
Foreign currency translation	163	361	68	239	185	9	1,025
Depreciation charge	–	(3,288)	(1,219)	(2,784)	(9,486)	–	(16,777)
Net book value at 30 June 2020	130,260	85,553	43,619	110,252	135,407	32,617	537,708
At cost	130,267	128,729	57,791	130,348	237,729	32,617	717,481
Accumulated depreciation and impairment	(7)	(43,176)	(14,172)	(20,096)	(102,322)	–	(179,773)
Net book value at 30 June 2020	130,260	85,553	43,619	110,252	135,407	32,617	537,708

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a) Reconciliation of Carrying Amounts at Beginning and End of the Year (continued)

Year ended 30 June 2019 Restated*	Freehold Land and Land Improvements \$000	Vineyard Improvements \$000	Bearer Plants \$000	Buildings \$000	Plant and Equipment \$000	Capital Work in Progress \$000	Total \$000
Net book value at 1 July 2018	126,911	71,751	45,458	109,286	125,172	31,950	510,528
Additions/Transfers	(325)	9,613	87	5,653	17,708	(340)	32,396
Disposals	-	-	-	(17)	(256)	-	(273)
Foreign currency translation	(289)	(624)	(122)	(390)	(330)	(74)	(1,829)
Depreciation charge	-	(3,065)	(1,218)	(2,664)	(8,692)	-	(15,639)
Net book value at 30 June 2019	126,297	77,675	44,205	111,868	133,602	31,536	525,183
At cost	126,304	117,531	57,152	129,153	226,665	31,536	688,341
Accumulated depreciation and impairment	(7)	(39,856)	(12,947)	(17,285)	(93,063)	-	(163,158)
Net book value at 30 June 2019	126,297	77,675	44,205	111,868	133,602	31,536	525,183

b) Other Items

During the year, no assets were transferred and classified as assets available for sale. The weighted average interest rate on interest capitalised during the year was 4.68%.

Bearer Plants consist of grapevines on company owned vineyards located in New Zealand and the Barossa Valley, Australia. At 30 June 2020 the Group has grape vines planted on 1,528 productive hectares of land (2019: 1,451 productive hectares) in New Zealand and 183 productive hectares (2019: 183 productive hectares) in Australia.

The net book value of vines on leased land where the Group does not have the beneficial ownership in the vine asset is not reported above, as the risks and rewards incidental to owning the vines do not transfer to the Group. The Group is, however, party to leases of land on which vine stock is owned by the Group. The net book value of these assets is reported, as the risk and rewards incidental to ownership are retained by the Group.

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. INTANGIBLE ASSETS

A Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable; if not, the change in useful life from indefinite to finite is made on a prospective basis.

E Intangible assets currently owned by the Group have been assessed as having indefinite useful lives and are therefore tested annually for impairment at the CGU level. The recoverable amount of the CGU's assets are higher than the assets' carrying value and therefore no impairment is required to be recognised.

Intangible assets currently owned by the Group consist of water rights in both New Zealand and Australia.

Barossa Valley Estate Pty Limited (BVE) owns water rights consisting of shares in Barossa Infrastructure Limited and associated infrastructure levies. These water rights grant BVE the right to a fixed number of units of water per share and were purchased by BVE to support their vineyard activities. BVE continues to have the right to use the water over an indefinite period and therefore the water rights are considered to have an indefinite useful life.

Delegat Limited (Delegat) owns water rights consisting of shares in Lower Waihopai Dam Limited. These water rights grant Delegat the right to a fixed number of units of water per share and were purchased by Delegat to support their vineyard activities. Delegat continues to have the right to use the water over an indefinite period and therefore the water rights are considered to have an indefinite useful life.

The movement in the value of intangible assets is summarised as follows:

	2020 \$000	2019 \$000
Carrying value at beginning of the year	4,950	4,663
Purchases of intangible assets	421	471
Disposal of intangible assets	(40)	(10)
Foreign currency translation	105	(174)
Carrying value at end of the year	5,436	4,950

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. LEASES

A At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for leases of low-value assets. The Group applies the low-value assets recognition exemption for its barrel leases. Payments on the Group's barrel leases are expensed on a straight line basis over the lease terms. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

RIGHT-OF-USE ASSETS

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

LEASE LIABILITY

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the interest rate implicit in the lease when readily determinable; if the implicit interest rate is not readily determinable the Group uses its incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Right-of-use asset depreciation and lease liability interest that are directly attributable to bringing new vineyards to working condition for their intended use are capitalised up until the time the vineyards become commercially productive. The accumulated amount is then amortised over the remaining lease term.

E The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. When the Group has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including its past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help determine the lease term. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew.

To determine the value of the lease liability, the future lease payments are discounted using the interest rate implicit in the lease, otherwise the Group's incremental borrowing rate is used. Implicit interest rates are present in most of the Group's vineyard leases. The Group's incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The Group is required to revise the discount rate used if there is a change in the lease term, a change in the assessment of an option to purchase the underlying asset, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or where there is a lease modification that is not accounted for as a separate lease.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. LEASES (CONTINUED)

RIGHT-OF-USE ASSETS

Leases held by the Group include long-term land leases, which allow the Group to access prime viticultural land in the Marlborough and Hawke's Bay areas. The leases provide the Group the right of first refusal in the event that the land is put up for sale. Other leases include office building, car and equipment leases.

a) Reconciliation of Right-of-Use Assets at the Beginning and End of the Year

<i>Year ended 30 June 2020</i>	Freehold Land and Land Improvements	Vineyard Improvements	Bearer Plants	Buildings	Plant and Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Net book value at 1 July 2019	33,278	12,094	3,980	6,744	5,011	61,107
Additions/Transfers	360	348	110	940	476	2,234
Disposals	–	–	–	(91)	(41)	(132)
Foreign currency translation	–	–	–	126	11	137
Depreciation charge	(1,550)	(672)	(218)	(1,613)	(799)	(4,852)
Net book value at 30 June 2020	32,088	11,770	3,872	6,106	4,658	58,494
At cost	55,256	23,662	7,423	18,018	7,028	111,387
Accumulated depreciation	(23,168)	(11,892)	(3,551)	(11,912)	(2,370)	(52,893)
Net book value at 30 June 2020	32,088	11,770	3,872	6,106	4,658	58,494
<i>Year ended 30 June 2019</i>	Freehold Land and Land Improvements	Vineyard Improvements	Bearer Plants	Buildings	Plant and Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Net book value at 1 July 2018	33,658	12,414	4,087	9,107	5,023	64,289
Additions/Transfers	1,108	334	106	1,500	831	3,879
Disposals	–	–	–	(2,194)	(6)	(2,200)
Foreign currency translation	–	–	–	(13)	(18)	(31)
Depreciation charge	(1,488)	(654)	(213)	(1,656)	(819)	(4,830)
Net book value at 30 June 2019	33,278	12,094	3,980	6,744	5,011	61,107
At cost	54,896	23,314	7,313	17,797	6,919	110,239
Accumulated depreciation	(21,618)	(11,220)	(3,333)	(11,053)	(1,908)	(49,132)
Net book value at 30 June 2019	33,278	12,094	3,980	6,744	5,011	61,107

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. LEASES (CONTINUED)

LEASE LIABILITY

b) Reconciliation of Lease Liability at the Beginning and End of the Year

	2020 \$000	2019 \$000
Balance at beginning of the year	86,429	88,909
Per Statement of Cash Flows:		
– Interest Expense	5,649	5,842
– Principal Repayments	(10,222)	(9,986)
Additions/Transfers	2,241	3,958
Disposals	(192)	(2,228)
Foreign currency translation	157	(66)
Balance at end of the year	84,062	86,429
Current	4,538	4,458
Non-current	79,524	81,971
	84,062	86,429

The maturity analysis of lease liabilities is disclosed in Note 2.

c) Other Items

The Group had total cash outflows for leases of \$16,102,000 (2019: \$15,628,000); this includes an amount of \$5,880,000 (2019: \$5,642,000) in relation to leases of low-value assets. Low value asset lease expenses are expensed on a straight line basis over the lease terms.

As at 30 June 2020, a lease agreement relating to additional office space has been executed, but the lease period has not yet commenced. The lease liability at the lease commencement date is expected to be approximately \$17,100,000.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. INCOME TAX EXPENSE

A

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of financial performance.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. INCOME TAX EXPENSE (CONTINUED)

	2020 \$000	2019 \$000 Restated*
a) Numerical reconciliation between aggregate tax expense in the statement of financial performance and tax expense calculated per the statutory income tax rate		
Accounting profit before tax	85,017	65,181
At the Group's statutory income tax rate of 28% (2019: 28%)	23,805	18,251
Tax impact of the following items:		
Adjustments in respect of income tax of prior years	(93)	(75)
Entertainment	179	190
Legal fees	40	52
Non-assessable income	(49)	(28)
Reinstatement of tax depreciation for buildings	(2,860)	-
Non-deductible depreciation on buildings acquired post May 2010	388	387
Tax on foreign income due to different tax rates	(515)	(391)
Income tax expense for the year	20,895	18,386
b) The major components of income tax expense are:		
Income tax reported in the statement of financial performance		
Estimated current period tax assessment	21,259	17,741
Adjustments in respect of income tax of prior years	(116)	(996)
Movements in the deferred income tax liability	(248)	1,641
Income tax expense for the year	20,895	18,386
Income tax reported in the statement of other comprehensive income		
Net (loss)/gain on hedge of net investment	(202)	359
Income tax (credited)/charged to other comprehensive income	(202)	359

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. INCOME TAX EXPENSE (CONTINUED)

	2020 \$000	2019 \$000 Restated*
c) Deferred income tax at balance sheet date relates to the following:		
Capitalised interest	5,131	4,864
Capitalised leases	504	579
Accelerated depreciation of long-term assets	17,744	18,185
Leases	(7,123)	(7,071)
Fair value adjustments on biological produce	7,809	8,105
Excess of fair value on acquisition of bearer plants over tax values	8,682	8,682
Provisions	(906)	(803)
Stock profit and intercompany eliminations	(1,312)	(1,352)
Tax losses carried forward	(152)	(207)
Financial derivative instruments	(1,921)	(2,294)
Net deferred tax liability	28,456	28,688
Balance at beginning of the year	28,688	27,064
On surplus for year	(248)	1,641
Foreign currency translation	16	(17)
Balance at end of the year	28,456	28,688

There are no elements of deferred taxes which are reported within equity.

17. IMPUTATION CREDIT ACCOUNT

	2020 \$000	2019 \$000
Balance at beginning of the year	72,297	62,965
Tax payments	18,431	14,942
Fully imputed dividend paid	(6,342)	(5,610)
Balance at end of the year	84,386	72,297

18. COMMITMENTS

The estimated capital expenditure contracted for at 30 June 2020 but not provided for is \$24,771,000 (2019: \$17,129,000).

* The financial statements for the year ended 30 June 2019 have been restated following the adoption of NZ IFRS 16: Leases on 1 July 2019. Refer to Note 1 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. RELATED PARTIES

a) Investment in Subsidiaries

Investments in controlled entities are as follows:

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest %	
			2020	2019
Delegat Limited	Winemaking, Sales and Distribution	New Zealand	100.00	100.00
Delegat Canada Limited	Brand Marketing	Canada	100.00	100.00
Delegat Australia Pty Limited	Sales and Distribution	Australia	100.00	100.00
Delegat USA, Inc.	Sales and Distribution	United States of America	100.00	100.00
Delegat Europe Limited	Sales and Distribution	United Kingdom	100.00	100.00
Delegat (Singapore) Pte. Limited	Investment Holding Company	Singapore	100.00	100.00
Barossa Valley Estate Pty Limited	Winemaking	Australia	100.00	100.00
Delegat (Shanghai) Trading Co. Limited	Sales and Distribution	China	100.00	100.00

The parent company of all subsidiaries is Delegat Group Limited, except for Delegat Europe Limited and Barossa Valley Estate Pty Limited whose immediate parent company is Delegat Limited, and Delegat (Shanghai) Trading Co. Limited whose immediate parent company is Delegat (Singapore) Pte. Limited.

All subsidiaries have a 30 June balance date, except for Delegat (Shanghai) Trading Co. Limited which has a 31 December balance date as required by law in China.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. RELATED PARTIES (CONTINUED)

b) Key Management Personnel

Details relating to key management personnel, including remuneration paid, are included within Note 20.

c) Related Parties by Virtue of Share Ownership

The following Directors hold the following number of Shares in the Parent	2020	2019
Delegat Share Protection Trust (Jakov Delegat, Rosamari Delegat and Lord Trustee Limited – Trustees) (2019: Jakov Delegat, Rosamari Delegat and Robert Wilton – Trustees)	66,857,142	66,857,142
Robert Wilton	800,000	800,000
John Freeman	11,000	11,000

The individuals above are considered related parties as a result of their shareholding or by virtue of being considered a member of key management. During the year, a total of \$75,000 (2019: \$68,000) was paid to Robert Wilton in his capacity as a Non-Executive Director. Rosamari Delegat received \$75,000 (2019: \$68,000) in her capacity as a Non-Executive Director during the year.

During the year, a total of \$100,000 (2019: \$100,000) was paid to Robert Wilton in his capacity as an independent consultant, under normal terms and conditions.

Please also refer to the Disclosure of Directors' Interests at the back of this report.

d) Transactions with Related Parties who have Significant Influence over Subsidiary Companies

During the period, Delegat Australia Pty Limited paid a total of \$26,000 (2019: \$27,000) to Yaroona Pty Limited. The payments made to Yaroona Pty Limited were made in Peter Taylor's capacity as Company Director and were under normal commercial terms and conditions. Peter Taylor was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period, Barossa Valley Estate Pty Limited paid a total of \$41,000 (2019: \$49,000) to Range Road Estate Pty Limited, including directors' fees of \$21,000 (2019: \$21,000). The remaining payments made to Range Road Estate Pty Limited were made in Alan Hoey's capacity as an independent consultant and under normal terms and conditions. Alan Hoey was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period, Delegat Limited paid a total of \$19,000 (2019: \$2,000) to Range Road Estate Pty Limited. The payments made to Range Road Estate Pty Limited were made in Alan Hoey's capacity as an independent consultant and under normal terms and conditions. Alan Hoey was considered to be a related party by virtue of his ability to significantly influence the financial and operating policies of a subsidiary company.

During the period, Delegat (Singapore) Pte. Limited paid a total of \$nil (2019: \$1,000) and Delegat Limited paid a total of \$5,000 (2019: \$5,000) to Camelot Trust Pte. Limited, a company in which a Director of Delegat (Singapore) Pte. Limited has an interest. The payments made to Camelot Trust Pte. Limited are made in Anita Chew Peck Hwa's capacity as Company Director and under normal terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. KEY MANAGEMENT PERSONNEL

Compensation of Key Management Personnel

Included in the definition of related parties are Key Management Personnel having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly, including any Director. Management has assessed the composition of the Key Management and their compensation for the year ended 30 June is presented below:

	2020 \$000	2019 \$000
Short-term employee benefits	8,261	7,781
Post-employment benefits (including defined contribution pension plan)	242	230
	8,503	8,011

21. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 28 August 2020, the Directors of the Parent declared a fully imputed dividend of \$17,192,000 (17.0 cents per share) to be paid on 9 October 2020.

INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

Independent auditor's report to the Shareholders of Delegat Group Limited

Opinion

We have audited the consolidated financial statements of Delegat Group Limited ("the company") and its subsidiaries (together "the Group") on pages 11 to 63, which comprise the statement of financial position of the Group as at 30 June 2020, and the statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 11 to 63 present fairly, in all material respects, the financial position of the Group as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

Ernst & Young provides tax advisory and tax compliance services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group or any of its subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED



Chartered Accountants

Why Significant?	How our audit addressed the key audit matter
Revenue Recognition - Cut Off	
<p>As disclosed in note 3 to the financial statements, the Group recognised revenue totalling \$304m for the period.</p> <p>The Group recognises revenue from sale of goods in several different markets and jurisdictions globally. Control of the goods is considered to have transferred to the buyer at the time of delivery of goods to the customer as per the relevant terms of trade.</p> <p>Revenue recognition is considered a key audit matter due to the fact that material revenue transactions can occur close to year end and so there is a risk that revenue is recognised in the incorrect period.</p>	<p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"> • assessed and tested the design and operating effectiveness of relevant controls over the timing of revenue recognition; • tested, on a sample basis, transactions recorded in the periods before and after year-end to assess whether they were recorded in the correct period. This included considering shipping documentation or other documentation indicating the shipping timing and terms; • analysed credit notes issued after year end to assess whether these indicated that revenue was incorrectly recognised in the 2020 financial year; and • considered the adequacy of the disclosures in the financial statements.
Rebates and Promotional Allowances	
<p>As disclosed in note 3 to the financial statements, revenue is recognised net of rebates and promotional allowances owed to customers based on their individual arrangements, including volume and non-volume related targets. As disclosed in note 3 the accrual for these rebates as at 30 June 2020 is \$22.4m.</p> <p>Rebates and promotional allowances include various amounts due to customers for promotional support and rebates related to sales volume that are netted against sales. At year end judgement is required in estimating the level of achievement of future targets by relevant customers and therefore the level of applicable rebates and promotional allowances.</p> <p>The value of the rebate and promotional allowances accruals at balance date, together with the level of judgement involved in their estimation, lead to us consider this to be a key audit matter.</p>	<p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"> • assessed and tested the design and operating effectiveness of relevant controls over the calculation of rebates and promotional allowances; • selected a sample of sales promotional allowance expenses from throughout the year and agreed to supporting documentation; • performed analysis of the relationship between revenue and the total of rebates and volume related promotional allowance expenses to ascertain if this relationship was in line with our understanding of the Group's operations; • considered the assumptions and judgements used by the Group in calculating the accrual for rebates and promotional allowances by reviewing management's calculations supporting the year end accruals. For a sample of rebate and promotional allowances accruals, we assessed the calculation prepared by management and validated the calculation inputs to supporting evidence; • performed analytical procedures on the largest accruals for rebates and promotional allowances in each location in comparison to the prior year to challenge the nature and quantum of the accruals at year end; and • considered the adequacy of the disclosures in the financial statements.

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INDEPENDENT AUDITOR'S REPORT CONTINUED



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Why Significant?	How our audit addressed the key audit matter
Adoption of NZ IFRS 16 Leases	
<p>As disclosed in Note 15, the Group recognised right of use assets of \$58.5 million and lease liabilities of \$84.1 million at 30 June 2020. The Group adopted NZ IFRS 16 Leases on 1 July 2019. Under NZ IFRS 16, an entity must recognise a right of use asset and a lease liability arising from leases (with some exceptions), in the consolidated statement of financial position.</p> <p>The Group has applied the fully retrospective approach to adoption. Under the full retrospective approach, the Group restated the comparative financial periods to recognise a right of use asset of \$64.3 million and a lease liability of \$88.9 million on 1 July 2018, and a right of use asset of \$61.1 million and a lease liability of \$86.4 million on 1 July 2019.</p> <p>The Group has disclosed the effect of the change in accounting policy in Note 1 to enable users of the financial statements to evaluate the impact of the change on the financial performance, financial position and cashflows of the Group.</p> <p>Judgement is required relating to the assumptions and estimates made in order to determine the right of use asset and lease liability. Key assumptions include estimating the lease term, by considering any rights of renewal, and the rate used to discount the lease liability and right of use asset at the inception of the lease.</p> <p>The adoption of NZ IFRS 16 is a key audit matter as the adjustments arising on adoption of NZ IFRS 16 are material to the Group and required judgements and estimates to be made.</p>	<p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"> • understood and documented management's process for adopting NZ IFRS 16, including the controls in place to ensure the population of leases considered was completed; • considered the accounting memos prepared by management explaining the approach taken, choices made and accounting positions adopted, and ensured these complied with NZ IFRS 16; • assessed the Group's quantification of the right of use asset and lease liability as at 1 July 2018, and on a sample basis we: <ul style="list-style-type: none"> • examined key contractual inputs to the calculations including lease end dates, fixed lease payments and fixed lease payment escalation terms; • evaluated key judgements and estimates including the assumed exercise of rights of renewal used to determine the lease term and the discount rate applied to the lease portfolio; • assessed the completeness of leases included in the determination of the Right of Use Asset and Lease Liability; and • recalculated the lease liability and asset values to ensure the values calculated by management were calculated correctly in accordance with NZ IFRS 16. • tested movements, including on a sample basis lease additions and disposals, in the right of use asset and lease liability from 1 July 2018 to 30 June 2019 and during the year to 30 June 2020; • recalculated the interest and depreciation charges recognised in the income statement for the 30 June 2019 and 30 June 2020 years relating to the lease liability and the right of use assets respectively; and • considered the adequacy of the disclosures in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT CONTINUED



Chartered Accountants

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

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

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

If, based upon the work we have performed, 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.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity 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 cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing (New Zealand) 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 financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

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

The signature 'Ernst & Young' is written in a black, cursive script.

Chartered Accountants
Auckland
28 August 2020