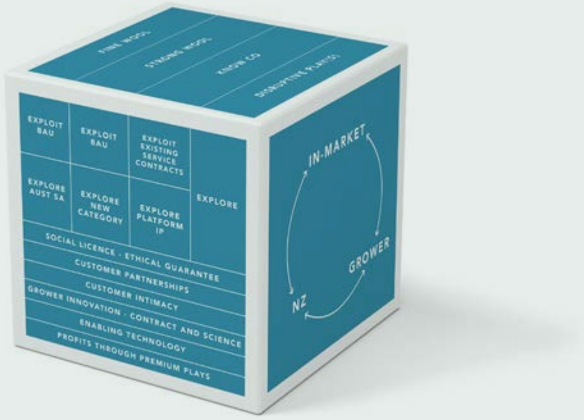
2020

Annual Report

Chairman's Report



I am composing my final report to shareholders on the shores of Lake Wanaka where in the valley floors and hills all around preparations are underway for the spring shear. The sheep don't know that the planet is being ravaged by a pandemic and that as the wool continues to grow on their back the brakes are being slammed on demand.

As the company came to grips with the meaning of Covid19, a permanent threat until such time as a vaccine hits the shelves, I expressed the confidence during our very valuable Zoom sessions connecting growers with our market partners that together we would weather this storm.

I commenced my tenure as a NZM director in 2002, paused between 2004 and 2012 and have been the Chairman for the last six years.

The business has transformed itself over that time from a committed 'club' of merino growers who knew how to produce the finest fleeces in the world and throw a good party to boot, to a sophisticated premium player making markets and hence capturing value for suppliers and yielding a steady stream of profit for shareholders.

As I write my last report with pride I feel I have the licence to traverse the then, the now and the next.

The 'then' was the combined ambition of enterprising growers and a talented team of John Brakenridge, Peter Floris, Mike Hargadon and Keith Ovens who as the foundation management team conceived of a way of doing wool differently that would disrupt the traditional co-op model and auction system. The crucial design decision was to embrace a market system and adopt a business model that was good for the ages.

Success breeds success and many more layers of business lines and business partners have been added to propel the company to the best in class.

The 'now' is a pattern of repeat profits and handsome dividends. The year of this annual report has seen the company achieve a record profit of $4.01m before tax. The mid-point valuation of the company is $33m.

What has become to be known as the Ruthix Cube represents the strategic intent adopted by the Board three years ago, and as I sign off it is fair to claim that we have largely nailed our objectives.

What matters is the 'next'. What the company has achieved is necessary, but not sufficient and we knew that long before Covid19 introduced new business imperatives.

Our business model is constrained, our constitution is not fit for purpose, we have no real liquidity in our shares, challenges are on the horizon.

We are determined to sustain our appetite for innovation, our reputation for ethical production and supply, and the commercial attraction of our contract regime. Those ambitions rely on the company moving to a new level.

Being fit for the future will require the company shaping up to set its performance against three measures; people, profit and the planet.

There is an equal challenge for shareholders; to re-shape the constitution so that its business purpose, its shareholding base and governance regime all combine to ensure that the company can sustain its promise into the future better capitalised with a wider shareholding base and proper liquidity and therefore pricing of the shares.

Some parting thoughts on the company and then the constitution.

People: Succession planning, as in any organisation that wants to continue to be best in class, must continue apace. Sustaining the core is important as is the recognition that new imperatives mean new roles. More women must take positions of responsibility – the commitment to balance and belonging is there but the gap is enormous. The growers have never elected a female director which is not

representative of the talented women who command the heights of the merino world.

Profit: NZM has been singularly successful in creating value for our market partners; just witness the value that accrued to the Icebreaker principals in their sale to the VF Corporation now one of our biggest contractors. NZM must move to capture value for our own shareholders.

The incubation and spin-out of Keravos (a strong wool innovation through Studio ZQ) is a promising start; a ground-breaking fibre play that has the prospect of disrupting the bad for the planet plastics industry with wonderful wool.

Planet: Global warming now super charged by the prospect of global pandemics has enforced a new business licence to operate.

Allbirds are determined to produce carbon negative footwear, Reda want to sell ethically produced garments, carpet makers home and away know that value is only assured by wool, ZQ certification gets first dibs in VF's procurement decisions and Nanny Glerup felts her wonderful footwear with a blend of Danish and NZM wool knowing she can make good her promise to the consumer of quality on the farm and welfare for the animal.

NZM is at the forefront of those standards historically with the ZQ certification regime, and now with the promotion of re-gen farming systems through ZQ^{RX} and the digital means to verify the achievement of the standards of production now demanded.

The company is playing its part to make the company fit for the future; the challenge is now to you as shareholders to do the same as the constitutional modernisation and capital raising is put before you at the forthcoming Annual Meeting.

Road shows will be held during the week of October 5 to 9 to ensure that shareholders are fully informed of the matters to be voted on.

While these ideas have been tested at an informal level over the last year or so and debated from the floor at the last two Annual Meetings, the rubber hits the road as the Board seeks a shareholder vote at this coming Annual Meeting on October 15 at our Christchurch Office.

Your Board unanimously backs the advances and we now seek your backing.

The Covid19 disrupt means that for the first time in seven years, the board has determined that the company needs to preserve the maximum amount of capital so no dividend will be paid this year. The priority to ensure that the company is well capitalised to weather the storm also means that we have resolved to embark on a capital raising process seeking some $10 million of extra buffer.

As I pass the torch to Kate Morrison (Kathryn Mitchell), the incoming Chairman, I do so with great confidence that the company has the DNA to continue to transform the sector and be a leading light for how agribusiness in New Zealand should plan and prosper.

Covid19 has grounded New Zealand for now, but fly we must. We have only two wings; businesses that depend on an intelligent use of what springs from the soil and business that depends on an intelligent use of our brain power.

It has been a great personal and professional pleasure to have worked with and for The New Zealand Merino Company since its inception.

The company has lustre and is in great hands and I will enjoy the reflective glow of its success while wearing the best wool can offer from tip to toe.

Ruth Richardson, Chairman

1. Ruth Richardson — Chairman
2. Kathryn Mitchell
3. Bill Sutherland
4. Matanuku Mahuika

5. Ben Todhunter
6. Paul Ensor
7. John Brakenridge — Chief Executive
8. Peter Floris — Chief Financial Officer

'Building a vibrant community for our grower suppliers today and for future generations is at the heart of the NZM business. Vibrancy requires profitability, connectivity to end markets and a strong commitment to make a positive contribution to New Zealand's economic, social and environmental fabric.'

CEO's Report

An essential and distinctive element of NZM is staying in front of the curve.

What does this mean? It means that we consistently, to the best of our ability, anticipate change and prepare our organisation in what we do to protect and enhance our stakeholders.

At the centre of this is our grower supply base who currently are being held in high regard by both New Zealand and global experts as exemplars for change.

This change must be anchored off our history and the legacy of the pioneers of our industry but we must anticipate and adapt to an ever-evolving situation environmentally, economically, technologically, socially, politically and culturally.

The 2019/20 financial year has been a standout year as we as a business and our stakeholders responded to the predictable and the unpredictable.

Performance

NZM has had a record financial year recording a net profit before tax of $4.01 million. This is 28% up on the previous year's result and has come about from the robust decisions that have been made to ensure we have both scale and relevance for our stakeholders.

Our result represents a return of 25% on average shareholders' funds.

Our balance sheet remains stable against the current global situation of uncertainty and challenges, with shareholders' funds representing 51% of total assets at year end.

Studio ZQ has been a strong contributor to new category opportunities, resulting in additional contracts, equity positions within global start-up brands and exploration into new uses for wool.

Future relevance

A statement that is central to NZM and worth repeating as we build out our future relevance is as follows:

'Building a vibrant community for our grower suppliers today and for future generations is at the heart of the NZM business. Vibrancy requires profitability, connectivity to end markets and a strong commitment to make a positive contribution to New Zealand's economic, social and environmental fabric.'

We were thrilled that NZM was recognised as the 2019 Supreme Winner of the New Zealand Trade and Enterprise run International Business Awards in acknowledgment of our team's and our stakeholders' efforts and vibrancy.

Never a business to rest on our laurels, we maintained momentum in anticipation of the next opportunities to ensure our fibre is as pertinent to our markets as possible. This has resulted in the development and launch of ZQ^{RX} – the world's leading ethical wool, purpose driven by the best regenerative principles. This is a direct response to the heightened awareness of global consumer groups around environmentally positive practices and a strong sentiment that the products they buy must go beyond sustainability to a notion of regenerative.

ZQ^{RX} is a celebration of the hard work growers do on farm and is in recognition of environmental contributions made through the positive practices upheld, and on continual enhancement, by our rural communities. The launch of ZQ^{RX} was held by a Zoom digital meeting, supported by leading brand partners with over 300 people joining remotely. Already we are pleased to have over 50% of our fine wool supply signed in to the principles of this and we have a team of highly educated experts working with them on this partnership journey of continuous improvement – a position that so many of our growers are already on in an obvious move to 'own, define and shape' this opportunity.

‘Our grower suppliers are the solution for much of what is coming over the horizon economically, environmentally and socially and are the mechanism to position us as a global exemplar for ethically and regeneratively produced products.’

Relationships and technology

I would like to acknowledge our brand partners, growers and staff as we’ve traversed a tumultuous second half of the financial year through the ongoing Covid19 pandemic. The company was one of the early adopters of Zoom technology and we ironically felt and achieved heightened connection with our stakeholders despite restrictions on travel. We would like to express our gratitude for your support and understanding through these challenging times and embracing new and innovative forms of communication.

Innovation for wool

Studio ZQ has proven to be a significant enabler for connection and a catalyst for innovation. In addition to the considerable number of projects launched in 2019/20, NZM plans to roll-out an exciting series of initiatives for wool and supporting technologies over the next 12 months. Again, striving to stay in front of the curve and bring new uses and users to our wonderful fibre.

Studio ZQ is a celebration of new category development and we are pleased to showcase our global brands defiance to the status quo of innovative uses for New Zealand’s leading natural fibre.

Our role in Aotearoa’s food and fibre sector

The future of New Zealand’s economic recovery is centred around our country’s agri-community. Our grower suppliers are the solution for much of what is coming over the horizon economically, environmentally and socially and are the mechanism to position us as a global exemplar for ethically and regeneratively produced products.

Our platform with Te Hono enables us to partner across other sectors to then propel our food and fibre products globally and to economically reward growers and their communities.

We look forward to the year ahead in further exploring these opportunities and seeking synergies with complementary companies and industries.

Fit for purpose structure

In future-proofing our business and partnerships, the modernisation of NZM’s constitution and structure is essential to maintain our momentum. Given the uncertainties, vulnerabilities and opportunities within our markets, the board is strongly recommending that shareholders vote in favour of constitutional reform and a capital raise to strengthen our balance sheet. This will be fully outlined and detailed during a series of group meetings in the lead up to the Annual Meeting.

Summary

As we wrap up our 2019/20 financial year, we are strongly leaning into a highly volatile business environment for 2020/21 with the significant ongoing impacts of Covid19.

Survival in this ‘new normal’ requires switching from defence to offense. While most companies are focusing on cash and costs to survive, those companies that thrive on the other side of a crisis will be the ones that have adapted to a ‘new normal’ by transforming their business models during the survival stage to be able to accelerate on the rebound. Our focus is on both – the immediate imperatives of managing our balance sheet and ensuring both our brands and grower suppliers are in a sustainable position, whilst at the same time investing in further transformation of our business to be an exemplar for our industry and the broader primary sector.

John B.

John Brakenridge, Chief Executive

'ZQRX is a celebration of the hard work growers do on farm.'


SPEAKS

Snapshot

NZM / ZQ Natural Fibre

NZM won the Supreme Award and Excellence in Design Award at the 2019 New Zealand International Business Awards.

- NZM was also highly commended in Best Large Business and Excellence in Innovation categories at the New Zealand International Business Awards.
- NZM received the Champion Exporter Medium/Large Business at the Canterbury Business Awards 2019 and was a finalist with Gaze Commercial in the Best Awards 2019: Offices & Workplace Environments for the fit-out of Studio ZQ.
- NZM/ZQ is proud to be the supply partner of over 110 brands globally.
- NZM developed a digital 'Discover ZQ' platform containing a wide range of assets for brand partners to enhance their understanding and narrative of the ZQ ethos and fibre origin, highlighting our grower community.
- The world is seeing a shift in consumer spending habits accelerated as a result of the global Covid19 lockdown. People have spent an unprecedented amount of time indoors in recent months, leading them to consider the effects that synthetic products in their homes have on their health. This presents a huge opportunity to continue lobbying our consumer movement towards ZQ natural fibre products for wellness.

Active Outdoors and Lifestyle Markets

We are pleased to welcome Max, Sheep Inc., REI and Little Yellow Bird as new ZQ Brand Partners.

- The VF Corporation relationship with ZQ continues to go from strength to strength, including the creation of the inaugural VF Shearing Cadetship to bolster the future of the shearing industry in New Zealand.
- Allbirds, 'the world's most comfortable shoe', significantly expanded their bricks and mortar retail locations globally, including opening their first New Zealand store in Auckland. Additionally, this year saw a number of exciting initiatives including the launch of their water-resistant Wool Mizzle and Tree Dasher shoe ranges and extension into new categories with the launch of their undergarment range and socks.
- NZM has worked closely with Sheep Inc. in launching their brand using a unique approach to partnership with growers - enhancing connectivity and showcasing farm data and transparency. e.g. 'buy a jersey, adopt a sheep'
- Barkers launched their 100% ZQ Merino Collection, proudly positioned across their marketing, communications and customer facing channels.

One-VF Wool partnership formalised between NZM and VF Corporation; a forward partnership worth an estimated $250 million over 5 years for ZQ farmers.

Luxury and Specialised Markets

Reda, our long-term ZQ partner, has proudly achieved B-Corp status, the highest recognition of ethical business practice globally.

- New brand partners include Maggie Marilyn, Tommy Hilfiger, Jigsaw, The Südwolle Group, and Catherine Hammel.
- Hugo Boss have launched their traceable wool capsule and ethical sourcing platform, boasting their ZQ wool is from certified growers who adhere to the highest level of welfare and sustainable production practices.

News from our Brands

- Allbirds are now stating carbon numbers on their shoes and have recently announced a new partnership with Adidas to tackle climate change. The two companies have committed to collaborating to create a new industry standard for footwear with the goal of the partnership creating a shoe with the lowest carbon footprint possible.
- Glerups Denmark are building their first retail store in Denmark to generate a wider reach of their story direct to consumers and are excited to be releasing new innovative products in 2021.
- Icebreaker has expanded its digital presence in Australia, partnering with fashion marketplaces The Iconic and Well Made Clothes - retailers picked due to their focus on sustainable and ethical products.
- Cavalier Bremworth, one of the largest woollen floor covering companies in the world, has pledged to phase out synthetics in favour of wool and natural fibres in the next 12 months.
- Swanndri have developed a wide range of promotional content based on grower relationships and have called out ZQ across their digital platforms and retail stores.
- Best Wool Carpets have launched a new wool rug brand - Monasch by Best Wool.

NZM & Glerups established a deeper partnership through a joint venture seeing NZM retail & distribute Glerups indoor shoes for New Zealand & Australia in Studio ZQ.

Snapshot

NZM Innovation

The Studio ZQ innovation hub has enhanced how we connect with our stakeholders and has collaborated with various groups from Growers, Brand Partners, primary sector leaders, product designers, the rural community, Government and education cohorts.

- Keravos, an exciting new innovation using wool to replace petrochemical plastics, completed initial rounds of testing and launched to a preliminary group of strategic partners.
- NZM explored digital platforms and technology as a means to connect and communicate with stakeholders. The establishment of ZQ Intel, a sophisticated digital grower review and information platform, allowed important communication to be relayed despite restrictions on farm visits due to lockdown.
- ZQ^{RX} encompasses an enhancement of technology for farm and market information, GIS systems, digital meetings, measurement tools and live data. The RX team is driven to continually develop and improve these systems to streamline communications and access to material.
- NZM collaborated with Idealog magazine for a Wool-Ovation competition, challenging forward thinking New Zealanders to generate ideas around alternative uses for wool.

Meat

SILERE numbers reached an ambitious target of 120,000 animals in 2020, with good uptake in Australian and UK markets.

- Silere launched into Ocado UK online supermarket to a positive response and experienced strong growth over the past 12 months.
- A partnership with Victor Churchill in Australia has led to significant growth in Sydney, with Silere's clean flavours a significant point of difference in the Australian market.

Social License to Operate

- NZM have twenty growers actively monitoring biodiversity and making actions to improve the health of their waterways, native vegetation & native birds.
- Leading carbon research work continues with Allbirds and Quantis with the aim to develop a net carbon emissions model for one of our grower properties.
- In March NZM held a three-day summit with Allbirds, Icebreaker, Smartwool, VF, and leading growers to explore opportunities for regenerative principles in our value chain.
- In response to consumer insights and demands, NZM launched our ZQ^{RX} programme to better align growers and the global market. There are over 165 growers signed up to be part of the ZQ^{RX} program, representing over 50% of our fine wool supply.
- On-farm baselining against the ZQ^{RX} index commenced providing a starting point from which growers can benchmark themselves and measure continual improvement and celebrate where they are already achieving above ZQ.

ZQ^{RX} Index

Production Science

- The eighth mating at the Central Progeny Test took place with 14 industry rams mated to ewes at Mt Grand. This marks another year of collaboration between the fine wool ram breeding industry to benchmark and improve animal datasets, and with Lincoln University who own and manage the test site.
- Leadership and support for crossbred growers looking to supply fine wool markets continues. NZM's key role being to provide market signals and connect curious growers to the experts who can support them through transition.
- Production Science Grower Group meetings were held every quarter to discuss funding for the Central Progeny Test, footrot research, and trial novel approaches to manage animal welfare.

Footrot breeding value became publicly available as an ASBV. This is the culmination of ten years work led by NZM and stud breeders and represents an exciting prospect for the Merino Industry moving towards a footrot free future.

Our History

Reflecting on where we have come from, NZM has a strong tradition of innovation and challenging the status quo.

1996
Merino growers took their future into their own hands and fought to establish a brand and markets for their fibre as the 'Merino New Zealand' industry-good organisation.

2001
Merino New Zealand became a fully commercial company as The New Zealand Merino Company Limited (NZM), owned 65% by growers and 35% by Wrightson.

2007
Identifying that consumers would become increasingly attuned to where their products came from and how they were produced, NZM and its grower community developed ZQ Merino.

1997
Merino New Zealand executed its first direct supply contract, which brought together New Zealand Merino growers and John Smedley Limited.

2004
NZM held the first auction of New Zealand Merino in Melbourne to increase competition for growers' fibre.

A diminishing auction bench in New Zealand and the growing purchase power of Chinese wool businesses not operating in New Zealand prompt the change.

2010
NZM convened its first 'thinkering summit' a meeting of its key brand partners in Silicon Valley, to seek new ideas and engage brand partners in working collaboratively to increase the awareness of wool and ZQ in the US market.

2010
The New Zealand Government backed the transformation of the New Zealand Sheep Industry by entering a 7-year Primary Growth Partnership with NZM. NZSTX has helped New Zealand's fine and mid-micron sheep industry to lay the foundations for its long term growth and sustainability, which would not have been possible without the programme.

Our Future…

'Building a vibrant community for our grower suppliers today and for future generations is at the heart of the NZM business.'

2011
Growers purchased the PGG Wrightson shares in NZM. As a follow-on to that transaction, four of the management became shareholders in the business. The Company is currently 89% grower owned and 11% management owned.

2016
The Wool Unleashed (W3) programme commenced - a 7-year Primary Growth Partnership between NZM and the Ministry for Primary Industries that aims to drive transformational change in the way strong wool is produced, marketed and sold.

2018
NZM's Vanguard Wool event, held at Stanford University, brought together some of the world's largest and most innovative brands and businesses from across the wool supply chain, to discuss new opportunities for wool as the solution to synthetic fibre problems.

2012
SILERE alpine origin merino launched and can be found on New Zealand's finest menus.

2012
The first New Zealand Primary Sector Bootcamp, driven by John Brakenridge and facilitated by NZM, was held at Stanford University in California. Now known as Te Hono and in its 8th year, the movement has advanced New Zealand primary industry collaboration and innovation.

2017
In partnership with NZM, icebreaker signed a 10 year contract, the longest ever supply contract with growers of New Zealand Merino wool.

2017
ZQ became the world's first Cradle to Cradle certified wool.

2019
NZM officially opened its new office at 123 Victoria Street, Christchurch and launched the adjacent Studio ZQ, a natural fibre 'centre-of-excellence' that embraces a systematic approach to creativity, innovation, and business development.

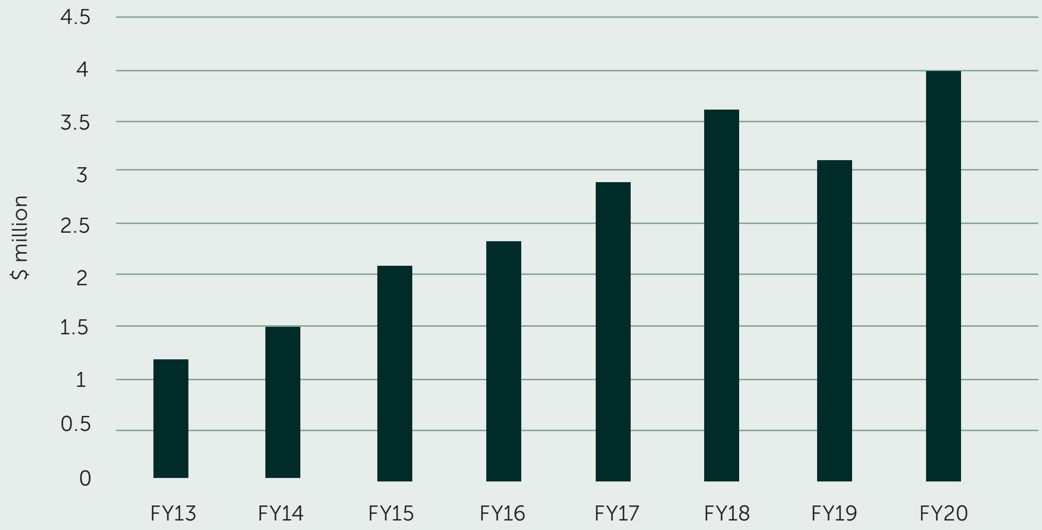
NZM won the Supreme Award at the International Business Awards

2020
The NZM community of brands and growers demonstrated the depth of partnership through a global crisis and launched the world's leading fibre initiative – ZQ^{RX}

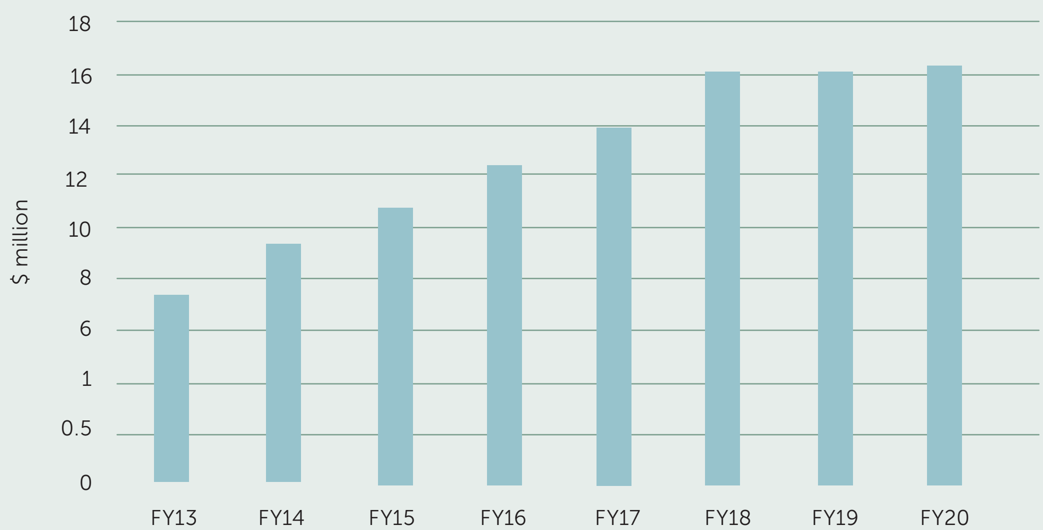

‘Success breeds
success’

Financial Snapshot

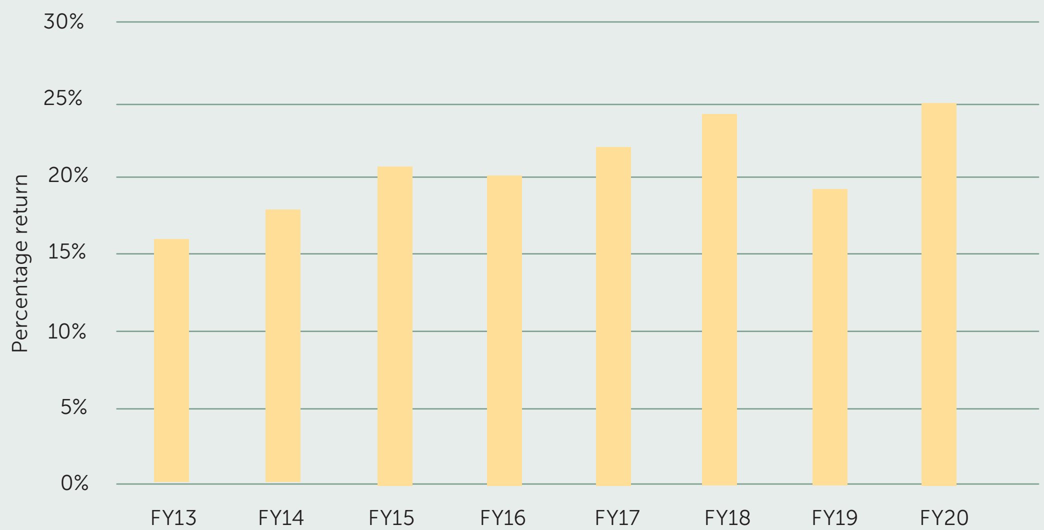
Net profit before tax



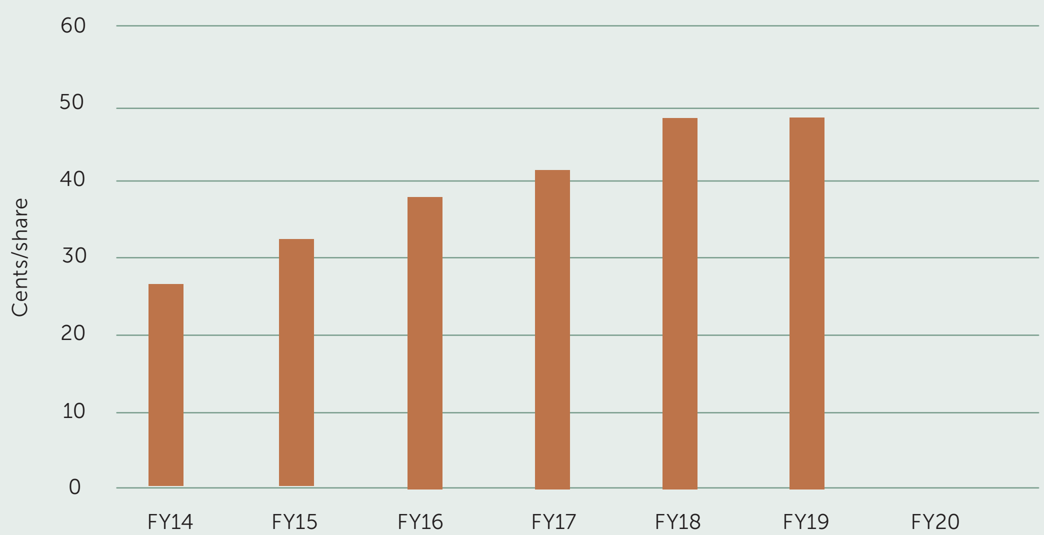
Total equity



Return on average equity (net profit before tax)



Dividend paid



Company Directory

As at 30 June 2020

Nature of Business	Wool Marketing, Sales and Innovation
Registered Office	Level 2, 123 Victoria Street Christchurch
Directors	Ruth Richardson (Chairman) Bill Sutherland Ben Todhunter Paul Ensor Kathryn Mitchell Matanuku Mahuika
Auditors	Deloitte Limited, Christchurch
Bankers	Westpac Banking Corporation, Christchurch
Solicitors	Chapman Tripp, Christchurch
Business Location	Level 2, 123 Victoria Street Christchurch

Directors' Statement

The Directors are responsible for preparing the financial statements and ensuring that they comply with New Zealand generally accepted accounting practice and fairly represent the financial position of the Company as at 30 June 2020 and the results of the operations and cash flows of the Company for the year ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position and financial performance of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of The New Zealand Merino Company Limited for the year ended 30 June 20.

For and on behalf of the Board of Directors:

Ruth Richardson
Chairman
21 August 2020

Kathryn Mitchell
Chair, Audit & Risk Committee
21 August 2020

Statement of Comprehensive Income

For the year ended 30 June 2020

2019 $000		Note	2020 $000
160,126	Revenue	1	137,781
(145,509)	Cost of sales		(121,311)
14,617	**Gross profit**		**16,470**
5,048	Other income	2	4,194
-	Income from investments in other entities	11	15
5,048	**Other income**		**4,209**
(276)	Net finance costs	3	(648)
(3,823)	Procurement and selling expenses		(3,967)
(3,796)	Marketing expenses		(3,969)
(4,717)	Innovation expenses		(3,855)
(3,387)	Administrative expenses		(3,797)
(171)	Share based arrangements	26	(47)
(355)	Other expenses	4	(385)
(16,525)	**Expenses**		**(16,668)**
3,140	**Profit before income tax**		**4,011**
(971)	Income tax expense	5	(1,172)
2,169	**Profit / (loss) after tax**		**2,839**
	Other comprehensive income / (loss)		
	Items that may be reclassified to profit or loss		
(433)	Gains / (losses) from cash flow hedges		(1,617)
121	Income tax relating to other comprehensive income	10	453
(312)			(1,164)
1,857	**Total comprehensive income**		**1,675**

The accompanying notes form an integral part of these financial statements

Statement of Financial Position

As at 30 June 2020

2019 $000		Note	2020 $000
	ASSETS		
	Current assets		
-	Cash and cash equivalents	6	275
7,332	Trade and other receivables	7	5,582
11,834	Inventories	8	11,931
684	Derivative financial instruments	14	308
19,850	**Total current assets**		**18,096**
	Non-current assets		
2,179	Property, plant and equipment	9	2,194
-	Investments in other entities	11	15
689	Deferred tax	10	607
5,763	Intangible assets and goodwill	12	5,750
293	Derivative financial instruments	14	121
-	Right-of-use assets	20	5,308
8,924	**Total non-current assets**		**13,995**
28,774	**Total assets**		**32,091**
	LIABILITIES		
	Current liabilities		
2,657	Bank overdraft	6	-
-	Current portion of long term incentive provision	18	1,004
650	Current portion of share based arrangements provision	26	668
36	Current portion of income in advance	24	36
6,212	Trade and other payables	13	5,055
586	Derivative financial instruments	14	1,943
-	Lease liabilities	20	450
10,141	**Total current liabilities**		**9,156**

The accompanying notes form an integral part of these financial statements

Statement of Financial Position

As at 30 June 2020

2019 $000		Note	2020 $000
	Non-current liabilities		
453	Long term incentive provision	18	-
452	Non-current portion of income in advance	24	417
292	Derivative financial instruments	14	4
1,088	Share based arrangements provision	26	1,117
-	Lease liabilities	20	5,048
2,285	**Total non-current liabilities**		**6,586**
12,426	**Total liabilities**		**15,742**
16,348	**Net assets**		**16,349**
	EQUITY		
1,471	Share capital	15	1,471
14,806	Retained earnings	16	15,971
71	Cash flow hedge reserve	16	(1,093)
16,348	**Total equity**		**16,349**

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 21 August 2020:

Ruth Richardson
Chairman
21 August 2020

Kathryn Mitchell
Chair, Audit & Risk Committee
21 August 2020

Statement of Changes in Equity

For the year ended 30 June 2020

$000	Note	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
Balance at 1 July 2018		**1,471**	**14,250**	**383**	**16,104**
Profit for the year	16	-	2,169	-	2,169
Other comprehensive income	16	-	-	(312)	(312)
Dividend	27	-	(1,613)	-	(1,613)
Balance at 30 June 2019		**1,471**	**14,806**	**71**	**16,348**
Balance at 1 July 2019		**1,471**	**14,806**	**71**	**16,348**
NZ IFRS 16 transition adjustment	20	-	(61)	-	(61)
Balance at 1 July 2019 (restated)		**1,471**	**14,745**	**71**	**16,287**
Profit for the year	16	-	2,839	-	2,839
Other comprehensive income	16	-	-	(1,164)	(1,164)
Dividend	27	-	(1,613)	-	(1,613)
Balance at 30 June 2020		**1,471**	**15,971**	**(1,093)**	**16,349**
Carrying amounts					
At 1 July 2018		1,471	14,250	383	16,104
At 30 June 2019		1,471	14,806	71	16,348
At 30 June 2020		**1,471**	**15,971**	**(1,093)**	**16,349**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

For the year ended 30 June 2020

2019 $000		Note	2020 $000
	Net cash from / (used in) operating activities		
	Cash provided from:		
164,502	Receipts from customers		143,642
7	Interest income received	3	1
164,509			**143,643**
	Cash applied to:		
(165,823)	Payments to suppliers and employees		(137,930)
(283)	Interest paid	3	(337)
-	Interest paid on leases	3	(312)
(166,106)			**(138,579)**
(1,597)	**Net operating cash flows**	**17**	**5,064**
	Net cash from / (used in) investing activities		
	Cash applied to:		
(68)	Acquisition of intangibles	12	(66)
(2,087)	Purchase of property, plant and equipment	9	(300)
(2,155)			**(366)**
(2,155)	**Net investing cash flows**		**(366)**

Statement of Cash Flows

For the year ended 30 June 2020

2019 $000		Note	2020 $000
	Net cash from / (used in) financing activities		
	Cash applied to:		
(1,613)	Dividend	27	(1,613)
-	Payments for leases	20	(153)
(1,613)			**(1,766)**
(1,613)	**Net financing cash flows**		**(1,766)**
(5,365)	**Net increase / (decrease) in cash balances**		**2,932**
2,708	Cash balances at beginning of year		(2,657)
(2,657)	**Cash balances / (bank overdraft) at the end of year**		**275**

The accompanying notes form an integral part of these financial statements

Statement of Accounting Policies

For the year ended 30 June 2020

Reporting Entity
The New Zealand Merino Company Limited (the "Company") is a company domiciled in New Zealand, and is registered under the Companies Act 1993.

The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act. The financial statements of The New Zealand Merino Company Limited are for the year ended 30 June 2020. The financial statements were authorised for issue by the directors on 21 August 2020.

The nature of the operations of the business is wool marketing, sales and innovation.

Basis of Preparation
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities.

Measurement Base
The financial statements are prepared on a historical cost basis, except for derivative financial instruments, the long term incentive scheme and share based arrangements, which have been measured at fair value, and inventory which has been measured at the lower of cost and net realisable value.

The financial statements are prepared on a going concern basis.

Presentation Currency
These financial statements are presented in New Zealand dollars, which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, except when otherwise indicated.

Critical Judgements in Applying Accounting Policies
In the process of applying the Company's accounting policies management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from direct sources.

The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following accounting policies and notes:

- Share based arrangements. Refer to policy (v) and Note 26.
- Goodwill impairment assessment. Refer to policy (h) and Note 12.
- Long term incentive provision. Refer to policy (j) and Note 18.
- Principal versus Agent classification. Refer to policy (m) and Note 1.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

Accounting Policies

Changes in Accounting Policies
In the current year the Company has applied the following new NZ International Financial Reporting Standards (NZ IFRS):

NZ IFRS 16 - Leases requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. There are optional exemptions for short-term leases and leases of low value assets which the Company has adopted. For applicable leases NZ IFRS 16 will result in changes in the Statement of Comprehensive Income with an interest expense on the lease liability and depreciation of the asset replacing the rental expense. The Company has adopted the modified retrospective method, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated - i.e. it is presented as previously reported, under IAS 17 and related interpretations. Additionally, the disclosure requirements in NZ IFRS 16 have not been applied to comparative information.

The adoption of NZ IFRS 16 does not have a significant impact on the Company's net profit after tax. Following adoption of NZ IFRS 16, the presentation of lease payments in the Statement of Cash Flows changed from operating activities to financing activities except for short term and low value leases which are included within operating activities.

On transition to NZ IFRS at 1 July 2019, the Company recognised a right-of-use asset ($000) of $5,400 and a lease liability ($000) of $5,461.

The impact of transition to NZ IFRS 16 Leases is disclosed in Note 20.

New Standards and Interpretations not yet adopted
There are no other new standards and interpretations that have not been adopted.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

The following specific accounting policies, which materially affect the measurement of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, have been applied in these financial statements:

(a) Property, Plant and Equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant or equipment is disposed of, the gain or loss recognised in the Statement of Comprehensive Income is calculated as the difference between the net sale price and the carrying amount of the asset.

Subsequent Costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

(b) Depreciation

Depreciation on property, plant and equipment is calculated on a straight-line basis to allocate the cost of an asset, less any residual value, over its useful life. Depreciation is charged to the Statement of Comprehensive Income.

The estimated useful lives of property, plant and equipment are as follows:

Office equipment	2 – 14 years
Leasehold improvements	5 – 14 years
Information technology assets	2 – 5 years
Plant and equipment	2 – 14 years

The residual value of assets is reassessed annually. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(c) Goodwill Arising on Acquisition

Goodwill arising on acquisition represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill arising on acquisition is stated at cost less accumulated impairment losses.

(d) Non Derivative Financial Instruments

Non derivative financial instruments comprise trade and other receivables, bank overdraft, loans and borrowings, and trade and other payables.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

(e) Intangible Assets

Trademarks are stated at cost, and once fully developed are amortised to the Statement of Comprehensive Income on a straight line basis over the useful life applicable to the trademark. Trademarks are reviewed at balance date and expensed to the Statement of Comprehensive Income where they no longer meet the definition of an intangible asset.

Software is stated at cost and amortised to the Statement of Comprehensive Income on a straight line basis over the useful life applicable to the software.

Goodwill is recorded at cost less any impairment losses.

(f) Trade and Other Receivables

Trade and other receivables are measured at amortised cost less any impairment losses. The Company uses the expected credit loss model to determine whether there are any impairment losses.

Collectability of trade and other receivables is reviewed on an ongoing basis.

Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment.

(g) Inventories

All inventories of wool are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business.

Cost is based on actual cost for all wool purchased and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

(h) Impairment

The Company uses the expected credit loss model for all financial assets not held at fair value through profit or loss. For trade receivables, the Company applies the simplified approach in calculating expected credit losses with adjustments based on historical credit loss experience and adjusted for forward-looking factors specific to the debtors and the economic environment.

In addition, at least annually, goodwill and intangible assets with indefinite useful lives are tested for impairment by comparing their estimated recoverable amounts with their carrying amounts.

Recoverable amount is the higher of an asset’s fair value less costs to sell, and value-in-use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of asset’s and are recognised in the Statement of Comprehensive Income.

(i) Share Capital

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

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

(j) Employee Entitlements

Employee entitlements related to salaries and wages and annual leave are recognised when they accrue to employees. In determining the estimated liability for employee entitlements, any entitlements due at balance date are recorded as a current liability.

Long term incentive scheme expense and liability are recognised at the fair value of the amount of the future benefit that employees have earned in return for their service in the current and prior periods.

(k) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

(l) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(m) Revenue

The Company recognises revenue from the following major sources:
- Contract and Auction sales
- Wool Fees and Charges
- Other Income

Revenue is measured based on the consideration specified in a contract. The Company recognises revenue in the following way:

Contract and Auction sales

Revenue is recognised in the Statement of Comprehensive Income when control has been transferred to the buyer. This represents the point in time at which the Company satisfies its performance obligation to release the wool and the right to consideration becomes unconditional. There are no rights of return or warranties in regards to the sale of wool. The Company is a principal in regards to all sale of wool transactions due to the level of control during the transaction. The Company is an agent in regards to insurance and freight on select wool sales.

Wool Fees and Charges

Revenue is recognised in the Statement of Comprehensive Income at the same time as the purchase or sale of wool. This represents the point in time at which the Company satisfies its performance obligation to transact the wool and the right to consideration becomes unconditional.

Other Income

Other Income refers to external funding and royalties. External funding is recognised on an accrual basis when agreed milestones are met and the amount of the revenue can be measured reliably. External funding which compensates the Company for expenses incurred is recognised in the Statement of Comprehensive Income as other income in the same period the expenses are recognised.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

(n) Expenses

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments.
The lease liability is remeasured whenever there is a change in the lease term or a change in the lease payment.

Right-of-Use Lease Assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Finance Income and Expenses

Finance income comprises interest income, foreign currency gains, and changes in the fair value of financial assets at fair value through the Statement of Comprehensive Income. Interest income is recognised as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discounts on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through the Statement of Comprehensive Income and losses on hedging instruments that are recognised in the Statement of Comprehensive Income. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest method.

(o) Foreign Currency Transactions

Transactions denominated in foreign currency are translated into New Zealand currency at the spot exchange rate. Amounts receivable and payable in a foreign currency at balance date are translated at the exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

(p) Derivative Financial Instruments

The Company uses foreign exchange contracts to hedge its exposure to foreign exchange risks arising from future sales or purchases of goods in foreign currencies. The Company uses interest rate swaps to hedge its exposure to interest rate fluctuations. The Company also uses wool futures contracts to hedge its exposure to price risks arising from future sales or purchases of wool.

In accordance with the treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Cash Flow Hedges

The Company designates certain derivatives as cash flow hedging instruments in respect of foreign currency risk, wool price risk and interest rate risk.

At the inception of the hedge relationship the Company documents the relationship between the hedging instrument and the hedged item, along with the risk management objectives and strategy for undertaking various hedge transactions. On an on-going basis the Company documents whether the hedging instrument is effective in offsetting the changes in fair value of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk is not greater than the value changes that result from the economic relationship; and
- the hedge ratio of the hedging relationship is the same as the hedge ratio resulting from the actual quantity of the hedged item and the actual quantity of the hedging instrument.

Sources of hedge ineffectiveness include; credit value adjustments to the hedge instrument, shortfalls in the amount of the expected exposure, and changes in the transaction timing. These sources are considered immaterial risks of hedge ineffectiveness.

The Company designates the full change in the fair value of forward contracts, futures contracts and swap contracts as the hedging instrument for all its hedging relationships involving forward contracts, futures contracts and swap contracts.

Foreign exchange contracts, wool futures contracts and interest rate swaps are recognised in the Statement of Financial Position at their fair value. Transaction costs are expensed immediately. Where the foreign exchange contracts, wool futures contracts or interest rate swaps are designated as a hedge, the effective portion of the changes in the fair value of the instrument are initially recognised in the Cash Flow Hedge Reserve, and subsequently transferred to the Statement of Comprehensive Income at the point at which the sale and associated debtor are recorded. Any ineffective portion of foreign exchange contracts, wool futures contracts or interest rate swaps is recognised in the Statement of Comprehensive Income.

(q) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted, or substantively enacted, by the reporting date.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The company chooses to apply NZ IAS 12 requirements to the leasing transaction as a whole to account for the deferred tax treatment on operating leases under NZ IFRS 16.

(r) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

(s) Treasury Stock

Treasury stock is the portion of shares that the Company keeps in its own treasury. Treasury stock arises from a repurchase from shareholders. These shares do not receive dividends, have no voting rights and are not included in shares outstanding calculations.

(t) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash on hand and short term deposits with an original maturity of three months or less. These are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

(u) Research & Development

All research expenditure is recognised in the Statement of Comprehensive Income as incurred.

Development expenditure is recognised as an asset when it can be demonstrated that the commercialisation of the project will commence. Where development expenditure has been recognised as an asset it is stated at cost and amortised on a straight-line basis over the period of expected benefits. Amortisation begins at the time that commercialisation commences. All other development expenditure is recognised in the Statement of Comprehensive Income as incurred.

(v) Share Based Arrangements

Equity-settled share-based arrangements with employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at grant date of the equity-settled share based arrangements is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the Statement of Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

For cash-settled share-based arrangements, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value determined at grant date of the cash-settled share based arrangement is expensed over the vesting period. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in the Statement of Comprehensive Income for the year. Details regarding the determination of the fair value of the cash-settled share-based arrangements are set out in Note 26.

Statement of Accounting Policies

For the year ended 30 June 2020 (continued)

(w) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of Goods and Services Tax ("GST").

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

Investing activities are those activities relating to the acquisition and disposal of investments and any other property, plant and equipment.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity capital.

(x) Investments in other entities

The Company classifies its investments in other entities as financial assets and liabilities designated at fair value through profit and loss. All investments in other entities are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

All changes in the fair value of investments in other entities are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

For the year ended 30 June 2020

1 REVENUE

The Company derives revenue as a principal in the following major product lines.

2019 $000		2020 $000
122,860	Contract	102,369
37,266	Other sales channels (including Auction)	35,412
160,126		**137,781**

2 OTHER INCOME

2019 $000		2020 $000
1,822	Primary Growth Partnership funding	1,681
1,322	Other external funding	746
618	Royalties	471
-	Exchange gains	23
1,286	Other income	1,273
5,048		**4,194**

3 NET FINANCE COSTS / (INCOME)

2019 $000		2020 $000
283	Interest expense	337
-	Interest expense on leases	312
(7)	Interest income	(1)
276		**648**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

4 EXPENSES

2019 $000		2020 $000
	Other expenses	
146	Depreciation	278
117	Amortisation of other intangible assets	79
65	Loss on sale of fixed assets / intangible assets	4
20	Exchange losses	-
7	Donations	24
355		**385**
	Personnel expenses (salaries & employer contribution to Kiwisaver included in functional expense categories)	
6,177	Salaries	6,815
171	Share based arrangements	47
261	Long term incentives	551
226	Kiwisaver employer contributions	234
6,835		**7,647**
	Technical research project costs (included in innovation expenses)	
686	**Technical research project costs**	**631**

Technical research projects include research into genetic acceleration, animal health, forage production and livestock trials, the validation of the sustainability of farming and processing systems, and research to validate the technical performance of textiles and wool fibre.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

5 INCOME TAX

2019 $000		2020 $000
	Income tax (expense) / income	
-	Current income tax - New Zealand	(628)
(10)	Current income tax - Australia	(10)
(963)	Relating to origination and reversal of temporary differences	(534)
-	Adjustments in respect of New Zealand current income tax of previous years	-
2	Adjustments in respect of Australian current income tax of previous years	-
(971)	**Income tax (expense) / income reported in the Statement of Comprehensive Income**	**(1,172)**
	Numerical reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate	
3,140	Accounting profit before tax from continuing operations	4,011
-	Plus after tax (profit) / loss of associate	**-**
3,140		**4,011**
(879)	At the statutory income tax rate of 28%	(1,123)
(9)	Current income tax - Australia	-
-	Adjustments in respect of New Zealand current income tax of previous years	-
2	Adjustments in respect of Australian current income tax of previous years	-
1,002	Losses recognised for current years tax	449
(1,002)	Change in losses recognised in deferred tax	(449)
-	Temporary differences arising on the adoption of IFRS 16	17
(85)	Permanent differences	(66)
(971)	**Aggregate income tax (expense) / income**	**(1,172)**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

5 INCOME TAX (continued)

Unrecognised temporary difference

The Company has no tax losses (2019: $1,605) to carry forward to the 2021 income year.
No deferred tax asset is being recognised in regard to losses (2019: $449).

2019 $000		2020 $000
	Imputation credit balance	
275	Balance at the beginning of the year	-
-	Income tax payable	628
(275)	Dividends paid	-
-	**Balance at the end of the year**	**628**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

6 CASH AND CASH EQUIVALENTS / BANK OVERDRAFT

2019 $000		2020 $000
(2,657)	**Bank / (Bank overdraft)**	**275**

Overdraft Facility

During the year the Company maintained an overdraft facility of up to ($000) $3,500 and a seasonal funding facility of up to ($000) $27,000 with the Westpac Banking Corporation. At balance date the facility was not drawn down. The Company also has a Business MasterCard Facility limit of ($000) $425.

The facilities were secured by a General Security Agreement over the assets and undertakings of The New Zealand Merino Company Limited.

7 TRADE AND OTHER RECEIVABLES

2019 $000		2020 $000
7,073	Trade and sundry receivables	5,071
259	Prepayments	511
7,332		**5,582**

Normal terms of trade for Auction receivables are 11 days after date of Auction, and for Contracts they are 11 days from date of invoice. Other receivables are due 20th of the following month of the invoice. The value of foreign currency denominated trade and other receivables is as follows ($000) AUD $631 (NZD $677), USD $75 (NZD $116).

The Company uses the expected credit loss model to determine impairment of trade and other receivables. Due to prior creditor history and no other indicators of impairment there is no impairment of trade and other receivables as at 30 June 2020.

8 INVENTORIES

2019 $000		2020 $000
11,834	**Stock of wool**	**11,931**

The cost of inventories recognised as an expense during the year in respect of continuing operations was ($000) $121,311 (2019: $145,509).

The cost of inventories recognised as an expense includes ($000) $416 (2019: $174) in respect of write-downs of inventory to net realisable value.

Stock on hand as at 30 June 2020 with an age of greater than one year is ($000) $338 (2019: $363).

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

9 PROPERTY, PLANT AND EQUIPMENT

$000

	Office equipment	Leasehold improvements	Information technology assets	Plant and equipment	Total
Cost and valuation					
Balance at 1 July 2018	**334**	**184**	**482**	**47**	**1,047**
Additions	89	1,907	91	-	2,087
Disposals	(37)	(150)	(1)	-	(188)
Balance at 30 June 2019	**386**	**1,941**	**572**	**47**	**2,946**
Balance at 1 July 2019	386	1,941	572	47	2,946
Additions	82	107	110	1	300
Disposals	(16)	(2)	(52)	-	(70)
Balance at 30 June 2020	**452**	**2,046**	**630**	**48**	**3,176**
Depreciation and impairment losses					
Balance at 1 July 2018	**(181)**	**(88)**	**(453)**	**(22)**	**(744)**
Depreciation for the year	(48)	(61)	(33)	(4)	(146)
Disposals	34	89	-	-	123
Balance at 30 June 2019	**(195)**	**(60)**	**(486)**	**(26)**	**(767)**
Balance at 1 July 2019	(195)	(60)	(486)	(26)	(767)
Depreciation for the year	(53)	(167)	(54)	(4)	(278)
Disposals	12	1	50	-	63
Balance at 30 June 2020	**(236)**	**(226)**	**(490)**	**(30)**	**(982)**
Carrying amounts					
At 1 July 2018	153	96	29	25	303
At 30 June 2019	191	1,881	86	21	2,179
At 30 June 2020	**216**	**1,820**	**140**	**18**	**2,194**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

10 DEFERRED TAX

Movements in deferred tax:

2020 $000	Opening balance	Charged to income	Acquisition / disposal	Charged to other comprehensive income	Closing balance
Gross deferred tax asset					
Employee entitlements	254	(112)	-	-	142
Other accrual	3	1	-	-	4
Capital contribution to tenant fitout	11	4	-	-	15
IFRS 16	-	21	-	-	21
Unused tax losses	449	(449)	-	-	-
Derivative financial instruments	(28)	-	-	453	425
Total deferred tax asset	**689**	**(535)**	**-**	**453**	**607**
Attributable to continuing operations					**607**

The deferred tax benefit relating to tax losses carried forward has been recognised based on the financial forecasts for the 2020 income tax year.

2019 $000	Opening balance	Charged to income	Acquisition / disposal	Charged to other comprehensive income	Closing balance
Gross deferred tax asset					
Employee entitlements	165	89	-	-	254
Livestock adjustment	37	(37)	-	-	-
Other accrual	28	(25)	-	-	3
Capital contribution to tenant fitout	-	11	-	-	11
Unused tax losses	1,450	(1,001)	-	-	449
Derivative financial instruments	(149)	-	-	121	(28)
Total deferred tax asset	**1,531**	**(963)**	**-**	**121**	**689**
Attributable to continuing operations					**689**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

11 INVESTMENTS IN OTHER ENTITIES

(i) Joint Ventures

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Alpine Origin Merino Limited (AOML)

AOML is jointly owned by the Company (50%), and Alliance Group Limited (50%) and was incorporated in New Zealand. AOML is focused on the marketing of fine wool sheep meat.

The Company's share of profits in AOML has been previously equity accounted for. AOML has undertaken no direct transactions during the year, with all transactions undertaken by Alliance Group Limited. The Company ceased equity accounting in 2018 due to the share of losses being greater than the carrying amount of AOML. The value of the losses not accounted for is ($000) $1.

There are no known risks associated with the investment in AOML as at 30 June 2020.

	$000	$000	$000	$000
	Total assets	**Total liabilities**	**Revenues**	**Profit / (loss)**
AOML	-	-	-	-
Ownership interest 50%	-	-	-	-

Glerups New Zealand Limited (GNZL)

GNZL was incorporated on 8 April 2020. GNZL is jointly owned by the Company (50%) and Aktieselskabet Glerups.dk ApS (50%). GNZL is focused on the marketing and distribution of Glerups indoor shoes within New Zealand.

The Company's share of profits in GNZL is not being equity accounted for due to the share of losses being greater than the carrying amount of GNZL. The value of the losses not accounted for is ($000) $1.

There are no known risks associated with the investment in GNZL as at 30 June 2020.

	$000	$000	$000	$000
	Total assets	**Total liabilities**	**Revenues**	**Profit / (loss)**
GNZL	-	-	-	-
Ownership interest 50%	-	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

(ii) Other interests

Sheep Included Limited

As at 30 June 2020 the Company holds 4,089 ordinary shares in Sheep Included Limited, incorporated in the United Kingdom. This represents a total shareholding of 0.2%. This investment is carried at cost ($000) $15 as it does not have a market price in an active market and it's fair value cannot be reliably determined.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

12 INTANGIBLE ASSETS AND GOODWILL

$000	Goodwill	Trademarks	Computer software	Total
Cost				
Balance at 1 July 2018	**5,631**	**307**	**329**	**6,267**
Acquisitions	-	-	68	68
Disposals	-	-	-	-
Balance at 30 June 2019	**5,631**	**307**	**397**	**6,335**
Balance at 1 July 2019	5,631	307	397	6,335
Acquisitions	-	-	66	66
Disposals	-	-	-	-
Balance at 30 June 2020	**5,631**	**307**	**463**	**6,401**
Amortisation				
Balance at 1 July 2018	**-**	**(201)**	**(254)**	**(455)**
Amortisation for the year	-	(59)	(58)	(117)
Disposals	-	-	-	-
Balance at 30 June 2019	**-**	**(260)**	**(312)**	**(572)**
Balance at 1 July 2019	-	(260)	(312)	(572)
Amortisation for the year	-	(28)	(51)	(79)
Disposals	-	-	-	-
Balance at 30 June 2020	**-**	**(288)**	**(363)**	**(651)**
Carrying amounts				
At 1 July 2018	5,631	106	75	5,812
At 30 June 2019	5,631	47	85	5,763
At 30 June 2020	**5,631**	**19**	**100**	**5,750**

Goodwill arises due to the acquisition of the assets and business of NZM Disestablishment Limited in June 2012, and as a result of the Company purchasing the remaining 50% shares in NZM Disestablishment Limited from PGG Wrightson Limited in June 2011.

Goodwill has been assessed for impairment by discounting the cash flows expected to occur in the cash generating unit to which the goodwill is allocated (being the Company) at a post-tax WACC of 13% and a terminal value growth rate of 0%. The analysis is sensitive to both assessed earnings and discount rate, however no reasonably expected variation to those adopted results in any projected impairment.

Trademarks are amortised over the life applicable to each trademark. The life of all current trademarks is 10-15 years. Computer software is amortised over a 2-5 year period.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

13 TRADE AND OTHER PAYABLES

2019 $000		2020 $000
4,820	Trade payables	2,741
-	Income tax payable	628
1,392	Employee entitlements	1,686
6,212		**5,055**

Related party payables are detailed in Note 18.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS

Fair value estimation

The table below analyses financial instruments carried at fair value, by the level of fair value hierarchy. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value.

2020 $000	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Assets				
Investments in other entities	-	-	15	15
Derivative financial instruments	-	429	-	429
Total Assets	**-**	**429**	**15**	**444**
Liabilities				
Derivative financial instruments	-	1,947	-	1,947
Total Liabilities	**-**	**1,947**	**-**	**1,947**

2019 $000				
Assets				
Derivative financial instruments	-	977	-	977
Total Assets	**-**	**977**	**-**	**977**
Liabilities				
Derivative financial instruments	-	878	-	878
Total Liabilities	**-**	**878**	**-**	**878**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

The net nominal value of forward currency contracts (cash flow hedges) outstanding at balance date was ($000) $204 (2019: $4,430). The net nominal value of wool futures (cash flow hedges) outstanding at balance date was ($000) $4,602 (2019: $10,497).

Future cash flows of forward currency contracts are based on bank derived mark to market valuations. Future cash flows of wool futures contracts are based on the exchange quoted forward prices.

Financial risk and capital management

The Company's capital includes share capital, reserves, and retained earnings.

When managing capital, the Company's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Company reviews its capital structure on a regular basis. As the market changes the Company may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares.

The Company paid a dividend in 2020 of ($000) $1,613 (2019: $1,613).

At 30 June 2020 the Company is not utilising the overdraft facility. The Company can utilise an overdraft facility of up to ($000) $3,500 and a seasonal funding facility of up to ($000) $27,000 with Westpac Banking Corporation. The Company has obtained a finance facility to cover its cash flow requirements for the 2021 financial year.

The Company is not subject to any externally imposed capital requirements, other than the covenants required under its borrowing agreements. During the year there were no breaches of these covenants.

There have been no material changes to the Company's management of capital during the period.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability, are included in the Statement of Accounting Policies.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(i) Wool price risk

Wool price risk is the risk of a loss to the Company from adverse movements in wool prices where the Company has open sales contract positions.

The Company has entered into wool futures contracts to reduce the impact of spot market price changes on open sales contracts positions.

The average exchange quoted forward price for wool futures at 30 June 2020 is $13.54 per kilogram.

A sensitivity analysis has been conducted on the exchange quoted forward wool price. A 3% increase in the exchange quoted forward wool price would increase the fair value by ($000) $88. A 3% decrease in the exchange quoted forward wool price would decrease the fair value by ($000) $88.

The following table details the notional principal amounts, fair value and remaining terms of wool futures contracts outstanding as at 30 June 2020:

	2019		2020	
	$000		$000	
	Notional principal amount	**Fair value**	**Notional principal amount**	**Fair value**
Not later than 1 month	152	6	228	(84)
30-90 days	922	21	88	(20)
91-365 days	5,790	(328)	4,286	(1,621)
1 year to 5 years	3,633	(150)	-	-
	10,497	**(451)**	**4,602**	**(1,725)**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(ii) Currency risk

Currency risk is the risk of a loss to the Company arising from adverse fluctuations in exchange rates.

The Company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. Where exposures are certain, it is the Company's policy to hedge these amounts as they arise.

The Company is mainly exposed to the currency of Australia (AUD) and the currency of the United States of America (USD). A 1% increase in the contract close out rates would increase the fair value by ($000) $2. A 1% decrease in the contract close out rates would decrease the fair value by ($000) $2.

At 30 June 2020 the average market rate for AUD foreign exchange contracts is 0.9227 and the average market rate for USD foreign exchange contracts is 0.7516.

The following table details the notional principal amounts, fair values and remaining terms of any forward currency contracts outstanding as at the reporting date:

	2019 $000		2020 $000	
	Notional principal amount	**Fair value**	**Notional principal amount**	**Fair value**
AUD Sell				
Not later than 1 month	2,541	116	150	5
30-90 days	4,605	146	1,248	20
91-365 days	8,478	351	8,908	95
1 year to 5 years	6,783	253	3,513	21
	22,407	**866**	**13,819**	**141**
AUD Buy				
Not later than 1 month	(345)	(1)	(294)	10
30-90 days	(843)	3	(620)	14
91-365 days	(6,450)	(50)	(8,308)	101
1 year to 5 years	(12,348)	(32)	(6,260)	96
	(19,986)	**(80)**	**(15,482)**	**221**
USD Sell				
Not later than 1 month	1,055	1	-	-
30-90 days	765	(44)	-	-
91-365 days	1,320	(75)	1,867	(156)
1 year to 5 years	1,187	(70)	-	-
	4,327	**(188)**	**1,867**	**(156)**
USD Buy				
Not later than 1 month	(1,613)	(33)	-	-
30-90 days	-	-	-	-
91-365 days	(705)	(15)	-	-
1 year to 5 years	-	-	-	-
	(2,318)	**(48)**	**-**	**-**
	4,430	**550**	**204**	**206**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(iii) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, resulting in a financial loss to the Company. Financial assets, which potentially subject the Company to concentration of credit risk, consist principally of cash, bank balances, trade and other receivables, and advances to subsidiaries. The Company's cash equivalents are placed with high credit quality financial institutions.

The Company has adopted a policy of only dealing with creditworthy counterparties and, in the case of trade receivables, for the most part only releasing wool for delivery once it has been paid for as a means of mitigating the risk of financial loss from defaults. The Company's exposures are continuously monitored. The Company measures credit risk based on the expected credit loss model.

Trade and other receivables consist of a small number of customers. Approximately 49% of trade and other receivables are due from one customer.

The credit risk on forward currency contracts with Westpac Banking Corporation and ASB Bank Limited as at 30 June 2020 is ($000) $206 (2019: $550). The net credit risk on wool future contracts with the various counterparties as at 30 June 2020 is ($000) $Nil (2019: $Nil). All counterparties for forward currency contracts are considered to be of a high quality based on credit ratings. All counterparties for wool futures contracts are assessed based on credit reports and considered to be of a good quality.

Total credit risk was comprised as follows:

	2019 $000	2020 $000
Trade and other receivables	7,332	5,582
Total credit risk	**7,332**	**5,582**

Collateral and other credit enhancements obtained

The Company does not hold any collateral as security over trade and other receivables.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(iii) Credit risk (continued)

Trade and other receivables that are either past due or impaired

The table below sets out information regarding the ageing of trade and other receivables. Debts owing in excess of 30 days are considered past due. These have not been assessed as impaired as management believes that these amounts will be fully recovered.

	2019 $000	2020 $000
Current	6,728	4,559
31-60 days	56	198
61-90 days	45	585
Over 90 days	503	240
	7,332	**5,582**

Renegotiated trade and other receivables

There are no amounts included within trade and other receivables whose terms have been renegotiated.

(iv) Interest rate risk

Interest rate risk is the risk that the Company may be affected by changes in the general level of interest rates. The Company is exposed to interest rate risk as it borrows funds at floating interest rates. No interest rate swaps have been entered into during the year. At the reporting date the Company had the following interest-bearing financial instruments:

	2019 $000		2020 $000	
	Notional principal Amount	**Fair value**	**Notional principal Amount**	**Fair value**
Fixed rate instruments	-	-	-	-
Variable rate instruments	2,657	2,657	-	-
	2,657	**2,657**	**-**	**-**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(iv) Interest rate risk (continued)

The following interest rate re-pricing tables detail the Company's exposure to interest rate risk:

2020

$000	Year end interest rate	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Bank	0%	275	-	-	-	275
Trade and other receivables		-	-	-	5,582	5,582
Investments in other entities		-	-	-	15	15
Derivative financial instruments		-	-	-	429	429
		275	**-**	**-**	**6,026**	**6,301**
Financial liabilities						
Trade and other payables		-	-	-	5,055	5,055
Derivative financial instruments		-	-	-	1,947	1,947
Long term incentive provision		-	-	-	1,004	1,004
		-	**-**	**-**	**8,006**	**8,006**

2019

$000	Year end interest rate	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Trade and other receivables		-	-	-	7,332	7,332
Derivative financial instruments		-	-	-	977	977
		-	**-**	**-**	**8,309**	**8,309**
Financial liabilities						
Bank overdraft	5.35%	2,657	-	-	-	2,657
Trade and other payables		-	-	-	6,212	6,212
Derivative financial instruments		-	-	-	878	878
		2,657	**-**	**-**	**7,090**	**9,747**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its liquidity daily, weekly and monthly and maintains appropriate liquid assets and bank funding facilities to meet all obligations in a timely and cost effective manner. Management of liquidity is designed to ensure that the Company has the ability to meet financial obligations as they fall due.

The following contractual maturities tables detail the Company's exposure to liquidity risk:

2020 $000	Less than 1 year	1-2 years	2-6 Years	Total
Financial assets				
Bank	275	-	-	275
Trade and other receivables	5,582	-	-	5,582
Investments in other entities	15	-	-	15
Derivative financial instruments	308	112	9	429
	6,180	**112**	**9**	**6,301**
Financial liabilities				
Trade payables	5,055	-	-	5,055
Derivative financial instruments	1,943	4	-	1,947
Long term incentive provision	1,004	-	-	1,004
	8,002	**4**	**-**	**8,006**

2019 $000				
Financial assets				
Trade and other receivables	7,332	-	-	7,332
Derivative financial instruments	684	280	13	977
	8,016	**280**	**13**	**8,309**
Financial liabilities				
Bank overdraft	2,657	-	-	2,657
Trade payables	6,212	-	-	6,212
Derivative financial instruments	586	292	-	878
	9,455	**292**	**-**	**9,747**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(vi) Categories of financial instruments

2020 $000	Financial assets / liabilities at fair value	Financial assets / liabilities at amortised cost	Total
Assets			
Bank	-	275	275
Trade and other receivables	-	5,582	5,582
Investments in other entities	15	-	15
Derivative financial instruments	429	-	429
	444	**5,857**	**6,301**
Liabilities			
Trade and other payables	-	5,055	5,055
Derivative financial instruments	1,947	-	1,947
Long term incentive provision	-	1,004	1,004
	1,947	**6,059**	**8,006**

2019 $000	Financial assets / liabilities at fair value	Financial assets / liabilities at amortised cost	Total
Assets			
Trade and other receivables	-	7,332	7,332
Derivative financial instruments	977	-	977
	977	**7,332**	**8,309**
Liabilities			
Bank overdraft	-	2,657	2,657
Trade and other payables	-	6,212	6,212
Derivative financial instruments	878	-	878
	878	**8,869**	**9,747**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

15 SHARE CAPITAL

2019 $000		2020 $000
	Paid in share capital comprises:	
1,471	Opening balance	1,471
1,471		**1,471**
	Number of ordinary shares:	
3,301,073	Opening balance	3,301,073
3,301,073	**Closing balance**	**3,301,073**

At 30 June 2020 no ordinary shares were held by the Company as treasury shares (2019: nil)

16 RETAINED EARNINGS AND RESERVES

Retained Earnings

2019 $000		2020 $000
14,250	Opening balance	14,806
-	NZ IFRS 16 transition adjustment	(61)
2,169	Profit after tax	2,839
(1,613)	Dividend	(1,613)
14,806		**15,971**

Cash Flow Hedge Reserve

2019 $000		2020 $000
383	Opening balance	71
301	Foreign exchange contracts	(247)
(613)	Wool futures contracts	(917)
71		**(1,093)**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

17 RECONCILIATION OF CASH FLOWS WITH REPORTED NET PROFIT

2019 $000		2020 $000
2,169	Profit after tax	2,839
	Non cash items:	
-	Share of associates retained (surplus) / loss	-
-	Investments in other entities	(15)
146	Depreciation	278
-	Depreciation on right-of-use lease assets	282
65	Loss / (gain) on sale of fixed assets / intangible assets	4
117	Amortisation of intangible assets	79
963	Movement in deferred tax	535
261	Long term incentive provision	551
171	Share based arrangements expense	47
	Working capital:	
(6,718)	(Increase) / decrease in inventory	(96)
(1,214)	(Increase) / decrease in accounts receivable / prepayments	1,751
1,955	Increase / (decrease) in accounts payable	(1,156)
488	Increase / (decrease) in income in advance	(35)
(1,597)	**Net cash from operating activities**	**5,064**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

18 RELATED PARTY DISCLOSURES

The Company entered into transactions for the sale and purchase of wool with entities associated with Bill Sutherland, Ben Todhunter, Matanuku Mahuika, Paul Ensor and Ross Ivey, directors during the course of the year. These transactions were made on the same terms as to other third parties.

As at 30 June 2020 the Company owns a 50% share in Alpine Origin Merino Limited (AOML). During the year the Company did not pay any expenses or receive any income from AOML due to AOML not directly engaging in any operating activities as these were done through Alliance Group Limited.

The following investments/balances existed between the Company and AOML as at 30 June 2020:

2019 $000		2020 $000
-	Investment in Alpine Origin Merino Limited	-
-	Receivable from Alpine Origin Merino Limited	-

As at 30 June 2020 the Company owns a 50% share in Glerups New Zealand Limited (GNZL). During the year the Company has paid for expenses on behalf of GNZL and will be 100% reimbursed.

The following investments/balances existed between the Company and GNZL as at 30 June 2020:

2019 $000		2020 $000
-	Investment in Glerups New Zealand Limited	-
-	Receivable from Glerups New Zealand Limited	42

Key Management Personnel

The Company has not entered into any transactions with key management personnel of the business outside of the employment relationship.

Total remuneration provided to key management personnel in 2020 was ($000) $2,493 (2019: $2,385). Key management personnel refers to the Chief Executive Officer and six direct management reports to the Chief Executive. This does not include fees paid to directors.

During the year ended 30 June 2018 the company entered into a long term incentive scheme with the Chief Executive and five direct management reports aligned to the Company's growth goals for the three years ending 30 June 2020. The plan allows for a gross lump sum payment at the end of the plan term provided certain earnings growth targets are met. The long term incentive will be paid out in August 2020.

The accrual recognised for the long term incentive is ($000) $1,004 (2019: $453)

The long term incentive provision has been valued based on actual earnings in 2018, 2019 and 2020.

Refer to Note 26 for details of management share based arrangements.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

19 COMMITMENTS

Capital Commitments

The Company had no capital commitments as at 30 June 2020 (2019: Nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2020.

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2020.

20 LEASES

The Company leases buildings, motor vehicles and office equipment. Previously these leases were classified as operating leases under IAS 17.

Lease periods for leased assets are:

Buildings	3 - 14 years
Motor vehicles	3 years
Office equipment	4 years

The Company has elected to use the following practical expedients when applying NZ IFRS 16:

- Applied the exemption not to recognise right-of-use assets and liabilities for low value leases and leases with less than 12 months of lease term remaining at 1 July 2019.
- Elected to apply a single discount rate to a portfolio of leases where they had similar characteristics.
- Applied the exemption to right-of-use assets impairment due to no lease contracts being onerous.

The related lease expense for exempt leases is recognised in the Statement of Comprehensive Income.

Right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are recognised at the lease commencement date as the present value of the lease payments over the lease term. The lease payments are discounted using the incremental borrowing rate at the lease commencement date. The incremental borrowing rate used was 5%.

The Company has adopted the modified retrospective method, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. On transition to NZ IFRS at 1 July 2019, the Company recognised a right-of-use asset of ($000) $5,400 and a lease liability of ($000) $5,461. The difference of ($000) $61 has been recognised as a transition adjustment against the retained earnings at 1 July 2019.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

20 LEASES (continued)

The impact of adopting NZ IFRS 16 is summarised below:	$000
Closing lease commitment for the year ended 30 June 2019	**7,998**
Operating lease payments not brought on balance sheet:	
- Exempt leases (short term leases and leases of low value)	(12)
Effect of discounting lease payments	(2,525)
Opening lease liability 1 July 2019	**5,461**

Information for leases of which the Company is a lessee is presented below:

Right-of-use asset

$000	Buildings	Motor vehicles	Office equipment	Total
Opening right-of-use asset at 1 July 2019	**5,244**	**132**	**24**	**5,400**
Depreciation charge for the year	(173)	(94)	(15)	(282)
Additions to right-of-use assets	120	70	-	190
Closing right-of-use asset at 30 June 2020	**5,191**	**108**	**9**	**5,308**

The right-of-use asset depreciation charge for the year has been recognised in Administrative expenses in the Statement of Comprehensive Income.

Lease Liability

$000	Buildings	Motor vehicles	Office equipment	Total
Opening lease liability at 1 July 2019	**5,300**	**136**	**25**	**5,461**
Decrease in lease liability	(145)	(8)	-	(153)
Additions to lease liabilities	120	70	-	190
Closing lease liability at 30 June 2020	**5,275**	**198**	**25**	**5,498**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

20 LEASES (continued)

Maturity analysis

2019 $000		2020 $000
474	Not later than one year	664
640	Later than one year but not later than two years	650
1,810	Later than two years but not later than five years	1,783
5,074	Later than five years	4,481
7,998		**7,578**

21 EVENTS AFTER BALANCE DATE

There are no significant events post balance date.

22 AUDITOR'S REMUNERATION

The auditor of the Company is Deloitte Limited.

Amounts paid or payable to Deloitte Limited during the year were:

2019 $000		2020 $000
32	Audit of the financial statements	32
32		**32**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

23 CONTINGENCIES

The Company has a contingent liability regarding the assignment of the lease on the Wrights Road premises in February 2019. There are 1.5 months remaining under the Wrights Road lease which corresponds to a contingent liability value of ($000) $23 (2019: $316). The Company had no contingent assets as at 30 June 2020 (2019: Nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2020.

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2020.

24 INCOME IN ADVANCE

The Company recognises income in advance in respect of the landlord of 123 Victoria Street's capital contribution to leasehold improvements. The income in advance has been allocated based on the 14 year term of the lease of 123 Victoria Street. The current value of income in advance is ($000) $36 (2019: $36). The non-current value of income in advance is ($000) $417 (2019: $452).

25 Covid19

During the year ending 30 June 2020 the Board of Directors and management have been actively monitoring the ongoing impact of Covid19. Measures to mitigate any risks arising from Covid19 have been put in place immediately after any risks are identified. The Company's financial position and performance for the year ended 30 June 2020 has not been materially affected by Covid19.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

26 SHARE BASED ARRANGEMENTS

On 30 September 2011 the Company entered into an arrangement with the Chief Executive and three other key management personnel whereby shares in the Company were issued to them in consideration for them foregoing their notional dividend / profit share schemes with the Company.

These shares have restrictions on them which limit the quantity of shares able to be sold over time and the price at which these shares can be sold. As part of these restrictions, and given the limited liquidity in the Company's shares, the agreement with the management shareholders allows them to require the Company to buy-back a percentage of the shares at certain dates in the future at the fair value of those shares, based on a contractually agreed formula, as detailed below.

During the 2015 year the board approved changes to the share-based arrangement whereby a percentage of the shares were able to be sold back to the Company on 1 July 2014 or 1 July 2015. The minimum shareholding required to be held while an employee was also reduced to 20% of the shares issued.

During the 2020 year there were no buy backs and cancellation of any shares held under the arrangement (2019: Nil).

The following share-based arrangement was in existence during the current and prior years;

	Number of shares issued	Issue price	Total vested	Pecentage able to be sold back to company	Minimum shareholding while an employee
30/9/2011	602,342	$1.48	25%	-	25%
1/7/2012	-	-	35%	-	35%
1/7/2013	-	-	55%	-	55%
1/7/2014	-	-	75%	20%	20%
1/7/2015	-	-	95%	30%	20%
1/7/2016	-	-	100%	50%	20%
1/7/2017	-	-	-	75%	20%
1/7/2018 onwards	-	-	-	100%	20%

The buy-back value per share is to be calculated based on the following formula:

Value per Share	Total equity value / Total shares on issue
Total Equity Value	Enterprise value Less term debt Plus surplus cash
Enterprise Value	Assessed earnings x Earnings multiple
Assessed Earnings	Average of three years EBIT: The last two full financial years (audited accounts) The budget / reprojected EBIT in year of notice
Earnings Multiple	5

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

27 SHARE BASED ARRANGEMENTS (continued)

Any vested shares are able to be sold on the open market as with other shareholders.

During the 2020 year no payments were made under the arrangement ($000) (2019: Nil).

Fair Value of Share Based Arrangements

The fair value of share based arrangements as at 30 June 2020 is ($000) $1,785 (2019: $1,738). This has been calculated based on management's best estimate for the effects of the exercise restrictions, future earnings of the company and other considerations.

The share based arrangements provision has been valued using an earnings multiple of 5 and has been based on forecasted earnings with a 90% (2019: 90%) likelihood of the option being exercised, and a post tax discount rate of 13%.

A sensitivity analysis has been completed; a 10% increase in earnings together with a 10 percentage point increase in the likelihood of the option being exercised would increase the fair value of the liability to ($000) $2,043. A 10% decrease in earnings together with a 10 percentage point decrease in the likelihood of the option being exercised would decrease the fair value of the liability to ($000) $1,539.

Impact of the Share Based Arrangement on the Statement of Comprehensive Income

2019 $000		2020 $000
171	**Share based arrangements**	**47**

28 DIVIDEND

The dividend paid in 2020 was ($000) $1,613 (2019: $1,613). This represented a dividend per share of 48.9c.

Independent Auditor's Report

Deloitte.

TO THE SHAREHOLDERS OF THE NEW ZEALAND MERINO COMPANY LIMITED

Opinion

We have audited the financial statements of The New Zealand Merino Company Limited (the 'Company'), which comprise the statement of financial position as at 30 June 2020, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements, on pages 22 to 65, present fairly, in all material respects, the financial position of the Company 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 ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

Our firm has been engaged by the Company to perform Due Dilligence with the respect to financial forecasts/scenarios that the Company is preparing in support of the Capital raise. These services have not impaired our independence as auditor of the Company. In addition to this, partners and employees of our firm deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. The firm has no other relationship with, or interest in, the Company.

Other information

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

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

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

Independent Auditor's Report

Directors' responsibilities for the financial statements

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

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company'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 Company or to 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 ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 207B of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Deloitte Limited
Christchurch, New Zealand
21 August 2020

This audit report relates to the financial statements of The New Zealand Merino Company Limited (the 'Company') for the year ended 30 June 2020 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 21 August 2020 to confirm the information included in the audited financial statements presented on this website.

Statutory Information

For the year ended 30 June 2020

Employees' Remuneration

The cash remuneration package of the Chief Executive contains three components:

(a)	Base salary;
(b)	Annual bonus – based on the achievement of predetermined key performance indicators; and
(c)	Kiwisaver.

During the year remuneration payments to the Chief Executive in the above categories were:

	2020 $000
Base salary:	519
Annual bonus:	213
Kiwisaver:	29

In addition the Chief Executive was provided with a vehicle for the first half of the year which was available for private use.

The Chief Executive is also party to a long term incentive scheme that matured on 30 June 2020. The accrued liability to 30 June 2020 for this scheme relating to the Chief Executive is ($000) $296.

During the year the following number of employees received total remuneration and other benefits including incentive payments of at least one hundred thousand dollars.

Band ($000)	2020 **Number**	
$100 - $110	4	
$110 - $120	4	
$120 - $130	3	
$130 - $140	3	
$140 - $150	2	
$150 - $160	2	
$160 - $170	1	
$170 - $180	1	
$180 - $190	1	
$340 - $350	1	*
$400 - $410	1	*
$470 - $480	1	*
$560 - $570	1	*
$580 - $590	1	*
$1,080 -$1,090	1	*

* Includes an accrual related to the long term incentive scheme.

Statutory Information

For the year ended 30 June 2020

Directors Holding Office During the Year

The following directors held office during the year ended 30 June 2020:

	Originally Appointed
Ruth Richardson	12/10/12
Ross Ivey (retired 07/11/2019)	14/10/11
Matanuku Mahuika	17/06/14
Ben Todhunter	17/10/14
Bill Sutherland	12/11/15
Kathryn Mitchell	04/10/17
Paul Ensor	07/11/2019

Directors' Remuneration

Remuneration paid to directors during the year was:

	2020 $000
Ruth Richardson	80
Ross Ivey (retired 07/11/2019)	17
Matanuku Mahuika	45
Ben Todhunter	40
Bill Sutherland	40
Kathryn Mitchell	47
Paul Ensor	26
	295

Directors' Indemnity and Insurance

The Company has given indemnities to, and has effected insurance for, directors and executives of the Company, which indemnify directors and executives against liabilities to other parties that may arise from their position as directors or executives. The indemnity and insurance does not cover liabilities arising from criminal actions.

Statutory Information

For the year ended 30 June 2020

Entries in the Company's Interests Register

Pursuant to Section 140 (2) of the Companies Act 1993, directors have disclosed interests in the following entities during the year:

Ruth Richardson

Director	Synlait Milk Limited
Director	Ruth Richardson (NZ) Limited
Director	Bank of China (New Zealand) Limited

Ben Todhunter

Director	Cleardale Station Limited
Director	Southern Cross Sheep Limited
Director	Sri Taniwha Limited
Director	StockX Limited
Director	StockX Systems Limited
Director	StockX Nominees Limited

Ross Ivey (retired 07/11/2019)

Director	Glentanner Station Limited
Director	Glentanner Park (Mount Cook) Limited
Director	Glentanner Heliski Limited
Director	Mackenzie Irrigation Company Limited

Kathryn Mitchell

Director	Morrison Horgan Limited
Director	Helping Hands Holdings Limited
Director	Chambers @ 151 Limited
Director	Christchurch International Airport Limited
Director	FarmRight Limited
Director	Firsttrax Limited
Director	Heartland Bank Limited
Director	Link Engine Management Limited

Matanuku Mahuika

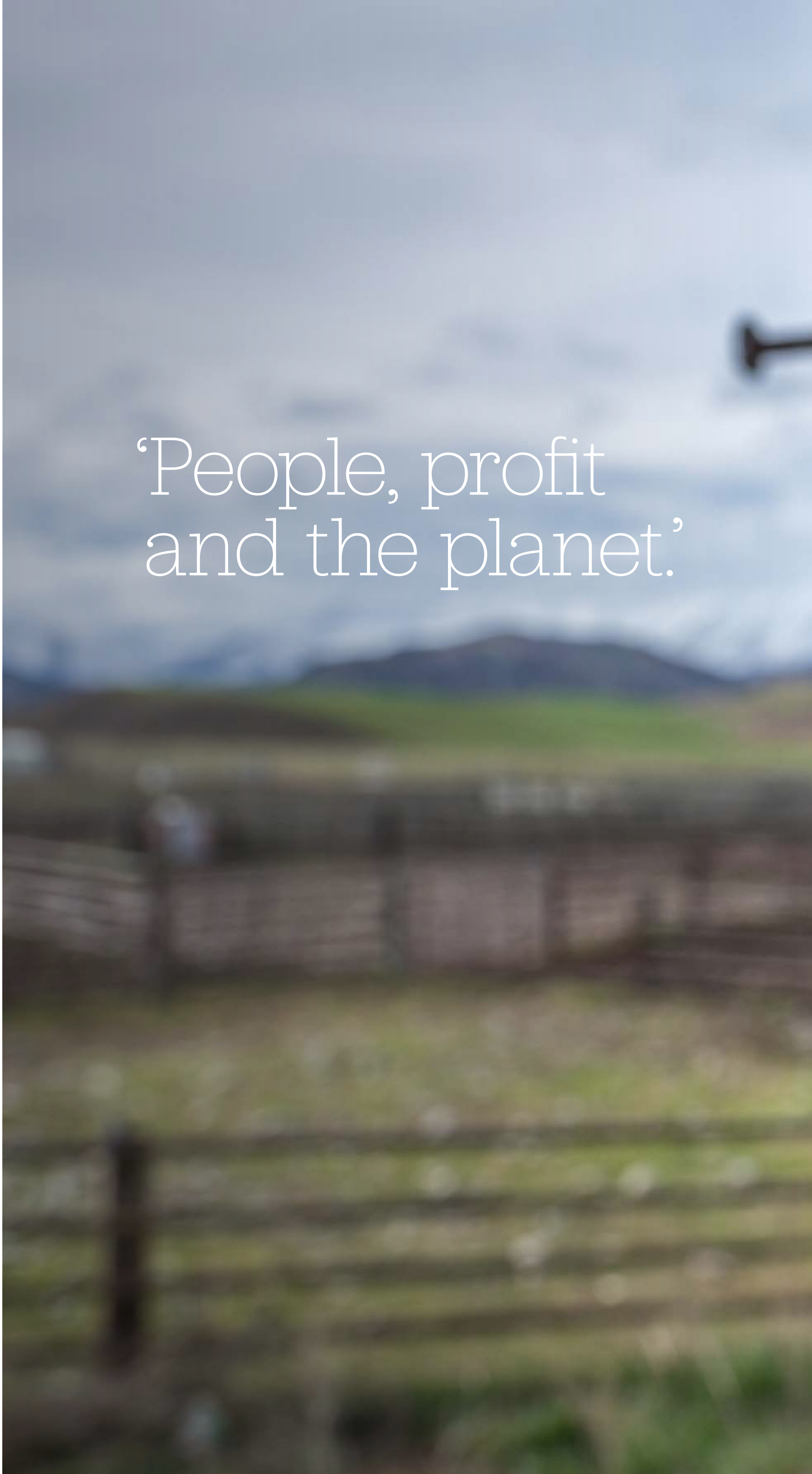
Partner	Kahui Legal
Director	Ngati Porou Windfarms Limited
Director	NPWF Holdings Limited
Director	JP Ferguson Trustee Company Limited
Director	Eastland Group Limited
Director	Eastland Network Limited
Chairman	Ngati Porou Holding Company Limited
Director	Pakihiroa Farms Limited
Director	Eastland Port Limited
Director	Gisborne Airport Limited
Director	Callaghan Innovation Limited
Director	Pohewa Limited
Director	Ngati Porou Berries Limited
Director	Te Tira Toi Whakangao Limited

Bill Sutherland

Partner	Benmore Station
Partner	Ahuriri Downs
Director	Benmore Irrigation Company Limited
Chairman	Omarama Saleyards Limited

Paul Ensor

Director	Glenaan Station Limited
Director	Hemprino Limited


‘People, profit
and the planet.’

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