THE NEW ZEALAND MERINO COMPANY LIMITED
ANNUAL REPORT—2021

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Chairman's Report

Kathryn Mitchell
Chairman

It is a great pleasure to write my first report as Chairman of The New Zealand Merino Company Limited (NZM).

It would be fair to say that the last year has been one like no other for NZM; major constitutional reform, a capital raise, listing on the Unlisted Securities Exchange (USX), and the uncertainties and impact of Covid 19 on the business.

Through your overwhelming support of the constitutional change and capital raise you have given us a strong mandate for the future growth and strategic direction of the business and positioned the business well to take advantage of the opportunities that now sit before us. The listing of NZM's shares on the USX has had a positive impact on liquidity and share price, albeit with recognition that there is still some way to go to get full liquidity and price discovery, and this will take time.

In addition to the structural reform undertaken we have had to navigate our way through Covid 19, and we very much appreciate the support we have received from shareholders, growers, brand partners and supply chain partners as we have successfully traversed these waters.

The fact that all brand partner contracts were honoured and that grower suppliers so willingly agreed to a deferral of payments on contract proceeds is a testament to the depth of the relationships on which our business is based.

We are very encouraged that the impact of Covid 19 globally is driving an acceleration of consumer preferences for natural products, ethical production, substance and story, and a willingness from consumers to pay a premium for products that meet these requirements. This is NZM's sweetspot; and this market sentiment has resulted in very good brand partner demand for wool in the latter part of the year. The development and launch of ZQ^{RX}, with its focus on regenerative thinking and practice, has been instrumental to this. On top of good fine wool growth, our strong wool initiatives continue to build momentum with unprecedented interest from strong wool brands and growers wanting to sign-up to the NZM model.

The primary purpose of our capital raise was to provide funds to accelerate NZM's growth ambitions and to strengthen our balance sheet in the wake of the uncertainties that Covid 19 brought. This has been achieved. What we hadn't anticipated however was the extent to which the market would rebound so strongly in the second half of the year, and this has now placed the business in an even better position to drive our growth initiatives.

It is very pleasing therefore to have come through the last twelve months as a stronger business with deepened relationships, a strengthened balance sheet, record volumes of wool transacted, and a record profit for the business. While this is a good outcome, we cannot pause. Strategically there are significant opportunities for us in the ethical wool space – both in terms of increasing our market share as well as growing the size of the market. ZQ^{RX} will be integral to this. We need to continue to work with existing brand partners and new brand partners in both fine and strong wool markets to drive market demand that then provides improved opportunities and returns for our grower suppliers.

Likewise, we continue to explore opportunities to replicate what we have achieved with wool across other natural materials businesses.

I am pleased to advise that after a prudent pause to the payment of dividends last year given the disruption of Covid 19, the board has determined that the company should resume paying dividends again this year. Given the ambitious growth initiatives the company is working on, the board has determined that the dividend should be pitched at the lower end of the range contained within our Dividend Policy, and accordingly this will be set at 30% of net profit after tax. This will result in a dividend of 24.1 cents per share and will be paid following the Annual Meeting in October. The quantum of the total dividend paid is double what we projected in our Product Disclosure Statement.

I would like to acknowledge John Brakenridge and the NZM team for their leadership through a challenging year. The fact that we have navigated our way so successfully through the structural changes and the disruption of Covid 19 is a testament to the dedication of this team and the depth of the relationships they hold with our various stakeholders.

I would also like to thank my fellow directors for their stewardship of the business throughout the year and for the confidence they have shown in me through asking me to take on the role of Chairman. In a year where many businesses have been focused on survival it has been refreshing to lead a board that has been focused on how the business thrives in this new environment.

The NZM business is in good heart and I am honoured to be your Chairman. I look forward to seeing you at the upcoming Annual Meeting.

Kathryn Mitchell
Chairman








1. Kathryn Mitchell
   — Chairman

2. Ben Todhunter
   — Deputy Chairman

3. Matanuku Mahuika

4. Bill Sutherland

5. Paul Ensor

6. John Penno

7. John Brakenridge
   — Chief Executive

8. Peter Floris
   — Chief Financial Officer

Mons Royale

Mountain biker Louise Ferguson kitted out in Mons Royale while filming a piece for the NZM Heroes' Journey Conference.

CEO's Report

John Brakenridge
Chief Executive

At the conclusion of the 2020/21 financial year, we wrapped up with a conference that drew a record number of stakeholders. Over 620 world leading growers, shareholders, and New Zealand value chain partners were joined by stand out Te Hono alumni and purpose-led brand partners (digitally) from around the world.

Whilst NZM conferences over the years have been somewhat 'famous', this one truly stood out. Inspired by Owen Eastwood's book 'Belonging', our stakeholders experienced an incredible vibe that was perhaps best described as 'tribal'.

Our business and stakeholders spent time acknowledging how they had pulled together as an ecosystem to traverse through the curve balls of the year, but this was a small component. The major energy driver was how to now scale what had been achieved, very much a future-driven focus.

A future that further exemplifies what businesses can do in terms of prosperity, people, and planet.

Much is now spoken about the need for change as activists around the world are highlighting issues, but what this tribe demonstrated was the newly emerging 'heroes' as actionists. These incredible growers, value chains and brand partners who partnered with our service providers to embrace ZQ^{RX} and its 15 points of regenerative action to drive purpose-led initiatives with measurable results for positive change. Going beyond sustainability.

The market understands that by identifying and implementing solutions to mitigate climate change initially, we are also driving positive outcomes for biodiversity, water, animal welfare, and the community; and consumers are prepared to pay a significant premium for products that embrace regenerative thinking and have substantive back stories.

Environmental, Social and Governance (ESG) criteria, the UN Sustainable Development Goals, and Purpose Statements are all becoming common lexicons at business speech level, but our stakeholders now are leading this country (and perhaps the world) in redefining how business is done with extraordinary financial success along with ecosystem impact for people and planet.

At a NZM level we are particularly pleased to report a record earnings before interest and tax of $6.4m. But beyond that we are delighted with how we've brought together consumers, brands, value chains and growers, and through transparent models, provided the economic incentives that reward on-farm success as every farm works to the edict 'better than yesterday, not as good as tomorrow' on their regenerative journey. So too the phenomenal turn-around of our brand partners, who, whilst they took short term hits, are almost all now calling on early supply to bolster their sales as the world's consumers wake up to 'slow fashion' with substance.

As our Chairman has outlined, NZM's growers in particular demonstrated considerable fortitude as company shareholders voted (at over 80% mandate) to open the constitution, to welcome in new shareholders who are aligned with the commercial aspirations of the business but also the broader purpose-led aspirations.

As a business we will continue to win through an unwavering focus on value creation for growers and brands, underpinned by innovation, branding, substance, storytelling, transparency, and a genuine sense of tribe.

The NZM team feel the weight of the responsibility placed upon us to 'do good and do good', but we have also never been better positioned to drive purpose-led value for all stakeholders.

John B.

John Brakenridge
Chief Executive

HEROES' JOURNEY
CONFERENCE 2021

- **315** Growers
- **166** Industry and Strategic Partners
- **74** Brands and Staff
- **65** Te Hono Alumni

John Brakenridge - NZM Chief Executive

"We are privileged to have had our ancestors provide opportunities for us. Now the sun is currently on us. There are unprecedented threats and opportunities. Let's take the learnings of those growers who have come before us and are formative here, take those lessons and step in, step up, and step together."

Conference Speakers

29 Total Speakers

Tim Brown – Co-founder Allbirds / Dan Carter – Purpose-driven Professional

"You're going to make mistakes. The important thing is you refocus, reset your goals if you need to, and go back to your purpose and vision."

Jan van Mossevelde - President icebreaker

"It's about us together as a platform, joined by a common belief that we are in it for the same reason. There has never been a better time to move to natural."

Steve Rendle - Chairman, President & CEO VF Corporation

"How do we create a more powerful sense of belonging for people and a more powerful understanding of the environment that we live in and that we depend on?"

George Adams - Chairman Bremworth

"We announced our intention to cease production of synthetics in July 2020, and we did. 2,500 tonnes of synthetic plastic yarn every year is now gone from our supply chain. We've decided we are backing New Zealand wool. We are all in."

Jamie Whiting - Group Managing Director Barkers/Max

"The customers do care about the good environmental stories and really authentic journeys that we talk to in our product."

Jennifer McLaren – President Smartwool

"We are founded at the core on innovation and that is what drives us as a brand. We are always experimenting with natural materials and trying to figure out what's next and how we make our products even better."

Rafael Elizondo – Responsible Sourcing Leader, Agriculture Raw Materials IKEA

"We needed farmers who understood that how you produce is as important as what you produce. It is the long-term vision and conviction that makes a difference at the end."

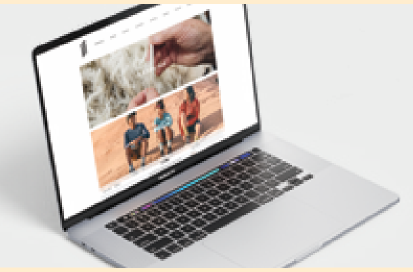
Glerups

Comfort unlimited, the Glerups honey rubber boot in cranberry.

Snapshot

Hamish, Annabel, Charlotte, George and Harriet Craw, Ridgecliff, ZQ^{RX} Growers

New NZM website



NZM Update

- NZM is proud to have welcomed over 150 new growers to the ZQ community this year.

- The NZM team grew substantially, welcoming 14 new staff members into the whānau. The depth and breadth of skills in the team ensures NZM is at the forefront of global industry leadership.

- At the 2020 Annual Meeting, NZM farewelled Ruth Richardson as Chairman following a significant tenure on the Board, and welcomed Kathryn Mitchell as Chairman, Ben Todhunter as Deputy Chairman and John Penno to the Board of Directors.

- In a move to realign the shareholding base, increase share price and liquidity, and provide for further business growth, NZM growers voted in favour of constitutional reform, providing a strong mandate for the company's strategic direction. This was followed by a capital raise to position the business well to harness future opportunities, and NZM shares are now listed on the Unlisted Securities Exchange (USX.co.nz).

- The NZM digital channels have undergone a transformation to better profile growers, global brand partners and leading innovation. Visit www.nzmerino.co.nz to check out the new website.

- The Southern team were pleased to move into a new purpose-designed office in Cromwell at 15A Old Saleyard Road.

Active Outdoors and Lifestyle Markets

- Smartwool, Fjällräven, Helly Hansen, Arc'teryx, REI and icebreaker were all named in the Luxatic 25 Best Outdoor Clothing brands for 2021.
- icebreaker welcomed new Global Brand President Jan van Mossevelde and launched their first range of products using superfine 15.5 micron wool.
- Following the US lockdown, Smartwool shifted into new purpose-built headquarters in Denver and welcomed 27 new employees to the team.

- Rewoolution launched their stylish new urban clothing line – entirely natural, sustainable and traceable.
- Allbirds committed to 100% of their wool products coming from regenerative sources by 2025. 'Not only does regenerative agriculture represent a huge opportunity to reverse climate change, it also provides added benefits to local communities, biodiversity, ecology, long-term viability of the land…which is why we're all in.' – *Allbirds*

Allbirds

Smartwool

News from our Brands

- icebreaker announced their intentions to double the size of their business by 2025 and shift their headquarters to Switzerland to unlock a new chapter of global growth and expansion.
- Smartwool launched their 'What Matters' site – the central hub for their social impact and sustainability roadmap. They also donated 25,000 pairs of socks to frontline workers who battled for communities in the fight against Covid 19.
- Allbirds was named in the top 10 of the 2021 Purpose Power Index, an empirical measure of companies that activate purpose at the core of their business.
- Glerups was featured in an article as 'the best gift ever received' in Forbes Magazine.
- Mons Royale continues their mission to give women a platform for progression in freeriding by establishing the Mons Royale Future Ground Progression Camp. This four-day camp creates the environment, harnesses the energy, and provides an opportunity for a like-minded crew of female riders to learn from the best Kiwi coaches and mentors.

Mons Royale's Future Ground Progression Camp.

Luxury and Specialised Markets

- As sustainability and innovation are the engines of Reda's history, they built a highly sophisticated cloud-based enterprise platform to manage their entire production process. To ensure greater waste reduction, Reda created their entire Spring/Summer 2022 collection in a fully digital manner at Intertextile Shanghai.

- John Smedley proudly accepted their second royal warrant as manufacturers of fine knitwear, a mark of recognition for their high standards of service, quality and excellence.

- Loro Piana opened the doors to a new store in New York and launched their 'art of wellbeing' collection for meditation, exercise and exploration.

- Nikke continued their ongoing support of the Child Cancer Foundation by manufacturing beanies from the wool they purchased at the NZWTA Clip of the Year and donating them back into the industry with all profits going to the foundation.
  In recognition of Nikke's generous support, the Otago Merino Association has re-named the Child Cancer Fleece Competition in their honour.

- Barkers and Max launched a large scale ZQ[RX] campaign across all channels, profiling the world of ZQ growers in advancing solutions on farm. Both brands saw great sales momentum throughout the season along with very positive feedback from consumers.

↙ Donna and Monica from NZM as part of the Max ZQ[RX] campaign

↓ Reda fabric

Strong Wool

- In line with their transformational strategy towards a sustainable interior solutions business, Cavalier Bremworth launched a re-brand to 'Bremworth'. In their commitment to phase out synthetics and shift to 100% wool, Bremworth celebrated the last ever roll of synthetic carpet manufacture in May 2021.

- Swanndri reported a sale every four seconds at the 2021 National Agricultural Fieldays at Mystery Creek, following a year of record sales as New Zealanders' embraced the wild outdoors (and the necessary garments to enjoy it!).

- In their transformative journey to source 100% responsibly produced wool by 2025, IKEA volumes doubled. All of the wool IKEA sources out of New Zealand is now 100% ZQ/RWS accredited.

- Best Wool launched their ZQ[RX] 'Elements by Monasch' rug range inspired by earth, water, fire and air. When returned at their end of life, these colourful and dynamic wool rugs champion sustainability by being turned back into raw materials to be used again.

- Circa 10,000 pairs of Glerups arrived from Denmark for New Zealand distribution.

- In November, over 100 people gathered at the NZM Strong Wool Disruption Event in Hawke's Bay to discuss the exciting future of the strong wool industry.

Best Wool 'Elements by Monasch' rug range.

Bremworth carpet in ZQ Studio.

NZM Innovation

- Keravos rebranded to Shear Edge, established a full scale 'pilot plant', signed a toll manufacturing contract and conducted an array of product trials including kayaks, knife handles, fence battens, and a catamaran (in partnership with Fat Cat).

- In partnership with Quantis International, NZM undertook a study on the inclusion of vegetation sequestration into a Life Cycle Assessment, showing the reduction of carbon impact by 35-110%.

- NZM held an eight-week 'innovation sprint' programme with leading organisations in the New Zealand primary sector, steered by world-renowned Innovation Guru, Larry Keeley.

- The second year of the VF Cadetship programme launched, aiming to foster and support the development of talent in the New Zealand shearing and wool handling communities. This innovative approach to increasing the talent pool, capability and retention of wool harvesters helps ensure material positive impact for the industry.

- In partnership with Toitū and other science providers, NZM initiated a pilot study on eight ZQ^{RX} properties to develop a scaleable methodology to undertake net greenhouse gas emission calculations. This will enable brands and growers to more accurately account for their emissions and report on their ongoing reduction efforts.

Victory Knives with the Shear Edge handle.

ZQ Grower Manual version 5.0

ZQ/ZQ^{RX} Natural Fibre

- To meet evolving consumer demands, this year saw the next iteration of the world's leading ethical wool accreditation with the launch of ZQ 5.0 in New Zealand and Australia.

- NZM and the Textile Exchange collaborated to create a robust combined audit process, enabling the simultaneous auditing of growers to both the ZQ and RWS programmes.

- NZM was featured in such publications as Vogue Business, New York Times, the Sourcing Journal and Ecotextile News with the world-leading regenerative platform, ZQ^{RX}, following a global launch with ZQ^{RX} foundation partners Allbirds, icebreaker and Smartwool.

- NZM welcomed on board 21 brand partners and 253 growers to ZQ^{RX}.

- The first ZQ^{RX} grower event was held in October 2020, followed by the establishment of a regenerative grower reference group.

Production Science

- The ninth mating of the Central Progeny Test took place with 9 industry rams mated to ewes at Mt Grand Station. This provided a further set of production data on fine wool industry rams, improving industry breeding value linkage for key traits.

- The footrot breeding value developed by NZM, collaborators and growers is being used across the sheep breeding industry, with over 20 New Zealand fine wool studs now recording and reporting footrot breeding values. This included 578 sheep from NZM's Central Progeny Test contributing data to the industry during the 2020/2021 ram selling season. New Zealand has taken the initial steps towards a disease resistant national flock.

Silere

- Ocado (UK online supermarket) CEO, Tim Steiner, has called out Silere as the best product launch in his memory. Ocado delivers 263,000 grocery orders per week and lists over 55,000 unique, premium products.

- Silere numbers reached a record 148,000 animals, a 26% rise of product into the programme.

- UK distributor Hilton Foods describes Silere as having '10 times the story of any other meat brand in the United Kingdom'.

- Silere demand is forecasted to grow significantly over the coming year, driven by export markets.

Sustainability

The New Zealand Merino Company Limited (NZM) has sustainability embedded in our core business. As a purpose-driven organisation, foremost to this is supporting our growers and the work they do on farm to improve the environment, care for their people and communities, and protect the wellbeing of their animals. We partner with brands and organisations that are philosophically aligned to our values and purpose, specifically, to 'make your world a better place'.

While sustainability has been a fundamental component of our business since we formed, this report signals the start of our sustainability reporting journey and seeks to outline our commitments to our ecosystem and to our stakeholders. Over the course of FY22, we will be developing a formal Sustainability Report that will be available to all stakeholders.

NZM is built upon pillars of transparency and prosperity for our stakeholders. Our sustainability reporting will reflect this, with a lens placed on our environmental, social and governance frameworks. To enable this, in FY22 we seek to:

- Identify and prioritise sustainability/impact areas relevant to our company by engaging with our customers, investors, suppliers, partners, employees, and all key stakeholders directly to complete a materiality assessment.
- Establish a sustainability framework that further integrates and articulates people, planet and profit sustainability into our existing strategy.

Upon establishing the needs of our stakeholders, we will look to outline strategies to address these impact areas through initiatives, goals, and targets which we will report on regularly through our annual reporting process.

Our People

Our team is our greatest asset and we recognise the importance of caring for the wellbeing of our staff, diversity of thought, and inclusion in the workplace. We are pleased to report our annual engagement survey positively reflects the vibrant culture at NZM. Our last survey was completed in April 2021, with 100% participation rate and a people score of 74%. This indicates an extraordinary engagement rate. Analysis by our external engagement survey provider, along with industry benchmarking results, confirms NZM is in a strong position and in good cultural health. We pride ourselves on supporting the wellbeing of our people, with a number of initiatives in place to champion this.

Our Ecosystem

An essential and distinctive element of NZM is our unique ecosystem of stakeholders. Partnering with the pioneers of our industry, purpose-led brands, primary industry leaders, and innovative value chains enables us to perform environmentally, socially and economically on a global stage. We strive to remain ahead of the curve and operate sustainably across all aspects of our business.

Working with leading science providers such as the Textile Exchange, Toitū Envirocare, Thinkstep, and Quantis International ensures we are in a strong position with regards to quantitative verification around our sustainability initiatives.

The action we are supporting on-farm and within our broader ecosystem is designed to be strongly aligned to the UN Sustainable Development Goals, ensuring we work to alleviate issues closely related to our business and beyond.

Our Journey

NZM has been working with our grower community to supply the world's leading ethical wool under the ZQ brand since 2007. ZQ has seen widespread adoption in New Zealand, Australia and South Africa of world leading standards with regard to animal welfare, environmental integrity and social responsibility.

Over the past 12 months, we launched ZQ version 5.0, the latest iteration of the ZQ programme, further improving the standard and ethical performance of our grower community. As part of this update, we have also fully analysed and upgraded the audit process which now also enables us to simultaneously audit and achieve compliance to both ZQ, and the Textile Exchange's Responsible Wool Standard.

Further to ZQ and recognising the need to go beyond sustainability and to actively regenerate our ecosystems, we developed and launched ZQ^{RX}. A regenerative platform designed to enable growers to monitor and account for the improvements they make to their ecosystem, animals and communities. The ZQ^{RX} platform measures progress over time as growers strive for improved outcomes on farm and embodies the notion of 'better than yesterday, not as good as tomorrow' in a movement that goes beyond sustainability into regenerative action.

The methodology behind ZQ^{RX} encompasses a change management framework to measure against 15 key performance indicators, reflecting the wellbeing of the environment, people, and animals on farm, and enables a holistic view to be taken of all aspects of the farming system. The ZQ^{RX} platform utilises leading scientific research and is continually evolving as new knowledge becomes available.

The application of ZQ^{RX} has clearly highlighted what support wool growers require to continue improving their farming systems in a way that enables biodiversity and ecosystems to flourish, improve the health of the planet and the well-being of those who farm it.

Since launching with our ZQ grower community in 2020, we are pleased to report as at 30th June 2021, we have 253 growers signed up to ZQ^{RX}. This represents 9.1% of the total farmed area of New Zealand and 4.6% of the total land area of New Zealand.

Additionally, we have 21 global brands signed on to support the ZQ^{RX} regenerative movement, representing over 35,000 bales of ethical wool.

We intend to grow these numbers substantially over the coming twelve months in a mission to generate the greatest impact for our environment, our communities, and our world.

To further support the adoption of best practice, and in our pursuit of continual improvement, NZM has over the past 12 months undertaken a broad portfolio of research and development, the outcomes of which are incorporated into advice and engagement programmes with growers. This work includes undertaking net greenhouse gas emission calculations, establishing methodologies to account for carbon sequestration in soil and vegetation, undertaking full value chain life cycle assessments, trialling soil carbon and soil health assessment methodologies and continued research into breeding and genetics for animal health and wellbeing.

We look forward to sharing our ongoing sustainability journey with you over the coming year.

CFO's Report

Peter Floris
Chief Financial Officer

Covid 19

2020/21 has been a challenging year for the business. As we prepared our business plan and budget for the year, the world was being gripped by the first wave of Covid 19. New Zealand was in a level four lockdown, supply chains globally were in the process of being shut down, and the general consensus was that a very significant global economic slowdown was imminent. Uncertainty was the only certainty!

On the back of this, brand and supply chain partners rightly became very conservative and sought to remove as much inventory from their pipelines as possible, with indications that their wool volume requirements would likely be significantly reduced on the back of the expected drop in consumer demand. Despite this, brands all were quick to reiterate their commitment to their contract volumes albeit with likely delays as they matched supply to demand, and grower suppliers very generously agreed to extended payment dates for wool to align with the expected brand partner drawdowns of volume.

This market sentiment was built firstly into our budgets and then into our October 2020 Product Disclosure Statement (PDS), and our expectation was that NZM earnings would be materially negatively impacted as we absorbed the impact of the reduced volumes and trading margins.

For the first quarter of the year transactions were very much in line with brand partner expectations and what we had budgeted, however as we entered the second quarter it became apparent that the expected global economic slowdown had not eventuated and that many parts of the economy were in fact holding their own.

In particular it became clear that Covid 19 was accelerating the trend of conscious consumerism with consumers demanding higher standards of ethical production for products they are purchasing and the embracing of regenerative agriculture practices. This aligned closely with NZM's ZQ[RX] initiative, which was developed during our lockdown, and enabled us to accelerate our strategic initiatives in this area.

As a result, demand for wool from partners began to increase significantly during the second quarter with market prices also responding to this increased demand. This increase in demand continued to grow through the third and fourth quarters, and this has ultimately underpinned the financial performance of the business for the year.

Business Performance

The NZM Group has recorded earnings before interest and tax (EBIT) of $6.4 million, an increase of 37% on the previous year, and an increase of 232% on the PDS prospective financial information. This is a record performance for the business.

Over the past five years the business has delivered a compound annual growth rate (CAGR) in EBIT of 16.2%.

On a net profit after tax basis the result is $4.3 million, an increase of 50% on the previous year. This result represents a post-tax return on year-end shareholder equity for the year of 14.7%.

Bales sold volumes for the year increased by 28,000 bales or 39%, with strong wool growth particularly good increasing by 22,000 bales or 86% to 47,000 bales.

This is a very pleasing result.

Business Strength

During the year the business undertook a capital raise to diversify our funding sources to support future growth and working capital flexibility, and to strengthen our balance sheet given the heightened uncertainty due to Covid 19. In conjunction with the capital raise we also offered a share buy-back programme to allow shareholders who wished to exit their shareholding to do so. The share issue price and share buy-back price was $3.80 per share.

The gross capital raised through the capital raise was $9.94 million, with share buy-back and capital raise costs of $2.95m deducted to provide a net increase in equity of $6.99m.

As a result of this the year end equity as a percentage of total assets is a very healthy 68%, compared to 51% in the prior year.

Dividend

Balancing the strong financial performance of the business with the need to invest in our growth initiatives the board has determined that a dividend of 30% of after-tax profits should be paid to shareholders. This equates to a dividend of 24.1 cents per share.

The dividend will be fully imputed and will be paid immediately following the Annual Meeting in October 2021.

Based on the year-end share price of $4.50 the dividend represents a yield of 5.4%.

CFO's Report (continued)

Share Trading

In conjunction with the constitution change and capital raise late in 2020 NZM shares were listed on the Unlisted Securities Exchange (USX.co.nz) in an effort to provide an improved mechanism for share trading to encourage greater share liquidity and price discovery.

In the seven months between listing and year end, 135,000 shares were traded on the platform at a weighted average price of $3.96. The closing share price at year end was $4.50 per share. The share price has subsequently risen to $5.50 per share at the time of writing this report.

While this level of activity and pricing is a significant improvement on the pre-USX listing activity, there is still some way to go before shares can be considered fully liquid.

Earnings Guidance

Our expectation is for earnings in the 2021/22 financial year to be in line with the 2020/21 result.

Summary

The financial performance and position of the business is strong and we are well placed as we head into the new financial year.

Peter Floris
Chief Financial Officer

Highlights

$6.4M ▲ 37%
EBIT

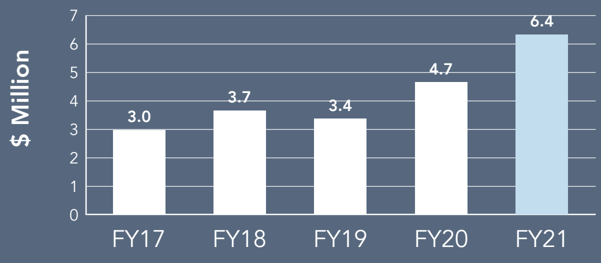
$4.3M ▲ 50%
NPAT

104,000 ▲ 39%
Bales Sold

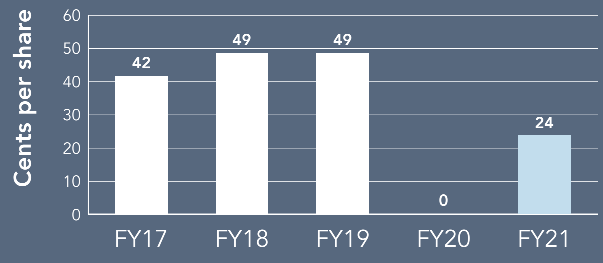
Key Financial Information

Five Year Trends

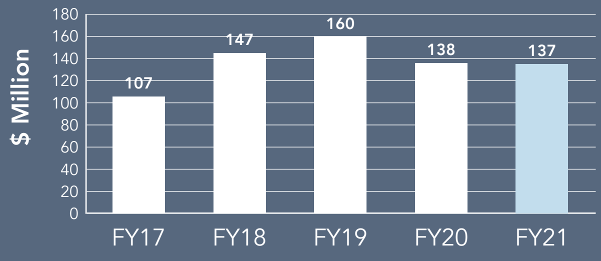
Earnings before interest and tax



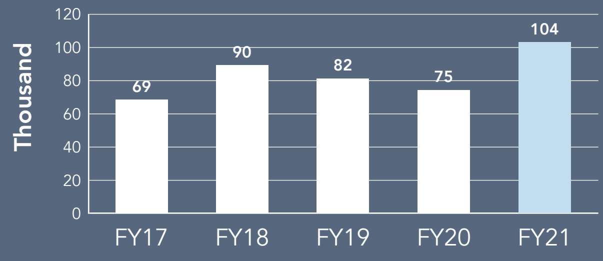
Dividend declared



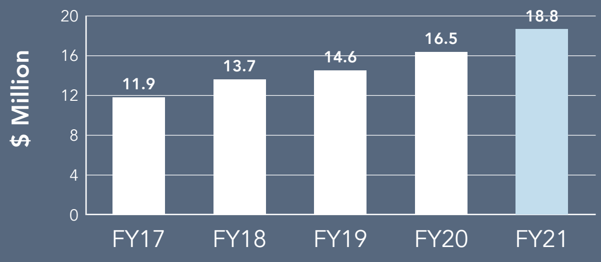
Operating revenue



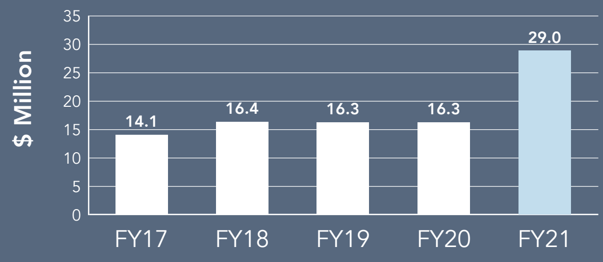
Bales sold



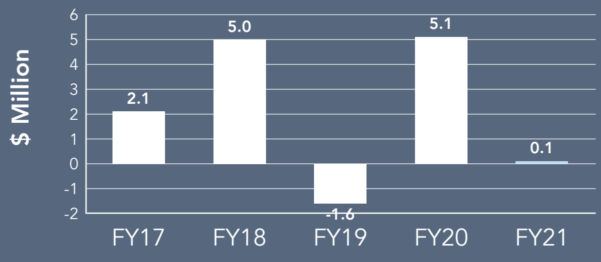
Gross profit



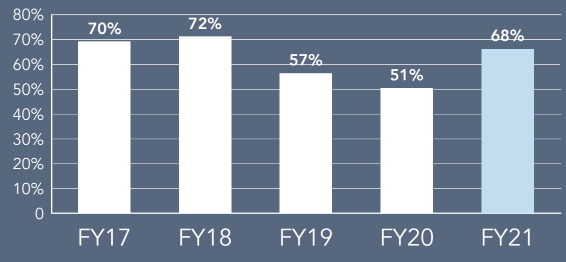
Total equity



Operating cash flow



Equity as a percentage of total assets



Group Directory

As at 30 June 2021

Nature of Business	Wool Marketing, Sales and Innovation
Registered Office	Level 2, 123 Victoria Street Christchurch
Directors	Kathryn Mitchell (Chairman) Ben Todhunter (Deputy Chairman) Bill Sutherland Paul Ensor Matanuku Mahuika John Penno
Auditors	Deloitte Limited, Christchurch
Bankers	ASB Bank, Christchurch
Solicitors	Chapman Tripp, Christchurch
Share Registrar	Link Market Services, Auckland
Business Location	Level 2, 123 Victoria Street Christchurch

Directors' Statement

The Directors are responsible for preparing the consolidated financial statements and ensuring that they comply with New Zealand Generally Accepted Accounting Practice and fairly represent the financial position of the Group as at 30 June 2021 and the results of the operations and cash flows of the Group for the year ended on that date.

The Directors consider that the consolidated financial statements of the Group 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 Group and facilitate compliance of the consolidated financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group 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 consolidated financial statements for The New Zealand Merino Company Limited and its subsidiary Keravos Limited for the year ended 30 June 2021.

For and on behalf of the Board of Directors:

Kathryn Mitchell
Chairman

3 September 2021

Paul Ensor
Chairman, Audit & Risk Committee

3 September 2021

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2020 $000	2021 $000
Revenue	1	137,781	**137,189**
Cost of sales		(121,311)	**(118,400)**
Gross profit		**16,470**	**18,789**
Other income	2	4,194	**3,464**
Share of investments in joint ventures	11	-	**32**
Income from investments in other entities	11	15	**9**
Other income		**4,209**	**3,505**
Net finance costs	3	(648)	**(427)**
Procurement and selling expenses		(3,967)	**(3,672)**
Marketing expenses		(3,969)	**(3,781)**
Innovation expenses		(3,855)	**(3,663)**
Administrative expenses		(3,797)	**(4,413)**
Share based arrangements	27	(47)	**-**
Other expenses	4	(385)	**(404)**
Expenses		**(16,668)**	**(16,360)**
Profit before income tax		**4,011**	**5,934**
Income tax expense	5	(1,172)	**(1,673)**
Profit / (loss) after tax		**2,839**	**4,261**
Profit / (loss) attributable to:			
Shareholders of the company		2,839	**4,312**
Non-controlling interest	12	-	**(51)**
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Gains / (losses) from cash flow hedges		(1,617)	**1,889**
Income tax relating to other comprehensive income	10	453	**(529)**
		(1,164)	**1,360**
Total comprehensive income		**1,675**	**5,621**
Total comprehensive income attributable to:			
Shareholders of the company		1,675	**5,672**
Non-controlling interest	12	-	**(51)**
Earnings per share (cents)			
Basic earnings per share	16	86.00	**98.34**
Diluted earnings per share	16	86.00	**98.34**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2020 $000	2021 $000
ASSETS			
Current assets			
Cash and cash equivalents	6	275	**6,407**
Trade and other receivables	7	5,582	**9,759**
Inventories	8	11,931	**13,076**
Derivative financial instruments	15	308	**445**
Total current assets		**18,096**	**29,687**
Non-current assets			
Property, plant and equipment	9	2,194	**2,074**
Investments in joint ventures	11	-	**31**
Investments in other entities	11	15	**24**
Deferred tax	10	607	**138**
Intangible assets and goodwill	13	5,750	**5,993**
Derivative financial instruments	15	121	**12**
Right-of-use assets	21	5,308	**4,655**
Total non-current assets		**13,995**	**12,927**
Total assets		**32,091**	**42,614**
LIABILITIES			
Current liabilities			
Current portion of long term incentive provision		1,004	**-**
Current portion of share based arrangements provision	27	668	**974**
Current portion of income in advance	25	36	**20**
Trade and other payables	14	5,055	**6,412**
Derivative financial instruments	15	1,943	**67**
Lease liabilities	21	450	**524**
Total current liabilities		**9,156**	**7,997**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position (continued)

As at 30 June 2021

	Note	2020 $000	2021 $000
Non-current liabilities			
Non-current portion of income in advance	25	417	-
Derivative financial instruments	15	4	19
Non-current portion of share based arrangements provision	27	1,117	759
Lease liabilities	21	5,048	4,830
Total non-current liabilities		**6,586**	**5,608**
Total liabilities		**15,742**	**13,605**
Net assets		**16,349**	**29,009**
EQUITY			
Share capital	16	1,471	8,458
Non-controlling interest	12	-	(51)
Retained earnings	17	15,971	20,335
Cash flow hedge reserve	17	(1,093)	267
Total equity		**16,349**	**29,009**

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 3 September 2021.

Kathryn Mitchell
Chairman

3 September 2021

Paul Ensor
Chairman, Audit & Risk Committee

3 September 2021

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Note	Share capital $000	Retained earnings $000	Cash flow hedge reserve $000	Non-controlling interest $000	Total equity $000
Balance at 1 July 2019		**1,471**	**14,806**	**71**	**-**	**16,348**
NZ IFRS 16 transition adjustment	21	-	(61)	-	-	(61)
Balance at 1 July 2019 (restated)		**1,471**	**14,745**	**71**	**-**	**16,287**
Profit for the year	17	-	2,839	-	-	2,839
Other comprehensive income	17	-	-	(1,164)	-	(1,164)
Dividend	28	-	(1,613)	-	-	(1,613)
Balance at 30 June 2020		**1,471**	**15,971**	**(1,093)**	**-**	**16,349**
Balance at 1 July 2020		**1,471**	**15,971**	**(1,093)**	**-**	**16,349**
Profit for the year	17,12	-	4,312	-	(51)	4,261
Other comprehensive income	17	-	-	1,360	-	1,360
Share based arrangements	27	-	52	-	-	52
Share issue	16	9,940	-	-	-	9,940
Share buy-back	16	(2,328)	-	-	-	(2,328)
Share issue costs	16	(625)	-	-	-	(625)
Balance at 30 June 2021		**8,458**	**20,335**	**267**	**(51)**	**29,009**
Carrying amounts						
At 1 July 2019		1,471	14,806	71	-	16,348
At 30 June 2020		1,471	15,971	(1,093)	-	16,349
At 30 June 2021		**8,458**	**20,335**	**267**	**(51)**	**29,009**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2020 $000	**2021 $000**
Net operating cash flows			
Cash provided from:			
Receipts from customers		142,019	**134,574**
Primary Growth Partnership funding		1,623	**1,786**
Interest income received	3	1	**-**
		143,643	**136,360**
Cash applied to:			
Payments to suppliers and employees		(137,859)	**(135,139)**
Variable lease payments	21	(71)	**(73)**
Income tax payments		-	**(644)**
Interest paid	3	(337)	**(153)**
Interest paid on leases	3	(312)	**(274)**
		(138,579)	**(136,283)**
Net cash from / (used in) operating activities	18	**5,064**	**77**
Net investing cash flows			
Cash applied to:			
Acquisition of intangibles	13	(66)	**(330)**
Purchase of property, plant and equipment	9	(300)	**(155)**
Net cash from / (used in) investing activities		**(366)**	**(485)**
Net financing cash flows			
Cash provided from:			
Proceeds from share issue	16	-	**9,940**
			9,940
Cash applied to:			
Share issue costs	16	-	**(625)**
Share buy-back	16	-	**(2,328)**
Dividend	28	(1,613)	**-**
Payments for leases	21	(153)	**(447)**
		(1,766)	**(3,400)**
Net cash from / (used in) financing activities		**(1,766)**	**6,540**
Net increase / (decrease) in cash balances		**2,932**	**6,132**
Cash and cash equivalents at beginning of year		**(2,657)**	**275**
Cash and cash equivalents at the end of year		**275**	**6,407**

The accompanying notes form an integral part of these financial statements

Statement of Accounting Policies

For the year ended 30 June 2021

Reporting Entity

The consolidated financial statements (financial statements) presented are those of the Group, including The New Zealand Merino Company Limited and its subsidiary Keravos Limited.

The parent company, The New Zealand Merino Company Limited, is a company domiciled in New Zealand, and is registered under the Companies Act 1993 and listed on the Unlisted Securities Exchange.

The New Zealand Merino Company Limited is a FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

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. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

Disclosures in respect of Earnings Per Share (EPS) and segment reporting have been reported for the first time this reporting period.

Representation of Comparatives

Where applicable, certain comparatives have been restated to comply with the accounting presentation adopted in the current year to ensure consistency with the current year classification.

Areas of restatement include; Note 1 Revenue, Note 2 Other Income, Note 15 Financial Instruments and Note 21 Leases.

Basis of Consolidation

The Group's financial statements consolidate the financial statements of The New Zealand Merino Company Limited and its subsidiary, accounted for using the acquisition method, and the results of its associates, accounted for using the equity method. Intercompany transactions and balances between group companies are eliminated upon consolidation.

Subsidiaries are entities over which the Group has control. Control is achieved when the Group:

- has power over the entity;
- is exposed to, or has right to, variable returns from its involvement with the entity; and
- can use its power to affect returns.

Measurement Base

The financial statements are prepared on a historical cost basis, except for derivative financial instruments, 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.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

Presentation Currency

These financial statements are presented in New Zealand dollars, which is the Group'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 Group'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 27.
- Goodwill impairment assessment. Refer to policy (g) and Note 13.
- Principal versus Agent classification. Refer to policy (l) and Note 1.

Accounting Policies

Changes in Accounting Policies

There were no new standards, amendments or interpretations that had a material impact on the Group financial statements.

New Standards and Interpretations Not Yet Adopted

In April 2021 the International Financial Reporting Interpretations Committee (IFRIC) published an agenda decision clarifying how arrangements that are classified as Software-as-a-Service should be accounted for. There is no impact on the financial statements for the year ended 30 June 2021. The Group may incur future costs and will continue to assess the impact that this will have on the consolidated financial statements in future periods.

There are no other new standards, amendments or interpretations that have had a material impact.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

The following specific accounting policies, which materially affect the measurement of the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated 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 Consolidated 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the Consolidated Statement of Comprehensive Income as an expense when incurred.

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 Consolidated 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.

(b) 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.

(c) Non Derivative Financial Instruments

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

(d) Intangible Assets

Trademarks are stated at cost, and once fully developed are amortised to the Consolidated 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 Consolidated Statement of Comprehensive Income where they no longer meet the definition of an intangible asset.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

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

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

Goodwill is recorded at cost less any impairment losses.

(e) Trade and Other Receivables

Trade and other receivables are measured at amortised cost less any impairment losses.
The Group 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. Refer to Note (g) for the impairment policy.

(f) 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.

(g) Impairment

The Group uses the expected credit loss model for all financial assets not held at fair value through profit or loss. For trade receivables, the Group 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 is tested for impairment by comparing the estimated recoverable amount with the carrying amount.

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 Consolidated Statement of Comprehensive Income.

(h) 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.

Earnings per share
Basic and diluted earnings per shares (EPS) are presented for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

(i) 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.

(j) Provisions

A provision is recognised when the Group 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.

(k) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(l) Revenue

The Group recognises revenue from the following major sources:

- Contract and auction sales
- Wool fees and charges

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

Contract and auction sales
Revenue is recognised in the Consolidated Statement of Comprehensive Income when control has been transferred to the buyer. This represents the point in time at which the Group 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 Group is a principal in regards to all sale of wool transactions due to the level of control during the transaction. The Group is an agent in regards to insurance and freight on select wool sales.

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

(m) Other Income

External funding
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 Group for expenses incurred is recognised in the Consolidated Statement of Comprehensive Income as other income in the same period the expenses are recognised.

Royalties
Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Management fees
Management fees are recognised on an accrual basis when services for management have been provided.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

(n) Expenses

Leases

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

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate when the rate implicit in the lease is not easily determinable.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments.

The lease liability is remeasured whenever there is a change in the lease term or a change in the lease payment.

Right-of-use lease assets

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

Finance income and expenses

Finance income comprises interest income which is recognised as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in the Consolidated 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 Consolidated Statement of Comprehensive Income.

(p) Derivative Financial Instruments

The Group uses foreign exchange contracts to hedge its exposure to foreign exchange risks arising from future sales or purchases of goods in foreign currencies. The Group 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 Group 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 Group designates certain derivatives as cash flow hedging instruments in respect of foreign currency risk and wool price risk.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

At the inception of the hedge relationship the Group 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 Group 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:

- 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 Group designates the full change in the fair value of forward contracts and futures contracts as the hedging instrument for all its hedging relationships involving forward contracts and futures contracts.

Foreign exchange contracts and wool futures contracts are recognised in the Consolidated Statement of Financial Position at their fair value. Transaction costs are expensed immediately. Where the foreign exchange contracts or wool futures contracts 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 Consolidated Statement of Comprehensive Income at the point at which the sale and associated debtor are recorded. Any ineffective portion of foreign exchange contracts or wool futures contracts are recognised in the Consolidated Statement of Comprehensive Income.

(q) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated 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.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

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

(r) Goods and Services Tax

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

(s) Treasury Stock

Treasury stock is the portion of shares that the Group keeps in its own treasury. Treasury stock arises from a buy-back 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 Consolidated 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 Consolidated 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 Consolidated Statement of Comprehensive Income as incurred.

(v) Share Based Arrangements

Equity-settled share based arrangements with employees of the Group 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 Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group 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 Consolidated 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 Consolidated Statement of Comprehensive Income for the year.

The Group recognises any reduction in the fair value of cash-settled share based arrangements through current year retained earnings in the Consolidated Statement of Financial Position.

Statement of Accounting Policies (continued)

For the year ended 30 June 2021

(w) Statement of Cash Flows

The Consolidated 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 Group and those activities relating to the cost of servicing the Group's equity capital.

(x) Subsidiaries

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at fair value, which is calculated as the sum of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group, at acquisition date, in exchange for control of the acquiree.

Acquisition related costs are recognised in the Consolidated Statement of Comprehensive Income as incurred. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date of acquisition or up to the date of disposal as appropriate.

(y) Investments in Joint Ventures

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

The Group accounts for investments in joint ventures using the equity method of accounting.

All investments in joint ventures are initially recognised in the Consolidated Statement of Financial Position at cost and subsequently increased or decreased to recognise the Group's share of profit or loss.

The investments in joint ventures share of profit or loss is recognised in the Consolidated Statement of Comprehensive Income.

(z) Investments in Other Entities

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

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

(aa) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses. A segment's operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group currently operates as one reportable segment and discrete financial information is not provided on a geographical or product basis. The operating results are reviewed at a Group level.

Notes to the Financial Statements

For the year ended 30 June 2021

1 Revenue

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

	2020 $000	2021 $000
Contract revenue		
Fine wool	95,260	89,692
Strong wool	7,109	11,840
	102,369	**101,532**
Auction revenue		
Fine wool	22,328	22,094
Strong wool	3,311	3,416
	25,639	**25,510**
Wool fees and charges revenue	9,773	10,147
Total revenue	**137,781**	**137,189**

Customers who contribute more than 10% to total revenue are Motion Wool Limited and Tianyu Wool Proprietary Limited who are first stage processors in key brand partners' supply chains.

2 Other Income

	2020 $000	2021 $000
Primary Growth Partnership funding	1,681	2,026
Other external funding	746	48
Royalties	471	516
Gain on sale of fixed assets	-	1
Exchange gains	23	-
Management fees	327	364
Other income	946	509
	4,194	**3,464**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

3 Net Finance Costs / (Income)

	2020 $000	**2021** **$000**
Interest expense	337	**153**
Interest expense on leases	312	**274**
Interest income	(1)	**-**
	648	**427**

4 Expenses

	2020 $000	**2021** **$000**
Other expenses		
Depreciation	278	**279**
Amortisation of other intangible assets	79	**83**
Loss on sale of fixed assets / intangible assets	4	**-**
Exchange losses	-	**19**
Donations	24	**23**
	385	**404**
Personnel expenses (salaries & employer contribution to Kiwisaver included in functional expense categories)		
Salaries	6,815	**7,339**
Share based arrangements	47	**-**
Long term incentives	551	**-**
Kiwisaver employer contributions	234	**303**
	7,647	**7,642**
Technical research project costs (included in innovation expenses)		
Technical research project costs	631	**706**

Technical research projects include livestock trials, the validation of the sustainability of farming and processing systems, research to validate the technical performance of textiles and wool fibre, and research into new uses for wool fibre.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

5 Income Tax

	2020 $000	2021 $000
Income tax expense		
Current income tax - New Zealand	(628)	(1,723)
Current income tax - Australia	(10)	(10)
Relating to origination and reversal of temporary differences	(534)	60
Adjustments in respect of New Zealand current income tax of previous years	-	(1)
Adjustments in respect of Australian current income tax of previous years	-	1
Income tax expense reported in the Consolidated Statement of Comprehensive Income	**(1,172)**	**(1,673)**
Numerical reconciliation between aggregate tax expense recognised in the Consolidated Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate		
Accounting profit before tax from continuing operations	4,011	5,934
Plus after tax (profit) / loss of joint venture	-	(32)
	4,011	**5,902**
At the statutory income tax rate of 28%	(1,123)	(1,652)
Current income tax - Australia	-	-
Adjustments in respect of New Zealand current income tax of previous years	-	-
Adjustments in respect of Australian current income tax of previous years	-	9
Losses recognised for current year's tax	449	-
Losses utilised from subsidiary	-	-
Change in losses recognised in deferred tax	(449)	-
Temporary differences arising on the adoption of NZ IFRS 16	17	-
Permanent differences	(66)	(30)
Aggregate income tax (expense) / income	**(1,172)**	**(1,673)**

	2020 $000	2021 $000
Imputation credit balance		
Balance at the beginning of the year	-	628
Income tax paid for prior year	-	9
Income tax payable	628	1,652
Balance at the end of the year	**628**	**2,289**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

6 Cash And Cash Equivalents

	2020 $000	**2021** **$000**
Bank	**275**	**6,407**

Working capital facility

During the year the Group maintained an overdraft facility of up to ($000) $3,000 and utilised a trade finance facility of up to ($000) $10,000 with ASB Bank Limited. At balance date the facilities were not drawn down. The Group also has a Business Visa limit of ($000) $500 (2020: $425).

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

7 Trade And Other Receivables

	2020 $000	**2021** **$000**
Trade receivables	5,071	**9,220**
Prepayments	511	**539**
	5,582	**9,759**

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 $54 (NZD $58), USD $214 (NZD $308).

The Group 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 material impairment of trade and other receivables as at 30 June 2021.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 Inventories

	2020 $000	**2021** **$000**
Stock of wool	**11,931**	**13,076**

The cost of inventories recognised as an expense during the year in respect of continuing operations was ($000) $118,400 (2020: $121,311).

The cost of inventories recognised as an expense includes ($000) $162 (2020: $416) in respect of write-downs of inventory to net realisable value.

Stock on hand as at 30 June 2021 with an age of greater than one year is ($000) $318 (2020: $338).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

9 Property, Plant and Equipment

	Office equipment	Leasehold improvements	Information technology assets	Plant and equipment	**Total**
	$000	$000	$000	$000	**$000**
Cost and valuation					
Balance at 1 July 2019	**386**	**1,941**	**572**	**47**	**2,946**
Additions	82	107	110	1	**300**
Disposals	(16)	(2)	(52)	-	**(70)**
Balance at 30 June 2020	**452**	**2,046**	**630**	**48**	**3,176**
Balance at 1 July 2020	452	2,046	630	48	**3,176**
Additions	72	1	46	52	**171**
Disposals	(2)	(24)	(5)	-	**(31)**
Balance at 30 June 2021	**522**	**2,023**	**671**	**100**	**3,316**
Accumulated depreciation					
Balance at 1 July 2019	**(195)**	**(60)**	**(486)**	**(26)**	**(767)**
Depreciation for the year	(53)	(167)	(54)	(4)	**(278)**
Disposals	12	1	50	-	**63**
Balance at 30 June 2020	**(236)**	**(226)**	**(490)**	**(30)**	**(982)**
Balance at 1 July 2020	(236)	(226)	(490)	(30)	**(982)**
Depreciation for the year	(49)	(176)	(51)	(3)	**(279)**
Disposals	1	14	4	-	**19**
Balance at 30 June 2021	**(284)**	**(388)**	**(537)**	**(33)**	**(1,242)**
Carrying amounts					
At 1 July 2019	191	1,881	86	21	**2,179**
At 30 June 2020	216	1,820	140	18	**2,194**
At 30 June 2021	**238**	**1,635**	**134**	**67**	**2,074**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

10 Deferred Tax

Movements in deferred tax:

	Opening balance 2021 $000	Charged to income 2021 $000	Acquisition / disposal 2021 $000	Charged to other comprehensive income 2021 $000	**Closing balance 2021 $000**
Gross deferred tax asset / liability					
Employee entitlements	142	22	-	-	**164**
Other accrual	4	(1)	-	-	**3**
Capital contribution to tenant fitout	15	(19)	-	-	**(4)**
Net lease liabilities	21	58	-	-	**79**
Derivative financial instruments	425	-	-	(529)	**(104)**
Total deferred tax asset	**607**	**60**	**-**	**(529)**	**138**

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

11 Investments In Other Entities

(i) Joint ventures

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

Alpine Origin Merino Limited (AOML)

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

The financial year end date of AOML is 30 September. This was the reporting date established when AOML was incorporated, and a change of reporting date is not permitted in AOML.

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

There are no known risks associated with the investment in AOML as at 30 June 2021.

Glerups New Zealand Limited (GNZL)

GNZL is jointly owned by The New Zealand Merino Company Limited (50%) and Aktieselskabet Glerups.dk ApS (50%). GNZL is incorporated in New Zealand. GNZL is focused on the marketing and distribution of Glerups indoor shoes within New Zealand. The financial year end date of GNZL is 30 June.

The Group's share of profits in GNZL is being equity accounted.

There are no known risks associated with the investment in GNZL as at 30 June 2021.

	Total assets	Total liabilities	Revenues	Profit / (loss)
	$000	$000	$000	$000
GNZL	117	30	491	63
Ownership interest (50%)	59	15	246	31

The fair value of GNZL at 30 June 2021 is ($000) $31 (2020: $0).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

11 Investments In Other Entities (continued)

(ii) Other interests

Sheep Included Limited (Sheep Inc)

During the year the Group acquired 2,809 ordinary shares in Sheep Inc. Sheep Inc's principal place of business and country of incorporation is the United Kingdom.

As at 30 June 2021 the Group holds 6,898 ordinary shares in Sheep Inc. This represents a total shareholding of 0.3%.

12 Subsidiary Companies

Keravos Limited

On 21 October 2020 The New Zealand Merino Company Limited incorporated a company, Keravos Limited, owned 80% by The New Zealand Merino Company Limited and 20% by the inventor of the Keravos technology, Logan Williams. Keravos Limited has a 30 June balance date.

Keravos Limited is focused on innovation utilising New Zealand strong wool.

2021	Principal activity	Date of incorporation	Equity acquired
Keravos Limited	Natural fibre innovation	21/10/2020	80%

Impact on the results of the Group

From the date of incorporation, Keravos Limited has contributed ($000) $2 to other income, and a loss before tax of ($000) $253 to the Group's total comprehensive income.

Non-controlling interest

For the year ended 30 June 2021 the before tax loss attributable to the non-controlling interest in Keravos Limited is ($000) $51. The before tax loss attributable to the Group is ($000) $202.

The Group has utilised the full value of Keravos Limited's tax losses ($000) $71.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

13 Intangible Assets And Goodwill

	Goodwill	Trademarks	Computer software	Patents	Total
	$000	$000	$000	$000	$000
Costs					
Balance at 1 July 2019	**5,631**	**307**	**397**	**-**	**6,335**
Acquisitions	-	-	66	-	66
Disposals	-	-	-	-	-
Balance at 30 June 2020	**5,631**	**307**	**463**	**-**	**6,401**
Balance at 1 July 2020	5,631	307	463	-	6,401
Acquisitions	-	152	171	7	330
Disposals	-	(4)	-	-	(4)
Balance at 30 June 2021	**5,631**	**455**	**634**	**7**	**6,727**
Amortisation					
Balance at 1 July 2019	**-**	**(260)**	**(312)**	**-**	**(572)**
Amortisation for the year	-	(28)	(51)	-	(79)
Disposals	-	-	-	-	-
Balance at 30 June 2020	**-**	**(288)**	**(363)**	**-**	**(651)**
Balance at 1 July 2020	-	(288)	(363)	-	(651)
Amortisation for the year	-	(19)	(64)	-	(83)
Disposals	-	-	-	-	-
Balance at 30 June 2021	**-**	**(307)**	**(427)**	**-**	**(734)**
Carrying amounts					
At 1 July 2019	**5,631**	**47**	**85**	**-**	**5,763**
At 30 June 2020	**5,631**	**19**	**100**	**-**	**5,750**
At 30 June 2021	**5,631**	**148**	**207**	**7**	**5,993**

Goodwill arises due to the acquisition of the assets and business of NZM Disestablishment Limited.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

13 Intangible Assets And Goodwill (continued)

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 Group) 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. A reduction of 20% in assessed earnings and 5% change in the discount rate do not result in an impairment.

Trademarks are amortised over the life applicable to each trademark. The life of all current trademarks is 10 years.

Computer software is amortised over a 2-5 year period. Patents are amortised over a 20 year period.

14 Trade And Other Payables

	2020	**2021**
	$000	**$000**
Trade payables	2,741	**3,901**
Income tax payable	628	**1,652**
Employee entitlements	1,686	**860**
	5,055	**6,412**

Related party payables are detailed in Note 19.

15 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).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

Fair value estimation (continued)

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

	2021 Level 1	2021 Level 2	2021 Level 3	Total Balance
Assets				
Investments in other entities	-	-	24	**24**
Derivative financial instruments	-	457	-	**457**
Total assets	**-**	**457**	**24**	**481**
Liabilities				
Derivative financial instruments	-	86	-	**86**
Total liabilities	**-**	**86**	**-**	**86**

	2020 Level 1	2020 Level 2	2020 Level 3	Total Balance
Assets				
Investments in other entities	-	-	15	**15**
Derivative financial instruments	-	429	-	**429**
Total assets	**-**	**429**	**15**	**444**
Liabilities				
Derivative financial instruments	-	1,947	-	**1,947**
Total liabilities	**-**	**1,947**	**-**	**1,947**

The net nominal value of forward currency contracts (cash flow hedges) outstanding at balance date was ($000) $11,782 (2020: $204). The net nominal value of wool futures (cash flow hedges) outstanding at balance date was ($000) $4,147 (2020: $4,602).

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 Group's capital includes share capital, reserves, and retained earnings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

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

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

During the year The New Zealand Merino Company Limited completed a share issue, and share buy-back and cancellation with a net ($000) $6,987 of share capital being raised. The New Zealand Merino Company Limited's shares are listed on the Unlisted Securities Exchange.

The Group did not pay a dividend in 2021 ($000) (2020: $1,613).

At 30 June 2021 the Group is not utilising the overdraft facility. The Group can utilise an overdraft facility of up to ($000) $3,000 and a trade finance facility of up to ($000) $15,000 with ASB Bank Limited. The Group has obtained a trade finance facility to cover its cash flow requirements for the 2022 financial year.

The Group 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.

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

(i) Wool price risk

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

(i) Wool price risk (continued)

The average exchange quoted forward price for wool futures at 30 June 2021 is $17.72 per kilogram (2020: $13.54). The total kilograms contracted at 30 June 2021 is 247,500 kilograms (2020: 217,000).

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, and total comprehensive income by ($000) $133 with no effect on profit / (loss) after tax. A 3% decrease in the exchange quoted forward wool price would decrease the fair value, and total comprehensive income by ($000) $133 with no effect on profit / (loss) after tax.

The following table details the notional principal amounts, fair value and remaining terms of wool futures contracts outstanding as at 30 June 2021:

	Notional principal amount 2020 $000	Fair value 2020 $000	Notional principal amount 2021 $000	Fair value 2021 $000
Not later than 1 month	228	(84)	-	-
30-90 days	88	(20)	776	60
91-365 days	4,286	(1,621)	3,104	206
1 year to 5 years	-	-	267	11
	4,602	**(1,725)**	**4,147**	**277**

(ii) Currency risk

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

The Group 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 Group's policy to hedge these amounts as they arise.

The Group is mainly exposed to the currency of Australia (AUD), the United States of America (USD) and Europe (EUR). A 1% increase in the contract close out rates would increase the fair value, and total comprehensive income by ($000) $117 with no effect on profit / (loss) after tax. A 1% decrease in the contract close out rates would decrease the fair value, and total comprehensive income by ($000) $119 with no effect on profit / (loss) after tax.

At 30 June 2021 the average market rate for AUD foreign exchange contracts is 0.9322, the average market rate for USD foreign exchange contracts is 0.7059 and the average market rate for EUR foreign exchange contracts is 0.5906.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

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

	Notional principal amount 2020 $000	Fair value 2020 $000	Notional principal amount 2021 $000	Fair value 2021 $000
AUD Sell				
Not later than 1 month	150	5	1,946	6
30-90 days	1,248	20	2,519	(9)
91-365 days	8,908	95	3,487	3
1 year to 5 years	3,513	21	1,771	(6)
	13,819	**141**	**9,723**	**(6)**
AUD Buy				
Not later than 1 month	(294)	10	(155)	-
30-90 days	(620)	14	(1,288)	29
91-365 days	(8,308)	101	(4,898)	86
1 year to 5 years	(6,260)	96	-	-
	(15,482)	**221**	**(6,341)**	**115**
USD Sell				
Not later than 1 month	-	-	455	(1)
30-90 days	-	-	777	(2)
91-365 days	1,867	(156)	6,979	(44)
1 year to 5 years	-	-	2,629	(13)
	1,867	**(156)**	**10,830**	**(60)**
USD Buy				
Not later than 1 month	-	-	(336)	10
30-90 days	-	-	(1,307)	32
91-365 days	-	-	-	-
1 year to 5 years	-	-	-	-
	-	**-**	**(1,643)**	**42**
EUR Buy				
Not later than 1 month	-	-	(787)	3
30-90 days	-	-	-	-
91-365 days	-	-	-	-
1 year to 5 years	-	-	-	-
	-	**-**	**(787)**	**3**
	204	**206**	**11,782**	**94**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 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 Group. Financial assets, which potentially subject the Group to concentration of credit risk, consist principally of cash, bank balances, trade receivables, and advances to subsidiaries. The Group's cash equivalents are placed with high credit quality financial institutions.

The Group 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 Group's exposures are continuously monitored. The Group measures credit risk based on the expected credit loss model.

Trade receivables consist of a small number of customers. Approximately 73% of trade receivables are due from two customers.

The credit risk on forward currency contracts with ASB Bank Limited as at 30 June 2021 is ($000) $94 (2020: $206). The net credit risk on wool future contracts with the various counterparties as at 30 June 2021 is ($000) $277 (2020: $nil). All counterparties for forward currency contracts are considered to be of a high quality based on credit ratings. All counterparties for wool futures contracts are assessed based on credit reports and considered to be of a good quality.

Total credit risk was comprised as follows:

	2020 $000	**2021** **$000**
Trade receivables	5,071	**9,220**
Total credit risk	**5,071**	**9,220**

Collateral and other credit enhancements obtained

The Group does not hold any collateral as security over trade receivables.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

(iii) Credit risk (continued)

Trade receivables that are either past due or impaired

The table below sets out information regarding the ageing of trade receivables. Debts owing in excess of 30 days are considered past due. These have not been assessed as impaired as the expected credit loss is not considered to be material.

	2020	**2021**
	$000	**$000**
Current	4,048	**8,795**
31-60 days	198	**296**
61-90 days	585	**129**
Over 90 days	240	**-**
	5,071	**9,220**

Renegotiated trade receivables

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

(iv) Interest rate risk

Interest rate risk is the risk that the Group may be affected by changes in the general level of interest rates. The Group 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 Group had no interest-bearing financial instruments (2020: nil)

(v) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group 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 Group has the ability to meet financial obligations as they fall due.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

(v) Liquidity risk

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

	Less than 1 year 2021 $000	1-2 Years 2021 $000	2-6 Years 2021 $000	**Total 2021 $000**
Financial assets				
Bank	6,407	-	-	**6,407**
Trade and other receivables	9,220	-	-	**9,220**
Investments in other entities	24	-	-	**24**
Derivative financial instruments	445	12	-	**457**
	16,096	**12**	**-**	**16,108**
Financial liabilities				
Trade payables	6,412	-	-	**6,412**
Derivative financial instruments	67	14	5	**86**
Lease liabilities	524	557	4,273	**5,354**
Share based arrangements provision	974	759	-	**1,733**
	7,977	**1,330**	**4,278**	**13,585**

	Less than 1 year 2020 $000	1-2 Years 2020 $000	2-6 Years 2020 $000	**Total 2020 $000**
Financial assets				
Bank	275	-	-	**275**
Trade and other receivables	5,071	-	-	**5,071**
Investments in other entities	15	-	-	**15**
Derivative financial instruments	308	112	9	**429**
	5,669	**112**	**9**	**5,790**
Financial liabilities				
Trade payables	5,055	-	-	**5,055**
Derivative financial instruments	1,943	4	-	**1,947**
Lease liabilities	450	524	4,524	**5,498**
Share based arrangements provision	668	1,117	-	**1,785**
Long term incentive provision	1,004	-	-	**1,004**
	9,120	**1,645**	**4,524**	**15,289**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 Financial Instruments (continued)

(vi) Categories of financial instruments

	Financial assets / liabilities at fair value through profit and loss	Financial assets / liabilities at amortised cost	Total
	2021 $000	2021 $000	2021 $000
Assets			
Bank	-	6,407	**6,407**
Trade and other receivables	-	9,220	**9,220**
Investments in other entities	24	-	**24**
Derivative financial instruments	457	-	**457**
	481	**15,627**	**16,108**
Liabilities			
Trade and other payables	-	6,412	**6,412**
Derivative financial instruments	86	-	**86**
Lease liabilities	-	5,354	**5,354**
Share based arrangements provision	1,733	-	**1,733**
	1,819	**11,766**	**13,585**

	Financial assets / liabilities at fair value through profit and loss	Financial assets / liabilities at amortised cost	Total
	2020 $000	2020 $000	2020 $000
Assets			
Bank	-	275	**275**
Trade and other receivables	-	5,071	**5,071**
Investments in other entities	15	-	**15**
Derivative financial instruments	429	-	**429**
	444	**5,346**	**5,790**
Liabilities			
Trade and other payables	-	5,055	**5,055**
Derivative financial instruments	1,947	-	**1,947**
Lease liabilities	-	5,498	**5,498**
Share based arrangements provision	1,785	-	**1,785**
Long term incentive provision	1,004	-	**1,004**
	4,736	**10,553**	**15,289**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

16 Share Capital

	2020 $000	**2021** **$000**
Paid in share capital comprises:		
Opening balance	1,471	**1,471**
Share issue	-	**9,940**
Share buy-back	-	**(2,328)**
Share issue costs	-	**(625)**
	1,471	**8,458**
Number of ordinary shares:		
Opening balance	3,301,073	**3,301,073**
Share issue	-	**2,615,677**
Share buy-back	-	**(612,501)**
Closing balance	**3,301,073**	**5,304,249**

At 30 June 2021 no ordinary shares were held by the Group as treasury stock (2020: nil).

2,615,677 shares were issued during the year at $3.80 per share. Gross share capital of ($000) $9,940 was raised. The New Zealand Merino Company Limited also undertook a share buy-back and cancellation which resulted in 612,501 shares being repurchased for $3.80 per share. The value of the gross shares repurchased and cancelled was ($000) $2,328. The New Zealand Merino Company Limited incurred ($000) $625 of transaction and legal costs in relation to the share capital raise. The net amount of share capital raised during the period was ($000) $6,987.

Earnings per share

	2020 $000	**2021** **$000**
Profit attributable to the ordinary shareholders of the Group	2,839	**4,312**
Weighted average number of ordinary shares	3,301,073	**4,384,826**
Earnings per share (cents)		
Basic earnings per share	86.00	**98.34**
Diluted earnings per share	86.00	**98.34**

There are no potential dilutive ordinary shares as at 30 June 2021.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

17 Retained Earnings And Reserves

Retained Earnings

	2020	2021
	$000	$000
Opening balance	14,806	15,971
NZ IFRS 16 transition adjustment	(61)	-
Profit after tax	2,839	4,312
Share based arrangements	-	52
Dividend	(1,613)	-
	15,971	**20,335**

The fair value of cash-settled share based arrangements was a reduction of ($000) $52. The reduction in the share based arrangements provision has been recognised in the current year's retained earnings.

Cash flow hedge reserve

	2020	2021
	$000	$000
Opening balance	71	(1,093)
Foreign exchange contracts	(247)	(81)
Wool futures contracts	(917)	1,441
	(1,093)	**267**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

18 Reconciliation Of Cash Flows With Reported Net Profit

	2020	**2021**
	$000	**$000**
Profit after tax	2,839	**4,261**
Non cash items:		
Share of associates retained (surplus) / loss	-	**(31)**
Investments in other entities	(15)	**(9)**
Depreciation	278	**279**
Depreciation on right-of-use lease assets	282	**539**
Loss / (gain) on sale of fixed assets / intangible assets	4	**1**
Amortisation of intangible assets	79	**83**
Movement in deferred tax	535	**(60)**
Long term incentive provision	551	**-**
Share based arrangements expense	47	**-**
Reclassification of landlord's contribution to right-of-use assets	-	**417**
Working capital:		
(Increase) / decrease in inventory	(96)	**(1,146)**
(Increase) / decrease in accounts receivable / prepayments	1,751	**(4,177)**
Increase / (decrease) in accounts payable	(1,156)	**353**
Increase / (decrease) in income in advance	(35)	**(433)**
Net cash from operating activities	**5,064**	**77**

19 Related Party Disclosures

Alpine Origin Merino Limited (AOML)

As at 30 June 2021 the Group owns a 50% share in Alpine Origin Merino Limited (AOML). During the year the Group 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 (2020: nil).

There are no receivable balances with AOML as at 30 June 2021 (2020: nil).

During the year ended 30 June 2021 the Group has recorded expenses of ($000) $120 with Alliance Group Limited. There are no receivable balances with Alliance Group Limited as at 30 June 2021 (2020: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

19 Related Party Disclosures (continued)

Glerups New Zealand Limited (GNZL)

As at 30 June 2021 the Group owns a 50% share in Glerups New Zealand Limited (GNZL). During the year the Group paid expenses of ($000) $10 (2020: nil) to GNZL. As at 30 June 2021 the receivable from GNZL is ($000) $140 (2020: $42). This comprises management and storage fees for GNZL.

As at 30 June 2021 the investment in GNZL is ($000) $31 (2020: nil).

Directors

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

Key management personnel

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

Total remuneration provided to key management personnel in 2021 was ($000) $2,449 (2020: $2,493). Key management personnel refers to the Chief Executive and seven (2020: five) direct management reports to the Chief Executive. This does not include fees paid to directors.

Share based long term incentive scheme

During the year the Group agreed in principle to a share based long term incentive scheme with the Chief Executive and five direct management reports, aligned to the Group's growth goals for the three years ending 30 June 2023.

The finalisation and grant date for the scheme is 30 July 2021, accordingly the impact of the scheme is not included in the current year financial statements.

Refer to Note 27 for details of management share based arrangements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

20 Commitments

Capital commitments

The Group had no capital commitments as at 30 June 2021 (2020: 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 2021.

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2021.

21 Leases

The Group leases buildings, motor vehicles and office equipment

Lease periods for leased assets are:

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

The related lease expense for exempt leases is recognised in the Consolidated Statement of Comprehensive Income ($000) $73 (2020: $71).

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

Lease liabilities are initially recognised at the lease commencement date as the present value of the lease payments over the lease term. The lease payments are discounted using the incremental borrowing rate if the rate implicit in the lease is not readily determinable.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

21 Leases (continued)

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

Right-of-use asset	Buildings 2021 $000	Motor vehicles 2021 $000	Office equipment 2021 $000	Total 2021 $000
Opening right-of-use asset at 1 July 2019	5,244	132	24	**5,400**
Depreciation charge for the year	(173)	(94)	(15)	**(282)**
Additions to right-of-use assets	120	70	-	**190**
Closing right-of-use asset at 30 June 2020	5,191	108	9	**5,308**
Opening right-of-use asset at 1 July 2020	5,191	108	9	**5,308**
Depreciation charge for the year	(431)	(96)	(12)	**(539)**
Additions to right-of-use assets	160	120	38	**318**
Derecognition of right-of-use assets	(13)	-	(2)	**(15)**
Landlord contribution to right-of-use assets	(417)	-	-	**(417)**
Closing right-of-use asset at 30 June 2021	**4,490**	**132**	**33**	**4,655**

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

Lease liability	Buildings 2021 $000	Motor vehicles 2021 $000	Office equipment 2021 $000	Total 2021 $000
Opening lease liability at 1 July 2019	5,300	136	25	**5,461**
Decrease in lease liability	(145)	(8)	-	**(153)**
Additions to lease liabilities	120	70	-	**190**
Closing lease liability at 30 June 2020	5,275	198	25	**5,498**
Opening lease liability at 1 July 2020	5,275	198	25	**5,498**
Decrease in lease liability	(339)	(96)	(12)	**(447)**
Additions to lease liabilities	160	120	38	**318**
Derecognition of lease liabilities	(13)	-	(2)	**(15)**
Closing lease liability at 30 June 2021	**5,083**	**222**	**49**	**5,354**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

21 Leases (continued)

Maturity analysis	2020 $000	2021 $000
Not later than one year	664	664
Later than one year but not later than two years	650	614
Later than two years but not later than five years	1,783	1,638
Later than five years	4,481	3,530
	7,578	**6,446**

22 Events After Balance Date

Share based long term incentive scheme

Refer to Note 19.

Dividend

The board has determined that a dividend of 30% of after-tax profits should be paid to shareholders. This equates to a dividend of 24.1 cents per share.

The dividend will be fully imputed and will be paid on Friday 22 October 2021 to all shareholders on the register at 5pm on Friday 15 October 2021.

There are no other significant events post balance date.

23 Auditor's Remuneration

The auditor of the Group is Deloitte Limited.

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

	2020 $000	2021 $000
Audit of the financial statements	32	41
Advisory services for share capital raise	-	78
	32	**119**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

24 Contingencies

The Group has a contingent liability regarding the assignment of the lease on the Wrights Road premises in February 2019. There are 1.5 months remaining under the Wrights Road lease which corresponds to a contingent liability value of ($000) $23 (2020: $207). The Group has no contingent assets as at 30 June 2021 (2020: 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 2021.

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2021.

25 Income In Advance

The Group has received ($000) $20 of current income in advance for sponsorship (2020: $36). The non-current portion of income in advance is nil ($000) (2020: $417).

26 Covid 19

During the year ended 30 June 2021 the Board of Directors and management have been actively monitoring the ongoing impact of Covid 19. Measures to mitigate any risks arising from Covid 19 have been put in place immediately after any risks are identified. The Group's financial position and performance for the year ended 30 June 2021 has not been adversely affected by Covid 19.

27 Share Based Arrangements

On 30 September 2011 The New Zealand Merino Company Limited (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 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 the 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

27 Share Based Arrangements (continued)

During the 2021 year there were no buy-backs and cancellation of any shares held under the arrangement (2020: nil).

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

	Number of shares issued	Issue price	Total vested	Percentage able to be sold back to company	Minimum shareholding while an employee
	$000	$000	$000	$000	$000
30/09/2011	602,342	$1.48	25%	-	25%
01/07/2012	-	-	35%	-	35%
01/07/2013	-	-	55%	-	55%
01/07/2014	-	-	75%	20%	20%
01/07/2015	-	-	95%	30%	20%
01/07/2016	-	-	100%	50%	20%
01/07/2017	-	-	100%	75%	20%
01/07/2018 onwards	-	-	100%	100%	20%

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

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

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

During the 2021 year no payments were made under the arrangement (2020: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

27 Share Based Arrangements (continued)

Fair value of share based arrangements

The fair value of share based arrangements as at 30 June 2021 is ($000) $1,733 (2020: $1,785). 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.

At 30 June 2021 the number of shares outstanding in the share based arrangements is 360,224 (2020: 360,224).

In the 2021 year the share based arrangements provision has decreased by ($000) $52 with the corresponding entry being recognised in retained earnings.

The share based arrangements provision has been valued using an earnings multiple of 5 and has been based on forecasted earnings with a 90% (2020: 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) $1,982. 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) $1,496.

Impact of the share based arrangement on the Consolidated Statement of Comprehensive Income

	2020 $000	**2021** **$000**
Share based arrangements	**47**	**-**

28 Dividend

The Group did not pay a dividend in 2021 ($000) (2020: $1,613).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

29 Comparison To Prospective Financial Information

Pursuant to Section 11.1 of the Financial Reporting Standard 44, the following is a comparison between the 2021 prospective financial information and the 2021 financial information as reported in this annual report.

	2021 Forecast $000	**2021 Actual $000**
Revenue	119,263	**137,189**
Contribution margin	13,303	**18,875**
EBITDA	2,360	**6,723**
EBIT	1,916	**6,361**
Net profit after tax	1,111	**4,261**
Balance Sheet and Cash Flow Items		
Dividends paid	-	**-**
Total assets	43,096	**42,614**
Cash and cash equivalents	6,846	**6,407**
Total liabilities	14,943	**13,605**
Total debt	-	**-**
Net cash flows from operating activities	(2,235)	**77**

At the time of preparing the prospective financial information the Group expected there to be a significant adverse impact on earnings resulting from Covid 19. This did not occur and in the latter part of the year the Group experienced very strong demand for wool resulting in significantly improved revenue, contribution margin and earnings.

Deloitte.

Independent Auditor's Report

To the Shareholders of The New Zealand Merino Company Limited

Opinion

We have audited the consolidated financial statements of The New Zealand Merino Company Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 26 to 69, present fairly, in all material respects, the financial position of the Group as at 30 June 2021, and its consolidated 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 Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm has been engaged by the Group to perform advisory services for the share capital raise. These services have not impaired our independence as auditor of the Group. In addition to this, partners and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. The firm has no other relationship with, or interest in, the Group.

Key audit matters

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

Independent Auditor's Report

Key audit matter

Revenue recognition Contract revenue

The Group has reported total contract revenue of $101.5 million in the year ended 30 June 2021, as set out in note 1.

Contract revenue is recognised at a point in time when the wool is released to the customer and the right to consideration becomes unconditional.

The continued impacts of the Covid 19 pandemic have caused global shipping disruptions. Potential delays in shipping can have an impact on the timing of revenue recognition around year end and could result in revenue being recorded in the incorrect period.

We have determined the recognition of contract revenue as a key audit matter because material revenue transactions can occur close to year-end and the on-going impacts of Covid 19 may result in potential shipping disruptions.

How our audit addressed the key audit matter

We have evaluated the application of sale contract terms relating to contract revenue by performing the following:

- We obtained an understanding of and evaluated the design and implementation of internal controls used by the Group to ensure that the correct sale contract terms for each contract are used to recognise revenue at the appropriate point in time.

- For a sample of contract sales recognised for the period prior to and after 30 June 2021, we obtained the specific documentation that outlined the sales and delivery terms. We read this documentation, noted the specific terms and conditions and checked that revenue was recognised at the appropriate time in accordance with those conditions.

- We obtained the calcuation of the revenue reversal and tested a sample for accuracy and completeness against the supporting shipping documentation.

Independent Auditor's Report

Other information

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

Our opinion on the consolidated 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 consolidated 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.

Directors' responsibilities for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Group's shareholders, as a body. Our audit has been undertaken so that we might state to the Group'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 Group's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Nicole Dring, Partner for Deloitte Limited
Christchurch, New Zealand
3 September 2021

This audit report relates to the consolidated financial statements of The New Zealand Merino Company Limited and its subsidiaries (the 'Group') for the year ended 30 June 2021 included on the Group's website. The Directors are responsible for the maintenance and integrity of the Group website. We have not been engaged to report on the integrity of the Group's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated 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 consolidated financial statements and related audit report dated 3 September 2021 to confirm the information included in the audited consolidated financial statements presented on this website.

Statutory Information

For the year ended 30 June 2021

Employee Remuneration

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

(a) Base salary; and

(b) Kiwisaver.

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

	2021 $000
Base salary:	729
Kiwisaver:	29

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

Band ($000)	2021 Number
$100 - $110	2
$110 - $120	2
$120 - $130	2
$130 - $140	3
$140 - $150	4
$150 - $160	2
$160 - $170	1
$170 - $180	1
$230 - $240	1
$270 - $280	1
$310 - $320	1
$340 - $350	1
$370 - $380	1
$750 - $760	1

Statutory Information (continued)

For the year ended 30 June 2021

Directors' Disclosures

Directors holding office during the year

The following directors held office during the year ended 30 June 2021:

The New Zealand Merino Company Limited	Originally appointed
Ruth Richardson (retired 15/10/2020)	12/10/12
Kathryn Mitchell	04/10/17
Ben Todhunter	17/10/14
Bill Sutherland	12/11/15
Paul Ensor	07/11/19
Matanuku Mahuika	17/06/14
John Penno	15/10/20

Keravos Limited	
Logan Williams	21/10/20
Peter Floris	21/10/20
John Brakenridge	21/10/20

Directors' remuneration

Remuneration paid to directors of The New Zealand Merino Company Limited during the year was:

	2021 $000
Ruth Richardson	23
Kathryn Mitchell*	77
Ben Todhunter*	55
Bill Sutherland	40
Paul Ensor*	52
Matanuku Mahuika	47
John Penno	28
	322

No directors fees are paid to directors of Keravos Limited.

* Three directors were paid an additional ($000) $7 each for undertaking work on the share capital raise.

Statutory Information (continued)

For the year ended 30 June 2021

Directors' Disclosures (continued)

Directors' holdings

The following Directors held interests, either directly or indirectly, in securities issued by The New Zealand Merino Company Limited as at 30 June 2021:

	Ordinary shares
Kathryn Mitchell	26,316
Ben Todhunter	30,000
Bill Sutherland	90,000
Paul Ensor	26,500
Matanuku Mahuika	20,000
John Penno	26,315

Directors' indemnity and insurance

The Group has given indemnities to, and has effected insurance for, directors and executives of the Group, 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.

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 (retired 15/10/2020)	
Director	Synlait Milk Limited
Director	Ruth Richardson (NZ) Limited
Director	Bank of China (New Zealand) 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

Statutory Information (continued)

For the year ended 30 June 2021

Directors' Disclosures (continued)

Entries in the Company's Interests Register (continued)

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

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

Paul Ensor	
Director	Glenaan Station Limited
Director	Hemprino Limited

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

Statutory Information (continued)

For the year ended 30 June 2021

Directors' Disclosures (continued)

Entries in the Company's Interests Register (continued)

John Penno	
Director and Acting Chief Executive	Synlait Milk Limited
Director	Okuora Farms Limited
Director	Okuora Holdings Limited
Chairman	The Pure Food Company Limited
Chairman	Wangapeka River Hops Limited
Director	Leaft Foods Limited
Director	Stem and Stalk Limited
Chairman	Dairy Works Limited
Trustee	John Penno Trust

Shareholder Information

Top 10 shareholders as at 30 June 2021

Shareholder	Number of ordinary shares	Percentage of holding
John Donald Brakenridge	479,992	9.05%
Jeremy Trevor Blake & Rachel Michele Blake & Brett Robin Gamble	330,000	6.22%
Glenthorne Station Limited	200,000	3.77%
Peter Floris	170,652	3.22%
Michael Hargadon	139,326	2.63%
FNZ Custodians Limited	136,578	2.57%
Keith James Ovens	113,390	2.14%
The Muller Station Limited	103,844	1.96%
Robert William Butson & Linda Kathleen Butson	99,627	1.88%
Andrew James Sutherland & William Henry Sutherland	90,000	1.70%
	1,863,409	**35.13%**

Top 10 shareholders as at 30 June 2021

Shareholder	Number of shareholders	Percentage of holding	Number of ordinary shares	Size of holding percentage
1 - 5,000	342	61.07%	609,925	11.50%
5,001 - 10,000	108	19.29%	801,016	15.10%
10,001 - 25,000	76	13.57%	1,130,139	21.31%
25,001 - 50,000	20	3.57%	659,026	12.42%
50,001 - 100,000	6	1.07%	430,361	8.11%
Over 100,000	8	1.43%	1,673,782	31.56%
	560	**100.00%**	**5,304,249**	**100.00%**

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