



2019



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Chairman's Report

Ask any grower, business partner, agri-business player or policy maker have they visited NZM's new Studio ZQ offices and if so, what is their impression, and the feedback is overwhelmingly positive. Aspirational, vibrant, dynamic and dedicated to the future of our fabulous fleece.

It was such a treat to speak at the opening, to host the who's who in our world, and to show off our offerings and team. Take a bow John Brakenridge for your tenacious promotion of this transformative project. Now to make the investment and foresight count.

This was the year in which we built the platform for the future and the performance has been in line with our expectation posting a net profit before tax of \$3.14 million, with the prospect of resolving to pay a dividend comparable to last year.

An important part of the future proofing has been to recruit new talent and it is pleasing to see alongside our key incumbent performers, the fresh faces in our ZQ On Farm and Wool teams plus in our core functions. Succession planning is taken seriously and our strategy has been to both buy and build talent.

NZM speaks pitch perfect to the imperatives of the age where integrity and sustainability, transparency and accountability trump all else in the mind of the consumer. We specialise in premium offerings that tick all of those boxes and so secure premium prices.

As I write this report heading into the last year of my Chairmanship, I am proud to be part of a company that is leading the way. People, profit and the planet are centre stage for NZM.

The USA based Business Roundtable has just released a Statement on the Purpose of a Corporation signed by 181 of America's most prominent CEOs. While stating that each of their individual companies serves its own corporate purpose, they have combined to promote a shared fundamental commitment to all of their stakeholders with five articulated imperatives:

- Delivering value to customers
- Investing in employees
- Dealing fairly and ethically with suppliers
- Supporting the communities in which the corporation works, respecting the people and protecting the environment by embracing sustainable practices
- Generating long-term value for shareholders who provide the capital that allows companies to invest, grow and innovate. This also involves a commitment to transparency and effective engagement with shareholders.

Our engagement with shareholders has revealed an appetite to address whether the nearly twenty year old constitution under which we operate enables the company to be fit for future purpose. There is a sense that what got us to where we are, won't get us to where we want to go.

Various options for change have been advanced, some of which would be an interim step not involving a change to the constitution, while others involve more transformative steps. Ultimately these choices are in the hands of shareholders and your Board wants to begin a consultation process with shareholders to consider the pros and cons, implications and opportunities represented by the choices for change.

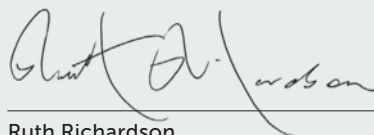
The composition of the Board under our current constitution requires three grower directors to be directly elected by shareholders, with each incumbent retiring by rotation every three years. An incumbent may offer themselves for re-election and traditionally the Board has been very well served by the stability of grower directors who have had their tenure extended by shareholders beyond the one term.

At the forthcoming AGM, Ross Ivey will retire after service of distinction over three terms to the company. There will be an election for his replacement.

Ross is valued not just for his diligence and judgement but his loyalty and insight into the mood and the mind of Merino growers. A progressive with an open mind himself, Ross has been a big part of the Board giving the management 'licence to thrill' in a business sense and I speak for all of his fellow directors in saluting Ross for his dedication to the NZM cause. We will miss his mischievous sense of humour and legendary hospitality at Glentanner.

May I thank each and every one of our staff all the way from our newest recruit, a sustainability and environmental specialist to the 'old guard', all of whom bring a multitude of talents to the business; it is their skill, reputation and creative flair that enables the company to be successful.

And may I commend the counsel and contribution of my fellow directors who guide and support the company to go for its aspirational goals.



Ruth Richardson
Chairman

1.



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

2.



3.



4.



5.



6.



7.



8.



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- 5. Ben Todhunter
 - 6. Ross Ivey
 - 7. John Brakenridge — Chief Executive
 - 8. Peter Floris — Chief Financial Officer

CEO's Report

Global shifts in technology, legislation, politics and most importantly consumer sentiment challenge NZM as a business and community, and New Zealand as a whole, to transform how we think and behave. We must be future facing and agile to anticipate and respond to modern challenges and opportunities.

The transformation required is not incremental or iterative, it is radical and challenging but will be incredibly rewarding for those who take up the task and, in our case, provide a legacy for wool that we would hope generations to come will be proud of.

NZM, and our progressive grower suppliers and brand partners, already have a strong tradition of innovation and positioning ahead of the curve.

The investment over the last twelve years in developing and promoting the ZQ pillars of consistent fibre quality, traceability, animal welfare, environmental sustainability and social responsibility has established ZQ as the world's leading ethical wool brand and supported new category growth.

This has given NZM and grower suppliers a competitive advantage. The unprecedented number of ZQ contracts at record price levels has provided insulation from the fluctuating commodity market and has been fundamental to our success in driving value creation for all stakeholders.

However, we cannot rest on our laurels. As a business and individuals we must be match fit and able to identify and act on opportunities. It's clear that while we undoubtedly need to draw on the learnings of the past, NZM will thrive from an imaginative and collaborative mindset in the future.

Performance

NZM had a strong year, recording a net profit before tax of \$3.14 million. Although 13.6% down on the previous year, this was forecast and is a result of deliberate investments in new opportunities such as the establishment of the Studio ZQ innovation space, fit for purpose offices and skilled resource

to ensure we are well positioned to deliver on the company's growth aspirations.

Our result represents a return of 19.4% on average shareholders' funds.

Our balance sheet also remains strong with shareholders' funds representing 57% of total assets at year end.

Future Relevance

We must continually challenge our relevance to our stakeholders; the value we deliver now and the legacy we leave for future generations.

We remain steadfast in our commitment to excellence at executing on our core wool business. The demand for ZQ Merino is such that it can no longer be met from New Zealand's current production. We have been selectively accessing wool from other countries whilst supporting the growth of merino supply in New Zealand through our ZQ On Farm programme to drive both productivity and support growers transition to more valuable finer wool flocks.

While demand for ZQ continues to grow, so does the sophistication of our competition and innovation is a non-negotiable regarding the delivery of value to our brand partners. An example of this was the Wool Vanguard event at Stanford University in July 2018. Global leaders in wool were assembled to understand how wool can enhance the lives of consumers across categories in the midst of immense change. The event resulted in new value chain partnerships, contracts for strong wool and a commitment to collaboration in telling a compelling wool and ZQ story.

The ZQ accreditation itself requires a dynamic approach. Our strategic alignment with the Responsible Wool Standard has enhanced ZQ's competitive stance. Social License to Operate investments add depth to the ZQ proposition and our team is now well poised to position wool in the realm of carbon positivity.



“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.”

To enable these initiatives to be value accretive, NZM needs an environment that supports continued innovation. This year saw the launch of Studio ZQ, a new natural fibre 'centre-of-excellence' that embraces a systematic approach to creativity, innovation, and business development.

Through Studio ZQ we are collaborating with industry experts, customer centric designers, brand partners and grower suppliers to take advantage of emerging insights and technologies and accelerate existing products and services.

Studio ZQ provides a springboard to leverage NZM's breadth of skills to the benefit of our partners as well as creating future revenue potential for NZM.

People and Talent

Relationships are at the core of NZM's strategy and our key asset remains our team.

As a company we are focused on building a world class team with the ability to adapt, innovate and collaborate to best serve our stakeholders.

We have recently employed several high calibre team members to broaden our value proposition and are investing significantly in nurturing and supporting young talent to provide career pathways along with leadership development.

Community

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 purpose and commitment to make a positive contribution to New Zealand's economic, social and environmental fabric.

Knowledge transfer from market to grower, and vice versa is key to this. NZM has hosted a record number of brand partner visits to New Zealand and is supporting growers to attend brand partner events.

Through Studio ZQ, we are also actively investing in the development of leadership and capability within the wool industry, such as supporting shearer and wool handler training, working collaboratively with grower groups and providing educational opportunities for the next generation of growers.

Summary

NZM is proud to be extending our future facing capability and establishing a global benchmark for value transformation. To do this we continue to invest in marketing and differentiation, anticipating the problems we as a business, and the fibre we sell, need to solve for brands and consumers in the future. The powers of collaboration and accelerating innovation will be well flexed as we adapt both our value proposition and business structure to enable ongoing transformation.

Some courageous actions need to be taken in the next year, but we are entering an immensely exciting future and the NZM team are driven to support you - to grow your legacy on a global stage.



John Brakenridge
Chief Executive



Relationships
are core.

Transform how
we think
and behave.



Snapshot

ZQ Natural Fibre



Focus has been applied to building the global credibility and awareness of the ZQ brand fuelling record enquiries for ZQ merino.

- We now have more than 75 ZQ brand partners taking your fibre to the world.
- We've recently launched a new ZQ website and social media channels to help end consumers understand that their textile choices can be a reflection of their beliefs and that Merino, grown the right way, is a smart and sustainable choice.
- NZM has accelerated the roll out of ZQ in Australia and South Africa to meet growing demands for ZQ fibre.
- International standard, ISO/IEC 17065, was awarded to ZQ giving it more credibility and trust within the industry and for consumers of wool.

Active Outdoors and Lifestyle Markets

NZM is pleased to announce that Mons Royale and Barkers have now joined the ZQ brand partner community.



- This was year one of the delivery of wool into industry first icebreaker 10-year supply contracts.
- Supporting VF Corporation to align their wool procurement strategy both within the icebreaker and Smartwool pipeline whilst looking at opportunities to extend this across the broader suite of VF brands has been a priority.
- NZM partnered with Firewire Surfboards and Paul Barron to launch the world's first wool surfboard.
- Allbirds went from strength to strength, receiving a reported US\$ 1.4 billion valuation and announcing that they are going carbon neutral in 2019.

Glerups is experiencing strong global growth, especially in the US market, and is expanding its factory in Romania to keep up with demand.



Luxury and Specialised Markets

The quality of the partnerships we have with brands like Reda, NIKKE, John Smedley, Loro Piana and Cariaggi have been acknowledged through contract renewals at substantial market premiums.



- The establishment of the Reda Grower Group has cemented stronger connections and communication between Reda grower suppliers and the brand.
- Luxury New Zealand brand, Untouched World, is now using ZQ in their sustainably made merino garments.

Interiors

41% 

- Supported by NZM's Wool Unleashed W3 Primary Growth Partnership with the Ministry for Primary Industries, strong wool bales supplied into contracts increased, 41% on last year.
- NZM continues to partner with premium flooring and insulation brands across the value chain.
- New brand partner T&R Interiors launched their wool acoustic panels via Studio ZQ.
- 'Invisible architecture' like sound pollution and clean air are gaining traction amongst consumers.

NZM held a strong wool event in the Netherlands, focused on positioning wool flooring as a premium and environmentally superior choice. This has led to a collaborative 'wool movement' campaign through digital channels.



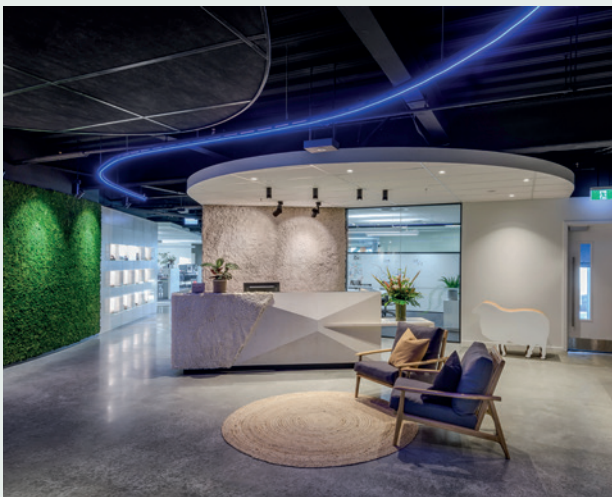
Snapshot

NZM Innovation



NZM announced it is working to be **carbon positive** within the next 12 months.

- NZM officially opened its new office at 123 Victoria Street, Christchurch and launched the adjacent Studio ZQ, a space to fast track scalable innovation for wool, and tackle some of agriculture's biggest challenges.
- Through Studio ZQ, NZM is collaborating with industry experts, customer centric designers, brand partners and growers to take advantage of emerging insights and technologies and accelerate existing products and services.



Meat



SILERE alpine origin merino, a partnership between NZM and Alliance Group Limited, launched with the UK's leading online supermarket retailer, Ocado, receiving rave reviews from customers.

- A 12-month contract for SILERE launched with a target of 120,000 stock per year.
- The SILERE programme is projected to grow substantially in the next 12 months, with plans to expand into further international markets with new cuts.
- Strong demand continues for SILERE from the New Zealand food service industry.





Social License to Operate

- Eight properties across New Zealand participated in NZM's flystrike trial to analyse the relationship between weather patterns and fly prevalence to predict flystrike risk.
- 15 NZM properties are actively monitoring their on-farm environments and implementing actions to improve biodiversity.
- NZM is continuing to investigate ways to better account for and value carbon sequestration on farm.
- The ZQ Governance Group was formed to ensure stakeholder engagement in ZQ programme management.
- This last year has seen a strong focus on grower health and wellbeing via digital platforms, industry partnerships, training and education.
- Quality shearing is an essential part of the ZQ animal welfare and fibre harvesting process and this year NZM engaged with growers and industry to release a Shearing Best Practice Guideline.



Production Science

- 21 New Zealand fine wool studs, representing 75% of New Zealand rams sold to industry, attended a meeting in Studio ZQ to discuss collaboration.
- NZM ran workshops, alongside Dr. Mark Ferguson from neXtgen Agri providing growers with tools to make genetic decisions on farm to improve sheep performance and profitability.
- NZM's Central Progeny Test, run by neXtgen Agri at Lincoln University's Mt Grand Station, has provided the foundation for the fine wool industry to have a commercially available footrot breeding value.



We aim to have the footrot breeding value available publicly as an ASBV, generated through Sheep Genetics' 'Merino Select' analysis early in 2020.

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 San Francisco, to seek new ideas and engage brand partners in working collaboratively to increase the awareness of wool and ZQ in the US market.



2010

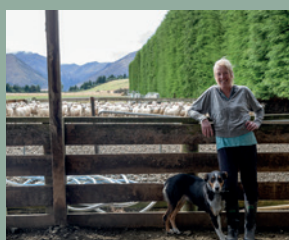
The New Zealand Government backed the transformation of the New Zealand Sheep Industry by entering a 7-year Primary Growth Partnership with NZM. NZSTX has helped New Zealand's fine and mid-micron sheep industry to lay the foundations for its long term growth and sustainability, which would not have been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

2011

Growers purchased the PGG Wrightson shares in NZM. As a follow-on to that transaction, in 2012 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, 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, commenced.

**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 Movement and in its 7th 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.

Our Future...

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



Aspirational, vibrant,
dynamic and dedicated
to the future of our
fabulous fleece.



Company Directory

As at 30 June 2019

Nature of Business Wool Marketing, Sales and Innovation

Registered Office Level 2,
123 Victoria Street
Christchurch

Directors Ruth Richardson (Chairman)
Bill Sutherland
Ben Todhunter
Ross Ivey
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 2019 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 2019.

For and on behalf of the Board of Directors:



Ruth Richardson
Chairman
30 August 2019



Kathryn Mitchell
Chair, Audit & Risk Committee
30 August 2019

Statement of Comprehensive Income

For the year ended 30 June 2019

2018 \$000		Note	2019 \$000
146,598	Revenue	1	160,126
(132,879)	Cost of sales		(145,509)
13,719	Gross profit		14,617
4,439	Other income	2	5,048
(3)	Share of Alpine Origin Merino Limited	11	-
4,436	Other income		5,048
(111)	Net finance costs	3	(276)
(3,641)	Procurement and selling expenses		(3,823)
(3,037)	Marketing expenses		(3,796)
(3,970)	Innovation expenses		(4,717)
(3,251)	Administrative expenses		(3,387)
(301)	Share based arrangements	24	(171)
(211)	Other expenses	4	(355)
(14,522)	Expenses		(16,525)
3,633	Profit before income tax		3,140
(407)	Income tax expense	5	(971)
3,226	Profit / (loss) after tax		2,169
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss			
187	Gains / (losses) from cash flow hedges		(433)
(53)	Income tax relating to other comprehensive income		121
134			(312)
3,360	Total comprehensive income		1,857

Statement of Financial Position

As at 30 June 2019

2018 \$000		Note	2019 \$000
ASSETS			
Current assets			
2,708	Cash and cash equivalents	6	-
6,118	Trade and other receivables	7	7,332
5,116	Inventories	8	11,834
483	Derivative financial instruments	14	684
14,425	Total current assets		19,850
Non-current assets			
303	Property, plant and equipment	9	2,179
-	Investment in Alpine Origin Merino Limited	11	-
1,531	Deferred tax	10	689
5,812	Intangible assets and goodwill	12	5,763
207	Derivative financial instruments	14	293
7,853	Total non-current assets		8,924
22,278	Total assets		28,774
LIABILITIES			
Current liabilities			
-	Bank overdraft	6	2,657
397	Current portion of share based arrangements provision	24	650
-	Current portion of income in advance	23	36
4,257	Trade and other payables	13	6,212
135	Derivative financial instruments	14	586
4,789	Total current liabilities		10,141

The accompanying notes form an integral part of these financial statements

Statement of Financial Position

As at 30 June 2019

2018 \$000		Note	2019 \$000
Non-current liabilities			
192	Long term incentive provision	18	453
-	Non-current portion of income in advance	23	452
23	Derivative financial instruments	14	292
1,170	Share based arrangements provision	24	1,088
1,385	Total non-current liabilities		2,285
6,174	Total liabilities		12,426
16,104	Net assets		16,348
EQUITY			
1,471	Share capital	15	1,471
14,250	Retained earnings	16	14,806
383	Cash flow hedge reserve	16	71
16,104	Total equity		16,348

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 30 August 2019



Ruth Richardson
Chairman
30 August 2019



Kathryn Mitchell
Chair, Audit & Risk Committee
30 August 2019

Statement of Changes in Equity

For the year ended 30 June 2019

\$000

	Note	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
Balance at 1 July 2017		1,725	12,156	249	14,130
Profit for the year	16	-	3,226	-	3,226
Other comprehensive income	16	-	-	134	134
Dividend	25	-	(1,386)	-	(1,386)
Share based arrangements	15	(254)	254	-	-
Balance at 30 June 2018		1,471	14,250	383	16,104
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	25	-	(1,613)	-	(1,613)
Share based arrangements	15	-	-	-	-
Balance at 30 June 2019		1,471	14,806	71	16,348
Carrying amounts					
At 1 July 2017		1,725	12,156	249	14,130
At 30 June 2018		1,471	14,250	383	16,104
At 30 June 2019		1,471	14,806	71	16,348

Statement of Cash Flows

For the year ended 30 June 2019

2018 \$000		Note	2019 \$000
Net cash from / (used in) operating activities			
Cash provided from:			
150,900	Receipts from customers		164,502
8	Interest income received	3	7
150,908			164,509
Cash applied to:			
(145,818)	Payments to suppliers and employees		(165,823)
(119)	Interest paid	3	(283)
(145,937)			(166,106)
4,971	Net operating cash flows	17	(1,597)
Net cash from / (used in) investing activities			
Cash provided from:			
1	Sale of property, plant and equipment		-
1			-
Cash applied to:			
(30)	Acquisition of intangibles	12	(68)
(131)	Purchase of property, plant and equipment	9	(2,087)
(161)			(2,155)
(160)	Net investing cash flows		(2,155)

Statement of Cash Flows

For the year ended 30 June 2019

2018			2019
\$000		Note	\$000
Net cash from / (used in) financing activities			
Cash applied to:			
(155)	Share based arrangements	24	-
(1,386)	Dividend	25	(1,613)
(1,541)			(1,613)
(1,541)	Net financing cash flows		(1,613)
3,270	Net increase / (decrease) in cash balances		(5,365)
(562)	Cash balances at beginning of year		2,708
2,708	Cash balances / (bank overdraft) at the end of year		(2,657)

Statement of Accounting Policies

For the year ended 30 June 2019

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 2019. The financial statements were authorised for issue by the directors on 30 August 2019.

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 24.
- 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 2019 (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 9 – Financial Instruments impacts the classification and measurement of financial instruments and requires certain additional disclosures. The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets. All financial assets are deemed to be loans and receivables held at amortised cost apart from derivative financial instruments. This standard does not have a material impact on the Company's financial statements. Financial instruments have been disclosed in Note 14.

NZ IFRS 15 - Revenue from Contracts with Customers has been applied retrospectively with the cumulative effect of initially applying this standard being recognised at the date of initial application. This standard introduces a five step model to determine the timing and quantum of revenue:

1. Determine whether a contract exists.
2. Identify the explicit and implicit performance obligations in the contract to deliver goods and/or services to a customer.
3. Determine the transaction price payable by the customer.
4. Determine how to allocate the transaction price to the goods and/or services.
5. Determine when to recognise revenue based on when control over the goods and/or service transfers to the customer.

This standard does not have a material impact on the Company's financial statements. Revenue has been disclosed in Note 1.

New Standards and Interpretations Not Yet Adopted

Amendments and interpretations to NZ IFRS 16 - Leases have been published that are mandatory for accounting periods beginning on or after 1 January 2019. The Company has not early adopted this standard:

NZ IFRS 16 - Leases requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-to-use asset' for virtually all lease contracts. There are optional exemptions for short-term leases and leases of low value assets which the Company will adopt.

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 standard will be first applicable for the year commencing 1 July 2019.

The Company will be adopting the modified retrospective method. The Company has completed a full analysis on the impact of NZ IFRS 16 which will have a material impact on the financial statements.

Financial statement impact

	2020 \$000
Lease asset (opening)	5,400
Lease liability (opening)	5,461
Equity (opening)	61
Finance cost of leases	318
Depreciation on leases	277

All lease commitments are disclosed in Note 19.

Current estimates are likely to change at time of adoption of NZ IFRS 16 and for the period ending 30 June 2020, mainly due to:

- Finalisation of management's judgements and subsequent movements in the inherent borrowing rate (interest rates);
- Change in management's judgement to exercise rights of renewals under lease arrangements;
- Changes to existing lease contracts;
- Clarification of tax rules impacting the recognition of deferred tax assets; and
- New lease contracts entered into by the Company.

Statement of Accounting Policies

For the year ended 30 June 2019 (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 2019 (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 assets 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 2019 (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 2019 (continued)

(n) Expenses

Operating Lease Payments

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

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 2019 (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.

(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 2019 (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 24.

Statement of Accounting Policies

For the year ended 30 June 2019 (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.

Notes to the Financial Statements

For the year ended 30 June 2019

1 REVENUE

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

2018		2019
\$000		\$000
109,564	Contract	122,860
37,034	Other sales channels (including Auction)	37,266
146,598		160,126

2 OTHER INCOME

2018		2019
\$000		\$000
1,716	Primary Growth Partnership funding	1,822
922	Other external funding	1,322
661	Royalties	618
1,140	Other income	1,286
4,439		5,048

3 NET FINANCE COSTS / (INCOME)

2018		2019
\$000		\$000
119	Interest expense	283
(8)	Interest income	(7)
111		276

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

4 EXPENSES

2018		2019
\$000		\$000
	Other expenses	
85	Depreciation	146
104	Amortisation of other intangible assets	117
-	Loss on sale of fixed assets / intangible assets	65
22	Exchange losses	20
-	Donations	7
211		355
	Personnel expenses (salaries & employer contribution to Kiwisaver included in functional expense categories)	
5,328	Salaries	6,177
301	Share based arrangements	171
192	Long term incentives	261
236	Kiwisaver employer contributions	226
6,057		6,835
	Technical research project costs (included in innovation expenses)	
929	Technical research project costs	686

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 2019 (continued)

5 INCOME TAX

2018 \$000		2019 \$000
Income tax (expense) / income		
(11)	Current income tax - Australia	(10)
(397)	Relating to origination and reversal of temporary differences	(963)
1	Adjustments in respect of Australian current income tax of previous years	2
(407)	Income tax (expense) / income reported in the Statement of Comprehensive Income	(971)
Numerical reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate		
3,633	Accounting profit before tax from continuing operations	3,140
3	Plus after tax (profit) / loss of associate	-
3,636		3,140
(1,018)	At the statutory income tax rate of 28%	(879)
(11)	Current income tax - Australia	(9)
6	Adjustments in respect of New Zealand current income tax of previous years	-
1	Adjustments in respect of Australian current income tax of previous years	2
1,155	Losses recognised for current years tax	1,002
(418)	Change in losses recognised in deferred tax	(1,002)
(122)	Permanent differences	(85)
(407)	Aggregate income tax (expense) / income	(971)

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

5 INCOME TAX (continued)

Unrecognised temporary difference

The Company has tax losses (\$000) of \$1,605 (2018: \$5,173) to carry forward to the 2020 income year.

A deferred tax asset (\$000) of \$449 is being recognised equal to the remaining losses (2018: \$1,451).

The amount of tax losses are subject to confirmation from the IRD.

2018		2019
\$000		\$000
Imputation credit balance		
814	Balance at the beginning of the year	275
(539)	Dividends paid	(275)
275	Balance at the end of the year	-

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

6 CASH AND CASH EQUIVALENTS / BANK OVERDRAFT

2018		2019
\$000		\$000
2,708	Bank / (Bank overdraft)	(2,657)

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) \$18,000 with the Westpac Banking Corporation. At balance date the total facility drawdown was (\$000) \$2,657.

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

2018		2019
\$000		\$000
5,304	Trade and sundry receivables	7,073
814	Prepayments	259
6,118		7,332

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 \$439 (NZD \$467), USD \$418 (NZD \$632).

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 2019.

8 INVENTORIES

2018		2019
\$000		\$000
5,116	Stock of wool	11,834

The cost of inventories recognised as an expense during the year in respect of continuing operations was (\$000) \$145,509 (2018: \$132,879).

The cost of inventories recognised as an expense includes (\$000) \$174 (2018: \$115) in respect of write-downs of inventory to net realisable value.

Stock on hand as at 30 June 2019 with an age of greater than one year is (\$000) \$363 (2018: \$668)

Notes to the Financial Statements

For the year ended 30 June 2019 (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 2017	266	156	449	46	917
Additions	69	28	33	1	131
Disposals	(1)	-	-	-	(1)
Balance at 30 June 2018	334	184	482	47	1,047
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
Depreciation and impairment losses					
Balance at 1 July 2017	(146)	(74)	(421)	(18)	(659)
Depreciation for the year	(35)	(14)	(32)	(4)	(85)
Disposals	-	-	-	-	-
Balance at 30 June 2018	(181)	(88)	(453)	(22)	(744)
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)
Carrying amounts					
At 1 July 2017	120	82	28	28	258
At 30 June 2018	153	96	29	25	303
At 30 June 2019	191	1,881	86	21	2,179

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

10 DEFERRED TAX

Movements in deferred tax:

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

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

2018 \$000	Opening balance	Charged to income	Acquisition / disposal	Charged to other comprehensive income	Closing balance
Gross deferred tax asset					
Employee entitlements	114	51	-	-	165
Livestock adjustment	52	(15)	-	-	37
Other accrual	42	(14)	-	-	28
Unused tax losses	1,869	(419)	-	-	1,450
Derivative financial instruments	(96)	-	-	(53)	(149)
Total deferred tax asset	1,981	(397)	-	(53)	1,531
Attributable to continuing operations					1,531

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

11 INVESTMENT IN ALPINE ORIGIN MERINO LIMITED

The Company's share of profits in a joint venture Alpine Origin Merino Limited (AOML), incorporated in New Zealand, 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 share of losses being greater than the carrying amount of AOML.

The value of the losses not accounted for is (\$000) \$1.

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

Movements in carrying value of AOML

	2018 \$000	2019 \$000
3	Balance as at 1 July 2018	-
-	Original investment	-
-	Repayment of capital	-
(3)	Share of profit / (loss)	-
-	Balance as at 30 June 2019	-

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

There are no known risks associated with the investment in AOML as at 30 June 2019.

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

12 INTANGIBLE ASSETS AND GOODWILL

\$000

	Goodwill	Trademarks	Computer software	Total
Cost				
Balance at 1 July 2017	5,631	306	300	6,237
Acquisitions	-	1	29	30
Disposals	-	-	-	-
Balance at 30 June 2018	5,631	307	329	6,267
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
Amortisation				
Balance at 1 July 2017	-	(150)	(201)	(351)
Amortisation for the year	-	(51)	(53)	(104)
Disposals	-	-	-	-
Balance at 30 June 2018	-	(201)	(254)	(455)
Balance at 1 July 2018	-	(201)	(254)	(455)
Amortisation for the year	-	(59)	(58)	(117)
Disposals	-	-	-	-
Balance at 30 June 2019	-	(260)	(312)	(572)
Carrying amounts				
At 1 July 2017	5,631	156	99	5,886
At 30 June 2018	5,631	106	75	5,812
At 30 June 2019	5,631	47	85	5,763

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 2019 (continued)

13 TRADE AND OTHER PAYABLES

2018		2019
\$000		\$000
2,953	Trade payables	4,820
1,304	Employee entitlements	1,392
4,257		6,212

Related party payables are detailed in Note 18.

Notes to the Financial Statements

For the year ended 30 June 2019 (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.

2019 \$000	Level 1	Level 2	Level 3	Total balance
Assets				
Derivative financial instruments	-	977	-	977
Total assets	-	977	-	977
Liabilities				
Derivative financial instruments	-	878	-	878
Total liabilities	-	878	-	878
2018 \$000				
Assets				
Derivative financial instruments	-	690	-	690
Total assets	-	690	-	690
Liabilities				
Derivative financial instruments	-	158	-	158
Total liabilities	-	158	-	158

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

14 FINANCIAL INSTRUMENTS (continued)

The net nominal value (\$000) of forward currency contracts (cash flow hedges) outstanding at balance date was \$4,430 (2018: \$28,526). The net nominal value (\$000) of wool futures (cash flow hedges) outstanding at balance date was \$10,497 (2018: \$1,975).

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 2019 of (\$000) \$1,613 (2018: \$1,386).

At 30 June 2019 the Company is utilising (\$000) \$2,657 of 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) \$18,000 with Westpac Banking Corporation. 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 2019 (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 2019 is NZD \$20.64 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) \$296. A 3% decrease in the exchange quoted forward wool price would decrease the fair value by (\$000) \$296.

The following table details the notional principal amounts, fair value and remaining terms of wool futures contracts outstanding as at 30 June 2019:

	2018 \$000		2019 \$000	
	Notional principal amount	Fair value	Notional principal amount	Fair value
Not later than 1 month	-	-	152	6
30-90 days	-	-	922	21
90-365 days	1,238	234	5,790	(328)
1 year to 5 years	737	166	3,633	(150)
	1,975	400	10,497	(451)

Notes to the Financial Statements

For the year ended 30 June 2019 (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) \$44. A 1% decrease in the contract close out rates would decrease the fair value by (\$000) \$45.

At 30 June 2019 the average market rate for AUD foreign exchange contracts is 0.9047 and the average market rate for USD foreign exchange contracts is 0.7056.

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

	2018 \$000		2019 \$000	
	Notional principal amount	Fair value	Notional principal amount	Fair value
AUD Sell				
Not later than 1 month	1,680	(29)	2,541	116
30-90 days	9,297	44	4,605	146
90-365 days	14,220	74	8,478	351
1 year to 5 years	5,451	(15)	6,783	253
	30,648	74	22,407	866
AUD Buy				
Not later than 1 month	(1)	-	(345)	(1)
30-90 days	-	-	(843)	3
90-365 days	(2,335)	35	(6,450)	(50)
1 year to 5 years	(4,640)	40	(12,348)	(32)
	(6,976)	75	(19,986)	(80)
USD Sell				
Not later than 1 month	315	(12)	1,055	1
30-90 days	622	(3)	765	(44)
90-365 days	1,153	(6)	1,320	(75)
1 year to 5 years	3,005	(9)	1,187	(70)
	5,095	(30)	4,327	(188)
USD Buy				
Not later than 1 month	(239)	13	(1,613)	(33)
30-90 days	-	-	-	-
90-365 days	-	-	(705)	(15)
1 year to 5 years	-	-	-	-
	(239)	13	(2,318)	(48)
	28,528	132	4,430	550

Notes to the Financial Statements

For the year ended 30 June 2019 (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 58% of trade and other receivables are due from one customer.

The credit risk on forward currency contracts with Westpac Banking Corporation as at 30 June 2019 is (\$000) \$550 (2018: \$290). The net credit risk on wool future contracts with the various counterparties as at 30 June 2019 is (\$000) \$0 (2018: \$400). 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 are considered to be of a good quality.

Total credit risk was comprised as follows:

	2018	2019
	\$000	\$000
Trade and other receivables	6,118	7,332
Total credit risk	6,118	7,332

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 2019 (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.

	2018 \$000	2019 \$000
Current	5,297	6,728
31-60 days	520	56
61-90 days	286	45
Over 90 days	15	503
	6,118	7,332

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:

	2018 \$000		2019 \$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 2019 (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:

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
2018 \$000	Year end interest rate	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Bank	1.39%	2,708	-	-	-	2,708
Trade and other receivables		-	-	-	6,118	6,118
Derivative financial instruments		-	-	-	690	690
		2,708	-	-	6,808	9,516
Financial liabilities						
Trade and other payables		-	-	-	4,257	4,257
Derivative financial instruments		-	-	-	158	158
		-	-	-	4,415	4,415

Notes to the Financial Statements

For the year ended 30 June 2019 (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:

2019

\$000	Less than 1 year	1-2 years	2-6 Years	Total
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

2018

\$000				
Financial assets				
Bank	2,708	-	-	2,708
Trade and other receivables	6,118	-	-	6,118
Derivative financial instruments	483	207	-	690
	9,309	207	-	9,516
Financial liabilities				
Trade payables	4,257	-	-	4,257
Derivative financial instruments	135	23	-	158
	4,392	23	-	4,415

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

14 FINANCIAL INSTRUMENTS (continued)

(vi) Categories of financial instruments

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
2018 \$000	Financial assets / liabilities at fair value	Financial assets / liabilities at amortised cost	Total
Assets			
Bank	-	2,708	2,708
Trade and other receivables	-	6,118	6,118
Derivative financial instruments	690	-	690
	690	8,826	9,516
Liabilities			
Trade and other payables	-	4,257	4,257
Derivative financial instruments	158	-	158
	158	4,257	4,415

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

15 SHARE CAPITAL

2018 \$000		2019 \$000
	Paid in share capital comprises:	
1,725	Opening balance	1,471
(254)	Share based arrangements transferred to retained earnings	-
1,471		1,471
	Number of ordinary shares:	
3,502,099	Opening balance	3,301,073
(201,026)	Cancelled shares	-
3,301,073	Closing balance	3,301,073

At 30 June 2019 no ordinary shares were held by the Company as treasury shares (2018: nil)

16 RETAINED EARNINGS AND RESERVES

Retained Earnings

2018 \$000		2019 \$000
12,156	Opening balance	14,250
3,226	Profit after tax	2,169
254	Share based arrangements	-
(1,386)	Dividend	(1,613)
14,250		14,806

Cash Flow Hedge Reserve

2018 \$000		2019 \$000
249	Opening balance	383
(154)	Foreign exchange contracts	301
288	Wool futures contracts	(613)
383		71

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

17 RECONCILIATION OF CASH FLOWS WITH REPORTED NET PROFIT

2018 \$000		2019 \$000
3,226	Profit after tax	2,169
	Non cash items:	
3	Share of associates retained (surplus) / loss	-
85	Depreciation	146
-	Loss / (gain) on sale of fixed assets / intangible assets	65
104	Amortisation of intangible assets	117
397	Movement in deferred tax	963
192	Long term incentive provision	261
301	Share based arrangements expense	171
	Working capital:	
698	(Increase) / decrease in inventory	(6,718)
(121)	(Increase) / decrease in accounts receivable / prepayments	(1,214)
86	Increase / (decrease) in accounts payable	1,955
-	Cash received as income in advance	488
4,971	Net cash from operating activities	(1,597)

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

18 RELATED PARTY DISCLOSURES

The following investments/balances existed between the Company and related parties as at 30 June 2019:

2018		2019
\$000		\$000
(3)	Investment in Alpine Origin Merino Limited	-
3	Receivable from Alpine Origin Merino Limited	-

The Company entered into transactions for the sale and purchase of wool with entities associated with Bill Sutherland, Ben Todhunter, Matanuku Mahuika 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 2019 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.

During the year ended 30 June 2019 the Chief Executive of the Company was a director of Landcorp Holdings Limited (ceased 30 April 2019). During the year the Company entered into arms length transactions for the purchase of wool from farms owned or leased by Landcorp Holdings Limited. The value of wool purchased was (\$000) \$5,188 (2018: \$6,181). The value of wool payable as at 30 June 2019 is (\$000) \$529 (2018: \$459).

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 (\$000) provided to key management personnel in 2019 was \$2,385 (2018: \$2,155). Key management personnel refers to the Chief Executive and five 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 new 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 accrual recognised for the long term incentive is (\$000) \$453 (2018: \$192)

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

A sensitivity analysis has been completed and a 10% increase in 2020 earnings would increase the value of the liability to (\$000) \$468. A 10% decrease in 2020 earnings would decrease the value of the liability to (\$000) \$435.

Refer to Note 24 for details of management share based arrangements.

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

19 COMMITMENTS

Capital Commitments

The Company had no capital commitments as at 30 June 2019 (2018: 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 2019.

Operating Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

2018 \$000		2019 \$000
822	Not later than one year	474
672	Later than one year but not later than two years	640
1,798	Later than two years but not later than five years	1,810
2,527	Later than five years	5,074
5,819		7,998

20 EVENTS AFTER BALANCE DATE

There are no significant events post balance date.

21 AUDITOR'S REMUNERATION

The auditor of the Company is Deloitte Limited.

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

2018 \$000		2019 \$000
29	Audit of the financial statements	32
29		32

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

22 CONTINGENCIES

The Company has a contingent liability regarding the assignment of the lease on the Wrights Road premises in February 2019. There are 13.5 months remaining under the Wrights Road lease which corresponds to a contingent liability value of (\$000) \$316 (2018: \$Nil). The Company had no contingent assets as at 30 June 2019 (2018: \$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 2019.

23 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. The non-current value of income in advance is (\$000) \$452 (2018: \$Nil).

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

24 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 2019 year there were no buy backs and cancellation of any shares held under the arrangement (2018: 29,526).

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

	Number of shares issued	Issue price	Vesting schedule	Percentage able to be sold back to company	Minimum shareholding while an employee
30/9/2011	602,342	\$1.48	25%	-	25%
1/7/2012	-	-	10%	-	35%
1/7/2013	-	-	20%	-	55%
1/7/2014	-	-	20%	20%	20%
1/7/2015	-	-	20%	30%	20%
1/7/2016	-	-	5%	50%	20%
1/7/2017	-	-	-	75%	20%
1/7/2018	-	-	-	100%	20%

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

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

Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

24 SHARE BASED ARRANGEMENTS (Continued)

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

During the 2019 year no payments were made under the arrangement (\$000) (2018: \$155).

Fair Value of Share Based Arrangements

The fair value of share based arrangements as at 30 June 2019 is (\$000) \$1,738 (2018: \$1,567). 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% (2018: 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) \$2,000. 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) \$1,489.

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

2018	2019
\$000	\$000

301	Share based arrangements	171
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25 DIVIDEND

The dividend paid in 2019 was (\$000) \$1,613 (2018: \$1,386). 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 2019, 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 20 to 60, present fairly, in all material respects, the financial position of the Company as at 30 June 2019, 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 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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.

Audit 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
Christchurch, New Zealand
30 August 2019

This audit report relates to the financial statements of The New Zealand Merino Company Limited (the 'Company') for the year ended 30 June 2019 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 30 August 2019 to confirm the information included in the audited financial statements presented on this website.

Statutory Information

As at 30 June 2019

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:

	2019 \$000
Base salary:	444
Annual bonus:	195
Kiwisaver:	26

In addition the Chief Executive is provided with a vehicle which is available for private use.

The Chief Executive is also party to a long term incentive scheme that matures on 30 June 2020.

The accrued liability to 30 June 2019 for this scheme relating to the Chief Executive is (\$000) \$119.

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)	2019 Number
\$100 - \$110	3
\$110 - \$120	2
\$120 - \$130	3
\$130 - \$140	1
\$140 - \$150	1
\$150 - \$160	2
\$160 - \$170	2
\$170 - \$180	1
\$220 - \$230	1
\$250 - \$260	1
\$320 - \$330	1
\$370 - \$380	1
\$420 - \$430	1
\$710 - \$720	1

Statutory Information

As at 30 June 2019

Directors Holding Office During the Year

The following directors held office during the year ended 30 June 2019:

Originally Appointed

Ruth Richardson	12/10/12
Ross Ivey	14/10/11
Matanuku Mahuika	17/06/14
Ben Todhunter	17/10/14
Bill Sutherland	12/11/15
Kathryn Mitchell	04/10/17

Directors' Remuneration

Remuneration paid to directors during the year was:

	2019
	\$000
Ruth Richardson	80
Ross Ivey	47
Matanuku Mahuika	40
Ben Todhunter	40
Bill Sutherland	40
Kathryn Mitchell	47
	294

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

As at 30 June 2019

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

Chairman	Syft Technologies Limited
Chairman	Kula II Fund Limited
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	Mt Hutt Adventure Park Limited
Director	Sri Taniwha Limited
Director	StockX Limited
Director	StockX Systems Limited
Director	StockX Nominees Limited

Ross Ivey

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	Tuku Korero (2006) Limited
Director	JP Ferguson Trustee Company Limited
Director	Eastland Group Limited
Director	Eastland Network Limited
Board Member	New Zealand Geographic Board
Chairman	Ngati Porou Holding Company Limited
Director	Pakihiroa Farms Limited
Director	Eastland Port Limited
Director	Te Runanganui o Ngati Porou Trustee Limited
Director	Gisborne Airport Limited
Director	Amanti Tourism 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
Shareholder	Clay Cliffs Station

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