# The New Zealand Merino Company Limited
Annual Report — 2023

# Contents



**The Wandle**
Otago

# Chairman's Report

On behalf of the Board, it is my privilege to update you on another successful year for The New Zealand Merino Company Group (NZM).

This past year has been one for history books, marked by both challenges and opportunities. While the headwinds of a market slowdown, natural disasters and the leadership transition from our inaugural Chief Executive caused disruption, I am pleased to advise that NZM remains in good shape and committed to maximising value for our stakeholders.

Despite the difficult global environment, NZM achieved earnings before interest and tax of $4.3 million for the financial year ended 30 June 2023, with underlying trading earnings before interest and tax at $6.4 million. While we haven't broken records this year, I am immensely proud to be able to share this strong result in the current financial climate.

Innovation has always been at the forefront of our strategy, and this year was no different. We invested significant resources into enhancing our value proposition for our markets and our growers, redoubled our focus on science and technology and piloted several new impact ventures. These undertakings were aligned to our FY23 strategy and have laid the foundation for us to build a multi-faceted proposition and diversified customer base. Our efforts have enabled us to continue to grow the business thereby maintaining our leadership position within the global wool industry.

Relationships are at the heart of NZM and we were pleased to reconnect with our market partners with the easing of travel restrictions to pre-Covid levels. Through brand partner visits and in-market trips, industry events and targeted campaigns, we continued to champion the efforts of our world-leading grower community.

With a worldwide spotlight on climate change, the loss of biodiversity and ever-increasing expectations for animal wellbeing, our ZQRX regenerative wool offering is perfectly poised to meet consumer expectations. ZQRX continues to gain traction in global markets, as brands turn to the comprehensive data and frameworks that sit behind it as a means to reach their ESG goals and commitments. Against a backdrop of ever-increasing regulation, the evolving nature of our ZQRX programme ensures that NZM is ready to support our brand partners to meet both existing legislative requirements and those that are yet to come.

Through initiatives such as the implementation of on-farm pain relief, the creation of a mechanism for direct regenerative impact on-farm and engaging in value-accretive partnerships, we have maintained our leadership position across animal welfare, social integrity, and environmental responsibility. By integrating technology and digitised traceability into our value proposition, we have assured our relevance in a rapidly changing marketplace. We have also invested in growing the NZM team both in capability and size to accelerate the implementation of our strategies.

We recognise continual improvement is no small feat; it is our grower community's willingness and ability to respond to market expectations that differentiates NZM from our competitors. Their dedication and passion are unmatched and particularly remarkable given the current financial, environmental, and regulatory strains on the wool industry.

Given the headwinds the business is currently experiencing and the expectation that this will continue into the new financial year, the board has determined not to pay a dividend this year.

As we look ahead, we remain committed to the fundamental principles on which the company was built. Our strategy is ambitious, encompassing further innovation, sustainable growth, and continued stakeholder engagement. With a clear vision and the collective dedication of the NZM community, we are confident that the future holds immense promise.

I extend my gratitude to John Brakenridge as he concludes his impressive tenure leading NZM and acknowledge the unparalleled impact he has had on the industry. A strong foundation has been laid for the continued success and evolution of NZM and I thank him for his strategic acumen and leadership over the past 27 years.

With the passing of the baton, I warmly welcome Angus Street to the NZM team as incoming Chief Executive. The Board is confident that Angus's energy, passion, and capability will take the company into its next phase of transformation and growth.

On behalf of the Board, I would like to take this opportunity to recognise our shareholders for their support and express my appreciation for your confidence. Thank you also to the extraordinary team at NZM who each day exemplify the spirit of strength and leadership.

Ngā mihi nui,

**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 Maher**
8. **Angus Street**
   Incoming Chief Executive
9. **Peter Floris**
   Acting Chief Executive
   and Chief Financial Officer

**St Johnstone**
Australia

# Acting CEO's Report

The departure of our inaugural Chief Executive, John Brakenridge, has been a poignant moment for the business this year. After over 27 years with NZM and its predecessor organisations, John's legacy is a business that is in very good heart and seen as an exemplar in the New Zealand primary sector and the global wool industry.

Branding, differentiation, attribute and benefit work, 100% New Zealand merino garments, premiums, contracts - these are all things that that the industry told us were impossible at the start of the NZM journey. Under John's stewardship these were delivered and became the underpinning differentiators that enabled NZM to fundamentally change the merino industry in this country and deliver very significant value-add for all stakeholders.

NZM is now the leader in ethical wool and, through our ZQ and ZQRX initiatives, continues to raise the bar in terms of delivering what brands and conscious consumers are now rightly demanding in terms of on-farm practices and in particular the embracing of regenerative agricultural practices.

For me personally, it has been a privilege to work alongside John for many years and it has been an honour to lead the NZM business as Acting Chief Executive for a significant portion of the financial year.

I want to acknowledge all that John has brought to the business and broader stakeholder groups and wish him well as he begins the next phase of his career journey. I know very well the passion that John retains for the industry, and the broader primary sector, and have no doubt our paths will cross many times in the years ahead.

We are delighted with the appointment of Angus Street as our new Chief Executive and the team is very much looking forward to him officially joining the business in late August 2023.

In Angus we have a leader who is very aligned with the purpose, values and strategic direction of the business. The experience he brings in terms of primary sector businesses, technology, scaling of business and rapid growth will serve NZM well as we seek to further capitalise on our strategic advantages.

This year hasn't been without its challenges as we see the global economic impacts of the Covid-19 years with inflationary pressures, recessionary fears, and higher interest rates across much of the world. This is impacting negatively on consumers' discretionary spending and our brand partners haven't been immune to this.

Based on brand partner forward projections, in the last quarter of the year we have made a conscious decision to slow down our new grower procurement activities in the short term to ensure we retain an alignment between supply and demand.

However, one thing the Covid-19 years have shown us is the importance of an ESG (Environmental, Social and Governance) focus for all business, more so as the very real impacts of climate change start to bite globally. Governments are increasingly mandating new regulatory and reporting regimes that compel businesses to report on and change their practices to mitigate the impact of carbon and climate change.

As brands grapple with how best to respond to these growing requirements NZM is very well placed to support them in terms of market positioning and narrative, the substance and science that underpins their ESG claims and targets, and the demonstration of real and transformational change on-farm. This is at the heart of our ZQRX offering and this continues to gain real traction in market.

Strategically our focus this year has been on growing our market share in fine and strong wool based on the differentiation that both ZQ and ZQRX provide, and further work on technology tools to help deliver the substance behind these differentiators. We have increased our bale volumes this year in both fine wool and strong wool, despite the slowdown in procurement activities noted above.

Much of the fine wool growth has come through securing additional volumes for the business in Australia. We were delighted to open an office in Geelong during the year where our Australian team of three is now based. Acknowledgement too needs to be given to our Australian strategic partner AWN, its team has been instrumental in helping us achieve the traction we have in that market. We were also delighted to welcome AWN onto our share register during the year.

Strong wool continues to be an important part of our offering. The aftermath of Cyclone Gabrielle has had a devasting impact on many of our North Island growers and our hearts go out to them as they continue to deal with the ongoing emotional, financial and logistical impacts. There is a significant volume of strong wool from this region that has not been able to be delivered to us yet due to shearing, logistical and transport delays. This wool will now be received in the new year.

After two years of very limited international travel, we have once again been able to spend considerable time in-market reconnecting with brand and supply chain partners. Market visits allowed us to refocus on our customer intimacy approach whereby brand partners see us as an extension of their businesses. Likewise, it has been heartening to see key brand partners returning to visit us in New Zealand. This has enabled brands to reconnect with their grower suppliers – these direct relationships are such an important part of the NZM difference.

As we signalled last year, our results for FY23 have been a little softer than in previous years as we have dealt with the dual impacts of a slowdown in consumer demand and a significant escalation of our cost base.

We are pleased to report that our underlying trading earnings before interest and tax (EBIT) is ahead of budget expectations at $6.4 million. This is a very pleasing result.

# **Acting CEO's Report** (continued)

Our final reported EBIT is $4.3 million, this has been impacted by accounting entries required in relation to share-based arrangements, and one-off costs associated with the transition in Chief Executive.

As a business we remain highly ambitious in terms of growth opportunities and building enterprise value. This requires discipline, optimisation of capital allocation, talent development and above all an unwavering focus on executional excellence.

The business is well placed to achieve this, and as we regroup under Angus's leadership we look forward to reporting to shareholders on our continued progress.

My thanks goes to the NZM team who every day demonstrate their passion and commitment to NZM's purpose and values, to disrupting the status quo, and to delivering real value to our stakeholders. We are not a brick-and-mortar business – our key assets are the 65 people who every day give their all to make a difference for our growers, brands and other partners.

In particular, I want to acknowledge the NZM senior management team who have provided me with tremendous support as we have navigated our way through the transition in Chief Executive. Likewise, I would like to thank the NZM Board for their support during the year.

A key measure of success for our business is ensuring our market partners and shareholders are recognised for their leadership, partnership, and determination to generate positive impact. I would like to thank you for your support and trust as we strive to advance our mission and maximise the resultant value for our stakeholders.

Finally, I want to acknowledge our family of NZM grower suppliers and grower shareholders. You have created a unique organisation in the wool industry. You deserve credit for the foresight and fortitude that led to the establishment of NZM, and for the rewards that now accrue to you from this.

Ngā mihi nui,

**Peter Floris**
Acting Chief Executive

**Smartwool**
2023

# Incoming CEO's Report

Kate and Peter have presented a great update on NZM's performance over the last financial year and its ambitions for FY24 and beyond. Appreciating that I am new to the business I couldn't pass up this opportunity to introduce myself and acknowledge the passion, skill and legacy that drew me to NZM.

With over 27 years of history, there are many that have contributed greatly to NZM's success over the years. To lead such a legacy through its next chapter is a privilege as we continue to innovate and invest for the future.

The worldwide reach of ZQ and ZQRX, and the calibre of brand and supply chain partners these fibres attract are unparalleled. None of this would be possible without the wonderful community of growers that make this business what it is. I have had the pleasure of meeting a small fraction of this community so far and their passion for not only wool but the land and ecosystems they work within is truly inspiring.

It is no secret that the needs of the global fashion and textile industries are rapidly evolving. Internationally brands are facing constantly changing environmental regulations, shifting goalposts and increasingly skeptical responses from consumers.

NZM is already well-placed to support brands through their challenges but we must keep moving forward to sustain our market advantages. In the coming years, our growth will be closely linked to doubling down on the value we deliver growers and brands, reportable proof points of the fantastic work happening on-farm and focusing on the growth levers that will deliver sustainable returns for all stakeholders.

My thanks go to the NZM Board, the team and all the growers and brand partners who have put their trust in me.

Regards,

**Angus Street**
Incoming Chief Executive

## Angus Street Bio

Angus brings a wealth of agribusiness leadership experience to NZM. Before commencing this role he had served as CEO of AuctionsPlus since 2018, one of Australia's oldest and most successful Agtech businesses.

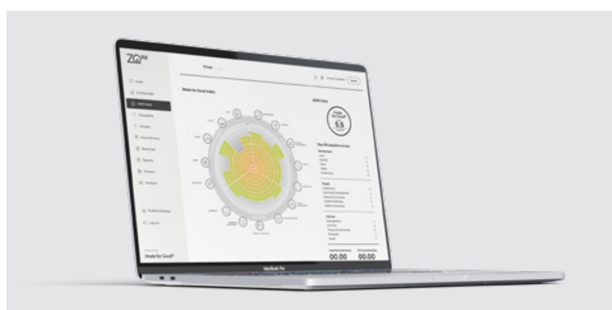
While in this role Angus led significant business growth and secured the platform's position as the largest agriculture marketplace in the country. Prior to joining AuctionsPlus Angus founded Hop the Wall, a platform that served as a gateway to China, allowing Australian businesses to list, share and sell their products.

Angus has also held senior roles at Hort Innovation, Meat and Livestock Australia, and Bastion Collective.

# Snapshot

## NZM update

- We were proud to welcome 70 new growers to the ZQ community across New Zealand and Australia.
- After 27 years at the helm, we farewelled John Brakenridge as he embarks on a 'curiosity quest' of global markets and thought leadership.
- We were pleased to appoint Angus Street as CEO and look forward to the next chapter of NZM's story under his leadership. He brings proven growth experience in technology and enterprise value which will be pivotal to our current and future endeavours.
- Matt Hand (GM Global Supply) stepped into the role vacated by Mike Hargadon's well-deserved retirement in July 2022. Matt brings a wealth of experience after 32 years in the industry and has enjoyed engaging with growers and brand partners over the course of the year while driving value chain connection.
- Teresa Callow joined the NZM Senior Management Team as GM People and Culture. She is spearheading efforts to generate social impact, strategically enhance recruitment practices, and foster the growth and development of the team.
- We welcomed new team members to the NZM whānau including four project-based employees who will power acceleration and amplification across strategic initiatives, and Debs Sim as Communications Manager. Debs' focus is on reinvigorating our shareholder, media and market communications.



- The Board was pleased to appoint John Maher as a new director, he has extensive experience in executive leadership and governance within the agribusiness industry and is also the chairman of AWN.
- We transitioned all third-party auditing across New Zealand and Australia to a single certification body, Control Union. This alignment brought greater efficiencies and reduced the average time to close corrective actions by almost half.
- To support industry need, NZM launched the inaugural 'Wool Classer Development Scholarship'. This two-month course provides classers the opportunity to learn techniques from professional mentors, gain an understanding of the wool clip and supply chain, and acquire the fundamental skills necessary in future-proofing their careers and the wider industry.
- As demand for ZQRX wool grows, we formalised a strategic partnership with Segard Masurel to scale our procurement initiatives out of South Africa.
- Dave Maslen (Chief Partnerships and Sustainability Officer) spoke at the Global Fashion Summit: Copenhagen Edition 2023. The summit, presented by Global Fashion Agenda, serves as the premier international forum for sustainability in the fashion industry. This year's summit aimed to mobilise the fashion industry to transition from 'Ambition to Action'. Dave participated in a panel discussion with one of our ZQRX foundational brand partners, Allbirds.
- Donna Chan (Head of Regenerative Impact) received Textile Exchange's Ryan Young Climate+ Award in the Rising Star category. This award recognises individuals in the global textile industry who demonstrate an interdisciplinary and interconnected approach to supporting our planet, its ecosystems, its landscapes, and its communities.
- Monica Schwass (Future Farming Manager) was named as a finalist for the Zanda McDonald Award which recognises young leaders in the agricultural industry.



## Active outdoors market

- VF Corporation (VF) announced that Jan Van Mossevelde, brand president of icebreaker since 2021, will now also lead the Smartwool brand. Jan is a passionate advocate for wool and this new joint leadership under his guidance brings forth exciting opportunities for NZM and its growers.

- Aclima won the prestigious Scandinavian Outdoor Group Sustainability Award for its ground-breaking ReBorn Terry Pullover at Outdoor by ISPO in June. This new initiative, which transforms production scraps into desirable products, secures Aclima's market-leading position in using environmentally ethical and socially responsible practices. The pullover is made from wool sourced exclusively from OEKO-TEX certified ZQ merino scrap fabrics.

- icebreaker was named in Fast Company's second annual list of 'Brands That Matter', honouring brands that communicate and demonstrate their brand purpose. Its inclusion recognises icebreaker's purpose to lead a movement towards a more natural way of living by taking unnecessary plastic out of performance apparel.

- Smartwool released its 'Second Cut Project'; a circular and recycled wool programme that transforms pre-loved socks collected from customers into high-quality, eco-friendly wool products. The Second Cut Project has prevented over 20,000 pounds of material waste from entering landfills so far.

- New Zealand-based outdoor clothing brand, Mons Royale, proudly launched the 'Mons Royale Farmer Club' seeking to establish closer connections to its grower community and champion the performance attributes of its fibre.




## Lifestyle market

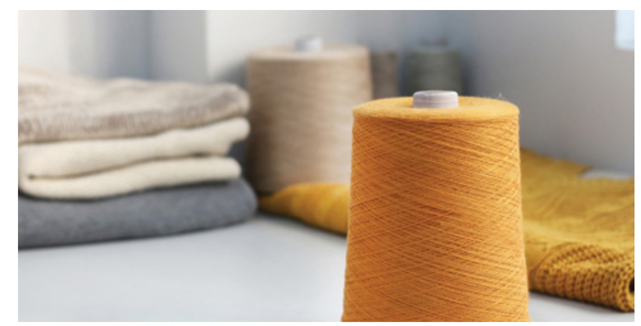
- Untouched World was shortlisted for 'Brand of the Year' at the Drapers Sustainable Fashion Awards 2023. This recognition showcases the brand's progress in sustainability and clear strategy toward meeting its objectives.

- In 2020, brand partner Maggie Marilyn moved away from all wholesale channels to become a 100% direct-to-consumer brand and opened its first physical store in New Zealand. This year saw the opening of its first international location with the opening of a new 'home' in Sydney, Australia.

- Celebrated Finnish design house, Marimekko, joined the ZQRX brand partner roster. Recognised for its determined sustainability efforts, Marimekko has already exceeded its emission reduction target for 2025, with its Scope 1 and 2 emissions now 72% lower than its 2019 base year.

- Through supply chain partner, UPW, American clothing and lifestyle brand Everlane which is known for its 'radical transparency' approach, joined the ZQRX community.

- High-quality menswear brand, Rodd & Gunn, signed its first ZQRX contract. The brand has gained a reputation for using premium fabrics, sustainable practices, and a blend of traditional and modern techniques in its clothing production. It is now expanding into Europe following successful launches in the United States and Australia.



## Luxury and specialised markets

- We were honoured to be joined by Italian luxury brand Loro Piana in November as we celebrated and paid tribute to our 25-year partnership alongside our world-leading grower community.
- Hugo Boss took an infrastructural approach to reducing its impact across multiple channels, looking to nature-based solutions and investing heavily into regenerative agriculture. Through its campaign 'Today, tomorrow, always', the company seeks to shift the future of fashion to one of resilient systems and conscious sourcing. Central to this is supporting holistic ecosystem development like ZQRX.
- In March we had the pleasure of hosting senior Nikke team members in New Zealand. The visiting group included Mr. Yutaka Nagaoka - President and Chief Executive Officer of The Japan Wool Textile Co. Ltd, and Mr Ikuo (Ai-san) Aisaka our NZM team member based in Japan. Following this visit, multiyear contracts were established with Nikke Japan in 16.3, 17.3, 18.3, 19.3, 21.3, and 21.7 microns. As well as being of significant value to our grower community, this partnership expansion allows us to target new and exciting global brands, with a particular focus on the luxury market.
- Sustainable fashion icon, Another Tomorrow, partnered with NZM as part of its strict ethical sourcing strategy. This natural collaboration with ZQRX wool is seamlessly aligned to Another Tomorrow's philosophy: 'Built on a foundation of community, transparency, and organic scarcity, every decision has been guided by our commitment to sustainability and a value system based on empathy for the Earth and its inhabitants, focused on three key pillars – human, animal, and environmental welfare.'

## News from your brands

- Südwolle Group's Rifa (Richter Färberei & Ausrüstung) is constructing a new, fully digitised and automated dyehouse to aid its pursuit of innovation and sustainability. This facility is expected to significantly reduce fresh water, electricity, and steam consumption, resulting in environmental and economic benefits. Starting in 2023, Rifa's dyehouse will rely entirely on renewable energy, leading to a remarkable 799.4-tonne $CO_2$ savings as certified by TÜV Rheinland.
- VF has been named as one of the world's most ethical companies by Ethisphere - a global leader in defining and advancing the standards of ethical business practices. VF has been recognised for the past seven years and is the only honouree in the apparel industry to be named this year.
- John Smedley has completed its second full SECR (Streamline Energy & Carbon Report) showing another year of carbon reduction throughout its factory. From 2017 up to 2023, John Smedley has reduced Intensity kg $CO_2$ per garment from 10.5kg $CO_2$ per garment to 6.9kg $CO_2$ per garment which equates to 34.8% reduction in $CO_2$ over this period.
- We marked an impressive milestone of 21 years of contracts with Italian wool spinner, Cariaggi, which brings the origin of its fibre to life through ZQ and ZQRX yarn ranges named for New Zealand lakes Waitaki and Pukaki.

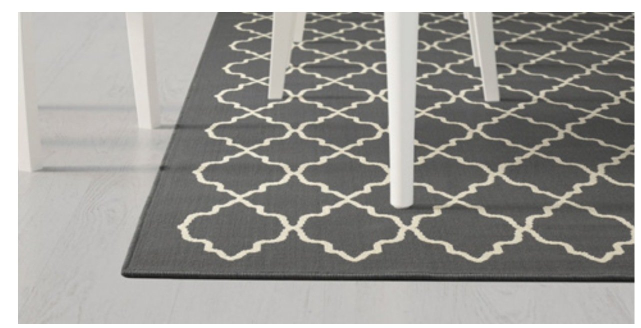
## Australia

- We welcomed 40 new growers to the ZQRX community in Australia.
- In a move to advance our alliance and strategic partnership, we welcomed agri-service business AWN as a valued addition to the NZM share register. AWN's purchase of a shareholding underscores the depth of our collaboration as we work together towards our shared goals and mutual growth.
- Steve Wainewright joined the team as Australia Regional Manager, bringing with him extensive experience in breeding, marketing, animal husbandry and welfare, farm research, and relationship management. Steve's vast skillset has been invaluable to our positive momentum and growth in Australia.
- As part of a New Zealand and Australia grower tour, key executives from VF brands icebreaker and Smartwool were delighted to engage with our growers at an event during the Australian Sheep and Wool Show in Bendigo.
- To support our growth and presence in Australia, we were pleased to open the doors to our Geelong office in April 2023.




## Strong wool

- In response to the Ministry of Education's announcement of an overseas contract to install synthetic carpet in New Zealand schools, we facilitated an initiative with Bremworth to offer subsidised wool carpets to schools. The 'Bremworth Wool in Education Initiative' aims to support the industry and the rural communities in which the pupils reside.
- Cyclone Gabrielle caused extensive damage to Bremworth's Napier plant; in response the company moved to a hybrid supply chain model, shifting some production overseas to ensure continuity of the yarn manufacturing. This has the added benefit of enabling Bremworth to compete for global large-scale contracts and enter the high-volume commercial export market.
- Australia-based Koala launched its new rug range with a focus on animal wellbeing, enabled by ZQ, which quickly became its fastest selling product.
- Swanndri launched a ZQRX biodegradation trial on The Wandle station to test the life cycle of wool and demonstrate the circularity of its garments. By burying an old 'Swanni', we can monitor the decomposition rate of returning the natural fibres to the land and effectively communicate the incredible attributes of wool to consumers.
- This year saw record volumes for supply to IKEA as it advanced its responsible sourcing initiatives, driving growth in its natural product ranges.
- In the aftermath of Cyclone Gabrielle, which inflicted significant damage on the North Island's primary scouring plant in Awatoto and many North Island growers' properties, we took proactive steps to streamline the rerouting of bales to the scouring plant in Timaru.
- NZM hosted visits from key brand partners IKEA, Best Wool, glerups and Swanndri across 21 different grower properties and held four strong wool roadshows across New Zealand.



## Innovation

- Allbirds unveiled the world's first net-zero carbon shoe, M0.0NSHOT, at the Global Fashion Summit in Copenhagen. The shoe's carbon-neutrality was made possible through ZQRX regenerative wool. This significant milestone is an important first step in a paradigm shift of how agricultural emissions are perceived as well as a high profile opportunity that positions wool as a tangible solution in the fight against climate change.
- John Smedley invested in replacing all its knitting machines with the most advanced knitting technology available. This innovation enabled a closed loop circularity project, recycling all waste wool back into yarn and reknitting on whole garment knitting machinery, requiring no additional synthetic thread to be used.
- Reda launched Tailoor, the first white-label e-commerce platform for the world's most innovative companies. Its integrated technology covers the supply chain and serves both the merchant and the suppliers, enabling e-commerce to be personalised while offering customised products to end consumers.
- In collaboration with Best Wool and Delft University from the Netherlands, we initiated an innovative project focused on indoor air quality. This endeavour showcased the remarkable advantages of utilising wool interior furnishings, highlighting their positive impact on air quality.
- Over the past year, Te Hono's commitment to positioning Aotearoa as a global food and fibre sector exemplar was reinforced via the Aoraki Bootcamp, linking over 120 industry leaders. This event spurred dynamic discussions on sectoral change drivers. Te Hono is dedicated to catalysing transformative change in Aotearoa's food and fibre sector and has brought together over 380 alumni for deep kōrero, connection and manaakitanga. NZM has had close affiliations with Te Hono since inception and is proud to have its Christchurch-based team working out of the NZM office.




## ZQ/ZQRX

- Scaling our carbon footprint work to generate directionally accurate numbers for 600+ growers was a groundbreaking success. Very few companies globally have achieved this at scale.
- Successful initial field days have led to the development of 'The Grower Series', an offering of field days and workshops across Aotearoa to support growers as they incorporate biodiversity into their farming systems and build their knowledge around soil and land health.
- Thanks to significant investment from VF Corporation, we now have 36 growers monitoring land health using the Savory Institute's Ecological Outcome Verification. Six of these properties have undergone repeat monitoring which has shown positive improvements in their Ecological Health Index.
- This year we formalised our partnership with Eco-Index. The first output has been a comprehensive report on the existing state of biodiversity in New Zealand and the necessary investment needed for its improvement. The report shows that ZQRX growers occupy almost 2 million hectares of land in New Zealand, with over 40% of this land being covered by native ecosystems.
- ZQRX was recognised in such global publications as Harpers Bazaar, Sourcing Journal, Vogue, Outdoor Industry Association, Time Magazine, Fashion Network, and Glamour.

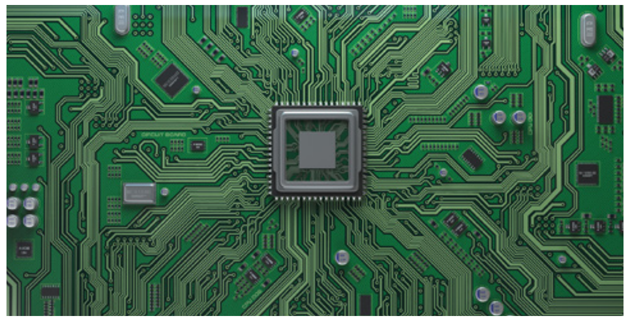
## Science and technology

- We embarked on a transformative partnership with TextileGenesis, a pioneering force in blockchain-based fibre traceability. This collaboration aims to revolutionise NZM's existing analogue and largely labour-intensive traceability processes into a fully integrated digital platform. Targeting a seamless farm-to-retail transparency solution, this integration empowers consumers with real-time access to product origins and chain of custody through the supply chain. Currently in the second phase of its pilot, we are targeting a full-scale launch by the first quarter of 2024.

- This year saw us double-down on science advancement and technology innovation as we invested in means to streamline data capture, amalgamate details across various systems, and empower growers with meaningful information. We look forward to launching the first phase of this in FY24.

- In tandem, we are building a user-interface for our market partners, arming them with the tools to monitor impact and communicate progress. This will enable brands to report on their materials footprint across such metrics as emissions, biodiversity, social & community impact, and ethical sourcing. Supporting brand differentiation in market generates further opportunities for growers through channels such as ZQ and ZQRX positioning, increased volumes, and on-farm impact investment.

- As the world of carbon and biodiversity credits becomes ever-more sophisticated, we launched exploration into ways to generate additional revenue for our suppliers, while activating an insetting approach to credits for our brand partners.





## SILERE alpine origin merino

- 148,000 lambs were supplied into the SILERE alpine origin merino programme with 75% meeting specifications (up 4% on FY22).

- Lower value cuts have found strong markets through partners in China, Malaysia, and the UK, with premium cuts predicted to increase through the European summer months.

- SILERE was featured on the plates of influential chefs including Simon Baker of Peckham Kitchen in London and showcased by retail partners like online platform, Ocado – 'Long regarded for the quality of their fine wool, the exquisite flavour and character of merino lamb has been a well-kept secret, until now.'

- Despite food channel impact due to high inventories in market, inflation, and the ready availability of Australian products; differentiated products like SILERE have shown strong price resilience and are poised to meet the sustainability and animal welfare requirements set by global consumers.

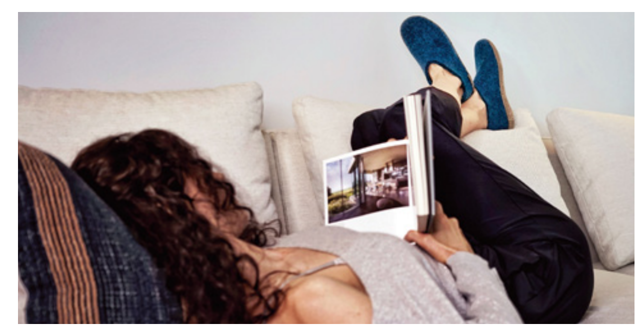
## glerups New Zealand

- glerups shoes were named the 'Best Wool Camping Slippers 2023' by Forbes, and the top selling product in New Zealand and Australia (the Slip-On) was listed as a world's 'Best Slipper 2023' by Rolling Stone.

- glerups New Zealand had another record year in sales across New Zealand and Australia, increasing 34% year on year.

- Australian online sales gained traction (7.9% of total sales) and research has been completed to expand into wholesale partnerships in FY24.

- glerups New Zealand hosted a site at Fieldays Mystery Creek, the Southern Hemisphere's largest agricultural event. Over 100,000 people attended over four days, providing an excellent opportunity to showcase glerups indoor shoes to a diverse customer base.



# ESG Impact Report Summary

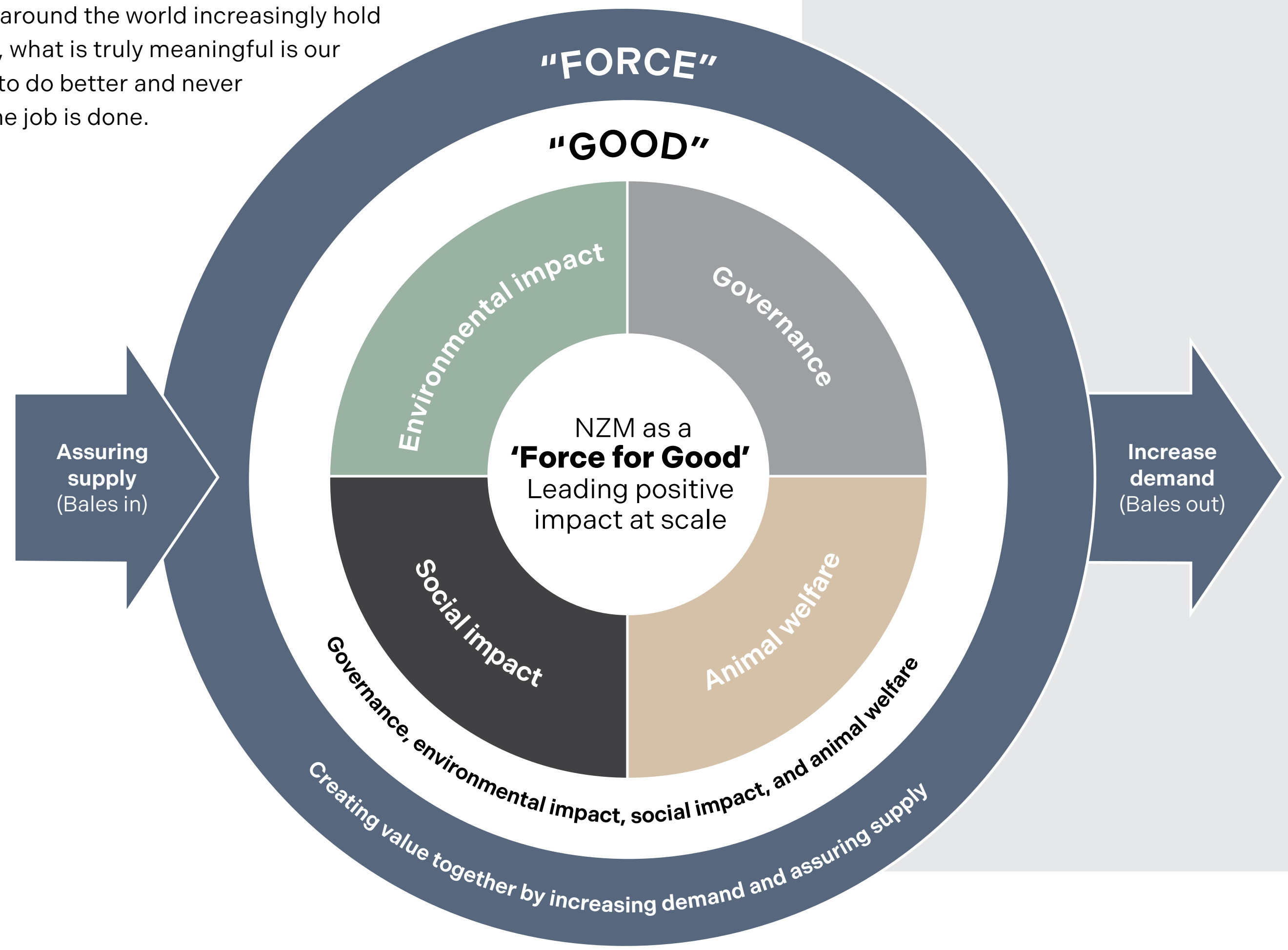
Leading the way in ethical, environmental, and social responsibility is at the core of our business strategy and vital to our position and reputation in the market. Last year's inaugural Environmental, Social and Governance (ESG) Impact Report formalised the commitment that NZM has had to sustainability since its inception. Now, we are plotting a bold course for our future that will ensure we, along with our growers and brand partners, continue to pave the way.

FY22's foundational report included the promise to outline goals, targets, and accountabilities this year. However, motivated by witnessing the devastating impact on our grower community of events like Cyclone Gabrielle and a growing cognisance of our increasingly unstable climate, we no longer believe this is enough. Instead, our FY23 ESG Impact Report outlines our solid commitments, both short and long-term, alongside clear success measures to hold ourselves accountable.

Our ethos of constant evolution and continuous improvement remains our guiding light as we reexamine our priorities and engage with those of our stakeholders and experts around the globe. With climate action a paramount concern, carbon emissions, mitigation and sequestration remain a key focus but we have pledged to take a holistic view of sustainability as we believe this is the only way to build true climate resilience. Accordingly, our workstreams not only address net emissions but also aim to achieve benefits and improvement to water quality, biodiversity, land health and the welfare of both animals and people.

The commitments we have laid out do not end with sustainability, true regenerative action also prioritises the crucial role of people and their wellbeing. We must strive for equitable systems that enhance the economic and social welfare of all the individuals and communities involved throughout the value chain. Our ESG reporting includes key metrics to monitor our progress within the NZM team, our grower community and our brand and supply chain partners, as well as the wider industries and communities that our work touches.

As a purpose-led business, NZM is dedicated to driving positive outcomes for our growers, brands, our business, and the world. We know that our team has the passion to drive value for not only our stakeholders but for the planet as well. It is what we have always done and while our brands, growers and governments around the world increasingly hold us to account, what is truly meaningful is our innate desire to do better and never accept that the job is done.




## Highlights from the FY23 ESG Impact Report Include:

- ZQRX enables two world-first net-zero carbon products, the M0.0NSHOT shoe and 8Bit T-shirt
- NZM takes a big step for animal welfare, implementing a pathway to mandatory on-farm pain relief
- NZM partners with leading brands for revolutionary full-scale digital traceability pilot
- New auditing body takes average time to close corrective actions from 50 to 28 days
- ZQ programme swells to 794 growers
- ZQRX carbon model results shared with 600+ growers
- 100% of ZQ growers meet social assessment requirements
- ZQ Australian supply base increases to over 100 properties
- Ecological Outcome Verification monitoring extends to 30 more properties in partnership with VF
- NZM launches 'The Grower Series' field days and workshops to support growers working toward regenerative farming
- 100% of growers meet biodiversity, land and soil health requirements
- NZM establishes ESG leadership team and Kaitiakitanga Board Committee
- Quantitative metrics set via ZQRX to measure land health improvements and greenhouse gas emission reductions
- NZM develops a Board Charter to provide a clear framework for governance and decision-making
- NZM formalises its partnership with Eco-Index to help guide biodiversity improvements
- Brand partner, Sheep Inc., invests in biodiversity projects across three grower properties

# CFO's Report

**Highlights**

**$4.3 million** ˅38%
EBIT[1]

**$6.4 million** ˅15%
Trading EBIT[2]

**$1.7 million** ˅61%
NPAT

**147,000** ^9%
Bales sold

[1] EBIT is profit before income tax with net finance costs added back

[2] Trading EBIT is EBIT with share-based arrangements and one-off costs associated with the transition of CEO added back

**Summary**

The 2023 financial year has been more challenging for the NZM Group than those of recent years as we have grappled with the effects of global economic conditions and inflationary pressures that have impacted negatively on demand and resulted in a significant lift in the Group's cost base. This outcome was expected.

Despite this, Trading EBIT (before share-based arrangements and one-off costs) has remained within budgeted levels, a very pleasing result given the context of the environment in which we have been operating.

The ZQRX initiative, underpinned by the highest standards of ethical production and regenerative agricultural practices, continues to differentiate our offering in the market.

**Business performance**

The NZM Group has recorded earnings before interest and tax (EBIT) of $4.3 million, a decrease of 38% on the previous year, and at the lower end of our updated market guidance range.

EBIT includes provisions and expenses of $1.3 million relating to share-based arrangements (including non-cash expenses), and one-off costs of $0.8 million associated with the transition of Chief Executive. If these are excluded, underlying Trading EBIT was $6.4 million, a decrease of 15% on the previous year, but in line with expectations. Over the past five years the business has delivered a compound annual growth rate (CAGR) in Trading EBIT of 13.5%.

Interest costs for the year have been significant at $1.2 million, driven by increased periods of stock holdings in line with shifts in brand partner requirements and the resulting deferral of some deliveries, as well as a substantial lift in interest rates. The deferral of deliveries has also impacted negatively on our operating cash flows for the year.

On a net profit after tax (NPAT) basis the result is $1.7 million, a decrease of 61% on the previous year.

This result represents a post-tax return on year-end shareholder equity for the year of 5.3%.

Bales sold volumes for the year increased by 11,000 bales or 9%, with growth in both fine wool and strong wool volumes. Fine wool volumes increased by 6,000 bales or 8% to 85,000 bales, while strong wool volumes increased by 5,000 bales or 10% to 62,000 bales.

In fine wool, in response to softening market demand, we deliberately slowed our grower procurement activities in the last quarter to ensure that we retain an alignment between supply and demand. We expect this to continue for at least the first half of the new financial year. In strong wool the aftereffects of Cyclone Gabrielle have resulted in a large number of bales being held up due to shearing, transport and logistics delays and this has impacted on bale volumes for the year.

On the back of our bale volumes total operating revenue was $171 million, a 13% reduction on the previous year reflecting softer market prices. Gross profit was $21.6 million, a reduction of 4%. It was pleasing to record an improvement in our gross profit percentage during the year.

The capital raise undertaken in the 2021 financial year and the strong results of recent years continue to underpin the Group's financial strength.

Year-end equity as a percentage of total assets is a healthy 55%, down slightly on the 61% recorded in the prior year due to the high inventory/accounts receivable levels resulting from the slowdown in market demand.

**Dividend**

With the impact the current market conditions are having on the business the Board has determined that it is not prudent to pay a dividend at this time.

**Share trading**

Trading of NZM shares on the Unlisted Securities Exchange (USX) continues to be subdued.

During the year 66,000 shares were traded with shares trading in a range of $5.00 to $6.75, with a weighted average share price for the year of $6.12. The closing price on 30 June 2023 was $5.59. This volume compares to 107,000 shares traded on the USX in the previous financial year.

A key focus in the 2024 financial year will be on how we can improve the liquidity of NZM shares.

Outside of the USX trading, outgoing Chief Executive John Brakenridge and his wife Sarah sold the 538,000 shares they held in NZM to AWN, resulting in AWN holding a 10.1% shareholding in the business.

# CFO's Report
(continued)

**Outlook for 2023/24**
Our expectation is that the slowdown in consumer, and therefore brand partner, demand will continue to be seen in the 2023/24 financial year and this will impact on our growth expectations.

Additionally, as with most businesses at the moment, we are experiencing very significant cost increases.

We are very focused on mitigating as much of these impacts as possible.

Our expectation is for EBIT in the 2023/24 financial year to be in the range of $4.5 to $5.1 million.

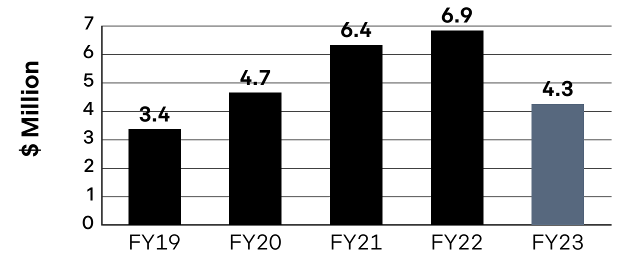
Ngā mihi nui,

**Peter Floris**
Chief Financial Officer

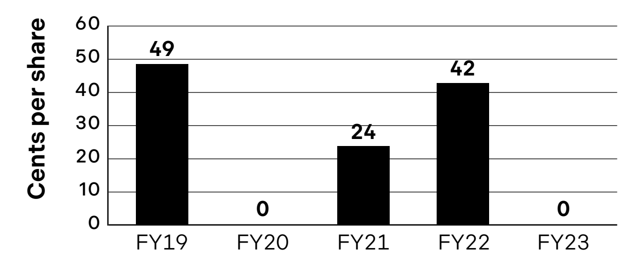


# Key Financial Information - 5 year trends

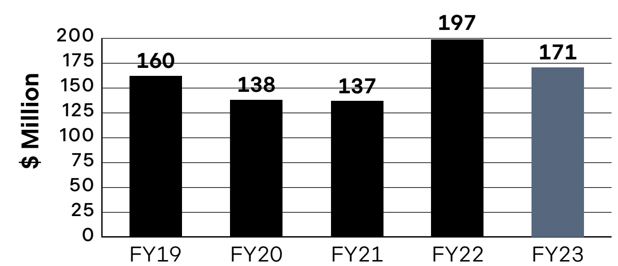
**Earnings before interest and tax**



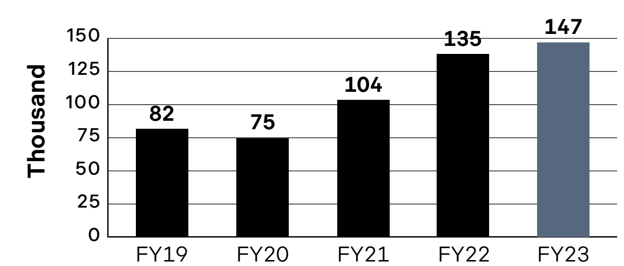

**Dividend declared**



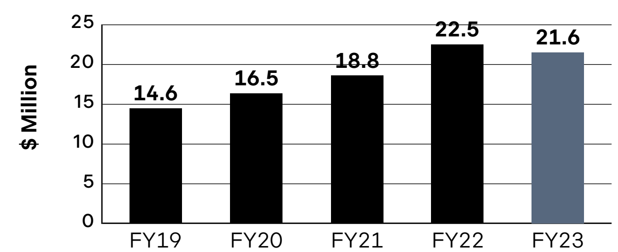

**Operating revenue**



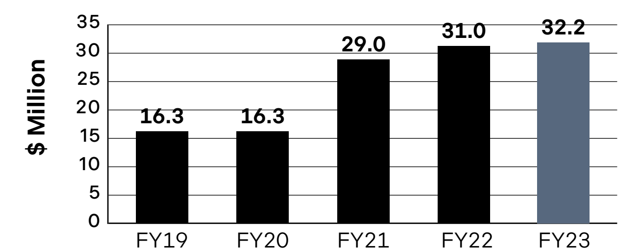

**Bales sold**



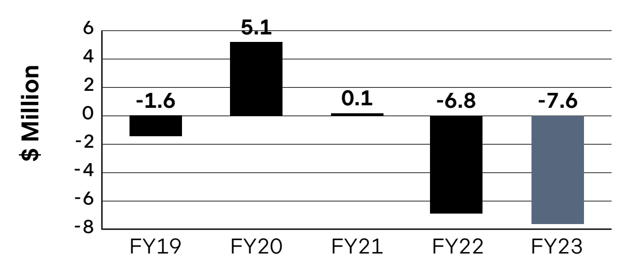

**Gross profit**



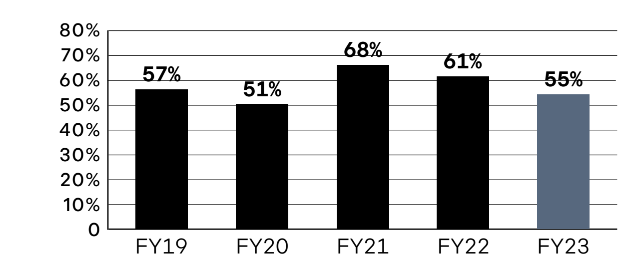

**Total equity**




**Operating cash flow**




**Equity as a percentage of total assets**



# Group Directory

**As at 30 June 2023**

| | |
|---|---|
| **Nature of Business** | Wool marketing, sales and innovation |
| **Registered Office** | Level 2, 123 Victoria Street, Christchurch |
| **Directors** | Kathryn Mitchell (Chairman)<br>Ben Todhunter (Deputy Chairman)<br>Bill Sutherland<br>Paul Ensor<br>Matanuku Mahuika<br>John Penno<br>John Maher |
| **Auditors** | Ernst & Young, Christchurch |
| **Bankers** | ASB Bank, Christchurch |
| **Solicitors** | Chapman Tripp, Christchurch<br>Minter Ellison Rudd Watts, Auckland |
| **Share Registrar** | Link Market Services, Ashburton |
| **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 New Zealand Merino Company Limited and its subsidiary Made For Good RX Limited as at 30 June 2023 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 Made For Good RX Limited for the year ended 30 June 2023.**

For and on behalf of the Board of Directors:

**Kathryn Mitchell**
Chairman

4 September 2023

**Paul Ensor**
Chairman, Audit & Risk Committee

4 September 2023

# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2023**

| | Note | 2022 $000 | 2023 $000 |
|---|---|---|---|
| **Revenue** | 1 | 197,255 | **171,313** |
| Cost of sales | | (174,751) | **(149,713)** |
| **Gross profit** | | 22,504 | **21,600** |
| Other income | 2 | 4,519 | **6,136** |
| Finance income | 3 | - | **2** |
| Share of profit/(loss) of investments in joint ventures | 11 | 26 | **35** |
| Gain from investments in other entities | 11 | 66 | **-** |
| **Other income** | | 4,611 | **6,173** |
| Procurement and selling expenses | 4 | (5,552) | **(6,695)** |
| Marketing expenses | 4 | (4,761) | **(6,544)** |
| Innovation expenses | 4 | (5,066) | **(2,789)** |
| Administrative expenses | 4 | (3,807) | **(5,553)** |
| Share-based arrangements | 28,29 | (614) | **(1,312)** |
| Other expenses | 4 | (425) | **(524)** |
| Loss from investments in other entities | 11 | - | **(58)** |
| Finance expenses | 3 | (338) | **(1,499)** |
| **Expenses** | | (20,563) | **(24,974)** |
| **Profit before income tax** | | 6,552 | **2,799** |
| Income tax expense | 5 | (2,144) | **(1,086)** |
| **Profit / (loss) after tax** | | 4,408 | **1,713** |
| **Profit / (loss) attributable to:** | | | |
| Shareholders of the company | | 4,353 | **1,713** |
| Non-controlling interest | 12 | 55 | **-** |
| **Other comprehensive income / (loss)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Gains / (losses) from cash flow hedges | | (1,611) | **194** |
| Income tax relating to other comprehensive income | 10 | 575 | **(143)** |
| | | (1,036) | **51** |
| **Total comprehensive income** | | 3,372 | **1,764** |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the company | | 3,317 | **1,764** |
| Non-controlling interest | 12 | 55 | **-** |
| **Earnings per share (cents)** | | | |
| Basic earnings per share | 17 | 82.07 | **32.29** |
| Diluted earnings per share | 17 | 80.86 | **32.18** |

*The accompanying notes form an integral part of these financial statements*



# Consolidated Statement of Financial Position

**As at 30 June 2023**

| | Note | 2022 $000 | 2023 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 202 | **560** |
| Trade and other receivables | 7 | 12,590 | **25,844** |
| Inventories | 8 | 23,700 | **17,415** |
| Current tax asset | 10 | - | **229** |
| Derivative financial instruments | 16 | 600 | **139** |
| **Total current assets** | | 37,092 | **44,187** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 1,912 | **1,746** |
| Investments in joint ventures | 11 | 56 | **92** |
| Investments in other entities | 11 | 90 | **32** |
| Deferred tax assets | 10 | 959 | **909** |
| Intangible assets and goodwill | 13 | 6,091 | **6,526** |
| Derivative financial instruments | 16 | 23 | **14** |
| Right-of-use assets | 23 | 4,736 | **4,788** |
| **Total non-current assets** | | 13,867 | **14,107** |
| **Total assets** | | 50,959 | **58,294** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank overdraft | 6 | 262 | **-** |
| Trade finance facility | 15 | 2,500 | **14,500** |
| Current portion of share-based arrangements provision | 28 | 1,253 | **-** |
| Current portion of share-based long-term incentive provision | 29 | - | **775** |
| Income in advance | 27 | 100 | **-** |
| Trade and other payables | 14 | 5,667 | **3,865** |
| Income tax payable | | 1,568 | **-** |
| Derivative financial instruments | 16 | 1,360 | **1,066** |
| Lease liabilities | 23 | 573 | **648** |
| **Total current liabilities** | | 13,283 | **20,854** |

*The accompanying notes form an integral part of these financial statements*

# Consolidated Statement of Financial Position (continued)

**As at 30 June 2023**

| | Note | 2022<br>$000 | **2023<br>$000** |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Derivative financial instruments | 16 | 504 | **57** |
| Non-current portion of share-based arrangements provision | 28 | 974 | **-** |
| Lease liabilities | 23 | 5,187 | **5,228** |
| **Total non-current liabilities** | | 6,665 | **5,285** |
| **Total liabilities** | | 19,948 | **26,139** |
| **Net assets** | | 31,011 | **32,155** |
| **EQUITY** | | | |
| Share capital | 17 | 8,458 | **8,458** |
| Share-based arrangements reserve | 18 | 244 | **(104)** |
| Non-controlling interest | 12 | 4 | **-** |
| Retained earnings | 19 | 23,198 | **24,500** |
| Cash flow hedge reserve | 19 | (893) | **(699)** |
| **Total equity** | | 31,011 | **32,155)** |

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 4 September 2023.

**Kathryn Mitchell**
Chairman

4 September 2023

**Paul Ensor**
Chairman, Audit & Risk Committee

4 September 2023

*The accompanying notes form an integral part of these financial statements*



# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2023**

| | Note | Share capital<br>$000 | Retained earnings<br>$000 | Cash flow hedge reserve<br>$000 | Share-based arrangements reserve<br>$000 | Non-controlling interest<br>$000 | **Total equity<br>$000** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2021** | | 8,458 | 20,335 | 267 | - | (51) | **29,009** |
| Profit for the year | 12,19 | - | 4,353 | - | - | 55 | **4,408** |
| Other comprehensive income | 19 | - | - | (1,160) | - | - | **(1,160)** |
| Total comprehensive income | | - | 4,353 | (1,160) | - | 55 | **3,248** |
| Lease adjustment | 19,23 | - | (212) | - | - | - | **(212)** |
| Share-based arrangements | 18 | - | - | - | 244 | - | **244** |
| Dividend | 30 | - | (1,278) | - | - | - | **(1,278)** |
| **Balance at 30 June 2022** | | 8,458 | 23,198 | (893) | 244 | 4 | **31,011** |
| **Balance at 1 July 2022** | | 8,458 | 23,198 | (893) | 244 | 4 | **31,011** |
| Profit for the year | 19 | - | 1,713 | - | - | - | **1,713** |
| Other comprehensive income | 19 | - | - | 194 | - | - | **194** |
| Total comprehensive income | | - | 1,713 | 194 | - | - | **1,907** |
| Share-based arrangements | 18,19 | - | 1,796 | - | (348) | - | **1,448** |
| Disposal of subsidiary | 12 | - | - | - | - | (4) | **(4)** |
| Dividend | 30 | - | (2,207) | - | - | - | **(2,207)** |
| **Balance at 30 June 2023** | | 8,458 | 24,500 | (699) | (104) | - | **32,155** |

*The accompanying notes form an integral part of these financial statements*

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2023**

| | Note | 2022 $000 | **2023 $000** |
|---|---|---|---|
| **Net operating cash flows** | | | |
| **Cash provided from:** | | | |
| Receipts from customers | | 197,544 | **163,575** |
| Sustainable Food & Fibre Futures funding | | 1,217 | **-** |
| Other external funding | 2 | 47 | **531** |
| Interest income recieved | 3 | - | **2** |
| | | 198,808 | **164,108** |
| **Cash applied to:** | | | |
| Payments to suppliers and employees | | (202,860) | **(166,146)** |
| Share-based arrangements | 28 | - | **(1,247)** |
| Short-term lease payments | 23 | (86) | **(93)** |
| Income tax payments | | (2,370) | **(2,800)** |
| Interest paid | 3 | (57) | **(1,203)** |
| Interest paid on leases | 3 | (281) | **(296)** |
| | | (205,654) | **(171,785)** |
| **Net cash from / (used in) operating activities** | 20 | (6,846) | **(7,677)** |
| **Net investing cash flows** | | | |
| **Cash applied to:** | | | |
| Acquisition of intangibles | 13 | (216) | **(670)** |
| Purchase of property, plant and equipment | 9 | (125) | **(214)** |
| Disposal of subsidiary net of cash | | - | **(40)** |
| | | (341) | **(924)** |
| **Net cash from / (used in) investing activities** | | (341) | **(924)** |
| **Net financing cash flows** | | | |
| **Cash provided from:** | | | |
| Trade finance facility | 15 | 8,500 | **25,500** |
| | | 8,500 | **25,500** |
| **Cash applied to:** | | | |
| Trade finance facility | 15 | (6,000) | **(13,500)** |
| Dividend | 30 | (1,278) | **(2,207)** |
| Payments for leases | 23 | (502) | **(582)** |
| | | (7,780) | **(16,289)** |
| **Net cash from / (used in) financing activities** | | 720 | **9,211** |
| **Net increase / (decrease) in cash balances** | | (6,467) | **610** |
| Net foreign exchange difference | | - | **10** |
| **Opening cash and cash equivalents** | | 6,407 | **(60)** |
| **Closing cash and cash equivalents** | | (60) | **560** |

*The accompanying notes form an integral part of these financial statements*

# Statement of Accounting Policies

**For the year ended 30 June 2023**

**Reporting entity**
The consolidated financial statements (financial statements) presented are those of the Group, including The New Zealand Merino Company Limited and its subsidiary Made For Good RX 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 financial statements also comply with International Financial Reporting Standards (IFRS).

**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:

- Consolidated Statement of Comprehensive Income - net finance costs are now recognised separately as finance expenses and finance income;
- Consolidated Statement of Financial Position - cash and cash equivalents is being recognised exclusive to the trade finance facility which is now recognised as a financial liability; and
- Consolidated Statement of Cash Flows - trade finance facility is recognised under financing activities, and net foreign exchange differences are explicitly recognised.

**Basis of consolidation**
The Group's financial statements consolidate the financial statements of The New Zealand Merino Company Limited and its subsidiaries, 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 2023**

**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 (w) and Notes 28 and 29.
- 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**
The Group is not aware of any standards, amendments or interpretations issued but not yet effective that would materially affect the amounts recognised or disclosed in the financial statements.

# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**

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. Work in progress is measured at cost, net of 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. Capital expenditure that has been incurred for property, plant and equipment and is not yet available for use is classified as work in progress. Work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

**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, investments in other entities, bank overdraft, trade finance facility, loans and borrowings, lease liabilities, and trade and other payables.

**d. Intangible assets**
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**

An intangible asset is derecognised upon disposal (at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

Software is stated at cost and amortised to profit or loss 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.

Capital expenditure that has been incurred for property, plant and equipment and is not yet available for use is classified as work in progress. Work in progress is not amortised. The total cost of this work is transferred to the relevant asset category on the completion of the project and then amortised.

**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 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.

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 less costs to sell 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**

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 profit or loss.

**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)



# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**

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.

**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 transaction price allocated to the performance condition within the contract. The Group recognises revenue in the following way:

*Contract and auction sales*

Revenue is recognised in profit or loss 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. Only select wool sales incur insurance and freight, the Group is an agent in regards to insurance and freight.

*Wool fees and charges*

Wool fees and charges revenue is recognised in profit or loss at the same time as the purchase of wool from suppliers or sale of wool to customers. 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 through government grants is recognised when there is reasonable assurance that the entity will comply with the conditions attached and the funding will be received. Other external funding which compensates the Group for expenses incurred is recognised in profit or loss as other income on a systematic basis over the periods that the related costs, for which

# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**

it is intended to compensate, are expensed. When external funding relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

*Marketing contributions*

Marketing contributions are recognised in profit or loss at the point in time that the performance obligations have been met and it is highly probable that a significant reversal will not occur. Performance obligations are considered to be met when the volume of wool sold to parties under the agreements has been accepted through the parties relevant area of their supply chain.

**n. 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 straightline 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 Group's 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, and adjusted for any remeasurement of lease liabilities.

Lease periods for leased assets are:

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

**o. Finance expenses and income**

Finance income comprises interest income which is recognised as it accrues using the effective interest method. Finance expenses comprise interest expense on borrowings and lease interest. All borrowing costs are recognised in profit or loss using the effective interest method.

**p. 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 profit or loss.

**q. 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



Statement of Accounting Policies (continued)

For the year ended 30 June 2023

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 with their fair value recognised through profit or loss.

*Cash flow hedges*

The Group designates certain derivatives as cash flow hedging instruments in respect of foreign currency risk and wool price risk.

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 is reclassified from the Cash Flow Hedge Reserve to profit or loss.

If the Group discontinues hedge accounting for a cash flow hedge the amount accumulated in the cash flow hedge reserve is accounted for as follows;

- The amount remains in other comprehensive income if the future cash flows are still expected to occur, or
- The amount is immediately reclassified to profit or loss as a reclassification adjustment if the future cash flows are no longer expected to occur.

# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**

**r. Income tax**
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

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

**s. 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.

**t. 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.

**u. 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. Cash and cash equivalents is net of outstanding bank overdrafts as these are considered an integral part of the Group's cash management.

**v. Research and development**
All research expenditure is recognised in profit or loss as incurred.

Development expenditure which is directly attributable to the design, testing, and implementation of identifiable and unique intangible products controlled by the Group and which meet the recognition criteria are recognised as intangible assets. Where development expenditure has been recognised as an intangible asset it is stated at cost and amortised on a straight-line basis over the period of expected benefits. Amortisation begins at the date of recognition of the intangible asset, excluding capital work-in-progress. All other development expenditure is recognised in profit or loss as incurred.

**w. 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





# Statement of Accounting Policies (continued)

**For the year ended 30 June 2023**



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 profit or loss 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 profit or loss for the year. The Group recognises any reduction in the fair value of cash-settled share-based arrangements through profit or loss.

**x. 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.

**y. 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 profit or loss as incurred. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date of acquisition or up to the date of disposal as appropriate.

**z. 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 profit or loss.

**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 2023**

## 1. Revenue

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

| | 2022 $000 | 2023 $000 |
|---|---|---|
| **Contract revenue** | | |
| Fine wool | 131,799 | **103,224** |
| Strong wool | 21,485 | **19,117** |
| | 153,284 | **122,341** |
| **Auction revenue** | | |
| Fine wool | 29,477 | **31,115** |
| Strong wool | 742 | **2,481** |
| | 30,219 | **33,596** |
| Wool fees and charges revenue | 13,752 | **15,376** |
| **Total revenue** | 197,255 | **171,313** |

Three customers individually contribute more than 10% to total revenue.

## 2. Other income

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Sustainable Food & Fibre Futures external funding | 2,207 | **-** |
| Other external funding | 47 | **531** |
| Marketing contributions | 1,619 | **4,248** |
| Exchange gains | - | **22** |
| Management fees | 329 | **552** |
| Insurance income | - | **254** |
| Other income | 317 | **529** |
| | 4,519 | **6,136** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 3. Finance expenses / income

| | 2022 $000 | 2023 $000 |
|---|---|---|
| **Finance expenses** | | |
| Interest expense | 57 | **1,203** |
| Interest expense on leases | 281 | **296** |
| | 338 | **1,499** |
| **Finance income** | | |
| Interest income | - | **2** |
| | - | **2** |

## 4. Expenses

| | 2022 $000 | 2023 $000 |
|---|---|---|
| *The following items of expenditure are included in procurement and selling expenses* | | |
| Wool related expenses (logistics, testing, insurance) | 4,986 | **5,475** |
| Travel | 271 | **688** |
| Communications and grower engagement | 162 | **321** |
| Premises expenses and motor vehicles | 133 | **211** |
| | 5,552 | **6,695** |
| *The following items of expenditure are included in marketing expenses* | | |
| Employee benefit expense | 3,444 | **5,370** |
| Marketing activities | 732 | **616** |
| Travel | 292 | **418** |
| Grower auditing | 293 | **140** |
| | 4,761 | **6,544** |
| *The following items of expenditure are included in innovation expenses* | | |
| Science and innovation projects | 1,692 | **553** |
| Employee benefit expense | 3,335 | **2,155** |
| Travel | 39 | **81** |
| | 5,066 | **2,789** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 4. **Expenses** (continued)

| | Note | 2022 $000 | **2023 $000** |
|---|---|---|---|
| *The following items of expenditure are included in administration expenses* | | | |
| Employee benefit expense | | 1,323 | **1,961** |
| Office and operational expenses | | 635 | **821** |
| Premises expenses | | 398 | **644** |
| Professional services | | 434 | **804** |
| Information technology | | 323 | **485** |
| Directors' fees | | 342 | **357** |
| Directors' expenses | | 58 | **120** |
| Insurance | | 257 | **329** |
| Travel | | 37 | **32** |
| | | 3,807 | **5,553** |
| *The following items of expenditure are included in other expenses* | | | |
| Depreciation | | 287 | **319** |
| Amortisation of other intangible assets | | 118 | **138** |
| Loss on sale of fixed assets / intangible assets | | - | **6** |
| Loss on disposal of subsidiary | | - | **20** |
| Exchange losses | | 1 | **-** |
| Donations | | 19 | **41** |
| | | 425 | **524** |
| **Personnel expenses (salaries & employer contribution to Kiwisaver included in marketing expenses, innovation expenses and administrative expenses)** | | | |
| Salaries | | 7,821 | **8,579** |
| Share-based arrangements | 28 | 494 | **816** |
| Share-based long-term incentives | 29 | 119 | **496** |
| Kiwisaver and superannuation employer contributions | | 281 | **333** |
| | | 8,715 | **10,224** |



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 5. Income tax

| | 2022 $000 | **2023 $000** |
|---|---|---|
| **Income tax expense** | | |
| Current income tax - New Zealand | (2,120) | **(1,164)** |
| Current income tax - Australia | (8) | **(20)** |
| Relating to origination and reversal of temporary differences | (8) | **93** |
| Adjustments in respect of New Zealand current income tax of previous years | (9) | **13** |
| Adjustments in respect of Australian current income tax of previous years | 1 | **(8)** |
| Income tax expense reported in the Statement of Comprehensive Income | (2,144) | **(1,086)** |
| **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 | 6,552 | **2,799** |
| Plus after tax (profit) / loss of joint venture | (26) | **(35)** |
| | 6,526 | **2,764** |
| At the statutory income tax rate of 28% | (1,827) | **(774)** |
| Adjustments in respect of New Zealand current income tax of previous years | (9) | **13** |
| Adjustments in respect of Australian current income tax of previous years | 1 | **(8)** |
| Current income tax charge - Australia | - | **(20)** |
| Deferred tax adjustment | - | **(29)** |
| Permanent differences | (309) | **(268)** |
| Aggregate income tax (expense) / income | (2,144) | **(1,086)** |
| **Imputation credit balance** | | |
| Balance at the beginning of the year | 2,289 | **4,162** |
| Imputation credits attached to dividends received/(paid) | (497) | **(858)** |
| Income tax paid for prior year | 251 | **2,962** |
| Income tax payable | 2,119 | **-** |
| **Balance at the end of the year** | 4,162 | **6,266** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 6. Cash and cash equivalents

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Cash and cash equivalents | 202 | 560 |
| Bank overdraft | (262) | - |
| | (60) | 560 |

**Working capital facility**

During the year the Group maintained an overdraft facility of up to ($000) $3,000 (2022: $3,000). At balance date the Group is not utilising the overdraft facility (2022: $262) and has ($000) $3,000 of undrawn overdraft facility available (2022: $2,738). The Group also holds cash surpluses in foreign currency accounts. The Group has a Business Visa limit of ($000) $500 (2022: $500).

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

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Trade receivables | 11,984 | 24,748 |
| Prepayments | 606 | 1,096 |
| | 12,590 | 25,844 |

The Group's trade receivables are amounts due from customers for goods and service performed in the ordinary course of business. Normal terms of trade for Auction receivables are 11 days after date of the Auction, and for Contract revenue a number of forward dates are in place to align with customers supply chain requirements. All trade receivables other than Auction and Contract revenue 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 $1,727 (NZD $1,878), USD $454 (NZD $689) (2022: AUD: $3,451 (NZD $3,790), USD $1,095 (NZD: $1,621).

The Group uses the expected credit loss model to determine impairment of trade receivables. The model is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general conditions, and an assessment of both the current as well as the forecast conditions at the reporting date. There is no impairment of trade receivables as at 30 June 2023 (2022: nil).

Included in trade receivables are debtors which are past due at balance date, as payment has not been received, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are considered to be fully recoverable.



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 8. Inventories

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Stock of wool | 23,700 | 17,415 |

The cost of inventories recognised as an expense during the year in respect of continuing operations was ($000) $149,713 (2022: $174,751).

The cost of inventories recognised as an expense includes ($000) $450 (2022: $628) in respect of write-downs of inventory to net realisable value.

Stock on hand as at 30 June 2023 with an age of greater than one year is ($000) $293 (2022: $103).

## 9. Property, plant and equipment

| | Office equipment $000 | Leasehold improvements $000 | Information technology assets $000 | Plant and equipment $000 | Work in progress $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Cost and valuation** | | | | | | |
| **Balance at 1 July 2021** | 522 | 2,023 | 671 | 100 | - | 3,317 |
| Additions | 23 | 12 | 90 | - | - | 125 |
| Disposals | - | - | - | - | - | - |
| **Balance at 30 June 2022** | 545 | 2,035 | 761 | 100 | - | 3,441 |
| Balance at 1 July 2022 | 545 | 2,035 | 761 | 100 | - | 3,441 |
| Additions | 48 | 108 | 57 | - | 1 | 214 |
| Disposals | (61) | (1) | (36) | (77) | - | (175) |
| **Balance at 30 June 2023** | 532 | 2,142 | 782 | 23 | 1 | 3,480 |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **Balance at 1 July 2021** | (284) | (388) | (537) | (33) | - | (1,242) |
| Depreciation for the year | (49) | (176) | (57) | (5) | - | (287) |
| Disposals | - | - | - | - | - | - |
| **Balance at 30 June 2022** | (333) | (564) | (594) | (38) | - | (1,529) |
| Balance at 1 July 2022 | (333) | (564) | (594) | (38) | - | (1,529) |
| Depreciation for the year | (40) | (183) | (94) | (2) | - | (319) |
| Disposals | 59 | 1 | 32 | 22 | - | 114 |
| **Balance at 30 June 2023** | (314) | (746) | (656) | (18) | - | (1,734) |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 9. Property, plant and equipment (continued)

| | Office equipment | Leasehold improvements | Information technology assets | Plant and equipment | Work in progress | Total |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | **$000** |
| **Carrying amounts** | | | | | | |
| At 1 July 2021 | 238 | 1,635 | 134 | 67 | - | **2,074** |
| At 30 June 2022 | 212 | 1,471 | 167 | 62 | - | **1,912** |
| **At 30 June 2023** | 218 | 1,396 | 126 | 5 | 1 | **1,746** |

## 10. Deferred tax

**Movements in deferred tax:**

| 2023 $000 | Opening balance | Charged to income | Charged to other comprehensive income | Closing balance |
|---|---|---|---|---|
| **Gross deferred tax asset / (liability)** | | | | |
| Employee entitlements | 258 | (64) | - | **194** |
| Other accrual | 6 | (5) | - | **1** |
| Capital contribution to tenant fitout | (2) | 8 | - | **6** |
| Net lease liabilities | 180 | 28 | - | **208** |
| Income in advance | 13 | (13) | - | **-** |
| Derivative financial instruments | 347 | - | (75) | **272** |
| Share-based arrangements | 157 | 139 | (68) | **228** |
| Total deferred tax asset | 959 | 93 | (143) | **909** |

| 2022 $000 | Opening balance | Charged to income | Charged to other comprehensive income | Closing balance |
|---|---|---|---|---|
| **Gross deferred tax asset / (liability)** | | | | |
| Employee entitlements | 164 | 94 | - | **258** |
| Other accrual | 3 | 3 | - | **6** |
| Capital contribution to tenant fitout | (4) | 2 | - | **(2)** |
| Net lease liabilities | 79 | 101 | - | **180** |
| Income in advance | - | 13 | - | **13** |
| Derivative financial instruments | (104) | - | 451 | **347** |
| Share-based arrangements | - | 33 | 124 | **157** |
| Total deferred tax asset | 138 | 246 | 575 | **959** |



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 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. There are no unrecognised accumulated losses within AOML as at 30 June 2023 (2022: nil). The Group ceased equity accounting in 2018. The carrying amount of AOML was reduced to zero due to share of losses in prior years and no direct activity in the period. There is no share of profit or losses for the year ended 30 June 2023 (2022: nil).

There is no assessed impairment associated with the investment in AOML as at 30 June 2023 (2022: nil).

**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 and Australia. The financial year end date of GNZL is 30 June.

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

There is no assessed impairment associated with the investment in GNZL as at 30 June 2023.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 11. Investments in other entities (continued)

**(i) Joint ventures** (continued)

| 2023 $000 | Total assets | Total liabilities | Revenues | Profit / (loss) |
|---|---|---|---|---|
| GNZL | 480 | 294 | 1,184 | **70** |
| Ownership interest (50%) | 240 | 147 | 592 | **35** |
| **2022 $000** | **Total assets** | **Total liabilities** | **Revenues** | **Profit / (loss)** |
| GNZL | 552 | 440 | 906 | **51** |
| Ownership interest (50%) | 276 | 220 | 453 | **26** |

The carrying value of GNZL at 30 June 2023 is ($000) $92 (2022: $56).

**(ii) Other interests**

| | Principal activity | Principal place of business | Date of incorporation | % of ownership 2022 | % of ownership 2023 |
|---|---|---|---|---|---|
| Keravos Limited | Natural fibre innovation | New Zealand | 21/10/2020 | 80.0% | 10.0% |
| Sheep Included Limited | Production and retail | United Kingdom | 27/02/2018 | 1.2% | 0.4% |

## 12. Subsidiary companies

| | Principal activity | Principal place of business | Date of incorporation | Equity holding 2022 | Equity holding 2023 |
|---|---|---|---|---|---|
| Keravos Limited | Natural fibre innovation | New Zealand | 21/10/2020 | 80.0% | 10.0% |
| Made For Good RX Limited | ESG technology platform | New Zealand | 26/05/2022 | 100.0% | 100.0% |

**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.

On 1 July 2022 The Group sold a 70% shareholding in Keravos Limited and retains a 10% shareholding. This has resulted in the cessation of accounting for Keravos Limited as a subsidiary in the consolidated statements. The sale of the shares in Keravos Limited has resulted in a loss of $20 ($000) in other expenses attributable to the former controlling interest, and the removal of ($000) $4 attributable to the non-controlling interest in the Consolidated Statement of Changes in Equity.



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 12. Subsidiary companies (continued)

**Made For Good RX Limited**

On 26 May 2022 The New Zealand Merino Company Limited incorporated a company, Made For Good RX Limited. Made For Good RX Limited is 100% owned by The New Zealand Merino Company Limited. Made For Good RX Limited has a 30 June balance date.

Made For Good RX Limited has been incorporated for the purpose of extending the regenerative agricultural strategic initiatives of the Group.

*Impact on the results of the Group*

During the year ended 30 June 2023 Made For Good RX Limited has contributed ($000) $531 to other income (2022: nil), and a loss before tax of ($000) $345 (2022: nil) to the Group's total comprehensive income.

## 13. Intangible assets and goodwill

| $000 | Goodwill | Trademarks | Computer software | Patents | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 July 2021** | 5,631 | 455 | 634 | 7 | - | **6,727** |
| Additions | - | 97 | 119 | - | - | **216** |
| Disposals | - | - | - | - | - | **-** |
| **Balance at 30 June 2022** | 5,631 | 552 | 753 | 7 | - | **6,943** |
| Balance at 1 July 2022 | 5,631 | 552 | 753 | 7 | - | **6,943** |
| Additions | - | 206 | 229 | - | - | **435** |
| Work in progress | - | - | - | - | 235 | **235** |
| Disposals | - | (98) | (136) | (7) | - | **(241)** |
| **Balance at 30 June 2023** | 5,631 | 660 | 846 | - | 235 | **7,372** |
| **Amortisation** | | | | | | |
| **Balance at 1 July 2021** | - | (307) | (427) | - | - | **(734)** |
| Amortisation for the year | - | (18) | (100) | - | - | **(118)** |
| Disposals | - | - | - | - | - | **-** |
| **Balance at 30 June 2022** | - | (325) | (527) | - | - | **(852)** |
| Balance at 1 July 2022 | - | (325) | (527) | - | - | **(852)** |
| Amortisation for the year | - | (18) | (120) | - | - | **(138)** |
| Disposals | - | 8 | 136 | - | - | **144** |
| **Balance at 30 June 2023** | - | (335) | (511) | - | - | **(846)** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 13. Intangible assets and goodwill (continued)

| $000 | Goodwill | Trademarks | Computer software | Patents | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Carrying amounts** | | | | | | |
| At 1 July 2021 | 5,631 | 148 | 207 | 7 | - | **5,993** |
| At 30 June 2022 | 5,631 | 227 | 226 | 7 | - | **6,091** |
| At 30 June 2023 | 5,631 | 325 | 335 | - | 235 | **6,526** |

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

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 11.4% (2022: 13%) with a pre-tax WACC of 14.5% (2022: 16.4%) and a terminal value growth rate of 3% (2022: 3%). The analysis is sensitive to both the terminal growth rate and discount rate. A reduction of 0.5% in the terminal growth rate and 0.5% 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. All additions to computer software have been separately acquired from external providers.

## 14. Trade and other payables

| | 2022 $000 | **2023 $000** |
|---|---|---|
| Trade payables | 4,223 | **2,060** |
| Employee entitlements | 893 | **1,805** |
| | 5,116 | **3,865** |

Related party payables are detailed in Note 21.




# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**


## 15. Trade finance facility

| | 2022 $000 | **2023 $000** |
|---|---|---|
| **Movement in trade finance facility** | | |
| Opening balance | - | **2,500** |
| Proceeds from trade finance facility | 8,500 | **25,500** |
| Repayments to trade finance facility | (6,000) | **(13,500)** |
| **Closing balance** | 2,500 | **14,500** |

The Group has entered into a trade finance agreement with ASB Bank Limited to meet operational cash flow requirements throughout the year. As at 30 June 2023 the Group had available ($000) $2,500 of undrawn trade finance facility (2022: nil). The trade finance facility is renegotiated each year and monthly trade finance facility limits are set, the next renegotiation of the trade finance facility is before 30 June 2024.

Interest is payable on the trade finance facility. The floating interest rate at 30 June 2023 is 7.16% (2022: 3.58%).

The trade finance facility is secured under the terms of the Combined Trade Finance Facility Agreement dated 20 October 2020.

The Group is subject to capital requirements imposed by ASB Bank Limited through covenants agreed as part of the trade finance facility agreement. The group met all capital requirements for the year ended 30 June 2022 and 30 June 2023.

The following summarises the key covenants:

- Shareholders funds, total tangible assets less total liabilities, of the Group must not be less than ($000) $8,000 on any date, tested annually on the last day of the financial year,
- Interest cover ratio, EBITDA to total interest costs, is not less than 2.5 times, tested annually on the last day of the financial year; and
- Stock and debtor cover ratio, total stock and debtors to working capital debt and creditors, is not less than 1.2 times, tested monthly.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. 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). Refer to Note 11 (ii) Other interests.

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

| 2023<br>$000 | Level 1 | Level 2 | Level 3 | Total balance |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments in other entities | - | - | 32 | **32** |
| Derivative financial instruments | - | 153 | - | **153** |
| **Total assets** | - | 153 | 32 | **185** |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 1,123 | - | **1,123** |
| **Total liabilities** | - | 1,123 | - | **1,123** |

| 2022<br>$000 | Level 1 | Level 2 | Level 3 | Total balance |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments in other entities | - | - | 90 | **90** |
| Derivative financial instruments | - | 623 | - | **623** |
| **Total assets** | - | 623 | 90 | **713** |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 1,864 | - | **1,864** |
| **Total liabilities** | - | 1,864 | - | **1,864** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

The net nominal value of forward currency contracts (cash flow hedges) outstanding at balance date was ($000) $14,560 (2022: $18,796 ). The net nominal value of wool futures (cash flow hedges) outstanding at balance date was ($000) $4,235 (2022: $3,615).

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 which are not an active market and classified under Level 2 as defined in the fair value hierarchy.

**Financial risk and capital management**
The Group's capital includes share capital, reserves, and retained earnings.

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.

The New Zealand Merino Company Limited's shares are listed on the Unlisted Securities Exchange. During the year the Group did not complete any share issues or share buy-backs other than re-purchasing shares under the cash settled share-based arrangement (refer to Note 28).

The Group paid a dividend during the year ended 30 June 2023 of $2,207 ($000) (2022: $1,278).

During the year ended 30 June 2023 the Group could utilise an overdraft facility of up to ($000) $3,000 (2022: $3,000) and a trade finance facility of up to ($000) $25,500 (2022: $23,000) with ASB Bank Limited. At 30 June 2023 the Group is not utilising the overdraft facility and is utilising ($000) $14,500 (2022: $2,500) of the trade finance facility. The Group also holds cash surpluses in foreign currency accounts. The Group has obtained a trade finance facility and an overdraft facility to cover its cash flow requirements for the 2024 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.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

**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.

The average exchange quoted forward price for wool futures at 30 June 2023 is $16.51 per kilogram (2022: $18.76). The total kilograms contracted at 30 June 2023 is 247,000 kilograms (2022: 200,500).

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) $108 (2022: $111) 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) $136 (2022: $111) 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 2023:

| | Notional principal amount 2022 $000 | Fair value 2022 $000 | **Notional principal amount 2023 $000** | **Fair value 2023 $000** |
|---|---|---|---|---|
| Not later than 1 month | 186 | 8 | **84** | **(1)** |
| 30-90 days | 954 | 26 | **792** | **(45)** |
| 91-365 days | 2,049 | 40 | **2,433** | **(97)** |
| 1 year to 5 years | 426 | 23 | **925** | **(23)** |
| | 3,615 | 97 | **4,234** | **(166)** |

The fair value of wool futures contracts has been included in the Consolidated Statement of Financial Position as current and non current assets and current and non current liablities, based on the time to maturity and position the wool futures contract is in as at 30 June 2023.



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

**(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), China (CNY) and Europe (EUR). A 1% increase in the contract close out rates would increase the fair value, and total comprehensive income by ($000) $144 (2022: $186 ) 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) $147 (2022: $190) with no effect on profit / (loss) after tax.

At 30 June 2023 the average market rate for AUD foreign exchange contracts is 0.9103 (2022: 0.9193), the average market rate for USD foreign exchange contracts is 0.6623 (2022: 0.6684), the average market rate for EUR foreign exchange contracts is 0.5586 (2022: 0.5990) and the average rate for CNY foreign exchange contracts is 4.2412 (2022: 4.3990).

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 2022 $000 | Fair value 2022 $000 | **Notional principal amount 2023 $000** | **Fair value 2023 $000** |
|---|---|---|---|---|
| **AUD Sell** | | | | |
| Not later than 1 month | 7,570 | (147) | **427** | **(1)** |
| 30-90 days | 7,336 | (86) | **2,645** | **(34)** |
| 91-365 days | 5,335 | (119) | **1,726** | **(10)** |
| 1 year to 5 years | - | - | **-** | **-** |
| | 20,241 | (352) | **4,798** | **(45)** |
| **AUD Buy** | | | | |
| Not later than 1 month | (6,604) | 66 | **(399)** | **-** |
| 30-90 days | (2,265) | 30 | **-** | **-** |
| 91-365 days | (10,433) | 410 | **(4,093)** | **(65)** |
| 1 year to 5 years | - | - | **(771)** | **(12)** |
| | (19,302) | 506 | **(5,263)** | **(77)** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

**(ii) Currency risk** (continued)

| | Notional principal amount 2022 $000 | Fair value 2022 $000 | **Notional principal amount 2023 $000** | **Fair value 2023 $000** |
|---|---|---|---|---|
| **USD Sell** | | | | |
| Not later than 1 month | 2,341 | (268) | **186** | **(17)** |
| 30-90 days | 869 | (72) | **3,843** | **(355)** |
| 91-365 days | 6,994 | (543) | **4,476** | **(420)** |
| 1 year to 5 years | 6,100 | (503) | **-** | **-** |
| | 16,304 | (1,386) | **8,505** | **(792)** |
| **CNY Sell** | | | | |
| Not later than 1 month | - | - | **-** | **-** |
| 30-90 days | - | - | **1,155** | **92** |
| 91-365 days | 1,776 | (107) | **1,895** | **9** |
| 1 year to 5 years | - | - | **3,462** | **9** |
| | 1,776 | (107) | **6,512** | **110** |
| **EUR Buy** | | | | |
| Not later than 1 month | (223) | 2 | **-** | **-** |
| 30-90 days | - | - | **-** | **-** |
| 91-365 days | - | - | **-** | **-** |
| 1 year to 5 years | - | - | **-** | **-** |
| | (223) | 2 | **-** | **-** |
| **EUR Sell** | | | | |
| Not later than 1 month | - | - | **8** | **-** |
| 30-90 days | - | - | **-** | **-** |
| 91-365 days | - | - | **-** | **-** |
| 1 year to 5 years | - | - | **-** | **-** |
| | - | - | **8** | **-** |
| | 18,796 | (1,337) | **14,560** | **(804)** |

The fair value of wool futures contracts has been included in the Consolidated Statement of Financial Position as current and non current assets and current and non current liablities, based on the time to maturity and position the wool futures contract is in as at 30 June 2023.



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. 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, and trade receivables. 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 60% of trade receivables are due from three customers (2022: Approximately 50% due from four customers).

The credit risk on forward currency contracts with ASB Bank Limited as at 30 June 2023 is nil (2022: nil). The credit risk on wool future contracts with the various counterparties as at 30 June 2023 is ($000) nil (2022: $97). 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:

| | 2022 $000 | **2023 $000** |
|---|---|---|
| Trade receivables | 11,984 | **24,748** |
| Total credit risk | 11,984 | **24,748** |

*Collateral and other credit enhancements obtained*

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

*Trade receivables that are either past due or impaired*

The table on the following page sets out information regarding the ageing of trade receivables. Debts owing in excess of 30 days past their due date are considered past due. These have not been assessed as impaired based on the simplified expected credit loss model.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

**(iii) Credit risk** (continued)

| | 2022 $000 | **2023 $000** |
|---|---|---|
| Current | 11,404 | **19,935** |
| 31-60 days | 365 | **2,544** |
| 61-90 days | 203 | **816** |
| Over 90 days | 12 | **1,453** |
| | 11,984 | **24,748** |

*Renegotiated trade receivables*

Specific customers have negotiated extended payment terms with the Group in order to align with their supply chain requirements.

**(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 30 June 2023 the interest rate on the trade finance facility is 7.16%. The Group entered into a trade finance facility for 12 months and drawsdown and repays the trade finance facility monthly.

The interest rate on the overdraft facility is 8.03%.

At the reporting date the Group had the following interest-bearing financial instruments which are subject to variable floating interest rates:

| | Principal amount 2022 $000 | Fair value 2022 $000 | **Principal amount 2023 $000** | **Fair value 2023 $000** |
|---|---|---|---|---|
| Bank overdraft | 262 | 262 | **-** | **-** |
| Trade finance facility | 2,500 | 2,500 | **14,500** | **14,500** |
| | 2,762 | 2,762 | **14,500** | **14,500** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

**(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.

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

| 2023 $000 | Less than 1 year | 1-2 years | 2-6 Years | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bank | 560 | - | - | **560** |
| Trade receivables | 24,748 | - | - | **24,748** |
| Investments in other entities | 32 | - | - | **32** |
| Derivative financial instruments | 139 | 9 | 5 | **153** |
| | 25,479 | 9 | 5 | **25,493** |
| **Financial liabilities** | | | | |
| Trade finance facilities | 14,500 | - | - | **14,500** |
| Trade payables | 2,060 | - | - | **2,060** |
| Derivative financial instruments | 1,066 | 41 | 16 | **1,123** |
| | 17,626 | 41 | 16 | **17,683** |

| 2022 $000 | Less than 1 year | 1-2 years | 2-6 Years | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bank | 202 | - | - | **202** |
| Trade receivables | 11,984 | - | - | **11,984** |
| Investments in other entities | 90 | - | - | **90** |
| Derivative financial instruments | 600 | 23 | - | **623** |
| | 12,876 | 23 | - | **12,899** |
| **Financial liabilities** | | | | |
| Bank overdraft | 262 | - | - | **262** |
| Trade finance facilities | 2,500 | - | - | **2,500** |
| Trade payables | 4,223 | - | - | **4,223** |
| Derivative financial instruments | 1,360 | 504 | - | **1,864** |
| | 8,345 | 504 | - | **8,849** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 16. Financial instruments (continued)

### (vi) Categories of financial instruments

| 2023<br>$000 | Financial assets / liabilities at fair value through profit or loss | Financial assets / liabilities at amortised cost | Total |
|---|---|---|---|
| **Assets** | | | |
| Bank | - | 560 | **560** |
| Trade receivables | - | 24,748 | **24,748** |
| Investments in other entities | 32 | - | **32** |
| Derivative financial instruments | 153 | - | **153** |
| | 185 | 25,308 | **25,493** |
| **Liabilities** | | | |
| Trade finance facility | - | 14,500 | **14,500** |
| Trade and other payables | - | 2,060 | **2,060** |
| Derivative financial instruments | 1,123 | - | **1,123** |
| Lease liabilities | - | 5,876 | **5,876** |
| | 1,123 | 22,436 | **23,559** |

| 2022<br>$000 | Financial assets / liabilities at fair value through profit or loss | Financial assets / liabilities at amortised cost | Total |
|---|---|---|---|
| **Assets** | | | |
| Bank | - | 202 | **202** |
| Trade receivables | - | 11,984 | **11,984** |
| Investments in other entities | 90 | - | **90** |
| Derivative financial instruments | 623 | - | **623** |
| | 713 | 12,186 | **12,899** |
| **Liabilities** | | | |
| Bank overdraft | - | 262 | **262** |
| Trade finance facility | - | 2,500 | **2,500** |
| Trade and other payables | - | 4,223 | **4,223** |
| Derivative financial instruments | 1,864 | - | **1,864** |
| Lease liabilities | - | 5,760 | **5,760** |
| | 1,864 | 12,745 | **14,609** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 17. Share capital

| | 2022<br>$000 | **2023<br>$000** |
|---|---|---|
| Opening balance | 8,458 | **8,458** |
| Closing balance | 8,458 | **8,458** |
| **Number of ordinary shares:** | | |
| Opening balance | 5,304,249 | **5,304,249** |
| Closing balance | 5,304,249 | **5,304,249** |

At 30 June 2023 147,633 ordinary shares were held by the Group as treasury stock (2022: nil). Treasury stock do not receive dividends and have no voting rights.

### Treasury stock

During the year ended 30 June 2023 the Group purchased 147,633 shares from three participants under the cash settled share-based arrangements. Refer to Note 28 for details of the cash settled share-based arrangements.

| | 2022<br>$000 | **2023<br>$000** |
|---|---|---|
| **Number of treasury stock shares** | | |
| Opening balance | - | **-** |
| Share-based arrangements | - | **147,633** |
| Closing balance | - | **147,633** |

### Earnings per share

| | 2022<br>$000 | **2023<br>$000** |
|---|---|---|
| Profit attributable to the ordinary shareholders of the Group (basic) | 4,353 | **1,713** |
| Weighted average number of ordinary shares (basic) | 5,304,249 | **5,304,249** |
| Effect of dilution - share options | 79,264 | **18,318** |
| Weighted average number of ordinary shares (diluted) | 5,383,513 | **5,322,567** |
| **Earnings per share (cents)** | | |
| Basic earnings per share | 82.07 | **32.29** |
| Diluted earnings per share | 80.86 | **32.18** |

The diluted earnings per share are basic earnings per share adjusted for contingently issuable shares under the share-based long-term incentive scheme 2. Refer to Note 29 for further information on share-based long-term incentives.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 18. Share-based arrangements reserve

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Opening balance | - | **244** |
| Share-based arrangement expense | 120 | **18** |
| Modification to cash-settled share-based arrangement | - | **(298)** |
| Deferred tax on share-based arrangement | 124 | **(68)** |
| Closing balance | 244 | **(104)** |

## 19. Retained earnings and reserves

| | 2022 $000 | 2023 $000 |
|---|---|---|
| **Retained earnings** | | |
| Opening balance | 20,335 | **23,198** |
| Profit after tax | 4,353 | **1,713** |
| Share-based arrangements | - | **1,796** |
| Lease adjustment | (212) | **-** |
| Dividend | (1,278) | **(2,207)** |
| | 23,198 | **24,500** |

During the year ended 30 June 2022 there was a lease adjustment which is comprised of a ($000) $296 adjustment in the right-of-use asset and lease liability from a lease incentive adjustment (refer to Note 23) and the associated tax effect of the lease adjustment ($000) $84.

| | 2022 $000 | 2023 $000 |
|---|---|---|
| **Cash flow hedge reserve** | | |
| Opening balance | 267 | **(893)** |
| Foreign exchange contracts | (1,031) | **384** |
| Wool futures contracts | (129) | **(190)** |
| | (893) | **(699)** |



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 20. Reconciliation of profit before tax to net cash flows from operations

| | 2022 $000 | 2023 $000 |
|---|---|---|
| Profit before tax | 6,552 | **2,799** |
| **Adjustments for:** | | |
| Income tax payments | (2,370) | **(2,800)** |
| Share of associates retained (surplus) / loss | (26) | **(35)** |
| Loss / (gain) on investments in other entities | (66) | **58** |
| Depreciation | 287 | **319** |
| Amortisation of intangible assets | 118 | **138** |
| Depreciation on right-of-use lease assets | 523 | **646** |
| Lease adjustment | 94 | **-** |
| Loss / (gain) on sale of fixed assets / intangible assets | - | **6** |
| Share-based arrangements expense | 614 | **65** |
| **Working capital:** | | |
| (Increase) / decrease in inventory | (10,624) | **6,285** |
| (Increase) / decrease in accounts receivable / prepayments | (2,831) | **(13,255)** |
| Increase / (decrease) in accounts payable | 803 | **(1,803)** |
| Increase / (decrease) in income in advance | 80 | **(100)** |
| **Net cash from operating activities** | (6,846) | **(7,677)** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 21. Related party disclosures

**Alpine Origin Merino Limited (AOML)**
As at 30 June 2023 the Group owns a 50% share in Alpine Origin Merino Limited (AOML) with the other 50% being owned by Alliance Group Limited. 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 (2022: nil). There are no receivable balances with AOML as at 30 June 2023 (2022: nil).

During the year ended 30 June 2023 the Group has recorded expenses of ($000) $3 (2022: $92) and income of ($000) $321 (2022: nil) with Alliance Group Limited. There is no receivable balance with Alliance Group Limited (2022: nil).

**Glerups New Zealand Limited (GNZL)**
As at 30 June 2023 the Group owns a 50% share in Glerups New Zealand Limited (GNZL). During the year the Group paid expenses of ($000) $9 (2022: $7) to GNZL. As at 30 June 2023 the receivable from GNZL is ($000) $268 (2022: $165). This comprises management fees for GNZL. As at 30 June 2023 the investment in GNZL is ($000) $93 (2022: $56).

**Directors**
The Group entered into transactions for the sale and purchase of wool during the course of the year with associated entities who have significant influence over the Group through their appointment of a director to the Group's board. The Group's only related party through associated entities is AWN Rural Pty Limited which became a related party on 1 March 2023 in relation to the Group's director. John Maher became a director on this date and is also a director of AWN Food and Fibre Pty Limited, the parent company of AWN Rural Pty Limited.

The Group also entered into transactions for the sale and purchase of wool during the course of the year with associated entities of the other directors of the Group, which are not deemed related parties.

The transactions presented below were made on the same terms as to other third parties. The Group has not entered into any transactions other than the payment of directors fees directly with any director.

| 2023<br>$000 | Sales | Purchases | Payables | Receivables |
|---|---|---|---|---|
| Bill Sutherland | - | 2,163 | - | - |
| John Penno | - | 17 | - | - |
| Paul Ensor | - | 387 | - | - |
| Matanuku Mahuika | - | 55 | - | - |
| Ben Todhunter | - | 283 | - | - |
| John Maher | 1,734 | 16,036 | 53 | 438 |



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 21. Related party disclosures (continued)

| 2022<br>$000 | Sales | Purchases | Payables | Receivables |
|---|---|---|---|---|
| Bill Sutherland | - | 2,169 | - | - |
| John Penno | - | 38 | - | - |
| Paul Ensor | - | 399 | - | - |
| Matanuku Mahuika | - | 121 | - | - |
| Ben Todhunter | - | 258 | - | - |

**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 2023 was ($000) $4,165 (2022: $2,901). Key management personnel refers to the Chief Executive Officer/Acting Chief Executive Officer and seven (2022: seven) direct management reports to the Chief Executive/Acting Chief Executive Officer.

Total remuneration includes a long-term incentive accrual of ($000) $775 (2022: nil). Refer to Note 29 for further details of the long-term incentive arrangements.

Total remuneration provided to directors in 2023 was ($000) $357 (2022: $352).

## 22. Commitments

**Capital commitments**
The Group had no capital commitments as at 30 June 2023 (2022: 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 2023 (2022: nil).

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 2023 (2022: nil).

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 23. Leases

The Group leases buildings, motor vehicles and office equipment.

The related lease expense for short-term leases is recognised in profit or loss is ($000) $93 (2022: $86).

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

| $000 | Buildings | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|
| **Right-of-use asset** | | | | |
| Opening right-of-use asset at 1 July 2021 | 4,490 | 132 | 33 | **4,655** |
| Depreciation charge for the year | (396) | (117) | (10) | **(523)** |
| Additions to right-of-use assets | - | 308 | - | **308** |
| Remeasurement of right-of-use assets | 296 | - | - | **296** |
| Closing right-of-use asset at 30 June 2022 | 4,390 | 323 | 23 | **4,736** |
| Opening right-of-use asset at 1 July 2022 | 4,390 | 323 | 23 | **4,736** |
| Depreciation charge for the year | (479) | (158) | (9) | **(646)** |
| Additions to right-of-use assets | 194 | 53 | - | **247** |
| Remeasurement of right-of-use assets | 451 | - | - | **451** |
| Closing right-of-use asset at 30 June 2023 | 4,556 | 218 | 14 | **4,788** |

The right-of-use asset depreciation charge for the year of ($000) $453 (2022: $406) has been recognised in administrative expenses and ($000) $193 (2022: $117) has been recognised in procurment and selling expenses in profit and loss.

*Lease remeasurement*

During the year ended 30 June 2023 the Group remeasured its lease over the premises at 123 Victoria Street, Christchurch. The lease remeasurement of ($000) $451 has increased the lease asset and lease liability and reflects the variable lease payment adjustment arising from a rent review.



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 23. Leases (continued)

| $000 | Buildings | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|
| **Lease liability** | | | | |
| Opening lease liability at 1 July 2021 | 5,083 | 222 | 49 | **5,354** |
| Decrease in lease liability | (376) | (117) | (9) | **(502)** |
| Additions to lease liabilities | - | 221 | - | **221** |
| Remeasurement of lease liabilities | 703 | - | (16) | **687** |
| Closing lease liability at 30 June 2022 | 5,410 | 326 | 24 | **5,760** |
| Opening lease liability at 1 July 2022 | 5,410 | 326 | 24 | **5,760** |
| Decrease in lease liability | (418) | (155) | (9) | **(582)** |
| Additions to lease liabilities | 194 | 53 | - | **247** |
| Remeasurement of lease liabilities | 451 | - | - | **451** |
| Closing lease liability at 30 June 2023 | 5,637 | 224 | 15 | **5,876** |

The decrease in lease liability of ($000) $582 (2022: $502) is comprised of cash payments of ($000) $878 (2022: $783) less the associated interest expense on the lease liabilities of ($000) $296 (2022: $281).

The current portion of the lease liability is ($000) $648 (2022: $573). The non-current portion of the lease liability is ($000) $5,228 (2022: $5,187).

| | 2022 $000 | **2023 $000** |
|---|---|---|
| **Leases maturity analysis** | | |
| Not later than one year | 725 | **932** |
| Later than one year but not later than two years | 669 | **876** |
| Later than two years but not later than five years | 1,688 | **2,293** |
| Later than five years | 3,582 | **3,203** |
| | 6,664 | **7,304** |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 24. Events after balance date

There are no significant events post balance date.

## 25. Auditor's remuneration

The auditor of the Group is Ernst & Young Limited.

Ernst & Young was appointed as the Group's auditor effective 1 July 2022 replacing Deloitte, the Group's previous auditor. The 2022 and 2023 amounts reflect payments to Deloitte and Ernst & Young respectively.

Amounts paid or payable to Ernst & Young Limited during the year were:

| | 2022 $000 | **2023 $000** |
|---|---|---|
| Audit of the financial statements | 68 | **89** |
| Advisory services | 12 | **-** |
| Non-assurance: Tax compliance services | - | **64** |
| | 80 | **153** |

The Group's policy is that to ensure independence the Group auditor should not undertake other advisory services to the Group. In 2023 fees were paid to Ernst & Young in relation to taxation services that have now been transitioned to another provider.

## 26. Contingencies

The Group has no contingent liabilities as at 30 June 2023 (2022: nil). The Group has no contingent assets as at 30 June 2023 (2021: 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 2023 (2022: nil).

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 2023 (2022: nil).



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 27. Income in advance

Income in advance is a contract liability. Other income of ($000) $100 has been recognised in profit or loss in relation to the opening balance of income in advance. The current portion of income in advance is nil ($000) (2022: $100). The non-current portion of income in advance is nil ($000) (2022: nil).

## 28. Share-based arrangements - cash settled

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.

During the 2023 year the board approved changes to the share-based arrangement removing the requirement to hold a minimum percentage whilst being an employee. The basis of this amendment is due to the fact that the key management personnel under the share-based arrangment scheme are substantial shareholders in the Company outside of the scheme.

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 |
|---|---|---|---|---|---|
| 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 | - | - | 100% | 100% | 20% |
| 25/11/2022 | - | - | 100% | 100% | 0% |

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 28. Share-based arrangements - cash settled (continued)

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<br>Less term debt<br>Plus surplus cash |
| *Enterprise value* | Assessed earnings x Earnings multiple |
| *Assessed earnings* | Average of three years EBIT;<br>The last two full financial years (audited accounts)<br>The budget / reprojected EBIT in year of notice |
| *Earnings multiple* | 5 |

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

During the year ended 30 June 2023 all vested shares have either been bought-back by the Group or sold on the market (2022: nil). Upon the buy-back of the shares a fair value adjustment has been recognised which has resulted in an expense of ($000) $816 in the profit or loss. The shares sold on the market has resulted in a modification of vested shares from cash settled to equity settled with ($000) $1,797 of the share-based arrangement provision being transferred to retained earnings. The shares bought-back by the Group resulted in a payment of ($000) $1,247. The shares bought-back by the Group are being held as treasury stock as at 30 June 2023. Refer to Note 17 for information on treasury stock.

*Fair value of share-based arrangements*

The fair value of share-based arrangements as at 30 June 2023 is ($000) nil (2022: $2,227).

At 30 June 2023 the number of shares outstanding in the share-based arrangements is nil (2022: 360,224).

*Impact of the share-based arrangement on profit or loss*

| | 2022<br>$000 | **2023**<br>**$000** |
|---|---|---|
| Fair value upon settlement of shares bought-back by the Group | 494 | **334** |
| Fair value upon settlement of shares sold on market * | - | **482** |
| | 494 | **816** |

**non-cash expense*



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 29. Share-based arrangements - equity settled

Under the share-based long-term incentive scheme, participants are granted share options which have the potential to be exercised for ordinary shares in the Company. The number of options that will vest is determined by the Group's three year cumulative earnings before interest and tax (EBIT) versus board approved targets for the respective plans ending date and the continuous employment of the participant. These are generally considered to be vesting performance conditions.

**Share-based long-term incentive scheme 1**

During the year ended 30 June 2021 the Group agreed to a share-based long-term incentive scheme with the Chief Executive Officer and five direct management reports, aligned to the Group's growth goals for the three years ending 30 June 2023. The grant date for the scheme was 30 June 2021.

*Modification of share-based long-term incentive scheme 1*

During the year, based upon independent advice received, the board modified the settlement of the fully vested share-based long-term incentive scheme from equity settled to cash settled given the lack of liquidity in Company shares.

Upon modification the Group remeasured the scheme based on the Black Scholes method. Refer to Scheme 1 Modified column on the following page. A further fair value measurement method was then applied to value the cash settlement and this method is equal to the valuation formula of the cash settled share-based arrangements (refer to Note 28). The performance conditions were not modified.

The fair value of the cash settlement is $775 ($000). The modification has resulted in an additional expense of $477 ($000) being recognised in profit and loss and $298 ($000) being transferred from the share-based arrangements equity account to the share-based arrangements provision account.

# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 29. Share-based arrangements - equity settled (continued)

**Share-based long-term incentive scheme 2**
During the year ended 30 June 2022 the Group agreed to a share-based long-term incentive scheme with the Chief Executive Officer and seven direct management reports, aligned to the Group's growth goals for the three years ending 30 June 2024. The finalisation and grant date for the scheme was 9 September 2021.

*Key inputs and assumptions used in the fair value of options:*

The fair value of the options has been determined using the Black Scholes option pricing model. Key inputs and assumptions used in deriving the options fair value under each scheme is outlined below.

| | Scheme 1 | | Scheme 2 |
|---|---|---|---|
| | Modified | Original | Original |
| Share price at grant date/modification date | $5.59 | $4.50 | $5.50 |
| Term (years) | - | 1.92 | 2.81 |
| Exercise price | $3.80 | $3.80 | $3.96 |
| Dividend yield | 7.50% | 7.50% | 6.18% |
| Expected volatility | 22% | 22% | 22% |
| Risk free rate | 0.50% | 0.50% | 1.04% |
| Weighted average fair value of options granted | $1.79 | $0.53 | $1.08 |

*Movement in share-based long-term incentive sheme options:*

| | Scheme 1 | Scheme 2 |
|---|---|---|
| **Opening balance at 1 July 2021** | - | - |
| Granted during the year | 332,076 | 161,614 |
| Exercised during the year | - | - |
| Forfeited during the year | (37,895) | (15,152) |
| **Closing balance at 30 June 2022** | 294,181 | 146,462 |
| **Opening balance at 1 July 2022** | 294,181 | 146,462 |
| Granted during the year | - | - |
| Exercised during the year | - | - |
| Forfeited during the year | (127,397) | (69,647) |
| **Closing balance at 30 June 2023** | 166,784 | 76,815 |

As at 30 June 2023 no options are able to be exercised (2022: nil).



# Notes to the Financial Statements (continued)

**For the year ended 30 June 2023**

## 29. Share-based arrangements - equity settled (continued)

*Impact of the share-based long-term incentive schemes on profit or loss*

| | 2022 $000 | **2023 $000** |
|---|---|---|
| Modification to share-based long-term incentive settlement | - | **477** |
| Fair value of share-based long-term incentive schemes | 120 | **19** |
| | 120 | **496** |

The related movement in deferred tax asset is ($000) ($68) (2022: $124). The effect on equity is ($000) ($348) (2022: $244) (refer to Note 18).

## 30. Dividend

The Group paid a dividend during the year ended 30 June 2023 of ($000) $2,207 (2022: $1,278). This represented a dividend per share of 41.6 cents.

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# Independent Auditor's Report

## Independent Auditor's Report to the shareholders of The New Zealand Merino Company Limited

**Opinion**

We have audited the financial statements of The New Zealand Merino Company Limited (the "Company") and its subsidiaries (together the "Group") on pages 33 to 80, which comprise the consolidated statement of financial position of the Group as at 30 June 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 33 to 80 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2023 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

**Basis for opinion**

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

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

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

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

**Key audit matter**

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

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



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**Contract and Auction Revenue**

| Why significant | How our audit addressed the key audit matter |
|---|---|
| The Group has reported contract revenue of \$122M and auction revenue of \$34M in the year ended 30 June 2023.<br>Contract revenue is recognised as income when the wool is released to the customer, which can depend on shipment terms, and so the right to consideration becomes unconditional. Auction revenue is recognised as income when the auction is completed.<br>The timing of shipments, release of the wool to customers and auction dates each impact the appropriate timing of revenue recognition. Substantial revenue transactions occur close to year end which could result in revenue being recognised in the incorrect year.<br>Disclosures relating to revenue are included in note 1 to the financial statements and the policies related to revenue recognition are included in note (l) of the statement of accounting policies. | Our procedures in relation to contract and auction revenues included:<br>• Obtaining an understanding of the processes and key controls in relation to recognising revenue.<br>• Considering the revenue recognition policy applied by the Group and assessing its compliance with NZ IFRS 15 Revenue from Contracts with Customers.<br>• Analysing the correlation between the Group's recorded revenue and movements in accounts receivable and cash using data analysis techniques.<br>• Testing a sample of revenue transactions recorded close to balance date to documentation supporting either the wool delivery terms and timing, or when the auction was completed, to assess whether revenue had been recorded in the appropriate period.<br>• Assessing credit memos issued post balance date to consider whether related revenue was correctly recorded.<br>We also assessed the adequacy of the disclosures relating to revenue. |

**Other Matter**

The financial statements of the Company for the year ended 30 June 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 27 September 2022.

**Information other than the financial statements and auditor's report**

The directors of the Company are responsible for the annual report, which includes information other than the consolidated financial statements and auditor's report which is expected to be made available to us after the date of this auditor's 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.

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

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**Directors' responsibilities for the financial statements**

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

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

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

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

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

Ernst + Young

Chartered Accountants
Christchurch
4 September 2023

# Statutory Information

**For the year ended 30 June 2023**

## Employee remuneration

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

(a) Base salary

(b) Kiwisaver; and

(c) Final payment

During the year The New Zealand Merino Company Limited announced the resignation of the Chief Executive. An Acting Chief Executive held office commencing 12 December 2022.

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

| | **2023 $000** |
|---|---|
| Base salary | **730** |
| Kiwisaver | **64** |
| Final payment, including a payment in lieu of a long-term incentive payment | **450** |

During the year remuneration payments to the Acting Chief Executive were:

| | **2023 $000** |
|---|---|
| Base salary | **461** |
| Kiwisaver | **19** |
| Long-term incentive | **278** |



# Statutory Information (continued)

**For the year ended 30 June 2023**

## Employee remuneration (continued)

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) | Number |
|---|---|
| $100 - $110 | 5 |
| $110 - $120 | 8 |
| $120 - $130 | 3 |
| $130 - $140 | 3 |
| $140 - $150 | 2 |
| $150 - $160 | 3 |
| $160 - $170 | 5 |
| $180 - $190 | 1 |
| $190 - $200 | 1 |
| $320 - $330 | 1 |
| $400 - $410* | 1 |
| $460 - $470* | 1 |
| $630 - $640* | 1 |
| $750 - $760* | 1 |
| $1,240 - $1,250 | 1 |

* Includes long-term incentive

# Statutory Information (continued)

**For the year ended 30 June 2023**

## Directors' disclosures

***Directors holding office during the year***

The following directors held office during the year ended 30 June 2023:

| **The New Zealand Merino Company Limited** | Originally Appointed |
|---|---|
| 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 |
| John Maher | 01/03/23 |

***Directors' remuneration***

Remuneration paid to directors of The New Zealand Merino Company Limited during the year ended 30 June 2023:

| | 2022<br>$000 | **2023**<br>**$000** |
|---|---|---|
| Kathryn Mitchell | 90 | **90** |
| Ben Todhunter | 54 | **54** |
| Bill Sutherland | 45 | **45** |
| Paul Ensor | 54 | **54** |
| Matanuku Mahuika | 54 | **54** |
| John Penno | 45 | **45** |
| John Maher | - | **15** |
| | 342 | **357** |

Under the constitution directors' remuneration is set by the board. This is based on independent advice and is reviewed two-yearly. There are no other benefits available for directors.



# Statutory Information (continued)

**For the year ended 30 June 2023**

## 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 2023:

| | Ordinary shares |
|---|---|
| **The New Zealand Merino Company Limited** | |
| John Maher | 538,352 |
| Bill Sutherland | 90,000 |
| Ben Todhunter | 30,000 |
| Paul Ensor | 26,500 |
| Kathryn Mitchell | 26,316 |
| John Penno | 26,315 |
| Matanuku Mahuika | 20,000 |

Directors are not required to hold securities in The New Zealand Merino Company Limited.

***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 of The New Zealand Merino Company Limited have disclosed interests in the following entities during the year:

| **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 | Heartland Group Holdings |
| Director | The A2 Milk Company Limited |
| Chairman | Link Engine Management Limited |

# Statutory Information (continued)

**For the year ended 30 June 2023**

***Entries in the Company's Interests Register** (continued)*

| | |
|---|---|
| **Ben Todhunter** | |
| Director | Cleardale Station Limited |
| Director | Southern Cross Sheep Limited |
| Director | StockX Limited |
| Director | StockX Systems Limited |
| Director | StockX Nominees Limited |
| Director | High Bare Peak Limited |
| Partner | B J Todhunter and D M Field Partnership |
| **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 | Pakihiroa Farms Limited |
| Director | Eastland Port Limited |
| Director | Eastland Generation Limited |
| Director | Gisborne Airport Limited |
| Director | Callaghan Innovation Limited |
| Director | Ngati Porou Berries Limited |
| Director | Te Tira Toi Whakangao Limited |
| Advisory Board Member | Futurity Group Limited |
| Director | New Zealand Trade and Enterprise |



# Statutory Information (continued)

**For the year ended 30 June 2023**

***Entries in the Company's Interests Register** (continued)*

| | |
|---|---|
| **John Penno** | |
| Chairman | Synlait Milk Limited |
| Director | Okuora Farms Limited |
| Director | Okuora Holdings Limited |
| Chairman | The Pure Food Co Limited |
| Chairman | Wangapeka River Hops Limited |
| Director | Leaft Foods Limited |
| Director | Stem and Stalk Limited |
| Chairman | Dairy Works Limited |
| Trustee | John Penno Trust |
| **John Maher** | |
| Chairman | AWN Food and Fibre Pty Limited |
| Senior Advisor | BGH Pty Limited |
| Director | goFARM Australia Pty Limited |
| Director | Regional Livestock Exchange Pty Limited |
| Director | Muir Group Advisory Board |
| Chairman | White Prince Pty Limited |

# Statutory Information (continued)

**For the year ended 30 June 2023**

## Shareholder information

***Top 10 shareholders as at 30 June 2023***

| Shareholder | Number of ordinary shares | Percentage of holding |
|---|---|---|
| AWN Rural Pty Limited | 538,352 | 10.15% |
| Jeremy Trevor Blake & Rachel Michele Blake & Brett Robin Gamble | 330,000 | 6.22% |
| FNZ Custodians Limited (holding 1) | 245,067 | 4.62% |
| FNZ Custodians Limited (holding 2) | 138,578 | 2.61% |
| The Muller Station Limited | 103,844 | 1.96% |
| Robert William Butson & Linda Kathleen Butson | 99,627 | 1.88% |
| Michael Hargadon | 95,036 | 1.79% |
| Peter Floris | 91,545 | 1.73% |
| Andrew James Sutherland & William Henry Sutherland | 90,000 | 1.70% |
| Jonathan Forbes McHardy | 81,991 | 1.55% |
| | 1,814,040 | 34.20% |

***Distribution of ordinary shares as at 30 June 2023***

| Size of holding | Number of shareholders | Percentage of holding | Number of ordinary shares | Size of holding percentage |
|---|---|---|---|---|
| 1 - 5,000 | 352 | 62.41% | 628,338 | 12.19% |
| 5,001 - 10,000 | 107 | 18.97% | 792,887 | 15.38% |
| 10,001 - 25,000 | 74 | 13.12% | 1,067,102 | 20.69% |
| 25,001 - 50,000 | 16 | 2.84% | 546,910 | 10.61% |
| 50,001 - 100,000 | 10 | 1.77% | 765,538 | 14.85% |
| Over 100,000 | 5 | 0.89% | 1,355,841 | 26.28% |
| | 564 | 100.00% | 5,156,616 | 100.00% |