

Brennworth



**RESILIENCE  
THROUGH  
ADAPTATION**

ANNUAL REPORT 2023

Let's Go Good Together

# OUR COMMITMENT TO A NATURAL FIBRE FUTURE IS RESOLUTE

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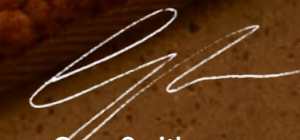
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WE'VE CREATED A MORE FLEXIBLE AND DYNAMIC BUSINESS, EXPANDED OUR PRESENCE IN KEY RETAILERS AND INTRODUCED A NEW HYBRID SUPPLY MODEL. WE HAVE THE SCALE AND RESOURCES TO ENTER NEW GLOBAL MARKETS. THE OUTLOOK FOR BREMWORTH IS BRIGHTER THAN EVER.

On behalf of the Board and management of Bremworth Ltd, we are pleased to present the Annual Report for the year ended 30 June 2023.



George Adams  
Chairman



Greg Smith  
Chief Executive Officer  
2 October 2023

Brenworth



**"WHILE CYCLONE GABRIELLE HAS BEEN THE MOST CHALLENGING EVENT WE HAVE FACED TO DATE, WE ARE EMERGING AS A MORE RESILIENT ORGANISATION."**

**GREG SMITH - CEO**

**"WE CONTINUE TO SEE ENERGY BEHIND WOOL AND CONSUMERS MAKING THE CHOICE TOWARDS MORE NATURAL PRODUCTS IN THEIR HOME."**

The first half of FY23 marked the first six-month period of post-pandemic trading. With an unimpeded focus on implementing our strategic transformation plan, carpet revenue grew by 2% on HY22.

Two new products and investment in samples helped us expand our in-store brand presence within 70 existing retail locations in Australia and NZ.

The second half however manifested as an extreme test of our ability to adapt to disruption. Cyclone Gabrielle had a devastating impact on our Napier facility, which had flow-on effects on our Whanganui and Auckland sites. Within weeks we had begun the implementation of an alternative supply contract, while also looking offshore for additional suppliers of carpet yarns, thanks to the incredible efforts of our team. Once we are assured these overseas suppliers meet our quality, environmental and safety standards, the hybrid supply model will offer a lower fixed cost base and remove prior capacity constraints - by providing a more diversified or shock-resistant supply chain from which we can accelerate our growth.

The cyclone's impact, a softening economy and reduction in miscellaneous revenue are reflected in our financial results; contributing to a 6% fall in total revenue. NPAT rose 379% - on receipt of \$35.5m of insurance progress payments.

Carpet revenue was down 3% on FY22, but revenue of our rug business was up 45% on FY22 which represents a significant growth opportunity. Revenue from our wool-buying division, Elco Direct, was down 5% as global wool prices softened; however, we continue to grow our farmer network and the business remains profitable.

Our investment in marketing, sustainability and technology has laid a strong foundation for the transition from transformation to growth, with the strong focus on digital and product evolution continuing over the coming year.

**Greg Smith**  
Chief Executive Officer  
2 October 2023

# STRENGTH THROUGH ADVERSITY

In February 2023, Bremworth's Napier based spinning plant was taken offline by flooding resulting from Cyclone Gabrielle. This plant was a key part of Bremworth's operations and supply chain, providing yarn to the Auckland carpet plant and dyed fibre to the Whanganui yarn plant.

Within days of the cyclone, Bremworth had specialist employees travelling offshore to confirm and source alternative supplies of yarn, with a key objective to determine the best offshore partners for specific yarn types, while also considering quality and sustainability standards, lead times and capacity.

Since this initial trip, these employees have made further trips (accompanied by other key employees) to ensure all suppliers are aligned with Bremworth's standards.

At the same time, another team of specialist dyehouse employees from the Napier plant began travelling weekly to and from Christchurch to operate a third-party dyehouse facility to ensure that there is continued supply of dyed fibre for the Whanganui plant.

Bremworth salutes these people and their families for their loyalty, commitment and perseverance, while also acknowledging the ones at home who continued to support the business through these challenging times – including those who were integral to the site cleanup and plant stabilisation efforts at the Napier plant.

Bremworth also notes that the majority of the Napier-based employees who recently opted for voluntary redundancy have gone on to find employment - further highlighting the resilience of our people and their strength through adversity.

While still offline, the Napier plant features prominently in deliberations around what the potential hybrid supply chain model could look like going forward.



# LAST YEAR WE SET THREE KEY PRIORITIES

THIS IS HOW WE HAVE PERFORMED

## PRIORITY ONE

### GROW REVENUE

We have increased our brand presence.

We have expanded our distribution network.

We invested a higher proportion of our stock holding into Australia, with the intention to support sales growth in that market.

Despite the above, carpet revenue dropped by 3% as a result of cyclone-related disruptions and a softening economy, however our rug revenue has increased by 45%.

## PRIORITY TWO

### IMPROVE EFFICIENCY SAFELY

#### DIGITAL TWIN

The Digital Twin is now in use by core technical specialists across the business as part of the Data Management and Analytics System (DMAS) platform, enabling production simulation and analysis of resource utilisation. Insights from the Digital Twin have been used to improve the efficiency of the Whanganui plant.

#### VIRTUAL TOUR

We are developing a virtual tour of our Auckland factory experimenting with technology to integrate production operator training, health and safety education and other supplementary instructional videos for an immersive learning experience platform.

#### IGNITION

The Ignition Production and Quality System provides real time data visibility, enabling better operational decisions and historical trend analysis. The system saw its first year of full use at the Whanganui plant, with positive engagement from our operators.

Following Cyclone Gabrielle, the Ignition system was adapted to support the increased production requirements at the Whanganui plant with the Napier plant offline.

FY23 PROGRESS

Brenworth

## PRIORITY THREE

### MAKE WINNING PRODUCTS

This year we introduced two products and refreshed some colours, while also creating a new offering for our rug programme. Six exciting new products that were being developed for launch in the second half of FY23 had to be redeveloped as a consequence of the impact of Cyclone Gabrielle on the Napier plant, with these new products now being trialled at our Whanganui plant and with our new offshore yarn suppliers.

#### KENSHŌ

Inspired by Japanese zen gardens and made with 100% NZ wool, Kenshō is a meticulously woven, elegant loop pile with a calming palette of heathered neutrals.



#### WAINAMU

A love note to the dunes surrounding Lake Wainamu and the Te Henga region in West Auckland's Waitākere Ranges, Wainamu is an expertly crafted berber loop pile designed for easy care living.



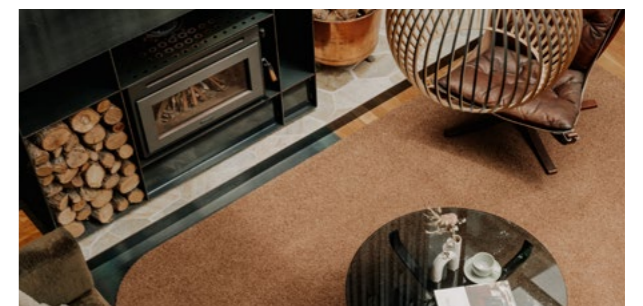
#### MACKENZIE RUG

These subtly textured rugs pay homage to the rich, rugged wonders of the South Island's Mackenzie Country; from the iconic Lindis Pass to the glacial blue waters of the three lakes and iconic Mackenzie Basin.



#### NEW CHARMEUSE COLOURS

Two new, on-trend shades, Clay and Woodland expanded our popular Charmeuse range. A luxurious underfoot experience, Charmeuse recreates the sensuous appeal of crushed velvet.



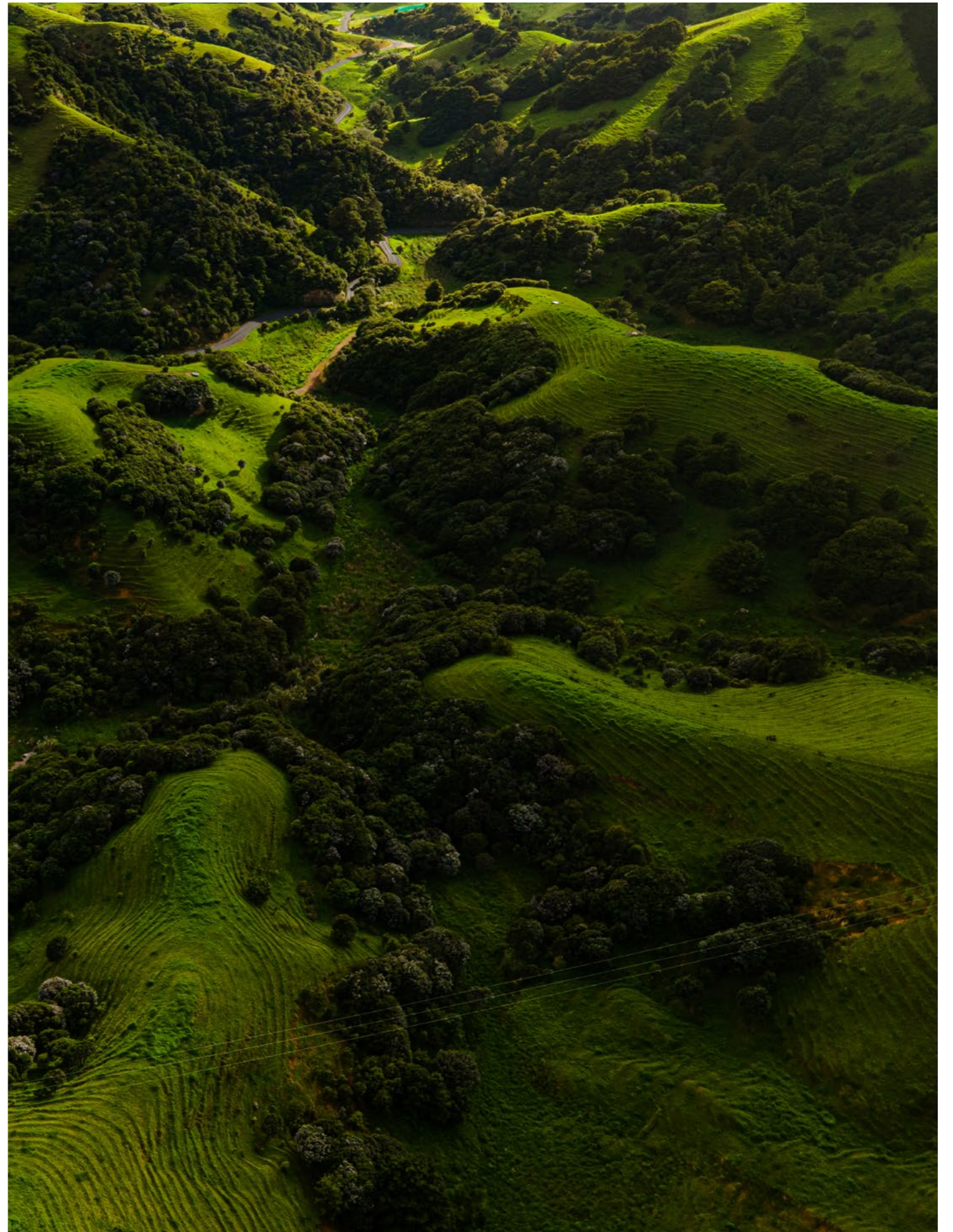
# SUSTAINABILITY MATTERS

Sustainability, which embraces people, planet and prosperity, is our key driver at Bremworth. From the way we work, to how we think, take care of our people and manage our supply chain, sustainability is inextricably woven into our business. It is an ever-evolving mission for us, which is why we've collaborated with Government, research partners and industry thought leaders to help support our sustainability evolution.

This support is integral to our sustainability program and our focus on improving our product circularity and reducing our environmental impact across all stages of the product life cycle.

With each new initiative we're getting one step closer to achieving our sustainability aspirations.

Proudly partnering with ....





# OUR SUSTAINABILITY ASPIRATIONS

<b>PEOPLE</b>	<b>Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>• We support our team to be their best selves and take a proactive approach to risk management.</li> <li>• Our critical risk framework and controls are key enablers and challenge us to design out risk where possible.</li> <li>• To enable our people to thrive, we design a holistic approach to the safety and wellbeing of our people.</li> </ul>
	<b>Diversity, Inclusion &amp; Capability</b>	<ul style="list-style-type: none"> <li>• Diversity in our workforce is what makes Bremworth special.</li> <li>• We are committed to diverse perspectives as well as collaborative and transformational leadership in line with a high-performance culture.</li> <li>• We foster an environment of exploration, adaptation and growth.</li> </ul>
<b>PLANET</b>	<b>Circularity</b>	<ul style="list-style-type: none"> <li>• We are committed to a circular economy and to product longevity by design, with materials kept in use and waste and pollution minimised.</li> <li>• Designing for the future requires us to consider the whole of product life cycle including use and end of life. We will innovate to reduce environmental impacts.</li> </ul>
	<b>Climate Change</b>	<ul style="list-style-type: none"> <li>• We commit to reducing our greenhouse gas emissions in line with scientific consensus to restrict global warming.</li> <li>• We will communicate the impact of our products on the climate to consumers so that they can make informed choices.</li> </ul>
<b>PROSPERITY</b>	<b>Consumer Wellbeing</b>	<ul style="list-style-type: none"> <li>• We make beautifully designed, high performing interior products which aspire to add to consumer health and wellbeing. Wool and other natural fibres have multiple inherent benefits including indoor air quality, sound, moisture control and fire safety.</li> <li>• We work closely with our customers and suppliers to ensure our products and services incorporate beautiful design, meet performance requirements and provide sustainable and safe options for our consumers.</li> </ul>
	<b>Communities</b>	<ul style="list-style-type: none"> <li>• We support the New Zealand wool industry and wool-growing community to positively steward the land. At the sites of our operations, we aspire to be an active member of a thriving local community by creating meaningful employment opportunities.</li> <li>• We increase shareholder value by building our reputation as a leading employer, while continuing to reinvest in the future growth of Bremworth and our people.</li> <li>• We will introduce long-term contracts to enable our wool growers and Bremworth to improve supply, quality and margins – in the process creating a sustainable future.</li> </ul>

Our view of sustainability is that it is about taking care of our people, our environment and our economy following the 3Ps model (People, Planet, Prosperity). We consider that there are many ways in which a vision of becoming more sustainable

could manifest in our products, supply chain, manufacturing and overall business as demonstrated in our sustainability aspirations. We continue to make solid progress towards our aspirations.



# NURTURING GREAT TEAMS

**"THE PEOPLE HERE ARE LIKE A SECOND FAMILY – SOME I'VE BEEN WORKING WITH FOR OVER 10 YEARS."**

**PEAPEA T PEAPEA - BEAMING OPERATOR**

## SAFETY AND WELLBEING

### Responding to change and uncertainty

In response to the changes brought about by Cyclone Gabrielle and during the time immediately following, Bremworth strengthened their focus on people's wellbeing further.

Re-connecting people was a key priority achieved through a combination of initiatives including off-site coffee mornings and local volunteering activities. All employees were provided with financial stability throughout the duration of the clean-up and stabilisation of the Napier plant. Workshops on mental wellbeing and building resilience as well as on-site counselling, provided our people with comfort and the tools needed to navigate a very challenging time.

As part of continued learning across the business, Bremworth implemented an intensive psychology-based safety awareness course for our Whanganui and Auckland teams, as well as through our mental wellbeing by design forums.

### Managing Critical Risk

Bremworth continues to focus on reducing critical risk through the implementation of a machine guarding plan; with a 50% reduction in critical machine guarding risks at our Auckland plant and a 25% reduction at our Whanganui plant.

With the successful roll out of a machine risk assessment app, our teams are better equipped to provide machine risk awareness training, document changes to machinery, monitor and review the effectiveness of controls and have access to up-to-date, real time machine safety data.

We have continued to build our safety capability with our leadership team to ensure clarity around due diligence obligations.

## DIVERSITY, INCLUSION AND CAPABILITY

### Leadership Programme: Te Ara Rangatira

"Te Ara Rangatira" – to rise up and awaken to a high standing.

The key purpose of this two year-long leadership programme is to support leaders and teams with the tools and knowledge necessary to create and nurture a high performance culture.

The programme was driven by the recognition that people want to be part of a culture within an organisation that makes them feel valued, that supports diversity, rewards hard work and recognises talent. Nurturing company culture

helps to deliver the KPIs the company is targeting, with greater levels of consistency. The programme allows us to create a more engaging environment within our teams, encouraging higher levels of productivity.

Developed to help us grow and transform our leaders, the Te Ara Rangatira leadership course has been integral to helping us navigate the impact of Cyclone Gabrielle – our overarching goal is to have all managers complete the course. Our first wave of leaders are well established in the programme, with our second wave underway and the third wave to commence in 2024.





# GIVING CIRCULARITY A GREEN LIGHT

**"OUR GOAL IS TO REDUCE OUR ENVIRONMENTAL  
FOOTPRINT AND ACHIEVE A CIRCULAR PRODUCT."**

**GREG SMITH - CEO**

## **CIRCULARITY**

### **Working towards compostability**

Compostability is about preserving the integrity of the raw materials so that they can be kept in use at the end of the product lifecycle. This is the first step towards circularity and the reason we are working towards compostability as a stepping stone. Some of these first steps towards our goal to reduce our environmental footprint and achieve a circular product for our consumers include:

- experimenting with alternative primary and secondary backing options for our products.
- transitioning towards lower impact dyes which are better for people and the planet.
- continuing to explore end of life alternatives for used carpet and rugs, with the goal to minimise waste and as part of keeping these materials in use.

## **CLIMATE CHANGE**

### **Multi-year decarbonisation programme**

Our commitment to the Energy Transition Accelerator (ETA) programme run by Energy Efficiency and Conservation Authority (EECA) has continued with the successful delivery of the Radio Frequency Dryer project at Whanganui spinning plant in April 2023. The project was co-funded by EECA's Technology Demonstration Fund and replaced the natural gas fired dryer.

As part of our decarbonisation pathway, we had commenced the transition from natural gas process heat to electric heat pump technology at the Napier plant. The feasibility study and measurement systems were completed. However, due to the significant impact of Cyclone Gabrielle on the plant, this project is on hold.

We have completed our carbon inventory and had this independently verified by third party provider Toitū for our baseline year FY18, as well as financial years FY22 and FY23. The baseline year of FY18 was selected as it was prior to the transformation and not affected by COVID and other disruptions.



# SETTING THE STANDARD

**"WE WILL CONTINUE TO PURSUE TRANSPARENCY THROUGH OUR SUPPLY CHAIN AS AN INTEGRATED AND HOLISTIC APPROACH TO SUSTAINABILITY."**

**DR KIRSTINE HULSE - GM PEOPLE, H&S & SUSTAINABILITY**

## **COMMUNITIES AND CONSUMER WELLBEING**

Bremworth recognises the role of farm standards, animal welfare, regenerative agriculture, and the value that long-term wool grower contracts provide to farming communities.

All Bremworth wool continues to be sourced from New Zealand farms as we work through the adaptation to the hybrid supply chain model. Bremworth continues to pursue appropriate certification of its wool supply to ensure traceability and transparency in the supply chain with a couple of new certifications added during the 2023 financial year. Achieving credible certification that demonstrates ethical and sustainable practices remains a focus to give consumers confidence in Bremworth's sustainability commitment and clarity on the composition and components that go into making a Bremworth carpet or rug.

Commitment to the New Zealand farming community through sourcing 100% New Zealand wool is a core part of Bremworth's

identity. Providing security to the farming community through long-term wool grower contracts and making wool accessible through Bremworth's "wool in schools" programme are two of the ways that Bremworth is demonstrating this commitment.

Following Cyclone Gabrielle, Bremworth strengthened its commitment to modern slavery - further developing this programme and the level of assessment at various stages of the supply chain and by including modern slavery in the selection process of new partners in the hybrid supply chain model. Bremworth's view is that this programme goes further than the social impacts of modern slavery and considers safety, environmental and quality standards to ensure that Bremworth's expectations are met along the supply chain.

Bremworth will continue to pursue transparency and work with partners through our supply chain as an integrated and holistic approach to sustainability.

# INVESTING IN TECHNOLOGY

## NEW ERP SYSTEM

In 2020, Bremworth commenced the implementation of a new enterprise resource planning system which supports our sustainability transformation. This system, when fully realised, will seamlessly integrate all information systems of the business into a unified, cloud-based platform. The final stage of this project is the implementation of the new system into our Auckland production plant in FY24.

## DMAS PROJECT

DMAS (Data Management and Analytics System) integrates data from underlying information and production systems operating within the business in one analytical platform. This system allows deeper understanding of our operations and continues to be developed to meet business needs.

## CYBER SECURITY

Safeguarding digital assets in an era wrought with cyber threats is paramount. To address this, we engaged experts to undertake a comprehensive audit in order to uncover potential vulnerabilities. All recommendations following this audit have been implemented, with a deep penetration hack test done afterward. The test confirmed all gaps and vulnerabilities had been successfully sealed.

Bremworth is dedicated to ensuring we continue to have a high degree of security around our data and systems.





# RESULTS THAT DELIVER

BREMWORTH CONTINUES TO LEAD THE CARPET CATEGORY FOR BRAND AWARENESS, CONSIDERATION AND BRAND PREFERENCE

## RESULTS FROM OUR 2023 SURVEY INCLUDE:

**38%**  
UNPROMPTED  
BRAND AWARENESS

**34%**  
BRAND  
PREFERENCE

Our annual brand health research conducted by TRA surveyed New Zealanders aged 35+ who are either in the market for flooring, or have purchased recently.

## NEW ZEALAND'S MOST TRUSTED BRAND FOR 10 CONSECUTIVE YEARS

Reader's Digest approached approximately 1700 New Zealand consumers to ask their opinions on what brands of products and services are important to them. Respondents also had to explain why they chose the brand they did for the Most Trusted Brand in each category.

Responses about Bremworth included:

**"SOFT, COMFORTABLE CARPET. MAKES A HOUSE FEEL LIKE A HOME."**

30-39 year old female, Auckland

**"LOVE THEIR CARPETS AND THEIR RECENT COMMITMENT TO REMOVING SYNTHETICS FROM THEIR RANGE."**

50-59 year old male, Otago



Bremworth

# CRAFTING CONNECTIONS

WHARENUI HARIKOA -  
AN IMMERSIVE EXPERIENCE



## CROCHET EXTRAORDINAIRES

Lissy and Rudi Robinson-Cole are crochet extraordinaires. Exploring Mātauranga Māori through the colourful art of crochet, the talented duo weave stories of their ancestors, whānau and friends into their mahi.

Their respective journeys with wool started from a young age; with Lissy watching her Dad work exclusively with natural fibres in the fashion industry, and Rudi watching his aunties shear, dye and crochet wool as a young child.

## WHARENUI HARIKOA

Crafted by Lissy and Rudi, Wharenuui Harikoa is an art piece that presents luminous, fluorescent crochet and uniquely carved pou, with an intention to transcend barriers and connect people from different backgrounds.

The whare has been on show at Wellington's Dowse Museum, and will be complete by December 2023 and feature at Waikato Museum. Bremworth's luxurious pitch-black carpet provides an immersive contrast to showcase this unique piece.

**"THE WHOLE SYMBOLISM OF WOOL IS THAT INVISIBLE THREAD THAT CONNECTS US. IT CONNECTS EVERYBODY."**

**LISSY AND RUDI**

Bremworth

# MORE THAN JUST A FLOOR

KENNEDY NOLAN ARCHITECTS

Kennedy Nolan is a leading Melbourne architecture and design practice. We spoke with Founding Director Rachel Nolan about flooring trends, sustainability and why they chose to collaborate with Bremworth for their office.

**Bremworth:** Tell us about your office and why you selected Galet Sage?

**Rachel:** Our Fitzroy office was designed by Carter Couch in the late 1980s. We had admired the building for years, so we feel lucky to call it our studio home. We decided our ground floor should be predominantly unprogrammed space, so we left it free, affording us the luxury to host.

We use the space for gatherings both intimate and rowdy, so when we were looking to refresh the space we couldn't go past Bremworth – because it was all about the floor!

We came across Bremworth's Galet range when designing a hotel in Melbourne and were immediately drawn to the quality, bold colours and plush texture. The rawness of our studio's concrete walls required a soft companion and Galet in colour Sage was perfect.

The product contributes so much to our space, because it is so much more than just a floor.

Rachel Nolan and Patrick Kennedy



# CHAMPIONS FOR CHANGE

**STRATEGIC GOVERNANCE IS ACHIEVED THROUGH A STRONG, STABLE BOARD. OUR GROWTH STRATEGY IS CLEAR, WITH ROBUST FUNDING TO EXECUTE OUR GOALS.**

Let's Go Good Together



**George Adams**  
Independent Chairman

George Adams is an independent Director and was appointed to the Board in June 2018. He was appointed Chair of the Board in July 2020, having served as Deputy Chair of the Board since April 2019. George was also appointed Chair of the Board's Nomination Committee in July 2020 and is a member of the Board's Audit and Remuneration Committees. George brings outstanding commercial and governance experience from more than 30 years of international business experience in the fast-moving consumer goods and telecommunications industries, as well as a strong background in occupational health and safety.



**Paul Izzard**  
Independent Director

Paul Izzard is an independent Director and joined the Bremworth Board in November 2020. Paul is founder and director of Izzard Design, a leading interior design business in New Zealand. Over almost 20 years, he has completed more than 300 projects in residential and commercial design. Paul's industry knowledge and networks, as well as his business leadership experience, are considered valuable attributes as Bremworth transforms to being a global leader in designing and creating desirable, sustainable, safe and high performing natural interior solutions.



**John Rae**  
Independent Director

John is an independent director and joined the Board in July 2015. Since then, he has at various times been Deputy Chair of the Board and also Chair of both the Audit and Remuneration committees. John has degrees in both law and commerce and had a successful international career as a CEO in the finance sector, before evolving into becoming an experienced chair and director across a range of industries over the past 30 years. His specialisation is in governance of entities facing challenging situations and transformations, and shareholder transition and succession.



**Katherine Turner**  
Independent Director

Katherine Turner is an independent director and is the newest member of the Board, joining in February 2022. She was appointed Chair of the Board's Audit Committee at the same time and is a member of the Board's Remuneration Committee. Katherine is a highly regarded and respected leader and qualified Chartered Accountant. She has a depth of financial, commercial and sustainability expertise across manufacturing and primary sectors and a wealth of experience taking New Zealand products to the world.



**Dianne Williams**  
Independent Director

Dianne Williams is an independent Director and joined the Bremworth Board in July 2015. She was appointed Chair of the Board's Remuneration Committee in July 2020 and is a member of the Board's Audit and Nomination Committees. Dianne's early career was in marketing in the FMCG sector, driving market dominance for some of New Zealand's favourite brands including Cadbury and Sealord before taking up senior executive roles with companies demanding strong sales and marketing programmes.



**Grant Biel**  
Director Emeritus

Our inaugural Director Emeritus Grant Biel is a pivotal player in Bremworth's history. With employment at Bremworth dating back to 1964, his passion for mechanical engineering was established early. Co-founding Cavalier Carpets alongside Tony Timpson, Grant and Tony would go on to acquire the original Bremworth business, creating the dream team in the carpet sector. The deep expertise and heritage created by Grant and Tony are invaluable to the history and future of Bremworth.

Bremworth

# FY23 CHAIRMAN'S REVIEW

GEORGE ADAMS

## A STRONG RESULT IN FY23

**FY23 was a year of rapid adaptation for Bremworth.**

While Cyclone Gabrielle left our Napier yarn operations offline, it presented us with an opportunity to take a different view of our supply chain and to potentially set ourselves up for unconstrained access to new export markets through the new hybrid supply chain model that is being developed, while also considering new growth strategies.

Bremworth's net profit after tax has increased 379% to \$10.7m for FY23 on receipt of \$35.5m in insurance payouts to date, while normalised earnings (EBITDA) fell 104% driven by an economic slowdown, cyclone-

related disruption, and increased investment in retail samples and technology. Carpet revenue fell as a result of cyclone-related disruptions and a decline in consumer confidence, but our customised rug revenue continues to accelerate albeit from a low base.

Given the quantum of insurance proceeds likely to be received and the options that are available to the Company, the Board has committed to a thorough strategic review, which will include how the proceeds will be utilised and damage reinstated.

No dividend has been declared for FY23, with the eventual return to dividends remaining a goal of the Board.



**"WE HAVE A SIGNIFICANT OPPORTUNITY TO REIMAGINE OUR FUTURE IN A GLOBAL SUPPLY CHAIN ENVIRONMENT USING NEW ZEALAND WOOL."**



## **INSURANCE**

At this stage, it is not possible to provide a definitive position on our insurance claim.

But I can tell you that the team is working diligently through the process to get the maximum value for the business. This remains a highly complex issue and although much work has been done, more work remains. In summary, we are insured for up to \$116.1m for plant and equipment, \$3.8m for stocks and a further \$49.4m for buildings - giving a total of \$169.3m for the Napier site.

We also have 18 months of business interruption cover which commenced at the time of Cyclone Gabrielle in February 2023.

As it stands, the key area of difference between us and our insurers is the approach to, and cost of, plant reinstatement and the value of insurance should we decide not to fully reinstate.

While the Board would prefer a prompt resolution, we remain committed to the right outcome rather than a fast outcome.

## **STRATEGIC REVIEW**

Bremworth's upward share price movements following the release of the preliminary FY23 results do not necessarily reflect the full value of the business. The shares are neither covered by analysts nor well traded, leaving its value subject to the vagaries of small trades. The Directors note that the Bremworth shares continue to trade at less than their net tangible asset backing per share.

While the quantum of further insurance payouts is still being worked through, the Directors have commenced a Board-led strategic review to explore the range of opportunities that maybe available to the business.

## **OUR TEAM**

Navigating the unparalleled challenges of this year would not have been possible without the dedication of our entire workforce.

In particular, our gratitude goes to Greg Smith and the senior team for the work in repositioning the business, our Napier staff who have worked tirelessly in the factory clean up, those who continue to travel overseas to seek out alternative supplies of yarn and dyed fibre and those who commute to Christchurch to oversee the outsourced wool dyeing process.

We also wish all our Hawke's Bay colleagues who have opted to accept voluntary redundancy while the plant's future remains undetermined the very best in their future endeavours.

## **POSITIVE OUTLOOK**

The full benefits of the potential global hybrid supply chain and the leveraging of new offshore relations to explore a new strategic direction in export will form a part of the Board-led strategic review, with the Directors particularly excited about the prospects.

While still in its initial stages of development, the new hybrid supply model could enable us to draw on both domestic and international suppliers to help us produce New Zealand wool carpets and rugs. This could also remove the constraints which have prevented us from entering much larger markets and mark a new chapter in Bremworth's growth journey.

The Board remains committed to the achievement of Bremworth's strategic goals and generating value for shareholders. We are grateful for the ongoing support of our investors, customers, employees and suppliers.



**George Adams**  
Chairman of the Board  
2 October 2023



July 2020

**FINDING OUR PURPOSE**

Our journey began with the goal of delivering natural, sustainable, and beautiful interior products that contribute to creating happy and healthy homes.

November 2020

**TRANSFORMING OUR BRAND**

We rebranded from Cavalier Bremworth to Bremworth, unveiling a new brand identity and our new purpose-led positioning.

December 2020

**FUNDING TO GO GOOD**

Funding for the execution of our strategic transformation was confirmed, with the successful sale and leaseback of our Auckland property.

April 2021

**INVESTING IN OUR FUTURE**

A \$4.9M sustainability-based research programme was announced, co-funded by MPI's Sustainable Food and Fibres Futures Fund. The programme aims to develop high-value wool products using green chemistry, which are lighter on the planet.

May 2021

**SAYING GOODBYE TO PLASTIC**

We produced our last ever synthetic carpet, bringing an end to the 2,500 tonnes of synthetic fibre we were importing annually.

September 2021

**NATURALLY PREMIUM**

We rationalised our product offer and shifted our focus to Bremworth branded collections that deliver higher margins.

**OUR JOURNEY TO GOOD**

January – March 2022

**ESTABLISHING A DECARBONISATION PATHWAY**

We embarked on our decarbonisation initiatives, aiming to reduce carbon emissions by up to 25%.

May 2022

**COMPOSTABLE RUGS**

Our prototype compostable rugs, developed under our sustainability-based research programme, were showcased, bringing us closer to a future with fully compostable products.

February 2023

**CYCLONE GABRIELLE**

Cyclone Gabrielle caused Bremworth's Napier facility to go offline. The company is in the process of adopting a hybrid supply chain model, which will involve utilising both local and offshore suppliers.

April 2023

**NEW DRYING TECHNOLOGY**

The implementation of a new radio frequency dryer to replace a natural gas fired dryer to dry felted yarn during production will save an estimated 197 tonnes of CO2e annually.

April 2023

**TRUSTED BRAND**

For the tenth year in a row, we were honoured to be named New Zealand's Most Trusted Carpet Brand, a testament to the trust and loyalty of our valued customers.

*Bremworth*

# **FY24 CREATING A NEW PATHWAY TO GROWTH**

**FUTURE FOCUS FROM  
GREG SMITH, CEO**

## **HYBRID SUPPLY CHAIN**

Bremworth's proposed new hybrid supply chain model will allow us to incorporate New Zealand wool which has been dyed overseas into the yarn and tufting production processes in our Whanganui and Papatoetoe facilities.

Once refined and optimised, the offshore supply will reduce our fixed cost base and improve our utilisation of existing assets. The addition of an on-demand yarn supply which can be scaled efficiently offers us a significant competitive advantage as we expand. As a result, Bremworth will then have the potential to explore much larger commercial contracts and re-enter the global market and new geographies around the world.

## **DIGITAL**

The continued implementation of new technology platforms is an ongoing priority for Bremworth. There is a recognition that all business units benefit from having access to reliable, real time data. The use of modern systems is designed to better inform our decision making and, improve business profitability and sustainability.

We are also directing more focus towards our fast growing direct to consumer eCommerce business. Increasing our presence in this market segment ensures we meet the consumer where they are starting their journey.

## **PRODUCTIVITY**

The manufacturing business is a key asset of the business. The implementation of new systems and processes will improve quality, cost and profitability at all levels within the operations.



**"OUR INVESTMENT IN BRAND AND TECHNOLOGY AND THE DEVELOPING DYNAMIC NEW SUPPLY MODEL HAS CREATED A FERTILE FOUNDATION FOR GLOBAL GROWTH."**

**GREG SMITH - CEO**

Bremworth

**TREND  
STATEMENT**

Let's Go Good Together

## TREND STATEMENT SIX YEAR PERFORMANCE GRAPHS

Unaudited

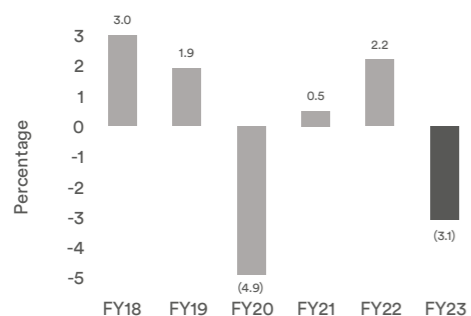
### GEARING %



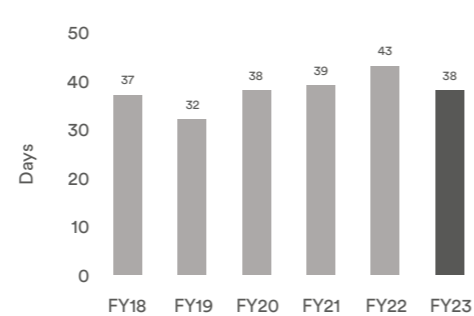
### GROSS PROFIT %



### RETURN (NORMALISED NPAT) ON ASSETS %



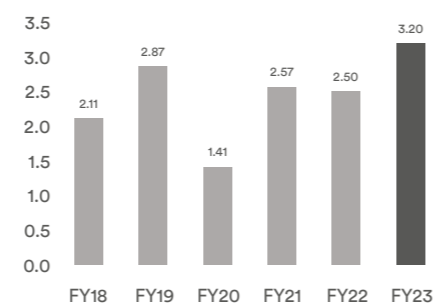
### DAYS SALES IN RECEIVABLES



### INVENTORY TURNOVER IN DAYS



### CURRENT RATIO



Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 137 to 139.

## TREND STATEMENT

Unaudited

	2023 \$000	2022 \$000	2021 \$000	2020 \$000	2019 \$000	2018 \$000
<b>Operating revenue</b>	<b>\$89,689</b>	<b>\$95,485</b>	<b>\$111,577</b>	<b>\$117,981</b>	<b>\$135,234</b>	<b>\$148,120</b>
<b>EBITDA (normalised)</b>	<b>(200)</b>	<b>4,918</b>	<b>3,385</b>	<b>2,300</b>	<b>7,076</b>	<b>9,998</b>
<b>EBIT (normalised)</b>	<b>(2,039)</b>	<b>3,475</b>	<b>1,708</b>	<b>(2,162)</b>	<b>3,597</b>	<b>6,437</b>
<b>Profit/(Loss) before income tax (normalised)</b>	<b>(2,582)</b>	<b>2,605</b>	<b>652</b>	<b>(4,697)</b>	<b>2,451</b>	<b>5,058</b>
<b>Profit/(Loss) after income tax (normalised)</b>	<b>(2,845)</b>	<b>1,735</b>	<b>376</b>	<b>(3,457)</b>	<b>1,879</b>	<b>3,974</b>
<b>Abnormal costs (after tax)</b>	<b>13,581</b>	<b>505</b>	<b>1,353</b>	<b>(17,994)</b>	<b>(18,659)</b>	<b>107</b>
<b>Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)</b>	<b>10,736</b>	<b>2,240</b>	<b>1,729</b>	<b>(21,451)</b>	<b>(16,780)</b>	<b>4,081</b>
<b>Financial Position</b>						
Shareholders' equity	50,223	37,771	35,592	33,637	54,989	72,222
Loans and borrowings	-	-	-	15,800	20,500	31,500
Fixed assets	10,234	14,306	12,094	22,725	30,164	35,142
Right-of-use assets	8,616	9,280	9,968	430	-	-
Goodwill and other intangibles	-	-	-	-	-	2,362
Cash and bank	39,319	14,874	22,508	1,276	2,724	2,111
Return on average shareholders' equity (normalised)	(6.5%)	4.7%	1.1%	(7.8%)	3.0%	5.7%
Basic earnings per ordinary share (normalised) – cents	(4.08)	2.51	0.55	(5.03)	2.74	5.79
Diluted earnings per ordinary share (normalised) – cents	(3.99)	2.46	0.54	(5.03)	2.74	5.79
Net tangible asset backing per ordinary share	\$0.59	\$0.40	\$0.36	\$0.47	\$0.72	\$0.94

**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2023**

Let's Go Good Together

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**CONSOLIDATED FINANCIAL STATEMENTS  
 DIRECTORS' RESPONSIBILITY STATEMENT**

**DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for the preparation of the consolidated financial statements of Bremworth Limited and subsidiaries ("the Group"). The Directors discharge this responsibility by ensuring that the consolidated financial statements comply with Generally Accepted Accounting Practice and fairly present the financial position of the Group as at balance date and of its operations and cash flows for the year ended on that date.

**ACCOUNTING POLICIES**

The Directors consider that the accounting policies used in the preparation of the consolidated financial statements are appropriate, consistently applied, and supported by reasonable estimates and judgements. All relevant financial reporting and accounting standards have also been followed.

**ACCOUNTING RECORDS**

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

**SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS**

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 consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS**

The Directors present, on pages 51 to 107, the consolidated financial statements for the year ended 30 June 2023.

These audited consolidated financial statements were authorised for issue by the Directors on 21 September 2023 and, as required by section 461(t)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Bremworth Limited



**T H G Adams**  
 Chairman of the Board of Directors



**K M Turner**  
 Chairman of the Audit Committee

To the shareholders of Bremworth Limited

**OUR OPINION**

In our opinion, the accompanying consolidated financial statements of Bremworth Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2023;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

**BASIS FOR OPINION**

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

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

**Independence**

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)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of strategic options analysis. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and relationships have not impaired our independence as auditor of the Group.

**KEY AUDIT MATTERS**

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

**DESCRIPTION OF THE KEY AUDIT MATTER**

**Impact of Cyclone Gabrielle**

As disclosed in notes 2f and 3 to 3e in the consolidated financial statements, in February 2023 Cyclone Gabrielle brought severe flooding to the Napier yarn spinning plant, causing significant damage to the building, plant, equipment and inventory.

Several accounting implications have arisen as a result and the Group, aided by their independent accounting specialists, have had to exercise considerable professional judgement in determining the most appropriate treatment. Significant judgments and estimates applied have been disclosed in notes 3 to 3d. These involve determining impairment of assets, assessing whether receipt of the insurance claim is virtually certain, and determination of the claim amount recorded as income.

The consolidated financial statements reflect:

- Insurance income of \$35.5 million, which relates to progress payments received to date,
- Impairment of the Napier plant and buildings of \$5.2 million
- Impairment of damaged and contaminated inventory of \$2.5 million
- Disclosure of a contingent asset, noting that it is impracticable to estimate an amount because of the extent of estimation uncertainty.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

To audit the impact of Cyclone Gabrielle, with the involvement of our technical accounting specialists, we reviewed management's assessment of and conclusions on the accounting implications. In considering the recognition of insurance income and disclosure of the contingent asset, our procedures included:

- Reviewing management's accounting analysis, which incorporates the independent technical accounting advice they received;
- Reviewing the relevant insurance policies to gain an understanding of the policies in place for material damage and business interruption relevant to this event;
- Reviewing reports from management's experts, providing an estimated range of remediation costs for the plant and buildings;
- Noting that these reports and estimates are currently being reviewed by the insurers' own experts;
- Considering the available reports of the insurers' loss adjusters and other relevant correspondence with insurers;
- Reviewing legal advice obtained by management in relation to the event and claim;
- Agreeing progress payments to supporting documents and the bank statement;
- Assessing the resulting accounting treatment against the relevant accounting standards, considering any counterfactual information or scenarios;
- Considering the classification of insurance income and cyclone related expenses in the consolidated statement of profit or loss and consolidated statement of cash flows; and
- Considering the adequacy of the related financial statement disclosures, including the contingent asset disclosed.



**DESCRIPTION OF THE KEY AUDIT MATTER**

Management's independent experts have estimated buildings, plant and equipment remediation costs of between \$112.7 million and \$162.0 million. These estimates are currently being reviewed by the insurers' own experts, and could be challenged. Accordingly, management has recognised insurance income only to the extent of the progress payments received.

We have therefore identified the impact of Cyclone Gabrielle as a key audit matter, due to the range and magnitude of its implications on the Group's consolidated financial statements, the judgements involved in estimating the related amounts, and determining the adequacy of the associated disclosures.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

To assess the amounts recorded for impairment of assets, our procedures included:

- Gaining an understanding of management's process for determining impairment of the Napier buildings, plant and equipment, as well as write off of the inventory;
- Obtaining management's experts' damage assessment reports and understanding the extent of damage to the buildings, plant, equipment and inventory;
- Agreeing the amounts impaired to the values in the fixed asset register;
- Reviewing management's analysis of damaged and contaminated inventory, inspecting the results of the Group's physical inventory count, and comparing it with the inventory records;
- Verifying, on a sample basis, the accuracy of the unit cost used for calculating the inventory write-off; and
- With the assistance of our property experts, reviewing management's impairment assessment for the Napier site land.

In addition, our procedures included:

- Assessing the professional competence, independence and objectivity of management's technical accounting specialist;
- Testing, on a sample basis, the expenses incurred relevant to this event; and
- Assessing the creditworthiness of the insurers.

**DESCRIPTION OF THE KEY AUDIT MATTER**

**Valuation of inventory**

The carrying value of the Group's inventory at 30 June 2023 was \$21.4 million (30 June 2022 \$27.3 million) net of inventory provisions of \$1.4 million (30 June 2022 \$1.4 million).

The cost of inventory reflects raw materials and manufacturing costs, including an allocation of production overheads based on normal operating capacity.

The Group has recorded inventory provisions, which represent a deduction from the cost of inventory, for obsolete, aged and discontinued inventory and carpet oddments to reflect management's best estimate of their net realisable value.

Determining these provisions involves significant judgement considering a range of factors such as inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margins data.

Valuation of inventory is a key audit matter due to the significance of the inventory balance, the complexity of inventory costing, and the judgements involved in estimating the inventory provisions.

Note 7c of the consolidated financial statements describes the accounting policy on inventories and the judgements and estimates applied by management to determine the inventory provision.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

To audit the cost of inventory, our procedures included:

- Gaining an understanding of the inventory costing process and controls;
- Testing the accuracy of the application of inventory costing by reperforming the calculation;
- Verifying inputs, on a sample basis, of the finished goods, work in progress, and yarn inventory cost by agreeing them to supporting documents;
- Testing the cost of raw material inventory, on a sample basis, to supplier invoices; and
- Evaluating the nature and appropriateness of factory overheads capitalised into inventory, based on normal operating capacity, and testing the mathematical accuracy of the overhead allocation calculation.

To audit the inventory provisions, our procedures included:

- Gaining an understanding of, and assessing, the Group's inventory provisioning process and related controls, taking into consideration key attributes used such as piece sizes, grade quality, discontinued products and recent sale prices;
- Reviewing management's analysis of Cyclone Gabrielle damaged and contaminated inventory;
- Observing management's stocktake process by attending selected locations to confirm the existence and condition of the inventory;
- Assessing the accuracy of management's estimate of provisioning by comparing actual utilisation of the provision with the corresponding prior year provisions; and
- Testing the net realisable value of finished goods, on a sample basis, by comparing the carrying value with recent sales prices and margins.

## OUR AUDIT APPROACH

### Overview



Overall group materiality: \$672,000, which represents 0.75% of total revenue.

We chose total revenues as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and it is a generally accepted benchmark.

We selected transactions and balances to audit based on the Group's materiality. By using this approach, we audited all the material classes of transactions and balances in the consolidated financial statements of the Group.

As reported above, we have two key audit matters, being:

- Impact of Cyclone Gabrielle
- Valuation of inventory

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon). The other information we obtained prior to the date of this auditor's report comprised the Directors' Responsibility Statement, Trend Statement and Disclosure of Non-GAAP Financial Information. The remaining other information is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or 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 in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

**CONSOLIDATED FINANCIAL STATEMENTS  
INDEPENDENT AUDITOR'S REPORT (CONT'D)**



**WHO WE REPORT TO**

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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.

The engagement partner on the audit resulting in this independent auditor's report is Philippa (Pip) Cameron.

For and on behalf of:

Chartered Accountants  
21 September 2023

Auckland

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 30 JUNE 2023**

	Note	Audited 2023 \$000	Audited 2022 \$000
Revenue from contracts with customers	4c	89,689	95,485
Cost of sales		(64,967)	(65,785)
<b>Gross profit</b>		<b>24,722</b>	<b>29,700</b>
Other income and gains	4d	540	688
Distribution expenses		(16,183)	(16,286)
Administration expenses	4e	(11,118)	(10,627)
Cyclone Gabrielle related insurance income	3a	35,500	–
Cyclone Gabrielle related expenses	3d	(14,275)	–
Cyclone Gabrielle related asset write offs	3d	(7,644)	–
		<b>11,542</b>	<b>3,475</b>
Finance costs	4h	(1,045)	(1,029)
Finance income		502	159
<b>Profit before income tax</b>		<b>10,999</b>	<b>2,605</b>
Income tax expense	4i	(263)	(365)
<b>Profit after tax for the year</b>		<b>\$10,736</b>	<b>\$2,240</b>
<b>Basic earnings per share (cents)</b>	4b	<b>15.39</b>	<b>3.24</b>
<b>Diluted earnings per share (cents)</b>	4b	<b>15.04</b>	<b>3.17</b>

*This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 58 to 107.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2023

	Note	Audited 2023 \$000	Audited 2022 \$000
<b>Profit after tax for the year</b>		<b>10,736</b>	<b>2,240</b>
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>			
Effective portion of changes in fair value of cash flow hedges (net of income tax)		1,088	(576)
Net change in fair value of cash flow hedges transferred to profit or loss (net of income tax)		426	(55)
<b>Total other comprehensive income</b>		<b>1,514</b>	<b>(631)</b>
<b>Total comprehensive income for the year</b>		<b>\$12,250</b>	<b>\$1,609</b>

*This Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 58 to 107.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 JUNE 2023

Audited	Note	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share-based Payment Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Total equity at 1 July 2022</b>		<b>22,054</b>	<b>(576)</b>	<b>(1,420)</b>	<b>413</b>	<b>17,300</b>	<b>37,771</b>
<b>Total comprehensive income for the year</b>							
<b>Profit after tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,736</b>	<b>10,736</b>
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>							
Changes in fair value of cash flow hedges (net of income tax)		-	1,514	-	-	-	1,514
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>1,514</b>	<b>-</b>	<b>-</b>	<b>10,736</b>	<b>12,250</b>
<b>Transaction with owners in their capacity as owners</b>							
Share-based payments - value of employee services	9b	-	-	-	202	-	202
Issue of shares pursuant to the Bremworth Equity Plan	5b, 9b	-	-	-	-	-	-
<b>Total transaction with owners for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>202</b>	<b>-</b>	<b>202</b>
<b>Total equity at 30 June 2023</b>		<b>\$22,054</b>	<b>\$938</b>	<b>(\$1,420)</b>	<b>\$615</b>	<b>\$28,036</b>	<b>\$50,223</b>

*This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 58 to 107.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

Audited	Note	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share-based Payment Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Total equity at 1 July 2021</b>		21,846	55	(1,420)	51	15,060	35,592
<b>Total comprehensive income for the year</b>							
<b>Profit after tax</b>		–	–	–	–	2,240	2,240
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>							
Changes in fair value of cash flow hedges (net of income tax)		–	(631)	–	–	–	(631)
<b>Total comprehensive income for the year</b>		–	(631)	–	–	2,240	1,609
<b>Transaction with owners in their capacity as owners</b>							
Share-based payments - value of employee services	9b	–	–	–	362	–	362
Issue of shares pursuant to the Bremworth Equity Plan	5b, 9b	208	–	–	–	–	208
<b>Total transaction with owners for the year</b>		208	–	–	362	–	570
<b>Total equity at 30 June 2022</b>		\$22,054	(\$576)	(\$1,420)	\$413	\$17,300	\$37,771

This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 58 to 107.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	Audited 2023 \$000	Audited 2022 \$000
<b>ASSETS</b>			
Property, plant and equipment - owned	6a	10,234	14,306
Property, plant and equipment - right-of-use	9a	8,616	9,280
Deferred tax asset	4i	576	532
<b>Total non-current assets</b>		19,426	24,118
Cash and bank	7a	39,319	14,874
Trade receivables, other receivables and prepayments	7b	9,957	12,201
Inventories	7c	21,122	27,263
Advances to employees	9b	170	160
Derivative financial instruments	8	1,017	8
Income tax receivable		125	278
<b>Total current assets</b>		71,710	54,784
<b>Total assets</b>		\$91,136	\$78,902
<b>EQUITY</b>			
Share capital	5b	22,054	22,054
Cash flow hedging reserve	5b	938	(576)
Foreign currency translation reserve	5b	(1,420)	(1,420)
Share-based payment reserve	5b, 9b	615	413
Retained earnings		28,036	17,300
<b>Total equity</b>		50,223	37,771
<b>LIABILITIES</b>			
Lease liabilities	9a	16,742	17,820
Employee benefits	9d	666	720
Provisions	9c	819	711
<b>Total non-current liabilities</b>		18,227	19,251
Trade payables and accruals	7d	14,948	12,210
Customer deposits	4c	192	203
Employee benefits	9d	38	53
Employee entitlements	7e	4,877	5,376
Lease liabilities	9a	1,296	1,938
Provisions	9c	816	988
Derivative financial instruments	8	16	694
Deferred income	4g	503	418
<b>Total current liabilities</b>		22,686	21,880
<b>Total liabilities</b>		40,913	41,131
<b>Total equity and liabilities</b>		\$91,136	\$78,902

This Consolidated Statement of Financial Position is to be read in conjunction with the notes on pages 58 to 107.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	Audited 2023 \$000	Audited 2022 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		91,200	96,808
Cash paid to suppliers and employees		(88,548)	(101,010)
		<b>2,652</b>	<b>(4,202)</b>
Government grants received		582	640
COVID-19-related subsidies received	4g	–	1,776
Other receipts		5	5
GST refunded		1,191	107
Interest paid - loans and borrowings		(166)	(39)
Interest component of lease payments	9a	(879)	(990)
Interest received		503	172
Income tax paid		(154)	(386)
Cyclone Gabrielle related expenses	3e	(10,803)	–
<b>Net cash flow from operating activities</b>		<b>(7,069)</b>	<b>(2,917)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of plant and equipment		44	105
Acquisition of plant and equipment	6a	(1,956)	(2,898)
Short term deposits		(3,500)	8,000
Advances to employees pursuant to the Bremworth Equity Plan	9b	(10)	(160)
Cyclone Gabrielle related insurance income	3a	35,500	–
<b>Net cash flow from investing activities</b>		<b>30,078</b>	<b>5,047</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of shares pursuant to the Bremworth Equity Plan	9b	0	208
Principal component of lease payments	9a	(2,051)	(2,041)
<b>Net cash flow from financing activities</b>		<b>(2,051)</b>	<b>(1,833)</b>
<b>Net increase in cash and cash equivalents</b>		<b>20,958</b>	<b>297</b>
Cash and cash equivalents at beginning of the year		10,874	10,508
Effect of exchange rate changes on cash		(13)	69
<b>Cash and cash equivalents at end of the year</b>		<b>\$31,819</b>	<b>\$10,874</b>

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 58 to 107.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	Audited 2023 \$000	Audited 2022 \$000
<b>Profit after tax for the year</b>		<b>10,736</b>	<b>2,240</b>
Add/(Deduct) non-cash items:			
Depreciation - owned assets	6a	845	683
Depreciation - right-of-use assets	9a	994	954
Impairment of buildings and plant and equipment	3d	5,170	–
Share-based payments - value of employee services	9b	202	362
Deferred tax		(44)	200
Net gain on sale of plant and equipment		(30)	(102)
Net (gain)/loss on foreign currency balance		13	(69)
Add/(Deduct) Cyclone Gabrielle related cash items:			
Cyclone Gabrielle related insurance income	3a	(35,500)	–
Changes in working capital items:			
Trade receivables, other receivables and prepayments		2,243	321
Inventories		6,141	(7,228)
Income tax receivable		153	(221)
Trade payables and accruals		2,739	(856)
Customer deposits		(11)	203
Employee benefits and entitlements		(568)	34
Provisions		(64)	365
Deferred income		85	67
Derivative financial instruments		(173)	130
<b>Net cash flow from operating activities</b>		<b>(\$7,069)</b>	<b>(\$2,917)</b>

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 58 to 107.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

### 1. COMPANY INFORMATION

Bremworth Limited (“Bremworth” or “the Company”) is a limited liability company that is domiciled and incorporated in New Zealand.

The consolidated financial statements presented are for Bremworth and its subsidiaries (“the Group”) as at, and for the year ended, 30 June 2023.

The Company is registered under the Companies Act 1993 and is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The consolidated financial statements have been prepared in accordance with these Acts.

The principal activities of the Group comprise wool acquisition, and carpet and rug manufacturing and sales.

All Group subsidiaries are wholly-owned.

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### 2a. STATEMENT OF COMPLIANCE

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other applicable New Zealand accounting standards and authoritative notices as appropriate for Tier 1 For-Profit entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

#### 2b. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for Tier 1 For-Profit entities.

They have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value as disclosed at note 8 (Risks and financial instruments) to the consolidated financial statements.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in New Zealand dollars, which is Bremworth Limited’s functional and presentation currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

The Consolidated Statements of Profit or Loss, Comprehensive Income, Changes in Equity and Cash Flows are stated exclusive of GST. All items in the Consolidated Statement of Financial Position are stated exclusive of GST, except for trade receivables and trade payables, which include GST invoiced.

#### 2c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with NZ IFRS requires the directors to make estimates, judgements and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 2c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Information about estimates and judgements that have a significant effect on the amounts recognised in the consolidated financial statements are disclosed in the following notes:

**Note 3** – impact of Cyclone Gabrielle

**Note 4i** – measurement and recoverability of tax losses

**Note 6a** – recoverability of property, plant and equipment

**Note 7c** – inventory provisioning

**Note 9a** – determination of lease term

**Note 9c** – measurement of provisions

**Note 9d** – measurement of employee benefits

Significant accounting policies and critical estimates, judgements and assumptions are also disclosed in the relevant notes to the consolidated financial statements and identified using the following coloured boxes:

Accounting policies

Estimates, judgements and assumptions

#### 2d. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2023 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the underlying intra-group transaction provides evidence that the asset transferred is impaired.

#### 2e. CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the year ended 30 June 2023.

#### 2f. IMPACT OF CYCLONE GABRIELLE

##### Background

On 14 February 2023, the Napier yarn spinning plant suffered widespread flooding as Cyclone Gabrielle which struck New Zealand from 13 to 15 February 2023 brought severe winds and rain and extensive flooding to parts of the North Island - including Hawke’s Bay where the Napier yarn spinning plant is situated.

The Napier plant was inundated and sustained significant damage to buildings and plant and equipment as well as loss of inventory.

The Napier plant is a key plant within the Group’s woollen carpet operation, supplying woollen spun yarn to the Auckland carpet plant for conversion into carpet and dyed fibre to the Whanganui yarn spinning plant for processing into felted yarns for carpet manufacturing.

The plant has not operated since 14 February 2023. Although significant progress has been made at the plant - with clean-up virtually completed and buildings and plant and equipment stabilised to prevent further deterioration - it is expected to be offline for a yet to be determined, but significant, period of time pending a decision on appropriate next steps.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 2f. IMPACT OF CYCLONE GABRIELLE (CONT'D)

##### Insurances

The Group has comprehensive insurances, with the following table summarising the type and scope of cover relating to the damage and losses arising from Cyclone Gabrielle:

Type of cover	Scope of cover	Sums insured \$000's
Material damage	Buildings	49,400
	Plant and equipment	116,100
	Inventory stored at the Napier plant	2,700
	Inventory stored elsewhere	1,100
		<b>\$169,300</b>
Business interruption	Gross profit (including payroll, fixed costs and increased cost of working to avoid loss of turnover)	91,500
	Additional costs	10,000
	Claims preparation costs	500
		<b>\$102,000</b>

The insurers have acknowledged the cyclone event and confirmed that the Group's material damage policy will respond in relation to damage to buildings and plant and equipment as well as loss of inventory and the business interruption policy will respond in relation to the impact of reduction in turnover and costs incurred as a result of consequent disruptions to the business.

The business interruption policy provides for an indemnity period of 18 months from the date of loss and will therefore extend over the period through to 13 August 2024. As a consequence, claims under the business interruption policy are expected to occur in FY24 and into FY25.

While the insurance claims process is progressing well, it is expected to take a number of months to complete. The Group has already received, prior to balance date, \$35.5 million of progress payments from its insurers. These payments were made on the condition that if the final adjusted loss (as agreed between the parties or as determined by any applicable dispute resolution process) is less than the amount of the progress payments and all other payments under the policies, then the overpaid amount will be promptly refunded.

The Group has engaged two independent consulting engineering firms to perform detailed assessments of damage to buildings and plant and equipment, with these assessments placing the P50 estimated cost of remediation at \$130.6 million (being the estimate of cost such that there is a 50% probability of the remediation being completed within that cost estimate).

The estimated remediation range put forward by the Group's independent external experts of between \$112.7 million (at P10) and \$162.0 million (at P90) is currently being reviewed by the loss adjusters and their experts. The loss adjusters and their experts have issued an interim report questioning whether alternative methods of remediation are possible or ought to be considered, and while they have provided progress updates on the work done, the full results of their review are yet to be received.

There is, to date, no agreement between the loss adjusters and the Group around the extent of damage to the Napier yarn spinning plant and the nature and estimated cost of, as well as time required for, the remediation works. However, the loss adjusters have acknowledged that significant damage has occurred to the Napier plant and that the claim would be significant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 2f. IMPACT OF CYCLONE GABRIELLE (CONT'D)

##### Risk mitigation and business continuity plans

With the Napier yarn spinning plant offline and in order to secure the Group's ongoing access to yarns and dyed fibre, management has activated risk mitigation and business continuity plans which included alternative supply arrangements as follows:

- procuring woollen yarns from an independent New Zealand yarn spinner for some of its woollen carpet ranges;
- use of an independent third-party dyeing facility to supply the Whanganui yarn spinning plant with dyed fibre; and
- procuring New Zealand wool yarns, and dyed New Zealand wool fibre, from overseas suppliers.

Following the reconfiguration of its plant and equipment, the Whanganui plant is now able to not only produce felted yarns but also woollen spun yarns – putting the woollen carpet operation in a strong position to continue to supply key product ranges to its distribution partners.

Trials of New Zealand wool yarns, and dyed New Zealand wool fibre, from offshore have proved to be successful, with commercial-sized batches on order and expected to be received for processing into carpet from September 2023 onwards.

This new hybrid supply chain model is complementary to the existing woollen carpet operation and will insulate the Group from future events that could potentially disrupt operations while also strengthening the business.

##### Board-led strategic review

A decision around the remediation works at the Napier plant is yet to be made, pending completion of the loss adjusters' review of remediation costs and the outcome of a Board-led strategic review that the Directors have commenced.

This review, which involves external consultants, recognises that the receipt of insurance proceeds presents options for the Group, with the strategic review designed to assist the Board in identifying the options around the application of those proceeds.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 2f. IMPACT OF CYCLONE GABRIELLE (CONT'D)

##### Dealing with impact of Cyclone Gabrielle in the financial statements

The following table summarises the impact of Cyclone Gabrielle on the Group and how these have been dealt with in the financial statements:

Impact of Cyclone Gabrielle	Financial statements line item	\$000's	Notes
Insurance proceeds have been recognised as income	Cyclone Gabrielle related insurance income	\$35,500	3a
Further insurance proceeds are recognised as income and as a receivable where receipt is virtually certain and amount is able to be reliably estimated	Not applicable	\$0	3b
Insurance proceeds as contingent assets	Not applicable	\$0	3c
Site clean-up and asset stabilisation costs incurred have been recognised as expenses	Cyclone Gabrielle related expenses	(\$14,275)	3d
Ongoing costs (including payroll) as a result of the cyclone, increased costs of working and other additional costs to avoid loss of revenue as well as professional fees (including claims preparation costs) incurred have also been recognised as expenses			
Damaged or destroyed buildings and plant and equipment have been derecognised to the extent appropriate	Cyclone Gabrielle related asset write offs	(\$5,170)	3d, 6a
Damaged or destroyed inventory has been written off to the extent appropriate	Cyclone Gabrielle related asset write offs	(\$2,474)	3d, 7c

The accounting for the impact of Cyclone Gabrielle is discussed in detail in note 3 (Cyclone Gabrielle) to the consolidated financial statements.

### 3. CYCLONE GABRIELLE

#### Accounting policies

Insurance proceeds are recognised as income and as a receivable when receipt is virtually certain and to the extent that the amount can be reliably estimated.

In the event that insurance proceeds cannot be recognised as income and as a receivable because receipt is not virtually certain and/or the amount cannot be reliably estimated, they are disclosed as contingent assets.

#### Estimates, judgements and assumptions

As a result of the Cyclone Gabrielle flooding event, a number of significant estimates and judgements have been necessary to determine the accounting treatment in these financial statements.

These estimates and judgements include the following:

- recognition of insurance income (note 3a)
- estimation of further insurance proceeds as income (note 3b)
- assessment of and disclosure of contingent assets (note 3c)
- assessment of impairment of inventory, buildings, land and plant and equipment (note 3d)

Details of the estimates and judgements made are further discussed below where relevant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 3. CYCLONE GABRIELLE (CONT'D)

#### 3a. CYCLONE GABRIELLE RELATED INSURANCE INCOME

	2023 \$000	2022 \$000
Insurance recovery - progress payments	\$35,500	\$0

Cyclone Gabrielle related insurance income consists of:

##### Insurance recovery progress payments (\$35.5 million)

Prior to 30 June 2023, the Group received two initial progress payments from the insurers – the first of \$20.0 million in April 2023, followed by \$15.5 million in June 2023 - with the insurers treating these as non-specific to either material damage or business interruption.

The Group has concluded that there is virtual certainty as at balance date with respect to the progress payments of \$35.5 million and has recognised that as income in the Consolidated Statement of Profit or Loss.

The initial progress payments were made on the condition that if the final adjusted loss (as agreed between the parties or as determined by any applicable dispute resolution process) is less than the amount of the progress payments and all other payments under the policies, then the overpaid amount will be promptly refunded.

The Group expects that the initial progress payments of \$35.5 million received will not be required to be refunded, based on the following:

- the substantially greater estimated costs of remediation as determined by the Group's independent external experts as discussed at note 2f (Impact of Cyclone Gabrielle) to the consolidated financial statements;
- the acknowledgement from the insurers' loss adjusters that the Group has already incurred significant costs associated with the clean-up and stabilisation of the Napier site, as well as the other costs that have been incurred (including employee costs) which are also covered by the Group's insurance policies;
- recognition by the loss adjusters that significant damage has occurred to the Napier plant and that the claim is a significant claim.

#### 3b. ESTIMATION OF FURTHER INSURANCE PROCEEDS AS INCOME

The Group's expectation is that the ultimate amount received will be larger than the \$35.5 million progress payments to date for the following reasons:

- the substantially greater estimated costs of remediation under the material damage policy as discussed in note 2f (Impact of Cyclone Gabrielle) to the consolidated financial statements and note 3a above;
- the loss adjusters having acknowledged the cyclone as an insured event and the indemnity owed to the Group under the policies;
- the insignificant counterparty credit risks.

However, the amount cannot currently be estimated sufficiently reliably for the following reasons:

- the estimated remediation range put forward by the Group's independent external experts of between \$112.7 million and \$162.0 million and the consequent wide range of possible outcomes;
- the relatively early stage of the insurance claims process, with the estimate currently being reviewed by the loss adjusters and their experts;
- the estimate being highly sensitive to the actual extent of damage to buildings and plant and equipment and whether key underlying assets can be repaired or alternatively must be replaced;
- the damage assessment and estimated cost of, as well as time required for, remediation works being particularly sensitive to availability of machine parts and specialist labour, with actual results potentially differing significantly from estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 3. CYCLONE GABRIELLE (CONT'D)

#### 3b. ESTIMATION OF FURTHER INSURANCE PROCEEDS AS INCOME (CONT'D)

There is also uncertainty around the quantum of the indemnity cash settlement the Group would be entitled to if chooses to not reinstate the Napier plant.

As a consequence, further insurance proceeds have not been recognised as income and as a receivable in the financial statements.

#### 3c. CONTINGENT ASSETS

While the Group has a contingent asset at balance date - being the probable receipt of further insurance proceeds under the material damage policy as identified in note 3b - the Group has not provided an estimate of the contingent asset because it has determined, based on the estimation uncertainties discussed at note 3b, that it is not practicable to do so.

These estimates and judgements will continue to be reviewed as new information becomes available. Because the insurance claims process is expected to take a number of months to complete and will involve a number of parties - including the loss adjusters and their experts as well as the Group and its own experts - it is possible that the actual financial impacts will differ from those included in these financial statements and that these differences may be material.

As claims under the business interruption policy are expected to be made in future, a contingent asset does not yet exist in relation to the business interruption policy at balance date.

#### 3d. CYCLONE GABRIELLE RELATED ASSET WRITE OFFS AND EXPENSES

	Note	2023 \$000	2022 \$000
Write off of buildings	6a	3,608	-
Write off of plant and equipment, other assets and assets under construction	6a	1,562	-
Write off of inventory	7c	2,474	-
Other recoverable expenses		14,015	-
Non-recoverable expenses		260	-
		<b>\$21,919</b>	<b>\$0</b>

Cyclone Gabrielle related asset write offs and expenses consist of:

#### Write off of buildings (\$3.6 million) and plant and equipment, other assets and assets under construction (\$1.6 million)

Accounting standards treat the physical damage of an asset to be an indicator of impairment. Therefore, if there has been physical damage to an asset as a result of a natural disaster, like Cyclone Gabrielle, an impairment test is required with careful consideration given to assessing the asset's recoverable amount.

Following impairment assessment of damaged buildings and plant and equipment, the Group has determined that the carrying values of buildings and plant and equipment at the Napier plant are required to be derecognised on the basis that there are no longer any future economic benefits that could be derived from their use in their current state or from their disposal.

As a result, the carrying values of these assets have been written off to the Consolidated Statement of Profit or Loss.

The Group does not consider the carrying value of the Napier land of \$811,000 to be impaired, with the carrying amount of that land supported by its standalone fair value, after having regard to the land categorisation attributed to the land by the Hawke's Bay City Council following Cyclone Gabrielle and the current market value of industrial land in Hawke's Bay after allowing for estimated building demolition costs.

Refer also to note 6a (Property, plant and equipment) to the consolidated financial statements for further information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 3. CYCLONE GABRIELLE (CONT'D)

#### 3d. CYCLONE GABRIELLE RELATED ASSET WRITE OFFS AND EXPENSES (CONT'D)

##### Write off of inventory (\$2.5 million)

Accounting standards require inventory to be measured at the lower of cost and net realisable value.

Where the cost of inventory may not be recoverable because the inventory is damaged as a consequence of an event like Cyclone Gabrielle, the Group is required to estimate its recoverable amount and recognise an impairment if this estimate is less than the carrying amount.

Based on the analysis and estimates prepared by management, the Group has determined that the carrying value of inventory at the Napier plant was required to be written off – either because they have been damaged or destroyed as a consequence of having been immersed in, or exposed to, contaminated flood water or otherwise contaminated by virtue of their proximity to flood water and could not therefore be used for further processing into finished carpet.

Refer also to note 7c (Inventories) to the consolidated financial statements for further information.

##### Other recoverable costs (\$14.0 million)

The Group has incurred costs relating to site clean-up and asset stabilisation, with \$3.5 million accrued at balance date.

Of the total of \$14.0 million, \$5.4 million related to wages and salaries (largely of the Napier-based employees) and \$1.2 million to ongoing fixed costs at the Napier plant, as well as \$6.4 million towards site clean-up and asset stabilisation and \$1.0 million of miscellaneous spends (including professional fees and claims preparation costs and the other costs associated with the activation of the risk mitigation and business continuity plans).

These costs are recoverable from the proceeds of insurance.

##### Non-recoverable costs (\$0.3 million)

These are expenses incurred by the Group in relation to the cyclone where there will be no recovery from the insurers and include the \$250,000 deductible under the material damage policy as well as other expenses that are above the sub-limits provided for in the policy (for example, employees' personal effects).

#### 3e. PROGRESS PAYMENTS RECEIVED AND CASH PAID

Prior to 30 June 2023, the Group received two initial progress payments from the insurers – the first of \$20.0 million in April 2023, followed by \$15.5 million in June 2023 - with the insurers treating these as non-specific to either material damage or business interruption. As a consequence, the Group has treated the \$35.5 million as cash inflow relating to investing activities.

At balance date, \$10.8 million has been spent, with \$5.4 million relating to wages and salaries (largely of the Napier-based employees) and \$1.2 million relating to ongoing fixed costs at the Napier plant, as well as \$3.1 million towards site clean-up and asset stabilisation and \$1.1 million of miscellaneous spends (including professional fees and claims preparation costs and the other costs associated with the activation of the risk mitigation and business continuity plans).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 3. CYCLONE GABRIELLE (CONT'D)

#### 3f. GOING CONCERN

The Group prepares its consolidated financial statements on a going concern basis and expects to be able to realise its assets and meet its financial obligations in the normal course of business.

Cash and bank at balance date of \$39.3 million (2022: \$14.9 million) is at a level significantly higher than forecasted as a result of insurance progress payments received.

Net working capital (being current assets (excluding cash and bank) less current liabilities) employed by the Group as at balance date of \$9.7 million (2022: \$18.0 million) is well down on the previous year, with the Group continuing to focus on working capital utilisation and efficiency.

To assess the ongoing liquidity of the Group and its ability to meet its other financial commitments as they fall due in the normal course of business as a consequence of Cyclone Gabrielle, management has prepared forecasts of the Group's financial performance, while also assessing cash flows and financial position, as part of its management and monitoring of the Group's operations through to 30 June 2025.

In preparing these forecasts, management considered and, where required made assumptions, in relation to:

- the costs associated with voluntary redundancies for Napier-based employees, and holiday pay paid out, subsequent to balance date as further discussed at note 9h (Events after balance date) to the consolidated financial statements;
- the additional costs, and time it could take, to switch to alternative sources of supply of yarns and dyed fibre and be able to maintain inventory at, or otherwise return inventory to, levels required to meet current demand;
- the ongoing costs relating to the business and the other actions that have been taken to reduce discretionary spending during the period of interruption to the business; and
- the further insurance recoveries that are expected to insulate the Group from the impact of Cyclone Gabrielle.

The Board expects that existing cash and bank of \$39.3 million is easily sufficient to enable the Group's continued operation.

Despite the disruptions from Cyclone Gabrielle, the Group continues to trade and to actively engage with its distribution partners - with the focus on ensuring we can continue to supply key product ranges and to support them.

The Board is committed to the future of the existing woollen carpet business, with the new hybrid supply chain model post Cyclone Gabrielle going to be not only complementary to the existing operation but also insulate the Group from future events that could potentially disrupt operations.

That commitment to the future of the business is further demonstrated by its decision to undertake a Board-led strategic review.

This review, which involves external consultants, recognises that the receipt of insurance proceeds presents options for the Group, with the strategic review designed to assist the Board in identifying the options around the application of those proceeds while also looking to address the Group's current supply chain and manufacturing cost base.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE

This section deals with the financial performance of the Group and addresses, among other things, the financial performance of the Group's reportable segments and the key areas that impact on the Group's profitability, including operating revenue, other income, gains/losses on sale of property, plant and equipment, expenses and taxation.

#### 4a. SEGMENT PERFORMANCE

##### Reportable segments

The Group's reportable and operating segments are:

- Carpet, with this segment involved in the manufacturing and sales of carpet and rugs in New Zealand, Australia and rest of the world; and
- Wool, with this segment involved in the acquisition of wool for the carpet segment and for sales to external customers in New Zealand.

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
- whose operating results are regularly reviewed by the Group's chief operating decision maker - in this case, the Chief Executive Officer - to make decisions about the resources to be allocated to the segment and to assess its performance; and
- for which discrete financial information is available.

The Chief Executive Officer uses total revenue, segment result before depreciation, restructuring and impairment and segment result after depreciation but before restructuring and impairment to assess the performance of the operating segments. Total assets and total liabilities are also reviewed for the operating segments.

##### Inter-segment transactions

Inter-segmental sales during the year and intercompany profits on stocks at balance date are eliminated on consolidation.

##### Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and non-current assets are based on the geographical location of those assets.

	2023 \$000	2022 \$000
<b>Revenue</b>		
New Zealand	50,637	54,595
Australia	37,027	37,797
Canada	1,231	1,460
USA	761	1,331
Rest of the world	33	302
	<b>\$89,689</b>	<b>\$95,485</b>
	As at 30 Jun 2023 \$000	As at 30 Jun 2022 \$000
<b>Non-current assets</b>		
New Zealand	18,329	23,040
Australia	1,097	1,078
	<b>\$19,426</b>	<b>\$24,118</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**4. FINANCIAL PERFORMANCE (CONT'D)**

**4a. SEGMENT PERFORMANCE (CONT'D)**

**Major customers**

None of the Group's external customers contributed revenues in excess of 10% of the Group's total revenues.

	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000	2023 \$000	2022 \$000
External revenue	71,502	76,307	18,187	19,178	89,689	95,485
Inter-segment revenue	–	–	1,634	2,401	1,634	2,401
<b>Total revenue</b>	<b>71,502</b>	<b>76,307</b>	<b>19,821</b>	<b>21,579</b>	<b>91,323</b>	<b>97,886</b>
Elimination of inter-segment revenue					(1,634)	(2,401)
<b>Consolidated revenue</b>					<b>\$89,689</b>	<b>\$95,485</b>
<b>Segment result before depreciation and insurances</b>	<b>(52)</b>	<b>4,880</b>	<b>766</b>	<b>949</b>	<b>714</b>	<b>5,829</b>
Depreciation - owned assets	(674)	(515)	(171)	(168)	(845)	(683)
Depreciation - right-of-use assets	(862)	(822)	(132)	(132)	(994)	(954)
Depreciation - recycled through inventory	–	194	–	–	–	194
<b>Segment result before insurances</b>	<b>(1,588)</b>	<b>3,737</b>	<b>463</b>	<b>649</b>	<b>(1,125)</b>	<b>4,386</b>
Cyclone Gabrielle related insurance income	35,500	–	–	–	35,500	–
Cyclone Gabrielle related expenses	(14,275)	–	–	–	(14,275)	–
Cyclone Gabrielle related asset write offs	(7,644)	–	–	–	(7,644)	–
<b>Segment result after insurances</b>	<b>11,993</b>	<b>3,737</b>	<b>463</b>	<b>649</b>	<b>12,456</b>	<b>4,386</b>
Elimination of inter-segment profits					14	52
Unallocated corporate costs					(928)	(963)
<b>Results from operating activities</b>					<b>11,542</b>	<b>3,475</b>
Finance costs					(1,045)	(1,029)
Finance income					502	159
<b>Profit before income tax</b>					<b>10,999</b>	<b>2,605</b>
Income tax expense					(263)	(365)
<b>Profit after tax for the year</b>					<b>\$10,736</b>	<b>\$2,240</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**4. FINANCIAL PERFORMANCE (CONT'D)**

**4a. SEGMENT PERFORMANCE (CONT'D)**

	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Reportable segment assets	46,846	59,122	4,971	4,906	51,817	64,028
Unallocated assets - Cash and bank					39,319	14,874
<b>Total assets</b>					<b>\$91,136</b>	<b>\$78,902</b>
Capital expenditure	1,956	2,621	–	277	\$1,956	\$2,898
Reportable segment liabilities	21,290	20,229	1,585	1,144	22,875	21,373
Unallocated liabilities - Lease liabilities					18,038	19,758
<b>Total liabilities</b>					<b>\$40,913</b>	<b>\$41,131</b>

**4b. EARNINGS PER SHARE**

**Basic earnings per share (Basic EPS)**

	2023	2022
Profit after tax attributable to shareholders of the Company (\$000)	10,736	2,240
Weighted average number of ordinary shares outstanding	69,771,837	69,081,838
<b>Basic EPS (cents)</b>	<b>15.39</b>	<b>3.24</b>

**Diluted earnings per share (Diluted EPS)**

	2023	2022
Profit after tax attributable to shareholders of the Company (\$000)	10,736	2,240
Weighted average number of ordinary shares outstanding and potential ordinary shares	71,364,576	70,659,533
<b>Diluted EPS (cents)</b>	<b>15.04</b>	<b>3.17</b>

In calculating the diluted earnings per share, the Company has taken into account the maximum number of shares that could be issued under the Company's LTI Schemes and the Bremworth Option Scheme as further discussed at note 9b (Share-based payment) to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4c. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2023 \$000	2022 \$000
Sales of goods		
Carpet	70,234	72,296
Rugs	1,122	773
Wool	18,187	19,178
Carpet yarn	–	598
Others	146	2,130
	89,689	94,975
Provision of installation services	–	510
<b>Total revenue</b>	<b>\$89,689</b>	<b>\$95,485</b>

Credit terms for carpet and rug sales within New Zealand and Australia are generally no later than 30 days after the month in which invoices are raised and, in the case of wool sold in New Zealand, within 14 days of invoice date or on despatch whichever is the earlier. Credit terms for sales of carpet overseas are generally 60 to 90 days from date of invoice and for sales of carpet yarn overseas 120 days from date of invoice.

Rugs sold direct are for cash, with payment at the time orders are placed. All amounts received are accounted for as customer deposits in the first instance, with \$192,000 of customers deposits booked as at balance date (2022: \$203,000).

#### Accounting policies

##### Sale of goods

Revenue is recognised when or as performance obligations are satisfied by transferring control of the products sold to the customer at the transaction price specified in the contract. Control transfers to the customers for carpet, rug and carpet yarn sales on delivery of the goods to the customer. For wool sales, control passes on payment, prior to delivery. The transaction price includes all amounts which the Group expects to be entitled to, net of goods and services tax and other indirect taxes, expected rebates and discounts.

Apart from warranties, there are no contractual rights of return and there are therefore no provisions for returns. In specific circumstances, the Group may choose to accept returns, in which case the returns are recognised at that time.

##### Provision of installation services

Revenue from installation services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date as the customer receives and uses the benefit simultaneous to installation. The stage of completion of installation services rendered is determined by having regard to the quantity in lineal metres of carpet installed at balance date relative to the total quantity in lineal metres of carpet required for each contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4d. OTHER INCOME AND GAINS

	Note	2023 \$000	2022 \$000
Rentals received		4	4
Dividends received		1	1
Government grants recognised	4g	505	581
Net gain on sale of plant and equipment		30	102
<b>Total other income and gains</b>		<b>\$540</b>	<b>\$688</b>

#### 4e. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

	2023 \$000	2022 \$000
<b>Donations</b>	<b>\$1</b>	<b>\$2</b>
<b>Total fees paid and payable to auditors</b>		
Audit fees and expenses paid and payable for audit of consolidated financial statements	564	515
Non-audit fees paid and payable for strategic options analysis	15	–
<b>Total fees paid and payable</b>	<b>\$579</b>	<b>\$515</b>

Strategic options analysis relates to a report detailing those options that may be available to the Group and the Board in relation to Cyclone Gabrielle insurance recoveries. This report did not contain any recommendations or decisions, and the services were cleared by the Chair of the Audit Committee as having no impact on auditor independence.

#### 4f. PERSONNEL EXPENSES

	Note	2023 \$000	2022 \$000
Directors' fees	8g	387	372
Wages, salaries, bonuses and holiday pay		31,663	33,218
Other employee related costs		1,372	1,494
Restructuring costs		–	121
Employee benefits		1,033	1,130
Increase/(Decrease) in liability for retiring allowances and long service leave		(15)	392
<b>Total personnel expenses</b>		<b>\$34,440</b>	<b>\$36,727</b>

Personnel costs are included in cost of sales, distribution expenses and administration expenses in the Consolidated Statement of Profit or Loss (except where these costs relate to the restructuring of the Group's operations in which case they are classified as restructuring costs).

Employee benefits include those benefits provided to employees as part of their employee arrangements with the Group and cover the provision of motor vehicles, income protection insurances, life insurances and medical insurances and associated fringe benefits taxes. Employee benefits also include the costs of providing on-site staff amenities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4g. GOVERNMENT GRANTS

##### COVID-19 subsidies

	2023 \$000	2022 \$000
Balance at 1 July brought forward in inventory	109	–
Subsidies received during the year	89	1,776
Amount recognised in the Consolidated Statement of Profit or Loss	(198)	(1,667)
Balance at 30 June carried forward in inventory	\$0	\$109

The Group applied for and received \$89,000 pursuant to residual COVID-19 subsidy schemes from the New Zealand Government (2022: Applied for and received \$1,676,000 pursuant to various COVID-19 subsidy schemes from the New Zealand Government and \$100,000 from the New South Wales Government).

\$198,000 of these subsidies were recognised in cost of sales in the Consolidated Statement of Profit or Loss during the financial year (2022: \$1,308,000, \$257,000 and \$102,000 recognised in cost of sales, distribution expenses and administration expenses respectively).

##### International Growth Fund and Sustainable Food and Fibre Futures Fund

Grants totalling \$121,000 (2022: \$242,000) from the Government's International Growth Fund (IG Fund) and \$384,000 (2022: \$339,000) from the Sustainable Food and Fibre Futures Fund (SFFF Fund) are included in other income in the Consolidated Statement of Profit or Loss, with the IG Fund covering pre-approved activities over the period from May 2019 to January 2023 and the SFFF Fund over the period from December 2020 through to June 2024.

There are no unfulfilled conditions or other contingencies attaching to the grants recognised in other income during the year.

Government grants that have been deferred, either because they relate to future costs to be incurred or assets, totalled \$503,000 at balance date (2022: \$418,000).

##### Others

The Group did not benefit directly from any other forms of government assistance.

Notes 4d (Other income and gains) and 4g (Government grants) to the consolidated financial statements provide further information on how the Group accounts for government grants.

##### Accounting policies

Grants from the government are recognised at their fair value where there is a reasonable assurance that the Group will comply with all attached conditions and the grants will be received.

Government grants relating to costs that have been incurred are credited to profit or loss while grants relating to future costs are included in current liabilities as deferred income and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4h. FINANCE COSTS

	2023 \$000	2022 \$000
Interest component of lease payments	(879)	(990)
Facility fees - Bank guarantees	(166)	(39)
<b>Finance costs</b>	<b>(\$1,045)</b>	<b>(\$1,029)</b>

##### Accounting policies

Finance costs include interest expense on loans and borrowings, interest component of lease payments and facility fees for the Bank's guarantee of the Group's commitments. All interest expense are recognised in the Consolidated Statement of Profit or Loss using the effective interest method.

#### 4i. INCOME TAX

	2023 \$000	2022 \$000
<b>Income tax expense in the Consolidated Statement of Profit or Loss</b>		
<b>Current tax expense</b>		
Current year	175	66
Adjustment for prior years	132	99
	<b>307</b>	<b>165</b>
<b>Deferred tax expense/(benefit)</b>		
Origination and reversal of temporary differences	(44)	695
Adjustment for prior years	–	10
Unrecognised deferred tax liabilities	–	(505)
	<b>(44)</b>	<b>200</b>
<b>Income tax expense</b>	<b>\$263</b>	<b>\$365</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4i. INCOME TAX (CONT'D)

	2023 \$000	2022 \$000
<b>Reconciliation of effective tax rate</b>		
Profit after tax for the year	10,736	2,240
Income tax expense	263	365
<b>Profit excluding income tax</b>	<b>\$10,999</b>	<b>\$2,605</b>
Income tax using the Company's domestic tax rate of 28% (2022: 28%)	3,080	729
Non-deductible expenses	(13)	15
Effect of tax rate difference in foreign jurisdiction	10	17
Adjustment for prior years	132	109
Unrecognised deferred tax liabilities	723	(505)
Tax loss re-recognised	(3,669)	-
<b>Income tax expense</b>	<b>\$263</b>	<b>\$365</b>
	2023 \$000	2022 \$000

<b>Imputation credits</b>		
<b>Imputation credits available to shareholders of the Company</b>	<b>\$9,223</b>	<b>\$9,223</b>

#### Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Property, plant and equipment	240	302	-	-	240	302
Employee benefits	105	101	-	-	105	101
Lease liabilities	1	21	-	-	1	21
Provisions	230	108	-	-	230	108
<b>Net tax assets/(liabilities)</b>	<b>\$576</b>	<b>\$532</b>	<b>\$0</b>	<b>\$0</b>	<b>\$576</b>	<b>\$532</b>

Deferred tax assets at balance date relate to the Group's Australian carpet sales operations where it is expected that there will be taxable profits in future periods to allow for the utilisation of the deferred tax assets.

Deferred tax assets relating to the Group's New Zealand operations were written off in FY20. Deferred tax assets not recognised in respect of temporary differences and tax loss carry-forwards totalled \$13,690,000 at balance date (2022: \$16,601,000), with the change relating to the re-recognition of unrecognised tax loss.

While the Board has confidence in the prospects of the business as discussed at note 3f (Going concern) to the consolidated financial statements, it has taken the same approach with respect to the recognition of deferred tax assets as it has with the reversal of the FY20 impairment of assets as discussed at note 6a (Property, plant and equipment) to the consolidated financial statements and has concluded that the execution of the Group's strategy to focus on wool carpets, while progressing to plan, is still in its early stages and therefore does not warrant the re-recognition of deferred tax assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4i. INCOME TAX (CONT'D)

Deferred tax assets have also not been recognised in respect of temporary differences and tax loss carry-forwards totalling \$24,150,000 (2022: \$24,150,000) relating to an Australian subsidiary that currently does not have trading activity on the basis that it is also not probable that future taxable profit will be available against which the Group can use the benefits therefrom, taking the total deferred tax assets unrecognised to \$37,840,000 (2022: \$40,751,000).

Notwithstanding the derecognition of deferred tax assets for accounting purposes, these deferred tax assets remain available to the Group for income tax purposes.

Movement in temporary differences during the year:

	Balance 30 June 2022 \$000	Recognised in Consolidated Statement of Profit or Loss \$000	Balance 30 June 2023 \$000
Property, plant and equipment	302	(62)	240
Employee benefits	101	4	105
Lease liabilities	21	(20)	1
Provisions	108	122	230
<b>Total</b>	<b>\$532</b>	<b>\$44</b>	<b>\$576</b>
	Balance 30 June 2021 \$000	Recognised in Consolidated Statement of Profit or Loss \$000	Balance 30 June 2022 \$000
Property, plant and equipment	378	(76)	302
Employee benefits	156	(55)	101
Lease liabilities	80	(59)	21
Provisions	118	(10)	108
<b>Total</b>	<b>\$732</b>	<b>(\$200)</b>	<b>\$532</b>

#### Accounting policies

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 other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and 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.

#### Estimates, judgements and assumptions

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each balance date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 5. CAPITAL AND FUNDING

This section looks at the Group's two key sources of funding, how it manages its funding and other related matters.

#### 5a. CAPITAL MANAGEMENT

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

The Group's capital management policy is aimed at maintaining a strong capital base so as to maintain investor, creditor and market confidence in the Group and to enable it to continue to fund the ongoing needs of the business and to sustain its future development.

The impact of the level of capital on shareholders' return is also recognised, as is the return to shareholders in the form of dividends paid and growth in share price, and the Group works to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital base.

The Group is not subject to any externally imposed capital requirements.

The allocation of capital between the Group's specific business segment operations and activities is, to a large extent, driven by the opportunities that exist within each of these segments and the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is determined by the Chief Executive Officer in consultation with the Board and is therefore undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board.

There have been no material changes in the Group's management of capital during the year.

Consistent with best practice, the Group monitors capital on the basis of the leverage ratio. Leverage ratio is calculated as net debt divided by total capital employed. Net debt is determined as total loans and borrowings (including both non-current and current as shown in the Consolidated Statement of Financial Position) plus bank overdraft less cash and bank. Total capital employed is calculated as equity as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.

#### 5b. SHARE CAPITAL, DIVIDENDS AND RESERVES

##### Share capital

	2023 \$000	2022 \$000
<b>Shares on issue</b>		
Balance at 1 July	69,179,098	68,679,098
Issued during the year	890,328	500,000
<b>balance as at 30 June</b>	<b>70,069,426</b>	69,179,098

The Company does not have a limited amount of authorised capital.

The Company issued, in accordance with the terms of the Bremworth 2022 Long-Term Incentive Scheme, 890,328 fully paid-up ordinary shares on 31 October 2022 to Bremworth Share Scheme Limited (Trustee), with these shares to be held by the Trustee on behalf of the participating employees until the relevant vesting date (2022: 500,000 fully paid up ordinary shares on 10 September 2021 to the Chief Executive Officer pursuant to the Bremworth Equity Plan), with more information to be found in note 9b (Share-based payment) to the consolidated financial statements.

All issued shares are fully paid up and have no par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 5. CAPITAL AND FUNDING (CONT'D)

#### 5b. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONT'D)

##### Dividends

No dividends were paid during the year (2022: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2023 (2022: Nil).

##### Cash flow hedging reserve

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities. In accordance with its 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.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs at which time the gain or loss is transferred to profit or loss. When the hedge item is a non-financial asset, the amount recognised in the cash flow hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in the cash flow hedging reserve is transferred to profit or loss in the same year that the hedged item affects profit or loss.

The cash flow hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Foreign currency translation reserve

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

The foreign currency translation reserve comprises all exchange rate differences arising from the translation of the financial statements of foreign operations and the translation of liabilities designated as hedges against the Company's net investment in a foreign operation.

There is no movement in the foreign currency translation reserve balance for the year ended 30 June 2023 (2022: Nil) as the reserve relates to dormant foreign entities of the Group.

##### Share-based payment reserve

The share-based payment reserve is used to recognise the grant date assessed fair value of the performance rights issued to executive employees under the Company's long-term incentive scheme as further discussed at note 9b (Share-based payment) to the consolidated financial statements.

The assessed fair value of the performance rights at grant date are recognised as an expense in profit or loss over the period from grant date to condition date, adjusted to reflect only those rights where the service condition will be met, with corresponding entries to the share-based payment reserve.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 5. CAPITAL AND FUNDING (CONT'D)

#### 5c. BANKING FACILITIES AND LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's banking facilities. For more information about the Group's exposure to interest rate risks, see note 8 (Risks and financial instruments) to the consolidated financial statements.

The Group's banking facilities (including Bank guarantees to third parties relating to lease and other commitments of the Group) are provided by Bank of New Zealand and National Australia Bank Limited (together, "the Bank").

The Group has no funding facilities at balance date (2022: Nil).

The Group fully repaid its Bank loans and borrowings, while also putting itself in a surplus cash position, during FY21 with the cash coming from the Group's sell-down of non-wool inventory as it exited the non-wool carpet market and from the sale and leaseback of the Auckland property.

Following the full repayment of the Group's Bank loans and borrowings in December 2020, the Bank and the Company agreed to the withdrawal of all committed credit lines while continuing to retain transactional banking facilities, foreign exchange transaction facilities and a guarantee facility.

The Group continues to maintain ongoing relationships with the Bank, with the view that committed credit lines could be reinstated in the future to fund working capital requirements as the Group progresses through its transformation journey. As a consequence, the Group has retained the security arrangements that were previously put in place to secure obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank.

These security arrangements include the granting in favour of Bank of New Zealand, as security agent for the Bank, a first-ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank by certain companies in the Group. The property-owning companies in the Group have also continued to grant in favour of Bank of New Zealand first-ranking mortgages in respect of land and buildings as security for all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank (see note 6a (Property, plant and equipment) to the consolidated financial statements).

The Group had no other borrowings at balance date (2022: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 6. ASSETS EMPLOYED

This section covers non-current assets, being property, plant and equipment and other assets that the Group employs in the production and sale of carpet and rugs, and the acquisition and sale of wool fibre, to generate revenues and profits.

#### 6a. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$000	Plant and equipment \$000	Other assets \$000	Under construction \$000	Total \$000
<b>COST</b>					
Balance at 1 July 2022	10,970	65,663	12,784	669	90,086
Additions	8	41	84	1,823	1,956
Disposals	(9)	(3,992)	(598)	–	(4,599)
Transfers	–	697	298	(995)	–
Cyclone Gabrielle related derecognition	(4,409)	(27,067)	(337)	(653)	(32,466)
<b>Balance at 30 June 2023</b>	<b>\$6,560</b>	<b>\$35,342</b>	<b>\$12,231</b>	<b>\$844</b>	<b>\$54,977</b>
<b>DEPRECIATION AND IMPAIRMENT LOSSES</b>					
Balance at 1 July 2021	10,427	64,793	11,448	1,322	87,990
Additions	543	83	379	1,893	2,898
Disposals	–	(528)	(274)	–	(802)
Transfers	–	1,315	1,231	(2,546)	–
<b>Balance at 30 June 2022</b>	<b>\$10,970</b>	<b>\$65,663</b>	<b>\$12,784</b>	<b>\$669</b>	<b>\$90,086</b>
Balance at 1 July 2022	1,672	63,518	10,545	45	75,780
Depreciation for the year	129	279	437	–	845
Disposals	–	(3,948)	(638)	–	(4,586)
Transfers	–	45	–	(45)	–
Cyclone Gabrielle related derecognition	(801)	(26,210)	(285)	–	(27,296)
<b>Balance at 30 June 2023</b>	<b>\$1,000</b>	<b>\$33,684</b>	<b>\$10,059</b>	<b>\$0</b>	<b>\$44,743</b>
Balance at 1 July 2021	1,544	63,848	10,459	45	75,896
Depreciation for the year	128	232	323	–	683
Disposals	–	(562)	(237)	–	(799)
<b>Balance at 30 June 2022</b>	<b>\$1,672</b>	<b>\$63,518</b>	<b>\$10,545</b>	<b>45</b>	<b>\$75,780</b>
<b>CARRYING AMOUNTS</b>					
<b>At 30 June 2023</b>	<b>\$5,560</b>	<b>\$1,658</b>	<b>\$2,172</b>	<b>844</b>	<b>\$10,234</b>
<b>At 30 June 2022</b>	<b>\$9,298</b>	<b>\$2,145</b>	<b>\$2,239</b>	<b>\$624</b>	<b>\$14,306</b>
<b>At 1 July 2021</b>	<b>\$8,883</b>	<b>\$945</b>	<b>\$989</b>	<b>\$1,277</b>	<b>\$12,094</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 6. ASSETS EMPLOYED (CONT'D)

#### 6a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

##### Other assets

Other assets comprise fixtures and fittings (including leasehold improvements and display stands), computer equipment, motor vehicles and office equipment.

##### Impairment

The Group's market capitalisation at balance date was below the carrying value of net assets. Even though market capitalisation excludes any control premium and may not reflect the value of 100% of the Group's net assets, it is still considered to be an indicator of impairment. As a consequence, the Group conducted a review of all of its assets, including fixed assets and right-of-use assets, to assess whether there was any impairment at balance date.

Apart from Cyclone Gabrielle related impairments (refer to note 3 (Cyclone Gabrielle) to the consolidated financial statements), the Group has concluded that no other impairment of assets was required at balance date (2022: Nil).

The Group has also concluded that no reversal of the previous impairment of assets should be made following an assessment that the execution of the Group's strategy to focus on wool carpets which, while progressing to plan, is in its early stages.

##### Security

At balance date, the Group's property, plant and equipment were subject to various registered charges in favour of the Group's bankers as security for the Group's banking facilities and arrangements (see note 5c (Banking facilities and loans and borrowings) to the consolidated financial statements).

##### Accounting policies

###### Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

###### Under construction

Items being constructed for future use are held as part of property, plant and equipment under construction. The carrying amounts of these represent the costs incurred at balance date and will be transferred to the appropriate classification of property, plant and equipment on completion. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use. These costs include site preparation costs, installation costs, borrowing costs, unrecovered operating costs incurred during planned commissioning and the costs of obtaining consents.

Costs cease to be capitalised when all the activities necessary to bring the asset to its location and condition for its intended use are complete.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 6. ASSETS EMPLOYED (CONT'D)

#### 6a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

##### Accounting policies (cont'd)

###### Depreciation

Depreciation is recognised in the Consolidated Statement of Profit or Loss over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The principal rates used for the current and comparative periods are as follows:

— buildings	1.0 - 2.5% straight line
— building fitouts	5.0 - 20.0% straight line
— plant and equipment	6.7 - 20.0% straight line
— other assets	
– display stands	10.0% straight line
– computer equipment	20.0 - 25.0% straight line
– office equipment	10.0 - 20.0% straight line
– cars	20.0% diminishing value
– trucks and utilities	10.0% straight line

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

###### Impairment

The carrying amount of property, plant and equipment and other assets is tested for impairment whenever there are indicators of impairment.

An impairment loss is recognised if the carrying amount of the cash-generating unit (being the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups) to which the property, plant and equipment and other assets is allocated exceeds its recoverable amount.

The recoverable amount of a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

##### Estimates, judgements and assumptions

NZ IAS 36 *Impairment of Assets* requires the Group to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. The Group is required to recognise an impairment loss to the extent to which the carrying amount of an asset exceeds its recoverable amount.

For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU), which as at 30 June 2023 were identified as being the Carpets and Wool Acquisition CGUs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 6. ASSETS EMPLOYED (CONT'D)

#### 6b. CAPITAL COMMITMENTS

Capital expenditure contracted for, but not recognised as liabilities, at balance date is set out below.

	2023 \$000	2022 \$000
Property, plant and equipment	\$72	\$208

The remediation works that may be required at the Napier yarn spinning plant are yet to be decided and no capital commitments relating to remediation have therefore been entered into at balance date.

### 7. WORKING CAPITAL

This section reviews the level of working capital the Group generates and utilises in its normal day-to-day operating activities. The Group's working capital includes current assets (cash and bank, trade receivables, other receivables and prepayments and inventories) and current liabilities (trade payables and accruals and employee entitlements).

#### 7a. CASH AND BANK

Cash and bank at balance date comprise the following:

	2023 \$000	2022 \$000
Cash and cash equivalents	31,819	10,874
Short term deposits	7,500	4,000
	\$39,319	\$14,874

#### Accounting policies

Cash is cash on hand and demand deposits and includes bank overdrafts used for cash management purposes where formal arrangements for set off has been agreed with the Bank. Under these set off arrangements, the Group is able to set off overdrawn balances up to a maximum of \$1,000,000 against credit balances in selected accounts as long as the net balance of all these accounts (including overdrawn accounts) as a whole remain in credit. At balance date, there were no overdrawn amounts subject to set off (2022: \$130,000). Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash (that is, there is insignificant risk of changes in value) with maturity no more than three months from balance date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 7. WORKING CAPITAL (CONT'D)

#### 7b. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2023 \$000	2022 \$000
Trade receivables due from external customers	9,306	11,145
Other receivables	8	39
Prepayments	643	1,017
	\$9,957	\$12,201

The Group's approach and policy with respect to, and quantitative disclosure of, credit risk are discussed at note 8 (Risks and financial instruments) to the consolidated financial statements.

Impairment losses on trade receivables and other receivables are assessed collectively and on a portfolio basis based on the number of days overdue using the expected loss model, taking into account the historical loss experienced in portfolios with a similar number of days overdue as well as current conditions and forecast of future economic conditions.

#### Accounting policies

Trade receivables and other receivables are recognised initially at transaction price and subsequently at amortised cost less impairment losses.

#### 7c. INVENTORIES

Inventories, net of provision, are summarised in the table below:

	2023 \$000	2022 \$000
Raw materials and consumables	4,790	6,984
Work in progress	1,039	1,024
Finished goods	15,293	19,255
	\$21,122	\$27,263
Carrying amount of inventories subject to retention of title clauses	\$760	\$3,378
Inventory provision at 1 July	1,353	1,976
Change in provision during the year	55	(623)
Inventory provision at 30 June	\$1,408	\$1,353

The approach to inventory provisioning in 2023 is substantially consistent with 2022.

Write downs or write offs of inventory during the year totalled \$3,775,000 (2022: \$935,000). The 2023 write offs include \$2,474,000 of inventory that was written off because of damage as a consequence of Cyclone Gabrielle, with the Group determining that the inventory had been damaged or destroyed as a consequence of having been immersed in, or exposed to, contaminated flood water or otherwise contaminated by virtue of their proximity to flood water and could not therefore be used for further processing into finished carpet. Refer to note 3 (Cyclone Gabrielle) to the consolidated financial statements) for further information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 7. WORKING CAPITAL (CONT'D)

#### 7c. INVENTORIES (CONT'D)

##### Accounting policies

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

##### Estimates, judgements and assumptions

Inventory provisions are recognised for oddments and obsolete, aged and discontinued inventories to arrive at their likely net realisable value.

Estimates and judgement are applied in identifying and categorising - to the extent applicable - obsolete, aged and discontinued inventory and determining the level of provisioning that is required – with a range of factors including inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margin data considered.

#### 7d. TRADE PAYABLES AND ACCRUALS

	2023 \$000	2022 \$000
Trade payables	10,111	10,766
Accruals	4,837	1,444
	<b>\$14,948</b>	<b>\$12,210</b>

##### Accounting policies

Trade payables are unsecured - except to the extent to which they have retention of titles clauses within their supply arrangements with the Group - and are usually paid within the agreed payment terms.

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term nature.

#### 7e. EMPLOYEE ENTITLEMENTS

	2023 \$000	2022 \$000
Leave obligations	4,562	4,351
Bonus entitlement	–	732
Wages accruals	315	293
	<b>\$4,877</b>	<b>\$5,376</b>

Leave obligations cover the Group's liabilities in relation to employees' accrued and entitled annual leave as well as their unconditional entitlement to long service leave where they have completed the required period of service.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 7. WORKING CAPITAL (CONT'D)

#### 7e. EMPLOYEE ENTITLEMENTS (CONT'D)

##### Accounting policies

Employee entitlements relating to wages and salaries as well as annual leave and other employment-related payments that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period as liabilities and are measured at the amounts expected to be paid when the liabilities are settled.

The entire amount of employee entitlements is presented as current as the Group does not have an unconditional right to defer settlement for any of these obligations.

### 8. RISKS AND FINANCIAL INSTRUMENTS

This section identifies the risks faced by the Group, explains the impact of these risks on its financial position, performance and cash flows, outlines the Group's approach to financial risk management and highlights the financial instruments used to manage risks.

#### MANAGEMENT COMMENTARY

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Group's businesses.

The Group enters into derivative financial instruments in the ordinary course of business to manage foreign currency and interest rate risks in accordance with the treasury policy approved by the Board. A financial risk management committee, composed of senior management and operating under the Board-approved treasury policy, ensures that procedures for derivative instrument utilisation, control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting are adhered to.

The Group manages commodity price risks through negotiated supply contracts and forward physical contracts. However, because these contracts are, generally, in respect of raw material and utility purchases for own use, they are not accounted for as financial instruments.

#### Credit risk

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and delivery terms and conditions are offered. Because of the Group's customer base, there is no need for the Group to rely on external ratings. In most cases, bankers' references, trade credit insurance approvals and/or credit references from other suppliers are considered adequate. Purchase limits are reviewed on a regular basis.

In order to determine which customers are classified as having payment difficulties, the Group applies a mix of duration and frequency of default. The Group does not generally require collateral in respect of trade and other receivables.

The Group's exposure to credit risk is mainly influenced by its customer base. As such, it is concentrated to the default risk of its industry. However, geographically, there is no credit risk concentration, with the Group's customers spread throughout New Zealand, Australia and other overseas markets. Credit risk exposure with respect to trade receivables is limited by stringent credit controls, by the utilisation of irrevocable letters of credit and trade credit insurances wherever required, and by the large number of customers within the Group's customer base.

The amount and timing of collection of trade receivables and estimate of expected credit losses under NZ IFRS 9 Financial Instruments have been considered and included in the consolidated financial statements.

The Group does not invest in securities, but accepts that surplus cash and cash equivalents may arise from time to time during the course of its management of cash. In these instances, it requires these surplus cash and cash equivalents to be deposited on call and only with counterparties approved by the Board as having the required credit ratings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### MANAGEMENT COMMENTARY (CONT'D)

Foreign currency forward exchange contracts and interest rate swaps have been entered into with counterparties approved by the Board as having the required credit ratings. The Group's exposure to credit risk from these financial instruments is limited because it does not expect the non-performances of the obligations contained therein due to the high credit ratings of the financial institutions concerned. The Group does not require any collateral or security to support these financial instruments.

#### Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The funds generated enabled the Group to not only repay all of the Group's bank debt outstanding as at that date but also put it into a significant cash surplus position at balance date to enable it to fund its transformation and provide it with sufficient liquidity to settle its ongoing financial obligations for at least 12 months after the date of issuing these consolidated financial statements.

As discussed at note 5c (Banking facilities and loans and borrowings) to the consolidated financial statements, the Group continues to maintain, among other things, transactional banking facilities with its Bank and will look to raise for discussions with the Bank the reinstatement of committed credit lines to cover working capital requirements as the Group progresses through its transformation journey.

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 89.

#### Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and payables are denominated. All entities in the Group have New Zealand dollars (\$) as their functional currency.

The Group enters into foreign currency contracts within policy parameters to manage the risk associated with forecast sales and purchases. The Group's policy allows management to hedge up to 12 months forecast sales and purchases without prior approval of the Board having first been obtained.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes and requires that exposures to foreign currency risks, and details of all outstanding derivative instruments, are reported to and reviewed by the Board on a monthly basis.

The Group applies a hedge ratio of 1:1. The method used to assess hedge effectiveness is Critical Match Terms whereby the hedging instrument and the hedged item are matched to the key terms. In the hedge relationship, the main cause of ineffectiveness includes a change in the critical terms, for example, the timing of the transaction.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### MANAGEMENT COMMENTARY (CONT'D)

#### Interest rate risk

Prior to the repayment of bank debt in December 2020, interest rate swaps were entered into to hedge a proportion of the Group's exposure to interest rate fluctuations by ensuring that there was an appropriate mix, after having regard to the circumstances prevailing at the time, of fixed and floating rate exposure within the Group's total loans and borrowings.

Interest rate risks are continually monitored having regard to the circumstances at any given time.

The Group's policy allows management to hedge up to between 25% and 75% of the Group's core loans and borrowings without the prior approval of the Board having first been obtained.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.

#### QUANTITATIVE DISCLOSURES

#### Credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographic regions is as follows:

	2023 \$000	2022 \$000
New Zealand	5,556	5,797
Australia	3,173	4,677
Other regions	585	710
<b>Trade and other receivables</b>	<b>\$9,314</b>	<b>\$11,184</b>

The status of trade and other receivables at the reporting date is as follows:

	Current	0 – 30 days past due	31 – 120 days past due	More than 120 days past due	Total
<b>2023</b>					
Expected loss rate	0%	0%	0%	8%	
Gross carrying amount – trade and other receivables	7,260	1,480	368	225	9,333
Loss allowance	–	–	–	(19)	(19)
<b>2022</b>					
Expected loss rate	0%	0%	0%	7%	
Gross carrying amount – trade and other receivables	9,885	930	291	84	11,190
Loss allowance	–	–	–	(6)	(6)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**QUANTITATIVE DISCLOSURES (CONT'D)**

In summary, trade and other receivables are determined to be impaired as follows:

	2023 \$000	2022 \$000
Trade and other receivables - gross	9,333	11,190
Individual impairment provisions	(19)	(6)
<b>Trade and other receivables - net</b>	<b>\$9,314</b>	<b>\$11,184</b>

Individually impaired trade receivables relate to a small number of customers where the amounts involved are immaterial. In the case of insolvency, the Group generally writes off the receivable in full unless there is clear evidence that a receipt, whether directly or by way of a claim under the Group's trade credit insurance policy, is highly probable.

The Group adopts the expected loss model in assessing its trade and other receivables for impairment. In doing so, it determines impairment on a forward-looking basis, taking into account not only past events and current conditions, but also forecast of future economic conditions. Bad debts are written off when they are considered to have become uncollectable.

The details of movements in the impairment provision are as follows:

	2023 \$000	2022 \$000
Balance at 1 July	(6)	(13)
Impaired trade receivables written off	6	7
Changes in impairment provision	(19)	-
<b>Balance at 30 June</b>	<b>(\$19)</b>	<b>(\$6)</b>

Changes in the impairment provision are included in distribution expenses in the Consolidated Statement of Profit or Loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**QUANTITATIVE DISCLOSURES (CONT'D)**

**Liquidity risk**

The following table sets out the contractual undiscounted cash flows for all material financial liabilities (including projected interest costs).

	Statement of Consolidated Financial Position \$000	Total contractual cash flows \$000	Timing of contractual cash flows				
			6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	Greater than 5 years \$000
<b>2023</b>							
Trade payables	10,111	10,111	10,111	-	-	-	-
Lease liabilities	18,038	23,181	1,074	1,017	1,964	5,763	13,363
<b>Total non-derivative liabilities</b>	<b>\$28,149</b>	<b>\$33,292</b>	<b>\$11,185</b>	<b>\$1,017</b>	<b>\$1,964</b>	<b>\$5,763</b>	<b>13,363</b>
Forward exchange contracts							
Inflow		(45,575)	(18,425)	(15,219)	(11,931)	-	-
Outflow		44,285	18,049	14,805	11,430	-	-
	(1,001)	(1,290)	(376)	(414)	(500)	-	-
<b>Net derivative liabilities/(assets)</b>	<b>(\$1,001)</b>						
<b>Disclosed in Consolidated Statement of Financial Position</b>							
Current assets	(1,017)						
Current liabilities	16						
<b>Net derivative liabilities/(assets)</b>	<b>(\$1,001)</b>						
<b>2022</b>							
Trade payables	10,766	10,766	10,766	-	-	-	-
Lease liabilities	19,758	26,537	1,427	1,408	2,735	5,726	15,241
<b>Total non-derivative liabilities</b>	<b>\$30,524</b>	<b>\$37,303</b>	<b>\$12,193</b>	<b>\$1,408</b>	<b>\$2,735</b>	<b>\$5,726</b>	<b>\$15,241</b>
Forward exchange contracts							
Inflow		(41,693)	(13,534)	(12,147)	(16,012)	-	-
Outflow		42,240	13,914	12,251	16,075	-	-
	686	547	380	104	63	-	-
<b>Net derivative (assets)/liabilities</b>	<b>\$686</b>						
<b>Disclosed in Consolidated Statement of Financial Position</b>							
Current assets	(8)						
Current liabilities	694						
<b>Net derivative (assets)/liabilities</b>	<b>\$686</b>						

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**QUANTITATIVE DISCLOSURES (CONT'D)**

**Foreign currency risk**

The Group's exposure to foreign currency risk can be summarised as follows:

NZD equivalent of these foreign currencies:	AUD \$000	USD \$000	EUR \$000	Others \$000
<b>2023</b>				
Trade receivables	3,173	76	-	-
Trade payables	(314)	(123)	(19)	(32)
Net Consolidated Statement of Financial Position exposure before hedging activity	2,859	(47)	(19)	(32)
Estimated forecast sales for which hedging is in place	42,716	-	-	-
Net cash flow exposure before hedging activity	45,575	(47)	(19)	(32)
Forward exchange contracts				
Notional amounts	(45,575)	-	-	-
<b>Net unhedged exposure</b>	<b>(\$0)</b>	<b>(\$47)</b>	<b>(\$19)</b>	<b>(\$32)</b>
<b>2022</b>				
Trade receivables	4,715	300	-	-
Trade payables	(1,596)	(1,001)	(94)	(13)
Net Consolidated Statement of Financial Position exposure before hedging activity	3,119	(701)	(94)	(13)
Estimated forecast sales for which hedging is in place	38,574	-	-	-
Net cash flow exposure before hedging activity	41,693	(701)	(94)	(13)
Forward exchange contracts				
Notional amounts	(41,693)	-	-	-
<b>Net unhedged exposure</b>	<b>\$0</b>	<b>(\$701)</b>	<b>(\$94)</b>	<b>(\$13)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**QUANTITATIVE DISCLOSURES (CONT'D)**

**Interest rate risk – re-pricing analysis**

At balance date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Total \$000	6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	Greater than 5 years \$000
<b>2023</b>						
<b>Financial assets and liabilities</b>						
Cash and bank	39,319	39,319	-	-	-	-
<b>2022</b>						
<b>Financial assets and liabilities</b>						
Cash and bank	14,874	14,874	-	-	-	-

**Sensitivity analysis**

In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, changes in foreign exchange and interest rates will have an impact on profit.

For foreign exchange contracts that continue to meet the hedge accounting criteria at the balance sheet date to hedge foreign exchange exposures, it is estimated that a general change in the value of the New Zealand dollar against other foreign currencies as set out below would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2023 and 2022. The impact on equity, net of tax, for these foreign exchange contracts, is disclosed in the table below:

	Strengthen		Weaken	
	P&L \$000	Equity, net of tax \$000	P&L \$000	Equity, net of tax \$000
<b>30 June 2023</b>				
NZD/AUD (+/- 5%)	-	1,437	-	(1,588)
<b>30 June 2022</b>				
NZD/AUD (+/- 5%)	-	1,318	-	(1,457)

There were no foreign exchange contracts that do not meet the hedge accounting criteria at the balance sheet date.

The impact of a change in interest rates by one percentage point on the Group's profit or loss and OCI is set out as follows:

	Increase 1% point		Decrease (1% point)	
	P&L \$000	Equity, net of tax \$000	P&L \$000	Equity, net of tax \$000
Interest rate impact - Net FY23	\$382	-	(\$382)	-
Interest rate impact - Net FY22	\$142	-	(\$142)	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**HEDGING**

**Forecast transactions**

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges.

The following relates to items designated as hedging instruments:

	Notional amount \$000	Carrying amount		Line item in Consolidated Statement of Financial Position	Changes in the value of the hedging instrument recognised in OCI during the year \$000	Hedge ineffectiveness recognised in profit or loss \$000	Balance in CFHR \$000	Average rate of hedging
		Assets \$000	Liabilities \$000					
<b>2023</b>								
<b>Foreign currency risk</b>								
Forward exchange contracts – sales and receivables <sup>1,2</sup>	AUD40,680	1,017	(16)	Derivative financial instruments - assets and liabilities	(426)	–	938	0.8926

<sup>1</sup> 62% of notional amount expiring within 12 months of balance date and 38% expiring between 12 and 24 months of balance date

<sup>2</sup> Hedge ratio 1:1

	Notional amount \$000	Carrying amount		Line item in Consolidated Statement of Financial Position	Changes in the value of the hedging instrument recognised in OCI during the year \$000	Hedge ineffectiveness recognised in profit or loss \$000	Balance in CFHR \$000	Average rate of hedging
		Assets \$000	Liabilities \$000					
<b>2022</b>								
<b>Foreign currency risk</b>								
Forward exchange contracts – sales and receivables <sup>1,2</sup>	AUD38,100	8	(694)	Derivative financial instruments - assets and liabilities	52	–	(576)	0.9138

<sup>1</sup> 100% of notional amount expiring within 12 months of balance date

<sup>2</sup> Hedge ratio 1:1

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**CLASSIFICATION AND FAIR VALUES**

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	Hedging instruments \$000	Amortised cost \$000	Total carrying amount \$000	Fair value hierarchy Level 2 \$000
<b>2023</b>				
<b>Assets</b>				
Derivative financial instruments	1,017	–	1,017	1,017
Cash and bank	–	39,319	39,319	
Trade and other receivables	–	9,314	9,314	
Advances to employees	–	170	170	
<b>Total assets</b>	<b>\$1,017</b>	<b>\$48,803</b>	<b>\$49,820</b>	
<b>Liabilities</b>				
Lease liabilities	–	16,742	16,742	
Employee benefits	–	666	666	
<b>Total non-current liabilities</b>	<b>–</b>	<b>17,408</b>	<b>17,408</b>	
Derivative financial instruments	16	–	16	16
Trade payables and accruals	–	14,948	14,948	
Customer deposits	–	192	192	
Employee benefits and entitlements	–	4,915	4,915	
Lease liabilities	–	1,296	1,296	
<b>Total current liabilities</b>	<b>16</b>	<b>21,351</b>	<b>21,367</b>	
<b>Total liabilities</b>	<b>\$16</b>	<b>\$38,759</b>	<b>\$38,775</b>	



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**CLASSIFICATION AND FAIR VALUES (CONT'D)**

	Hedging instruments \$000	Amortised cost \$000	Total carrying amount \$000	Fair value hierarchy Level 2 \$000
<b>2022</b>				
<b>Assets</b>				
Derivative financial instruments	8	–	8	8
Cash and bank	–	14,874	14,874	
Trade and other receivables	–	11,184	11,184	
Advances to employees	–	160	160	
<b>Total assets</b>	<b>\$8</b>	<b>\$26,218</b>	<b>\$26,226</b>	
<b>Liabilities</b>				
Lease liabilities	–	17,820	17,820	
Employee benefits	–	720	720	
<b>Total non-current liabilities</b>	<b>–</b>	<b>18,540</b>	<b>18,540</b>	
Derivative financial instruments	694	–	694	694
Trade payables and accruals	–	12,210	12,210	
Customer deposits	–	203	203	
Employee benefits and entitlements	–	5,429	5,429	
Lease liabilities	–	1,938	1,938	
<b>Total current liabilities</b>	<b>694</b>	<b>19,780</b>	<b>20,474</b>	
<b>Total liabilities</b>	<b>\$694</b>	<b>\$38,320</b>	<b>\$39,014</b>	

There were no financial assets or liabilities with fair values classified as Level 1 or Level 3 in the fair value hierarchy.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Derivatives, being forward exchange contracts, have been measured at fair value using relevant valuation techniques which include net present value and discounted cash flow models and comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other information used in estimating discount rates and foreign currency exchange rates.

Non-derivative financial instruments comprise trade and other receivables, cash and bank and trade and other payables. Non-derivative financial instruments are recognised initially at fair value, inclusive of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)**

**DETERMINATION OF FAIR VALUES**

The fair value of an asset or a liability is measured on a recurring basis. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities

**Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

**Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

**MASTER NETTING OR SIMILAR AGREEMENTS**

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Consolidated Statement of Financial Position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrences of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised derivatives that are subject to master netting agreements:

	2023		2022	
	Derivative assets \$000	Derivative liabilities \$000	Derivative assets \$000	Derivative liabilities \$000
Gross amounts in the Consolidated Statement of Financial Position	1,017	(16)	8	(694)
Amounts offset	–	–	–	–
<b>Net amounts in the Consolidated Statement of Financial Position</b>	<b>1,017</b>	<b>(16)</b>	<b>8</b>	<b>(694)</b>
Related amounts that are not offset based on ISDA	(16)	16	(8)	8
<b>Net amounts</b>	<b>\$1,001</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$686)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**9. OTHERS**

This section includes the remaining information relating to the consolidated financial statements which is required to be disclosed to comply with financial reporting standards.

**9a. LEASES**

This note provides information for leases where the Group is a lessee.

**AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**Right-of-use assets**

	2023 \$000	2022 \$000
Buildings	8,017	8,839
Plant and equipment	358	361
Motor vehicles	241	80
	<b>\$8,616</b>	<b>\$9,280</b>

**Lease liabilities**

	2023 \$000	2022 \$000
Non-current	16,742	17,820
Current	1,296	1,938
	<b>\$18,038</b>	<b>\$19,758</b>

Additions to right-of-use assets during the year were \$331,000 (2022: \$266,000).

There was no impairment of right-of-use assets during the year (2022: Nil).

There was also no reversal of prior year impairment of right-of-use assets during the year (2022: Nil).

**AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

**Depreciation charge in respect of right-of-use assets**

	2023 \$000	2022 \$000
Buildings	821	823
Plant and equipment	134	110
Motor vehicles	39	21
	<b>\$994</b>	<b>\$954</b>

<b>Interest expense (included in finance costs)</b>	<b>\$879</b>	<b>\$990</b>
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<b>Expense relating to short-term leases (included in cost of goods sold and administration expenses)</b>	<b>\$311</b>	<b>\$594</b>
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<b>Expense relating to leases of low-value assets that are not disclosed above as short-term leases (included in administrative expenses)</b>	<b>\$39</b>	<b>\$71</b>
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**AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS**

<b>Total cash outflow for leases</b>	<b>\$2,930</b>	<b>\$3,031</b>
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)**

**9. OTHERS (CONT'D)**

**Accounting policies**

The Group leases buildings, forklifts and motor vehicles, with contracts typically entered into for fixed periods ranging from between three to four years for motor vehicles, five to six years for fork hoists and up to sixteen years for buildings, but may have extension options as further discussed below.

Contracts may contain both lease and non-lease components. The Group has elected, for leases of motor vehicles, to not separate lease and non-lease components and instead account for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments; and
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing secured by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was secured;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by lessees within the Group which does not have recent third-party financing; and
- makes adjustments, where necessary, specific to the lease taking into account country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- make good costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of plant and equipment and motor vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

## 9. OTHERS (CONT'D)

### EXTENSION OPTIONS

Extension options are generally incorporated into contracts for leases of buildings, with these options used to maximise operational flexibility with respect to the management of the buildings used in the Group's operations. Where extension options are held, they are exercisable only by the Group and not by the respective lessor. Extension options are generally not included in contracts for leases of plant and equipment and motor vehicles because of the Group's ability to replace these assets without significant cost, delay or disruption to the business.

#### Estimates, judgements and assumptions

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended, with the Group reasonably certain to extend:

- if there are significant costs to not extend; and
- if leasehold improvements are expected to have a significant remaining value.

Otherwise, the Group considers other factors including the lease durations already provided for in the contract, the Group's future strategic or business direction and the costs and disruptions to the business as a consequence of any decision to not exercise an extension option.

As at balance date, potential future cash outflows of \$19,803,000 (undiscounted) in respect of leases of buildings have not been included in the determination of lease liability because it is not reasonably certain that these leases will be extended (2022: \$19,803,000).

The lease term is reassessed if an extension option is actually exercised. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. The Group did not revise its assessment of reasonable certainty with respect to extension options during the year (2022: Nil).

### 9b. SHARE-BASED PAYMENT

#### SHARE-BASED PAYMENT ARRANGEMENTS

The Company operates four share-based payment plans/schemes, with these plans/schemes designed to incentivise selected employees by providing them with opportunities to be issued equity interests in the Company – in the process aligning their interests with those of shareholders.

The Company has determined the performance rights, the shares and the options issued under these plans/schemes to be equity-settled share-based payment arrangements pursuant to NZ IFRS 2 Share-based Payment, with the participants not able to request payment in cash.

#### Bremworth 2020 Long-Term Incentive Scheme (2020 LTI Scheme)

The 2020 LTI Scheme provides for eligible employees to be issued performance rights which would entitle them to be issued shares in the Company, subject to service and performance conditions being met, at the end of the stipulated performance period.

No performance rights were issued under the 2020 LTI Scheme in the current year (2022: Nil).

The number of shares to be issued is dependent on the extent to which total shareholder return (TSR) exceeds 14% per annum compounding over the performance period and the share price at condition date, except that the number of shares issued to all participants will not, together with shares issued under NZX Listing Rule 4.6.1 over the previous 12 months, exceed 3% of the total number of shares on issue at condition date.

## 9. OTHERS (CONT'D)

### 9b. SHARE-BASED PAYMENT (CONT'D)

The maximum number of shares that could have been issued in respect of all outstanding performance rights under the 2020 LTI Scheme at condition date (being 1 May 2023) was 1,071,394 (or 1.53% of the total number of shares on issue at balance date of 70,069,426).

All performance rights issued in 2020 under the 2020 LTI Scheme lapsed during the year (2022: Nil).

#### Bremworth Equity Ownership Plan (Bremworth Equity Plan)

The Bremworth Equity Plan provides for eligible employees to be issued shares in the Company on terms determined by the Board and as set out in the rules of the Bremworth Equity Plan and includes the provision of a full recourse loan by the Company to those eligible employees to fund the amount payable for the shares issued to them.

No shares were issued under the Bremworth Equity Plan in the current year (2022: 500,000).

The total number of shares issued under the Bremworth Equity Plan as at balance date was 500,000 (2002: 500,000).

#### Bremworth Share Option Scheme (Bremworth Option Scheme)

The Bremworth Option Scheme provides for selected employees to be awarded options to acquire ordinary shares at a fixed price, with the options becoming exercisable over time in accordance with a vesting schedule or on certain liquidity events as defined in the rules of the Bremworth Option Scheme.

No options were issued under the Bremworth Option Scheme in the current period (2022: 1,000,000).

The total number of options issued under the Bremworth Option Scheme at balance date was 1,000,000 (2002: 1,000,000).

#### Bremworth 2022 Long-Term Incentive Scheme (2022 LTI Scheme)

The 2022 LTI Scheme was established by the Board in October 2022, with the Scheme providing for selected employees to be awarded performance rights which would entitle them to be issued shares in the Company, subject to service and performance conditions being met, at the end of the stipulated performance period.

In accordance with the terms of the Scheme, 890,328 fully paid-up ordinary shares were issued by the Company on 31 October 2022 to Bremworth Share Scheme Limited (Trustee), with these shares to be held by the Trustee on behalf of the participating employees until the relevant vesting date.

Vesting of these shares is dependent on TSR performance over the three-year period from 1 July 2022 to 30 June 2025 exceeding the 14% per annum compounding threshold set by the Board, with TSR calculated by reference to the volume weighted average share price on the NZX for the last 20 trading days prior to 30 June 2025 as compared to the volume weighted average share price on the NZX for the last 20 trading days prior to 1 July 2022 of \$0.4787.

#### Measurement of fair value of performance rights and options granted under share-based payment arrangements

The fair value of performance rights and options granted under the various schemes have been determined using a Monte Carlo simulation, with a detailed description of how the model is used, and the key inputs, set out in Note 8b (Share-based payment) of the annual financial statements for the year ended 30 June 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9b. SHARE-BASED PAYMENT (CONT'D)

##### Maximum number of shares that could be issued under current share-based payment arrangements

The following table summarises the maximum number of shares that could be issued under the Bremworth Option Scheme and the LTI Scheme as at balance date:

	2023	2022
Balance at 1 July	2,071,394	1,071,394
Issued during the year	890,328	1,000,000
Lapsed during the year	(1,071,394)	–
<b>Balance as at 30 June</b>	<b>1,890,328</b>	<b>2,071,394</b>
<b>% of total number of shares on issue</b>	<b>2.70</b>	<b>2.99</b>

##### Impact of share-based payment arrangements on the financial statements

The assessed fair value of the performance rights and options at grant date are recognised as an expense in profit or loss over the period from date on which the participant started rendering service or the grant date (whichever is the earlier), adjusted to reflect only those rights and options where the service condition will be met, with corresponding entries to the share-based payment reserve within equity.

The following were recognised in administration expenses in the Consolidated Statement of Profit or Loss for the year ended 30 June 2023:

- \$80,800, being the proportion of the fair value of the performance rights issued under the 2020 LTI Scheme relating to the year ended 30 June 2023 (2022 \$97,000);
- \$78,300, being the proportion of the fair value of the options granted under the Bremworth Option Scheme relating to the year ended 30 June 2023 (2022: \$73,300 being the proportion of the fair value of the options granted for the period from commencement of employment through to balance date);
- \$43,100, being the proportion of the fair value of the options granted under the 2022 LTI Scheme for the period from grant date through to balance date (2022: Nil);

with a corresponding credit totalling \$202,000 to the share-based payment reserve within equity (2022: \$170,300).

There were no issue of shares under the Bremworth Equity Plan during the year (2022: The Company issued 500,000 fully paid up ordinary shares in September 2021, with the difference between the \$0.4161 issue price per share and the \$0.8000 market price per share at issue date of \$192,000 recognised in administration expenses in the Consolidated Statement of Profit or Loss with a corresponding credit to the share-based payment reserve within equity).

#### INTEREST-FREE FULL-RECOURSE LOAN

The Company did not provide any interest-free, full-recourse, loans under the Bremworth Equity Plan during the period (2022: \$208,050).

The accounting for interest-free, full-recourse, loans under the Bremworth Equity Plan is disclosed in Note 8b (Share-based payment) of the annual financial statements for the year ended 30 June 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9c. PROVISIONS

	Workplace accidents \$000	Make good \$000	Warranties \$000	Claims \$000	Total \$000
Balance at 1 July 2022	150	89	1,110	350	1,699
Provided during the year	–	–	1,145	15	1,160
Utilised during the year	–	–	(949)	(175)	(1,124)
Released to profit or loss during the year	(100)	–	–	–	(100)
<b>Balance at 30 June 2023</b>	<b>\$50</b>	<b>\$89</b>	<b>\$1,306</b>	<b>\$190</b>	<b>\$1,635</b>

Non-current	–	89	729	–	819
Current	50	–	577	190	816
<b>Balance at 30 June 2023</b>	<b>\$50</b>	<b>\$89</b>	<b>\$1,306</b>	<b>\$190</b>	<b>\$1,635</b>

Balance at 1 July 2021	150	89	1,095	–	1,334
Provided during the year	–	–	699	350	1,049
Utilised during the year	–	–	(684)	–	(684)
Released to profit or loss during the year	–	–	–	–	–
<b>Balance at 30 June 2022</b>	<b>\$150</b>	<b>\$89</b>	<b>\$1,110</b>	<b>\$350</b>	<b>\$1,699</b>

Non-current	–	89	622	–	711
Current	150	–	488	350	988
<b>Balance at 30 June 2022</b>	<b>\$150</b>	<b>\$89</b>	<b>\$1,110</b>	<b>\$350</b>	<b>\$1,699</b>

#### WORKPLACE ACCIDENTS

Certain companies within the Group are parties to the ACC Partnership Programme during the year. Under this programme, these companies assume the costs normally assumed by ACC (Accident Compensation Corporation of New Zealand) for accidents in the workplace, with the provision for claims incurred but yet to be settled. It is expected that the outflow of economic benefit will occur within 12 months of balance date.

#### MAKE GOOD

Provision for make good relates to the costs expected to be incurred in relation to make good obligations under leases entered into, with the provision utilised as the costs relating thereto are incurred or adjusted to reflect current estimates of costs to be incurred. The amount utilised during the year relates to the amount paid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### WARRANTIES

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2023 and 2022. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group.

The Group has no history of material warranty claims in respect of non-carpet products sold. As a consequence, no provision for warranties is required in respect of these other products.

The amount of warranty costs recognised as an expense directly to the Consolidated Statement of Profit or Loss during the year totalled \$1,208,000 (2022: \$1,024,000).

Warranties relating to the sale of carpet are standard warranties. The Group does not offer extended warranties that would be subject to a separate performance obligation.

#### CLAIMS

The provision for claims relates to the estimated cost to settle claims received during the year ended 30 June 2023 for products supplied by a previously-owned business unit, with these claims yet to be resolved at balance date (2022: Nil).

#### Accounting policies

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### Estimates, judgements and assumptions

Provision for warranties requires judgement to be applied by considering a range of factors including the nature and extent of historical claims data associated with similar products sold by the Group, the terms of the warranties built into supply contracts, consumer protection laws in key markets and the corrective actions being taken to address quality issues at production.

#### 9d. EMPLOYEE BENEFITS

	2023 \$000	2022 \$000
Liability for long service leave	704	773
<b>Total employee benefits</b>	<b>\$704</b>	<b>\$773</b>
Non-current	666	720
Current	38	53
<b>Balance at 30 June</b>	<b>\$704</b>	<b>\$773</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9d. EMPLOYEE BENEFITS (CONT'D)

#### Accounting policies

Short-term employee benefits are expensed as the related services are provided.

Long-term employee benefits relate to long service leave that is not expected to be settled within 12 months after the end of the annual reporting period in which the employees render the service that gives rise to the benefit. The Group's net obligation is the amount of future benefit employees have earned in return for their service in the current and prior years. The complexity and length of the long service leave arrangement requires the use of actuarial assumptions, such as salary increases and inflation, in order to calculate the present value of the obligation. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting and discounted at the appropriate rate to determine its present value.

#### Estimates, judgements and assumptions

The Group appointed Deloitte to assist with the Group's assessment of its liability for long service leave as at 30 June 2023, with Deloitte using a Projected Unit Credit (PUC) method to value employees' entitlements to long service leave.

This method involves a monthly projection of the long service leave entitlement for each employee to retirement age. The expected entitlement payment at each point over the projection period is calculated using assumptions about likely resignation, retirement, mortality and disability for each employee. Using employee data provided by the Company, Deloitte were able to estimate the value of the long service leave liability as at balance date.

#### 9e. CONTINGENT LIABILITIES

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to leases and other commitments totalling \$2,068,000 (2022: \$2,248,000).

Some subsidiaries in the Group are parties to a cross guarantee in favour of the Bank securing each other's obligations, with the property-owning companies in the Group also granting in favour of the Bank first-ranking mortgages in respect of land and buildings as security for all obligations if the Group to the Bank.

The Group's indebtedness under the cross guarantee at balance date amounted to nil (2022: Nil).

The Group received claims during the year ended 30 June 2022 for products supplied by a previously-owned business unit, with the estimated cost to settle these claims provided for at balance date. It is not possible to estimate the financial impact of any further claims given there is insufficient history to inform the extent or the timing of any future claims.

#### 9f. RELATED PARTIES

#### TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL

For the purposes of this note, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9f. RELATED PARTIES (CONT'D)

##### As shareholders

One of the Directors is a shareholder in the Company. The Chief Executive Officer is also a shareholder in the Company by virtue of the fully paid up ordinary shares issued to and held by him pursuant to the Bremworth Equity Plan with more information found in note 9b (Share-based payment) to the consolidated financial statements.

Their shares rank par passu with all the other ordinary shares in the capital of the Company and do not therefore confer additional rights to dividends paid or to attend or vote at any meetings of the shareholders of the Company.

##### As lenders or borrowers

There were no loans to, or from, the Directors and key management personnel during the year ended 30 June 2023. An interest-free, full-recourse, loan of \$208,050 was provided to the Chief Executive Officer during the 2022 financial year pursuant to the terms of the Bremworth Equity Plan, with the proceeds of that loan applied towards the amount payable for the 500,000 fully paid up ordinary shares issued to the Chief Executive Officer under the Bremworth Equity Plan. More information can be found in note 9b (Share-based payment) to the consolidated financial statements.

##### Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled \$387,000 during the year ended 30 June 2023 (2022: \$372,000).

No other services were provided by the Directors during the year (2022: Nil).

The scale of fees payable to the Directors was last reviewed and approved by the Board in January 2019, with the current scale of fees applying with effect from 1 January 2019 set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	\$128,100	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive directors (including Deputy Chairman of the Board)	\$61,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	\$10,000	In recognition of additional time and responsibilities as Chairman of Audit Committee
Chairman of the Remuneration Committee	\$5,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee

G C W Biel, a long-serving Director, was paid a lump sum retiring allowance pursuant to an arrangement that was contained in the Company's constitution on his retirement from the Board on 25 November 2021. The amount of this retiring allowance, which was set in November 2007, is \$96,000. The Company decided at that time that retiring allowances would no longer be offered in respect of new Directors appointed to the Board.

The Group notes that the Directors are precluded by the NZX Listing Rules from voting at general meetings of shareholders on certain matters prescribed by the New Zealand Exchange. These matters include, in the case of the Directors who are also shareholders, shareholders' approval of directors' fees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9f. RELATED PARTIES (CONT'D)

##### Key management personnel's (including the Chief Executive Officer's) remuneration and benefits

In addition to salaries and performance-based payments, the Group also provides non-cash benefits to the Chief Executive Officer of the Company and key management personnel of the Group.

These non-cash benefits may include the provision of motor vehicles, income protection insurances, life insurances and medical insurances. In assessing the value of the non-cash benefit provided to the Chief Executive Officer and key management personnel, the Group has used the value of the benefit that is used for calculating fringe benefit tax plus the fringe benefit tax that is paid or payable.

The remuneration paid and payable, and the benefits provided, to the Chief Executive Officer and key management personnel (but excluding the Directors' remuneration and benefits) comprised:

	2023 \$000	2022 \$000
Salaries, bonuses and leave entitlements	2,878	3,582
Share-based payments	202	362
Employee benefits	287	254
Termination payments	–	10
	\$3,367	\$4,208

The Group has not provided the Chief Executive Officer and key management personnel with any post-employment benefits.

Pursuant to the terms of employment of the Chief Executive Officer, the Company agreed to issue the Chief Executive Officer with 500,000 ordinary shares under the terms of the Bremworth Equity Plan (as discussed in detail at note 9b (Share-based payment) to the consolidated financial statements), with the issue of these shares to take place at the time of the appointment of the Chief Executive Officer.

However, because of a delay in the issue of those shares to the Chief Executive Officer and the increase in the Bremworth share price between the time of his appointment on 23 June 2021 and the time the shares were issued to him on 10 September 2021, the Chief Executive Officer was liable for the tax on the difference between the market price of Bremworth shares on issue date and the price those shares were issued to him at.

In keeping with the agreement that was reached with the Chief Executive Officer, the Board approved a one-off payment to the Chief Executive Officer in September 2021 of \$127,317 to keep the Chief Executive Officer neutral in respect of the tax that he had to pay as a consequence of the delay.

That amount of \$127,317 is recognised in administration expenses in the Consolidated Statement of Profit or Loss.

##### Other transactions

The Group deals with many entities and organisations in the normal course of business. The Group is not aware of any of the Directors, the Chief Executive Officer or key management personnel, or their related parties, holding positions in any of these entities or organisations that result in them having control or significant influence over the financial or operating policies of these entities or organisations.

The Group does not transact with the Directors, the Chief Executive Officer or key management personnel, and their related parties, other than in their capacity as directors and employees, except that they may purchase carpets and rugs from the Group for their own domestic use. These purchases are on the same terms and conditions as those applying to all employees of the Group and are immaterial and personal in nature.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9g. GROUP ENTITIES

##### OPERATING SUBSIDIARIES OF THE GROUP

	Principal activity	Country of incorporation	Interest (%) 2023	Interest (%) 2022
Bremworth Carpets and Rugs Limited (previously Bremworth Limited)	Carpet sales and manufacturing	New Zealand	100	100
Bremworth Pty Limited (previously Cavalier Bremworth Pty Limited)	Carpet sales	Australia	100	100
Cavalier Bremworth (Australia) Limited	Carpet distribution	New Zealand	100	100
Bremworth Spinners Limited (previously Cavalier Spinners Limited)	Carpet yarn sales	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100

#### 9h. EVENTS AFTER BALANCE DATE

##### Voluntary redundancies for Napier-based employees

Subsequent to balance date – and after having confirmed that the Napier yarn spinning plant would be offline for a considerable, but yet to be determined, period of time and having established that staff at the Napier plant were looking for more certainty around their future – the Group presented several options to employees, while also putting in place various programmes aimed at providing career and financial advice, as well as emotional support, for all affected staff.

These options included voluntary redundancy or expressions of interest for redeployment to the Whanganui plant.

110 waged and eight salaried employees opted for voluntary redundancy. While some employees did consider redeployment to the Whanganui plant, these did not work out for personal reasons.

The cost of voluntary redundancy is \$1.4 million.

18 waged and seven salaried employees either did not take up the offer, or were not eligible, for voluntary redundancy and will continue to be employed by the Group.

##### Future insurances

The Group is in the process of renewing its insurances for 2023/24, with its insurance brokers:

- working with the panel of insurers on the scope of cover that would be available to the Group from any future flooding events (with latest advice indicating a limit of \$20.0 million cover for material damage and business interruption combined) and a deductible of \$1.0 million); and
- investigating excess layer coverage for floods to the extent required.

#### 9i. CLIMATE-RELATED DISCLOSURES

The Group has considered the impact of climate-related risks on the business and on its future financial performance, financial position and cash flows as part of the sustainability framework that has been adopted under the Group's transformation strategy to becoming an all-wool and natural materials organisation.

These risks are broadly as follows:

- the exposure to carbon pricing and its impact on the cost of natural gas, with the Group's reliance on natural gas at its carpet manufacturing plant in Auckland and its carpet yarn spinning plants in Napier (while noting that a decision regarding its future is yet to be made following the impact of Cyclone Gabrielle as discussed in more detail in note 2f (Impact of Cyclone Gabrielle) to the consolidated financial statements) and Whanganui;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 (CONT'D)

### 9. OTHERS (CONT'D)

#### 9i. CLIMATE-RELATED DISCLOSURES (CONT'D)

- the exposure to the effects of climate change through adverse climatic conditions (for example, flooding) and, in time, rising sea levels, with both the Napier and Whanganui sites within close proximity of the coast and significant rivers;
- climate change adaptation and managed retreat legislation on the longer-term regulatory framework.

In relation to the exposure to carbon pricing, the Group has in place two decarbonisation projects that are aimed at directly reducing our reliance on natural gas in our manufacturing processes while also ensuring that its electricity provider is, by design, a fully renewable generator of electricity.

The first initiative is a \$2,500,000 project at the Group's Napier carpet yarn spinning plant to reduce its reliance on natural gas process heat through process heat optimisation and transitioning to electric heat pump technology. This project is being 38% co-funded (\$958,000) under various funding programmes, including the GIDI (Government Investment in Decarbonising Industry) Fund administered by the Energy Efficiency and Conservation Authority (EECA). This initiative has been put on hold as a consequence of the disruption to the Napier carpet yarn spinning plant following Cyclone Gabrielle. The initial stages of this project, including the detailed feasibility study and monitoring and targeting programme were completed prior to the plant going offline. The project will be reassessed once the site damage assessment is able to be completed and a decision around the future of the plant able to be made.

The second decarbonisation initiative at the Group's Whanganui carpet yarn spinning plant, which is also being co-funded by EECA, involves the replacement of the gas-fired dryer used in felted yarn production with an alternative radio frequency (RF) dryer. This project had an expected cost of \$440,000, with the EECA co-funding agreed at 40% (\$176,000). This project was successfully delivered in FY23, with the new RF dryer currently in use on the felting line. The project is now in the final measuring and monitoring stage before being closed off with EECA.

The organisation has a thorough understanding of scope 1 and 2 emissions for the business as well as material scope 3 emissions. It has undertaken third party verification of its carbon inventory including a 2018 baseline and the financial years ended June 2022 and 2023. This is a significant step towards setting science based targets for organisational emission reduction.

In relation to the exposure to adverse climatic conditions, the Group has in place insurances to protect it against losses arising from such events while also having established natural hazards exposure levels for the Napier site. See also note 2f (Impact of Cyclone Gabrielle) to the consolidated financial statements for further discussions relating to the risk mitigation and business continuity plans following Cyclone Gabrielle and the resilience of the new hybrid supply chain model.

Work is also underway to understand natural hazards at the other manufacturing sites as well as available mitigation strategies.

Based on the Group's assessment, there is nothing to indicate that climate-related risks have had any impact on the carrying value of its non-financial assets as at 30 June 2023 other than those already recognised following Cyclone Gabrielle as discussed at note 3 (Cyclone Gabrielle) to the consolidated financial statements, with the Board closely monitoring developments in this area.

The matter of future insurances against flooding is discussed at note 9h (Events after balance date) to the consolidated financial statements.

#### 9j. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS

There are no new, or pending, standards or amendments to existing standards which have, or are expected to have, a material impact on the Group.

**GOVERNANCE  
& OTHER  
DISCLOSURES**

**FOR THE YEAR ENDED 30 JUNE 2023**

Let's Go Good Together





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## GOVERNANCE AND OTHER DISCLOSURES CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2023

**Bremworth's Board of Directors ("the Board") is responsible for and committed to maintaining the highest standards of corporate behaviour and responsibility and has adopted governance principles reflecting this.**

The Board seeks to follow best practice recommendations for listed companies to the extent that is appropriate for the nature and complexity of Bremworth's operations.

The Board considers that the Company's corporate governance framework materially complies with the NZX Corporate Governance Code.

Bremworth's Code of Ethics and other key policies and charters relating to corporate governance can be found on the Company's website [www.bremworth.co.nz/corporate-governance](http://www.bremworth.co.nz/corporate-governance)

A summary of Bremworth's governance actions and performance against each of the principles in the NZX Corporate Governance Code and its compliance with the recommendations relating to each of these principles are set out on pages 111 to 125.

### PRINCIPLE 1 — CODE OF ETHICAL BEHAVIOUR

Bremworth expects its Directors, officers, employees and contractors to act legally, ethically and with integrity in a manner consistent with the Company's Code of Ethics.

The Code of Ethics sets out the standard of conduct expected of Directors and employees and the Company's approach to stakeholders. It is supported by other policies and procedures including those that address continuous disclosures, confidentiality of information, conflicts of interest, reporting of concerns and share trading.

#### Whistleblowing

Bremworth has established internal procedures to monitor compliance with, and measures for dealing with breaches of, the Code of Ethics. Bremworth encourages employees to speak out if they have concerns. The avenues for doing so are detailed in the Company's Code of Ethics which supports the reporting and investigation of breaches of the Code of Ethics and serious wrongdoing in or by Bremworth.

#### Conflicts of interest

The Board is conscious of its obligation to ensure that Directors and employees avoid conflicts of interest between their duty to Bremworth and their own interests. Guidance is provided in the Company's Constitution, Board charter and the Code of Ethics.

The Board reviews at every meeting the interests register in which relevant transactions and matters involving the Directors are recorded. It is expected that Directors are sensitive to actual and perceived conflicts of interest that may occur and have constant consideration of this issue.

Bremworth does not donate to political parties.

The Directors' interest disclosures can be found on pages 126 and 127.

**PRINCIPLE 1 — CODE OF ETHICAL BEHAVIOUR (CONTINUED)**

**Share trading policy**

Bremworth has a Share Trading Policy which, along with the Financial Markets Conduct Act 2013, imposes limitations and requirements on Directors and employees in dealing in the Company’s shares. Directors and employees who are likely to have knowledge of, or access to, material information can only buy or sell Bremworth shares during permitted periods and with the written consent of the Board. They must not use their position of confidential knowledge of the Company or its business to engage in share trading for personal benefit or to provide benefit to any third party.

Trading in Bremworth shares while in possession of material information is strictly prohibited.

A regular review of the share register is conducted to ensure compliance with the Share Trading Policy.

**PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE**

The Board’s role is to add long-term shareholder value, while acting in a manner that the Directors believe is in the best interests of the Company and having regard to the interests of its employees and other stakeholders. The role and responsibilities of the Board are detailed in the Board Charter, which is reviewed at least every two years and is available on the Company’s website.

**Delegation**

The Board delegates the day-to-day management of the Company to the Chief Executive Officer (“the CEO”). The CEO in turn delegates authority to senior management. These authorisation levels are set out in the Delegated Authority Policy.

**Board composition**

The Board comprises Directors who, collectively, have the balance of independence, skills, knowledge, experience and perspectives to meet and discharge the Board’s responsibilities. Core competences and skills include health and safety, sustainability and environment, operations and asset optimisation, financial acumen, sales, marketing and distribution, legal, regulatory and risk, listed company governance, operating model transformation and well-developed ability for critical and strategic analysis.

A balance of longer-serving Directors with experience in the Company and newer Directors who bring fresh perspective and insight is desirable. The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions.

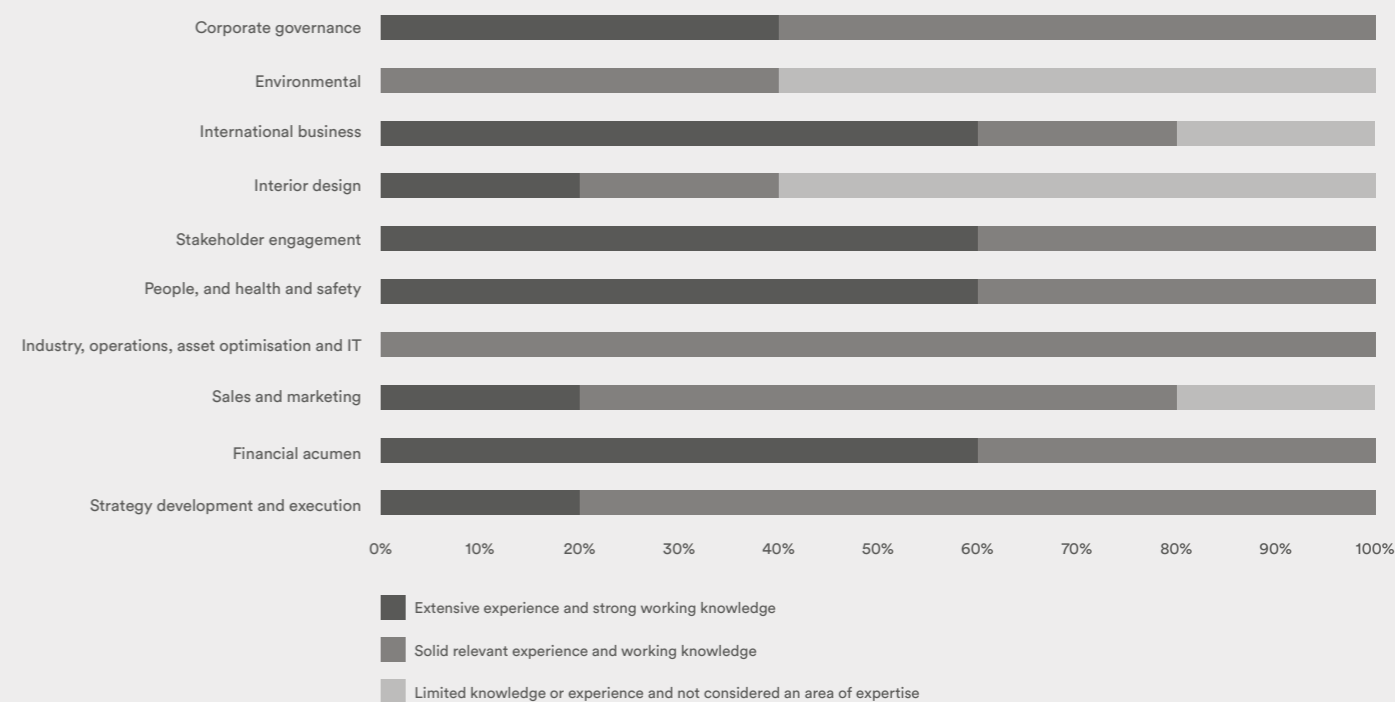
Grant Biel, a long-standing Director and co-founder of the carpet business, who retired from the Board in November 2021, was appointed the Company’s first-ever Director Emeritus by the Board on his retirement and continues to make himself available to the Board and to the Company.

As at 30 June 2023, the Board comprised five Directors – George Adams (Chairman), Paul Izzard, John Rae, Katherine Turner and Dianne Williams.

The profile of the Directors can be found on pages 126 and 127.

**PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONTINUED)**

**Directors’ skill matrix as at 30 June 2023**



**Director independence**

The Board charter provides that the Chairman shall be an independent Director and that the majority of the Board shall be independent Directors.

Director independence is determined in accordance with the NZX Listing Rules and with regard to the factors described in the NZX Corporate Governance Code.

George Adams, Paul Izzard, John Rae, Katherine Turner and Dianne Williams have been determined to be independent Directors of the Company as at 30 June 2023.

**PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONTINUED)**

**Director appointment**

Membership of the Board, and appointment and retirement of Directors by rotation, are determined in accordance with the Company's Constitution and the NZX Listing Rules.

While the appointment process is the responsibility of the whole Board, the Nomination Committee is tasked with identifying and recommending candidates to fill director vacancies for the approval of the Board. The Committee considers such factors as it deems appropriate, including capability, skill sets, experience, qualifications, judgement and the ability to work with other Directors. Reference checks are carried out on all candidates and key information about candidates is provided to shareholders to assist their decision as to whether to elect or re-elect a candidate.

Shareholders may also nominate candidates for election to the Board, with the Board asking for Director nominations prior to the Annual Meeting of shareholders each year, in accordance with the Constitution of the Company and the NZX Listing Rules.

New Directors are provided with an induction pack containing governance information, key policies and all relevant information necessary to prepare them for their role. New Directors also receive presentations by the CEO and senior management on the key issues facing Bremworth, its operations and the environment and markets in which it operates.

The Company has written agreements with all Directors establishing the terms of their appointment.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise and has a personality that is compatible with the other Directors.

**Director training, access to information and advice**

Directors are encouraged to undertake appropriate training and education to ensure they remain current on how to best perform their duties. In addition, the CEO and senior management provide regular updates on relevant industry and company issues.

Directors have unrestricted access to Company information and briefings from the CEO and senior management. Site visits provide the Directors with a better understanding of the business, including its major health and safety risks and how these are managed.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, with the approval of the Chairman.

**Evaluation of Director, Board and committee performance**

The Board, and the Board's committees, critically evaluate annually their own performance and the performance of the individual Directors. The Board, and its committees, also review annually their own processes and procedures to ensure that they are not unduly complex and are designed to assist the Board and its committees in effectively fulfilling their roles.

**PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONTINUED)**

**Attendance at meetings**

Board meetings are usually held monthly (except for January), with other meetings held as and when required to deal with any specific matters that may arise between scheduled meetings.

The table below sets out Director attendances at Board, Board committee and shareholder meetings for the year ended 30 June 2023.

	Board	Special Board	Audit Committee	Nomination Committee	Remuneration Committee	Shareholder
<b>Total held</b>	<b>11</b>	<b>9</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>1</b>
<b>Attendances:</b>						
George Adams	11/11	9/9	4/4	1/1	4/4	1/1
Paul Izzard	11/11	8/9	4/4	1/1	4/4	1/1
John Rae	11/11	6/9	4/4	1/1	4/4	1/1
Katherine Turner	11/11	9/9	4/4	1/1	4/4	1/1
Dianne Williams	11/11	8/9	4/4	1/1	3/4	1/1

**Diversity and Inclusion Policy**

Bremworth is committed to creating an inclusive and high performing culture to drive business engagement and success.

Bremworth aims to reflect the communities we operate in. We embrace and capitalise on innovation which starts with listening and learning. Fundamental elements of our philosophy include:

- seeing the diversity of its work force as a key asset and contributor to improved business performance and decision making;
- not discriminating based on age, race, gender, sexual orientation, ethnicity or any other non-performance related differentiating factor;
- treating its people fairly and respectfully; and
- promoting diversity of thought and action, and unbiasedly rewards capability and achievement.

**GOVERNANCE AND OTHER DISCLOSURES**  
**CORPORATE GOVERNANCE STATEMENT (CONT'D)**  
 YEAR ENDED 30 JUNE 2023

**PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONTINUED)**

**Diversity and Inclusion Policy (continued)**

The Company has a Diversity and Inclusion Policy, a copy of which is published on the Company's website. The key areas of focus are:

- sharing and promotion of this Policy with employees;
- a capability-based approach to recruitment of people from a diverse as possible range of candidates;
- facilitation of opportunities for diversity of thought and action from all levels of the organisation; and
- promotion of diversity and inclusion through company culture programmes and celebrations that bring employees with differing perspectives together.

Through our transformation initiatives, Bremworth has been growing its internal pipeline of talent and focusing on bringing women into supervisory and technical roles. This includes a number of women in engineering and science and/or research-based roles.

A number of initiatives are in place to support diversity and the Board believes the principles in the Policy were adhered to in the 2023 financial year.

Bremworth has a diverse workforce, representing more than 15 different ethnicities. English is a second language for a number of these staff, so Bremworth has initiatives in place to support them in the workplace, including the opportunity to participate in numeracy and literacy programmes.

The gender composition of the Company's Directors, officers and employees is summarised below.

	30 June 2023			30 June 2022		
	Male	Female	Total	Male	Female	Total
Directors	3/60%	2/40%	5/100%	3/60%	2/40%	5/100%
Officers <sup>1</sup>	8/80%	2/20%	10/100%	8/80%	2/20%	10/100%
Direct reports of officers	45/61%	29/39%	74/100%	39/59%	27/41%	66/100%
Rest of organisation	202/62%	122/38%	324/100%	211/60%	143/40%	354/100%
<b>Total</b>	<b>258/62%</b>	<b>155/38%</b>	<b>413/100%</b>	<b>261/60%</b>	<b>174/40%</b>	<b>435/100%</b>

<sup>1</sup> An officer is a person, however designated, who is concerned or takes part in the management of the Company's business but excludes a person who does not report directly to the Board or report directly to a person who reports directly to the Board.

Age composition	30 June 2023		30 June 2022	
	Number	%	Number	%
Under 30 years of age	65	16	77	18
30 to 50 years of age	160	39	165	38
Over 50 years of age	188	45	193	44
<b>Total</b>	<b>413</b>	<b>100</b>	<b>435</b>	<b>100</b>

In 2022, two targeted development programmes were launched as part of implementing our people capability and development pillar. These are an anthropology-based culture and leadership development programme Te Ara Rangatira, and the technical development programme Poutama. Te Ara Rangatira was extended to include developing leaders within the business in 2023, with 30 employees across the wider business invited to participate in the inaugural first wave and 33 in the subsequent second wave. A further cornerstone of our capability development focusses on providing opportunities to be part of cross-functional project teams.

**GOVERNANCE AND OTHER DISCLOSURES**  
**CORPORATE GOVERNANCE STATEMENT (CONT'D)**  
 YEAR ENDED 30 JUNE 2023

**PRINCIPLE 3 — BOARD COMMITTEES**

The Board utilises committees to enhance Board effectiveness in key areas, while retaining Board responsibility. Committees established by the Board make recommendations to the Board on those matters falling within the scope of the relevant committee charter. They do not act or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

The Board has three standing committees – the Audit Committee, Remuneration Committee and Nomination Committee. Each of these has a Board approved charter (which can be found on the Company's website), setting out the role, responsibilities, delegations and membership requirements. The Board regularly reviews the charters of each Board committee, their performance against those charters and membership of each committee.

The Board believes that committee charters comply with the recommendations in the NZX Corporate Governance Code.

The Board appoints the Chairman of each committee. Members are chosen for the skills, experience and other qualities that they bring to the relevant committees.

Bremworth's Board committees as at 30 June 2023 were:

Committee	Role	Members
Audit Committee	Assists the Board in ensuring adequacy of financial management, internal reporting and monitoring processes, integrity of financial reporting, statutory audit quality and independence, internal audit and internal controls.	Katherine Turner (Chairman) George Adams Paul Izzard John Rae Dianne Williams
Remuneration Committee	Assists the Board in establishing and maintaining a strong governance framework in respect of remuneration packages for Directors and for the CEO and senior management.	Dianne Williams (Chairman) George Adams Paul Izzard John Rae Katherine Turner
Nomination Committee	Assists the Board in ensuring appropriate Board performance and composition and in appointing directors.	George Adams (Chairman) John Rae Dianne Williams

**Independent Takeover Committee**

As the Company has a small Board, it is not envisaged that the Board would appoint an Independent Takeover Committee, upon a takeover offer being received, unless there are Directors who are interested in the takeover offer or certain Directors are unavailable to assist on the matter.

The Board has a Takeover Response Policy setting out the objectives of the Company's takeover response strategy and establishing the appropriate protocols to be followed in the event of a takeover offer for the Company, covering, among other things:

- structure of the takeover response team and roles of key groups in the team;
- the Takeovers Code process and timetable;
- steps to be taken on receipt of a takeover notice;
- communication between the Company and the bidder; and
- potential takeover response strategies.

**PRINCIPLE 4 — REPORTING AND DISCLOSURE**

**Continuous disclosure**

The Board is responsible for the timeliness, accuracy and completeness of all Company disclosures, including its results, financial reporting and all matters relating to its business activities that could have a material effect on the price of Bremworth shares if they were generally available to the market.

Bremworth is committed to promoting investor confidence by providing timely, accurate, complete and equal access to material information, both positive and negative, in accordance with the NZX Listing Rules. To achieve and maintain high standards of disclosures, Bremworth has adopted a Continuous Disclosure Policy, which is designed to ensure compliance with NZX continuous disclosure guidance note.

This Policy, a copy of which is published on the Company’s website, sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

**Financial reporting**

The Directors are committed not only to preparing consolidated financial statements that comply with New Zealand Generally Accepted Accounting Practice and fairly present the Group’s financial position as at balance date and its financial performance and cash flows for the year ended on that date, but also to balanced, clear and objective financial reporting.

The Audit Committee assists the Board in providing oversight of the quality and integrity of external financial reporting including the accuracy and completeness of the financial statements. In preparing the consolidated financial statements, the Company also ensures that its financial reporting is accompanied by sufficient explanation and is expressed in a clear and objective manner to assist investors make informed investment decisions.

All matters required to be addressed, and for which the Committee has responsibility, were addressed during the reporting period.

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

The Chief Financial Officer holds the role of Company Secretary. In all secretarial matters, the Board ensures that the Company Secretary’s reports are objective and that the Company Secretary has unfettered access to the Chairman and the Audit Committee, without reference to the CEO.

**Non-financial reporting**

In addition to shareholders, Bremworth has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders’ Association, as well as its employees, suppliers and customers.

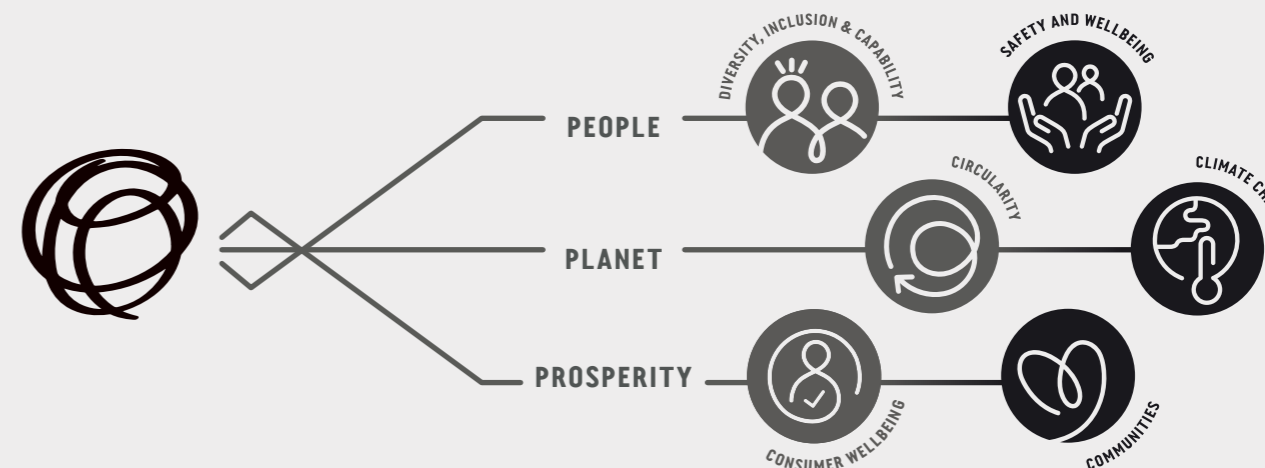
Bremworth’s vision is to become a global leader in designing and creating desirable, sustainable, safe and high performing natural interiors with its purpose to find a more sustainable way. This includes enhancing consumer wellbeing by producing innovative products in an economically inclusive, socially just and environmentally restorative way, while also being conscious to how its activities affect employees, contractors, communities and the environment in which it operates.

Insight into Bremworth’s assessment of its business, strategy and performance as well as the progress of its transformational shift towards becoming a design-led wool-focused company can be found on pages 2 to 35.

**PRINCIPLE 4 — REPORTING AND DISCLOSURE (CONTINUED)**

**Non-financial reporting (continued)**

A detailed framework addressing the Company’s environmental and social responsibilities was developed over the 2020 financial year, with a new Sustainability division established. The development of this division and addition of key technical specialists continued over the 2022 financial year. The business follows the integrated People, Planet and Prosperity framework with key pillars detailed below.



The Board is pleased to be able to share with shareholders the progress for the 2023 financial year as the Company continues to build its programme of formal measuring and monitoring of these key areas within the context of our business.

In April 2021, the Company embarked on the \$4.9 million research-based sustainability programme in partnership with the Ministry for Primary Industries (MPI) via the Sustainable Food, Fibre and Futures Fund - with MPI contributing \$1.9 million to the programme.

This three-year programme is grounded on the sustainability principles of People, Planet and Prosperity and focuses on three main work streams:

- developing a more sustainable and compostable carpet;
- increasing process efficiency through Industry 4.0 principles and technology; and
- leveraging technology to further develop technical capability and future pipeline of talent.

The Company also committed to two decarbonisation projects during the 2022 financial year, with the first a \$2.5 million project at the Napier carpet yarn spinning plant to reduce its reliance on natural gas process heat through process heat optimisation and transitioning to electric high temperature heat pump technology. This project is being 38% co-funded under various funding programmes, including the GIDI (Government Investment in Decarbonising Industry) Fund administered by the Energy Efficiency and Conservation Authority (EECA). This initiative has been put on hold as a consequence of the disruption to the Napier carpet yarn spinning plant following Cyclone Gabrielle. The initial stages of this project, including the detailed feasibility study and monitoring and targeting programme were completed prior to the plant going offline. The project will be reassessed once the site damage assessment is able to be completed and a decision around the future of the plant able to be made.

The second decarbonisation initiative at the Whanganui carpet yarn spinning plant, which is also being co-funded by EECA via the Technology Demonstration Fund, involves the replacement of the gas-fired dryer used in felted yarn production with an alternative radio frequency (RF) dryer. This project was successfully delivered in the 2023 financial year, with the new RF dryer currently in use on the felting line. The project is now in the final measuring and monitoring stage before being closed off with EECA.

**PRINCIPLE 5 — REMUNERATION**

The Board has a clear policy for setting remuneration of Directors and senior management at levels that are fair and reasonable to attract, reward and retain the skills, knowledge and experience required to enhance the Company's performance.

The Remuneration Committee assists the Board in discharging its responsibilities in relation to setting and reviewing of Directors' remuneration and senior management objective setting, performance review and remuneration.

External advice is sought as required to ensure remuneration is benchmarked to the market for Directors and senior management positions.

**Directors' remuneration**

Shareholders resolved at the October 2018 Annual Meeting that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding \$450,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine.

The remuneration payable to the Directors was last reviewed and approved by the Board on 18 January 2019, with the current scale of Directors' remuneration applying from 1 January 2019 set out on page 104 (note 9f (Related parties) to the consolidated financial statements).

The total remuneration paid to the Directors for the year ended 30 June 2023 was \$387,100, with the details paid to each Director set out on page 128.

**Remuneration strategy**

Bremworth's remuneration strategy is:

- aligned with its recruitment and leadership development philosophies and its approaches to performance management to ensure the attraction, development and retention of talented individuals; and
- underpinned by a pay-for-performance philosophy and utilises annual performance incentives to provide opportunities for individuals to achieve market competitive remuneration levels and in the case of superior performance, total remuneration above market.

**CEO and executive remuneration**

The CEO and executive remuneration packages are made up of three key components – being fixed remuneration (in the form of fixed base salary plus fringe benefits), variable short-term performance incentives and long-term performance incentives.

**Fixed remuneration**

Bremworth's philosophy with respect to fixed remuneration is to ensure that all employees are fairly and equitably remunerated relative to similar businesses and positions within the New Zealand market.

Fixed remuneration levels are reviewed annually for market competitiveness and alignment with strategic priorities and performance outcomes and to ensure:

- our employees are strongly motivated to deliver shareholder value;
- the Company is able to attract and retain high-performing employees who will ensure the achievement of business objectives; and
- the provision of benefits and allowances that contribute to the health and well-being of our employees.

**PRINCIPLE 5 — REMUNERATION (CONTINUED)**

**Short-term performance incentives**

Short-term performance incentives are at-risk payments that are designed to motivate and reward performance during a financial year, with targets set by the Board having regard to strategic priorities and desired performance outcomes from time to time.

Short-term performance incentives include both Company targets and individual targets, with minimum thresholds in place for both of these. Eligibility to short-term performance incentives is conditional on these thresholds being achieved in the first instance, with pay outs dependent on the extent to which actual performance exceeds the targets determined by the Board.

The Company targets for the 2022 financial year and the 2023 financial year include both revenue and profitability, with each of these given equal weightings.

Individual targets (and the clear measures underlying these targets to determine achievement or non-achievement in any one year) are set having regard to the roles and responsibilities held by the CEO and each member of the senior leadership team and as agreed with the Board (in the case of the CEO) and with the CEO (in the case of the senior leadership team) at the start of the relevant financial year.

Short-term incentives entitlements for on-target performance and over-performance are set out in the table below:

	Entitlement for on-target performance	Maximum entitlement for over- performance
CEO	40% of base salary	60% of base salary
Member of the senior leadership team	20% of base salary	30% of base salary

**Long-term performance incentives**

Bremworth's long-term performance incentives are designed to align the interests of the CEO and members of the Bremworth senior leadership team with those of shareholders, and to incentivise them to enhance long-term shareholder value, through share-based payment arrangements.

These long-term incentives include:

- the issue of performance rights in December 2020 to selected senior executive employees (including the CEO at the time) under the 2020 Long-Term Incentive Scheme;
- the issue of shares and options in September 2021 and April 2022 respectively to the incoming CEO pursuant to the Bremworth Equity Ownership Plan and the Bremworth Share Option Scheme respectively; and
- the issue of performance rights in October 2022 to selected senior executive employees under the 2022 Long-Term Incentive Scheme.

More information on these long-term incentives can be found on pages 98 to 100 (note 9b (Share-based payment) to the consolidated financial statements).

The 2022 Long-Term Incentive Scheme provides for the allocation of shares, annually, to such selected members of the senior leadership team ("the Participants") as the Board shall determine as part of the Participants' total remuneration package, with:

- the market value of the shares to be allocated to the Participants equal to 20% of base salary of the Participants; and
- these shares to vest at the end of the three-year performance period subject to the fulfilment of the performance conditions set down by the Board.

**PRINCIPLE 5 — REMUNERATION (CONTINUED)**

**CEO's remuneration**

The remuneration of the CEO is set independently, and without any involvement of the CEO, on an arm's length commercial basis as recommended by the Remuneration Committee and approved by the Board.

The CEO's remuneration comprises a fixed base salary, a variable short-term incentive that is payable annually subject to attainment of targets, awards under the Bremworth Equity Ownership Plan (Bremworth Equity Plan) and the Bremworth Share Option Scheme (Bremworth Option Scheme) and other benefits (including fringe benefits and holiday pay entitlements).

The targets under the short-term incentive plan include growth in revenue and/or profitability as well as the delivery of strategy, health and safety, leadership and culture outcomes as agreed with the CEO at the commencement of the period, with 40% of fixed base salary payable for on-target performance under the plan.

The Company issued two tranches of options under the Bremworth Option Scheme to the CEO during the year ended 30 June 2022, with 480,000 options on 10 September 2021 and a further 520,000 options on 8 April 2022.

The Company also issued 500,000 fully paid up ordinary shares pursuant to the terms of the Bremworth Equity Plan to the CEO on 10 September 2021, with the consideration for the shares of \$208,050 funded by way of an interest-free, full-recourse, loan provided by the Company to the CEO.

The remuneration of the CEO can be analysed as follows:

	Fixed base salary received <sup>2</sup>	Short term incentive receivable <sup>2,3</sup>	Share-based payments <sup>4</sup>	Other benefits received or receivable <sup>5</sup>	Total remuneration
Year ended 30 June 2023	\$566,500	Nil	\$78,326	\$31,338	\$676,164
Year ended 30 June 2022 <sup>1</sup>	\$530,020	\$130,332	265,232	\$201,748	\$1,127,332

1 Commencement date of employment 26 July 2021

2 Inclusive of 3.0% Employer KiwiSaver

3 40% of fixed base salary payable for on-target performance, with nothing payable for 2023 (2022: 24.59%)

4 Fair value of options issued under the Bremworth Option Scheme (2022: Fair value of options issued under the Bremworth Option Scheme of \$73,282 and difference between issue price and market price of shares issued under the Bremworth Equity Plan of \$191,950)

5 Inclusive of fringe benefits and holiday pay entitlement, with 2022 also inclusive of a one-off payment of \$127,317 as further discussed below

Pursuant to the terms of employment of the CEO, the Company agreed to issue the CEO with 500,000 ordinary shares under the terms of the Bremworth Equity Plan (as discussed in detail at note 9b (Share-based payment) to the consolidated financial statements), with the issue of these shares to take place at the time of the appointment of the CEO on 23 June 2021.

However, because of a delay in the issue of those shares to the CEO and the increase in the Bremworth share price between the time of his appointment on 23 June 2021 and the time the shares were issued to him on 10 September 2021, the CEO was liable for the tax on the difference between the market price of Bremworth shares on issue date and the price those shares were issued to him at.

In keeping with the agreement that was reached with the CEO, the Board approved a one-off payment to the CEO in September 2021 of \$127,317 to keep the CEO neutral in respect of the tax that he had to pay as a consequence of the delay.

**PRINCIPLE 6 — RISK MANAGEMENT**

Bremworth is committed to the effective management of risk, which is fundamental to the Company's growth and profitability targets and outcomes.

The Company maintains a risk management framework for the identification, assessment, monitoring and management of risk and has in place, among other policies, a Health and Safety Policy, a Treasury Management Policy and a Delegated Authority Policy to manage specific risks.

The Board is responsible for overseeing and approving the Company's risk management framework and risk tolerance levels as well as ensuring that an effective assurance system is in place.

The material financial risks facing the business and the management of these risks are discussed at pages 85 to 95 (note 8 (Risks and financial instruments) to the consolidated financial statements) with management reporting on these financial risks to the Board at every scheduled Board meeting.

**Health and safety**

The Board has a Health and Safety Policy, a copy of which is published on the Company's website.

The Policy provides the context, direction and framework within which all other health and safety materials are developed. It is the foundation for managing health and safety risks whilst applying a learning and people-centric lens to our operations and risk management. We take a proactive approach to risk management. Our critical risk framework and controls are key enablers and challenge us to design out risk where possible. To enable our people to thrive, we designed a holistic approach to their safety and wellbeing so that we support our team to be their best selves. Our critical risks are shown below.



**OPERATING PLANT/ EQUIPMENT**  
Fixed plant used in making carpet and yarn.



**FALLING OBJECTS**  
Tools or equipment falling from height.



**MOBILE PLANT**  
Powered mobile equipment including moving vehicles, forklifts and elevated work platforms.



**WORKING AT HEIGHT**  
Person falling from one level to another.



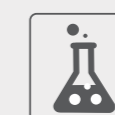
**SUSPENDED LOADS**  
Loads suspended above ground such as hoists and slings.



**CONFINED SPACES**  
Areas with limited access and potential to contain a toxic or oxygen-deficient atmosphere.



**HAZARDOUS ENERGY SOURCES**  
Electricity, fuel, pressure and hydraulics.



**SUBSTANCES HAZARDOUS TO HEALTH**  
Substances known or suspected to cause harm to health.



**ENVIRONMENT**  
Environmental conditions and natural disasters.

The Board adopts a risk-based approach to health and safety risk management, focusing on strengthening critical risk management, while continuing to develop organisational capability and accountability for making health and safety an integrated part of our business. Health and safety is a standing agenda item at Board meetings and Directors complete site visits which include a health and safety focus.

While the Board does not have a Health and Safety Committee, there is a Health and Safety forum which the Board Chairman, as the Board's representative, and the CEO are part of, along with employees across the whole business. The quarterly Health and Safety forum involves employees from different backgrounds, experience, roles and levels of the organisation. The diversity of thought, demographics and perspectives brought by this group is a valuable contribution and helps shape the overall Health and Safety programme while also demonstrating our Diversity and Inclusion Policy in action.

There is an ongoing emphasis to learn from high-risk potential events and to proactively manage risks to prevent reoccurrence. A key initiative to support this is the implementation of a "Learning Teams" approach to investigations with a focus on meaningful conversations.

**PRINCIPLE 6 — RISK MANAGEMENT (CONTINUED)**

**Health and safety (continued)**

The Health and Safety programme concentrates on clearly identifying critical risks and strengthening control effectiveness for these key critical risks. Key areas of the programme include improving machinery safety, implementation of electric forklifts and reducing hazardous substance risk. Initiatives are executed within a cycle of continuous improvement and with the input and support of our site Health and Safety committees and the Health and Safety forum. Underpinning this is a focus to protect and grow our talent, maintain strong safety leadership and create psychologically safe workplaces for our people to thrive.

**PRINCIPLE 7 — AUDITORS**

**External audit**

The Board is responsible for ensuring the quality and independence of the statutory audit process and has adopted an External Audit Independence Policy, a copy of which is published on the Company's website.

The Audit Committee is charged with considering, and making recommendations to the Board regarding, any issues relating to the independence, performance, appointment or termination of the external auditor.

The Committee reviews the quality and cost of the statutory audit undertaken by the Company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor. The Committee also assesses the external auditor's independence on an annual basis.

The external auditor is prohibited from undertaking any work that impairs, or is seen to impair, independence and objectivity with respect to the statutory audit.

During the 2023 financial year, the auditor conducted a strategic options analysis detailing those options that may be available to the Group and the Board in relation to Cyclone Gabrielle insurance recoveries. This report did not contain any recommendations or decisions, and the services were cleared by the Chair of the Audit Committee as having no impact on auditor independence.

Bremworth's external auditor attends the Annual Meeting and is available to answer questions relating to the conduct of the statutory audit and the preparation and content of the auditor's report.

The fees paid to the external auditor for audit work for the years ended 30 June 2022 and 2023 are set out on page 71 (note 4e (Administration expenses) to the consolidated financial statements).

All non-audit work carried out by the external auditor are required to be approved by the Board pursuant to the External Audit Independence Policy as having no effect on the independence or objectivity of the external auditor in relation to its statutory audit work.

In determining whether a non-audit related service impinges on the independence or objectivity of the external auditor, consideration is given to, among other things, the people doing the work, the nature of the work done and whether it involves any calculations of balances in the financial statements or for financial reporting.

**Internal audit**

Bremworth operates an independent internal audit programme that provides objective assurance of the effectiveness of the internal control framework.

Internal audit assists the Board and the Audit Committee to accomplish their objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes.

Internal audit adopts a risk-based assurance approach that is approved by the Board and has the autonomy to report significant issues directly to the Audit Committee or, if considered necessary, the Chairman of the Board.

**PRINCIPLE 8 — SHAREHOLDER RIGHTS AND RELATIONS**

Bremworth respects the rights of shareholders, is focused on fostering constructive relationships with shareholders that encourage them to engage with the Company and values dialogue with institutional and private investors.

Bremworth is also committed to giving all shareholders comprehensive, timely and equal access to information about its activities and keeps shareholders informed through:

- continuous disclosures to NZX;
- half year and annual reports, including accompanying shareholder presentations;
- the Annual Meeting and any other meetings of shareholders called to obtain approval for Board actions as appropriate; and
- the Company's website [www.bremworth.co.nz/investor-centre](http://www.bremworth.co.nz/investor-centre) where investors and interested stakeholders can access financial and operational information and key corporate governance information about the Company.

The Board encourages shareholders to opt to receive communications from the Company electronically, thereby ensuring that they get access to communications efficiently and in a timely manner.

**Shareholder meetings**

The Board encourages full participation of shareholders at shareholder meetings to ensure a high level of Director and management accountability and shareholder identification with Bremworth's strategies and goals.

Shareholders are able to ask questions of and express their views to the Board, management and the external auditor at Annual Meetings of shareholders. The Board adopts the one share, one vote principle, conducting voting at shareholder meetings by poll. Shareholders are also able to cast postal votes or vote by proxy ahead of meetings without having to physically attend those meetings.

Bremworth aims to make its notice of Annual Meeting and any other meetings of shareholders available on its website at least 20 working days prior to the meeting.

**VARIANCES TO NZX CORPORATE GOVERNANCE CODE**

NZX Corporate Governance Code Principle	NZX Corporate Governance Code Recommendation	Key difference	Board's position
2. Board Composition and Performance	2.5: The Board should set measurable objectives for achieving diversity	The Board has not set measurable objectives under the Diversity and Inclusion Policy for achieving diversity	The Board considers diversity outcomes can be achieved without measurable objectives, with the increase in the number of women in middle management over the 2022 financial year demonstrating this approach



## GOVERNANCE AND OTHER DISCLOSURES DISCLOSURES UNDER THE COMPANIES ACT 1993

YEAR ENDED 30 JUNE 2023

### DIRECTORS

The Directors of the Company as at 30 June 2023 were:

George Adams  
Paul Izzard  
John Rae  
Katherine Turner  
Dianne Williams

### INTERESTS REGISTER

The Companies Act 1993 requires the Company to maintain an interests register in which are recorded the particulars of certain transactions and matters (eg. use of company information, remuneration, indemnity and insurance and share dealing) involving the Directors. It further requires particulars of the entries in the interests register for the year to be disclosed in the annual report.

#### Use of company information

No notices were received from the Directors regarding the use of company information that would not otherwise have been available to them, except in their capacity as directors, during the year.

#### Remuneration

The scale of remuneration payable to the Directors with effect from 1 January 2019 was approved by the Board of Directors on 18 January 2019 and is set out on page 104 (note 9f (Related parties) to the consolidated financial statements).

#### Indemnity and insurance

The Board of Directors authorised, during the year, the renewal of the Company's directors' and officers' liability insurance policies covering the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries to the extent normally covered by such policies.

The total cost of these policies for the year ended 30 August 2023 was \$131,634 which was considered fair to the Company.

#### Share dealing

No notices were received from the Directors in relation to share dealing during the year.

Directors' relevant interests in shares in the Company as at 30 June 2023 were:

Dianne Williams	
Beneficial	5,000
Other	-

## GOVERNANCE AND OTHER DISCLOSURES DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

YEAR ENDED 30 JUNE 2023

### INTERESTS REGISTER (CONTINUED)

#### Specific disclosures of interest

No specific disclosures of interest were received during the year.

#### General disclosures of interest

General disclosures of interest that were current as at 30 June 2023 were:

George Adams	Apollo Foods Limited	Executive Chairman and shareholder	
	Mars Manufacturing Limited	Director	
	The Apple Press Limited	Director	
	Apollo Brands Limited	Director	
	Arborgen Holdings Limited	Director and shareholder	
	Insightful Mobility Limited	Chairman and shareholder	
	Mix Global Holdings Limited	Chairman	
	Essano Limited	Director	
	Mix IP Limited	Director	
	Netlogix Group Holdings Limited	Chairman	
Paul Izzard	New Zealand Frost Fans Limited	Chairman and shareholder	
	Business Leaders Health and Safety Forum	Chairman	
	Worksafe Partners Advisory Group	Member	
	Paul Izzard Design Limited	Director and shareholder	
	Windswept Trust	Trustee	
	John Rae	Abodo Limited	Chairman
		Corson Grain Limited	Director
		Crown Regional Holdings Limited	Chairman
		F J Hawkes & Co. Limited	Director and shareholder
		Gobble Limited	Director and shareholder as nominee
Jaffa Holdings Limited		Director and shareholder	
Kingyo Foods Limited		Director and shareholder as nominee	
Midlands Fund Management Limited		Director	
Thos Corson Holdings Limited		Chairman	
Wet Gisborne Limited		Chairman	
Te Rahui Herenga Waka Whakatane GP		Chairman	
New Zealand Government Waste Minimisation Fund		Panel Member	
JR Family Trust		Trustee	
Katherine Turner	Compac International Limited	Director	
	Compac Sorting Equipment Limited	Director	
	Compac Technologies Limited	Director	
	LENZ Equipment Limited	Director	
	Taste Technologies Limited	Director	
	Taste Technologies Installations Limited	Director	
	Tastemark Limited	Director	
	Cresta Properties Limited	Director and shareholder	
	Garden to Table	Trustee	
	Dianne Williams	Coromandel Pure Honey 2020 Limited	Director and shareholder
Darden Limited		Director and shareholder	
Darden Holdings Limited		Director and shareholder	
Stepchange Consulting Limited		Director and shareholder	
West Auckland Trust Services Limited		Director	

**GOVERNANCE AND OTHER DISCLOSURES**  
**DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)**  
YEAR ENDED 30 JUNE 2023

**DIRECTORS' REMUNERATION**

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2023 were:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Other benefits	Total
George Adams	\$128,100	-	-	-	-	\$128,100
Paul Izzard	\$61,000	-	-	-	-	\$61,000
John Rae	\$61,000	-	-	-	-	\$61,000
Katherine Turner	\$61,000	\$10,000	-	-	-	\$71,000
Dianne Williams	\$61,000	-	\$5,000	-	-	\$66,000
<b>Total</b>	<b>\$372,100</b>	<b>\$10,000</b>	<b>\$5,000</b>	<b>-</b>	<b>-</b>	<b>\$387,100</b>

**EMPLOYEES' REMUNERATION**

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2023 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits (\$)	Number of employees – 2023	Number of employees – 2022
100,000 – 109,999	17	19
110,000 – 119,999	7	9
120,000 – 129,999	10	7
130,000 – 139,999	6	8
140,000 – 149,999	8	5
150,000 – 159,999	1	3
160,000 – 169,999	2	3
170,000 – 179,999	3	2
190,000 – 199,999	3	3
220,000 – 229,999	2	-
230,000 – 239,999	2	3
240,000 – 249,999	1	2
260,000 – 269,999	-	2
270,000 – 279,999	1	-
280,000 – 289,999	1	-
290,000 – 299,999	-	1
310,000 – 319,999	1	1
320,000 – 329,999	-	1
410,000 – 419,999	1	-
430,000 – 439,999	1	-
490,000 – 499,999	-	1
500,000 – 509,999	-	1
670,000 – 679,999	1	-
1,120,000 – 1,129,999	-	1
<b>Total number of employees</b>	<b>68</b>	<b>72</b>

**GOVERNANCE AND OTHER DISCLOSURES**  
**DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)**  
YEAR ENDED 30 JUNE 2023

**DONATIONS**

Refer to page 71 (note 4e (Administration expenses) to the consolidated financial statements).

**AUDIT FEES**

Refer to page 71 (note 4e (Administration expenses) to the consolidated financial statements).

**SUBSIDIARY COMPANY DIRECTORS**

The following persons respectively held office as directors of subsidiary companies as at the end of the year:

Subsidiaries	Directors
Bremworth Carpets and Rugs Limited (formerly Bremworth Limited)	<b>Greg Smith</b>
Bremworth Spinners Limited (formerly Cavalier Spinners Limited)	
Elco Direct Limited	
Cavalier Bremworth Limited (formerly Elcotex Limited)	
Cavalier Bremworth (Australia) Limited	
Cavalier Bremworth (North America) Limited	
Cavalier Spinners Limited (formerly Heron Distributors Limited)	
Knightsbridge Carpets Limited	
EnCasa Carpets Limited	
Norman Ellison Carpets Limited	
Bremworth Share Scheme Limited (formerly NEC Limited)	
Carpet Distributors Limited	
Horizon Yarns Limited	
Cavalier Commercial Limited	
Radford Yarn Technologies Limited	
E Lichtenstein and Company Limited	
Elcopac Limited	
Elcowool Limited	
e-Wool Limited	
Microbial Technologies Limited	
Northern Prospecting Limited	
Bremworth Pty. Limited (formerly Cavalier Bremworth Pty. Limited)	<b>Greg Smith</b>
Cavalier Holdings (Australia) Pty. Limited	<b>Michael Ingham</b>
Cavalier Bremworth Pty. Limited (formerly Kimberley Carpets Pty. Limited)	
Norman Ellison Carpets Pty. Limited	
Cavalier Commercial Pty. Limited	

No subsidiary company directors received, in their capacity as such, directors' fees or other benefits from the subsidiaries.

There were no entries in the interests register in respect of any of the subsidiary company directors. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 128.

## GOVERNANCE AND OTHER DISCLOSURES DISCLOSURES UNDER THE NZX LISTING RULES

AS AT 31 AUGUST 2023

### ANALYSIS OF SHAREHOLDINGS

	Number of shareholders	%	Shares held	%
Size of shareholdings				
Up to 199	103	3.59	8,427	0.01
200 – 499	121	4.22	40,960	0.06
500 – 999	215	7.49	149,944	0.21
1,000 – 1,999	495	17.25	678,925	0.97
2,000 – 4,999	716	24.95	2,192,340	3.13
5,000 – 9,999	465	16.20	3,061,343	4.37
10,000 – 49,999	611	21.29	11,974,055	17.09
50,000 – 99,999	73	2.54	4,834,975	6.90
Over 99,999	71	2.47	47,128,457	67.26
	<b>2,870</b>	<b>100.00</b>	<b>70,069,426</b>	<b>100.00</b>

	Number of shareholders	%	Shares held	%
Location of shareholders				
New Zealand	2,757	96.06	69,059,559	98.56
Overseas				
Australia	70	2.44	504,376	0.72
Others	43	1.50	505,491	0.72
	<b>2,870</b>	<b>100.00</b>	<b>70,069,426</b>	<b>100.00</b>

	Shares held	%
Top 20 shareholders		
Rural Aviation (1963) Limited	8,567,642	12.23
Brian Edward Woolf	3,800,000	5.42
Custodial Services Limited (Account 4)	3,565,874	5.09
FNZ Custodians Limited	3,124,839	4.46
Brigit Kirsten Timpson	2,402,680	3.43
Matthew Charles Timpson and Rennie Cox Trustees No 8 Limited (Matthew Timpson Family Account)	2,402,680	3.43
Suzanne Rachel Timpson and Fairlie Ann Milne (Suzanne Timpson No 1 Family Account)	2,402,679	3.43
New Zealand Depository Nominee Limited (Account 1 Cash Account)	2,003,077	2.86
Gregory John Muir	1,225,000	1.75
Fergus David Elliott Brown	1,000,000	1.43
F B Trustee Limited (Fergus Brown Family Account)	1,000,000	1.43
BNP Paribas Nominees (NZ) Limited	944,528	1.35
Ian David McIlraith	940,000	1.34
Bremworth Share Scheme Limited	890,328	1.27
Masfen Securities Limited	787,500	1.12
Maarten Arnold Janssen	747,516	1.07
Percy Keith McFadzean	715,000	1.02
Forsyth Barr Custodians Limited (1-Custody)	685,151	0.98
Graham James Munro and Zita Lillian Munro	588,000	0.84
Graeme Paul Spry	540,439	0.77
	<b>38,332,933</b>	<b>54.72</b>

## GOVERNANCE AND OTHER DISCLOSURES DISCLOSURES UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013

AS AT 30 JUNE 2023

### SUBSTANTIAL HOLDINGS

The substantial product holders in the Company in respect of whom notices have been received were:

Remuneration and value of other benefits (\$)	Number of ordinary shares (being the only class of listed voting securities) where relevant interest exists
G C W Biel	8,467,642
Rural Aviation (1963) Limited	8,467,642
Brian Edward Woolf	3,600,000

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2023 was 70,069,426.

The definition of the term “relevant interest” in the Financial Markets Conduct Act 2013 is extremely wide, and more than one relevant interest can exist in the same voting securities.

## GOVERNANCE AND OTHER DISCLOSURES SHAREHOLDER INFORMATION

### ANNUAL MEETING OF SHAREHOLDERS

Time and date	2 p.m., Monday, 27 November 2023
Venue	Home Ideas Auckland Conference Room 165 The Strand Parnell Auckland

### CORPORATE CALENDAR

27 November 2023	2023 Annual Meeting of shareholders
31 December 2023	End of 2024 half year
Mid-February 2024	Announcement of 2024 half year result and release of 2024 half year report
30 June 2024	End of 2024 financial year
Late August 2024	Announcement of 2024 annual result
September 2024	Period for director nominations
End of September 2024	Release of 2024 Annual Report

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT

	2023 \$000	2022 \$000	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
<b>Financial Performance</b>							
<b>Operating revenue</b>	<b>\$89,689</b>	<b>\$95,485</b>	<b>\$111,577</b>	<b>\$117,981</b>	<b>\$135,234</b>	<b>\$148,120</b>	<b>\$156,120</b>
<b>EBITDA (normalised)</b>	<b>(200)</b>	<b>4,918</b>	<b>3,385</b>	<b>2,300</b>	<b>7,076</b>	<b>9,998</b>	<b>2,572</b>
Depreciation - owned assets	(845)	(683)	(379)	(2,418)	(3,479)	(3,561)	(3,251)
Depreciation - right-of-use assets	(994)	(954)	(534)	(1,779)	–	–	–
Depreciation - recycled through inventory	–	194	(764)	(265)	–	–	–
<b>EBIT (normalised)</b>	<b>(2,039)</b>	<b>3,475</b>	<b>1,708</b>	<b>(2,162)</b>	<b>3,597</b>	<b>6,437</b>	<b>(679)</b>
Finance costs	(1,045)	(1,029)	(1,124)	(2,535)	(1,790)	(2,798)	(2,936)
Finance income	502	159	68	–	–	–	–
Share of profit after tax of equity-accounted investees (normalised)	–	–	–	–	644	1,419	797
<b>Profit/(Loss) before income tax (normalised)</b>	<b>(2,582)</b>	<b>2,605</b>	<b>652</b>	<b>(4,697)</b>	<b>2,451</b>	<b>5,058</b>	<b>(2,818)</b>
Income tax (expense)/benefit	(263)	(870)	(276)	1,240	(572)	(1,084)	962
<b>Profit/(Loss) after tax (normalised)</b>	<b>(2,845)</b>	<b>1,735</b>	<b>376</b>	<b>(3,457)</b>	<b>1,879</b>	<b>3,974</b>	<b>(1,856)</b>
Abnormal gains/(losses) (after tax)	13,581	505	1,353	(17,994)	(18,659)	107	(268)
<b>Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)</b>	<b>10,736</b>	<b>2,240</b>	<b>1,729</b>	<b>(21,451)</b>	<b>(16,780)</b>	<b>4,081</b>	<b>(2,124)</b>
Ordinary dividends paid	–	–	–	–	–	–	–
<b>Profit/(Loss) after dividends</b>	<b>\$10,736</b>	<b>\$2,240</b>	<b>\$1,729</b>	<b>(\$21,451)</b>	<b>(\$16,780)</b>	<b>\$4,081</b>	<b>(\$2,124)</b>
<b>Financial Position</b>							
Shareholders' equity	50,223	37,771	35,592	33,637	54,989	72,222	67,890
Loans and borrowings - term portion	–	–	–	–	20,500	27,500	35,000
Term liabilities	18,227	19,251	20,978	3,511	1,618	2,029	3,728
Loans and borrowings – current portion	–	–	–	15,800	–	4,000	6,500
Current liabilities	22,686	21,880	21,453	17,033	22,227	27,253	25,739
<b>Shareholders' equity and total liabilities</b>	<b>\$91,136</b>	<b>\$78,902</b>	<b>\$78,023</b>	<b>\$69,981</b>	<b>\$99,334</b>	<b>\$133,004</b>	<b>\$138,857</b>
Property, plant and equipment	10,234	14,306	12,094	22,725	30,164	35,142	37,123
Right-of-use assets	8,616	9,280	9,968	430	–	–	–
Investment in equity-accounted investees	–	–	–	–	–	24,544	23,490
Goodwill and other intangibles	–	–	–	–	–	2,362	2,362
Deferred tax asset	576	532	732	600	5,456	4,971	5,532
<b>Non-current assets</b>	<b>19,426</b>	<b>24,118</b>	<b>22,794</b>	<b>23,755</b>	<b>35,620</b>	<b>67,019</b>	<b>68,507</b>
Cash and bank	39,319	14,874	22,508	1,276	2,724	2,111	1,255
Current assets	32,391	39,910	32,721	44,950	60,990	63,874	69,095
<b>Total assets</b>	<b>\$91,136</b>	<b>\$78,902</b>	<b>\$78,023</b>	<b>\$69,981</b>	<b>\$99,334</b>	<b>\$133,004</b>	<b>\$138,857</b>

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT (CONT'D)

	2023 \$000	2022 \$000	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
<b>Abnormal items (after tax)</b>							
Cyclone Gabrielle related income	35,500	-	-	-	-	-	-
Cyclone Gabrielle related expenses	(14,275)	-	-	-	-	-	-
Impairment of assets	(7,644)	-	-	(5,095)	(4,413)	-	-
Impairment of right-of-use assets	-	-	-	(2,094)	-	-	-
Impairment of intangible assets	-	-	-	-	(2,362)	-	-
Impending change in legislation relating to tax depreciation on buildings	-	-	-	2,940	-	-	-
Derecognition of deferred tax assets	-	-	-	(12,891)	-	-	-
Restructuring costs	-	-	(1,271)	(854)	-	136	(4,542)
Reversal of impairment of fixed assets	-	-	-	-	-	99	1,083
Gain on sale of property	-	-	2,624	-	-	-	-
Scour merger costs	-	-	-	-	-	(128)	(738)
Gain on merger and dilution of equity-accounted investee	-	-	-	-	-	-	3,929
Loss on sale of interest in, and property held by, equity-accounted investees	-	-	-	-	(11,884)	-	-
Reversal of normalised tax expense	-	505	-	-	-	-	-
<b>Total</b>	<b>\$13,581</b>	<b>\$505</b>	<b>\$1,353</b>	<b>(\$17,994)</b>	<b>(\$18,659)</b>	<b>\$107</b>	<b>(\$268)</b>

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT (CONT'D)

	2023	2022	2021	2020	2019	2018	2017
<b>Financial Ratios and Summary</b>							
<b>Use of Funds and Return on Investment</b>							
Return on average shareholders' equity (normalised) - %	(6.5%)	4.7%	1.1%	(7.8%)	3.0%	5.7%	(2.7%)
Basic earnings per ordinary share (normalised) - cents	(4.08)	2.51	0.55	(5.03)	2.74	5.79	(2.70)
Diluted earnings per ordinary share (normalised) - cents	(3.99)	2.46	0.54	(5.03)	2.74	5.79	(2.70)
<b>Financial Structure</b>							
Net tangible asset backing per ordinary share - \$	\$0.59	\$0.40	\$0.36	\$0.47	\$0.72	\$0.94	\$0.87
Equity ratio - %	55.1%	47.9%	45.6%	48.1%	55.4%	54.3%	48.9%
<b>Return to Shareholders</b>							
Dividends paid per ordinary share	-	-	-	-	-	-	-
<b>Share Price</b>							
30 June	\$0.400	\$0.465	\$0.490	\$0.220	\$0.320	\$0.620	\$0.350
52 week high	\$0.640	\$0.850	\$0.490	\$0.380	\$0.680	\$0.630	\$0.950
52 week low	\$0.295	\$0.445	\$0.205	\$0.160	\$0.310	\$0.270	\$0.330
<b>Market Capitalisation (\$000)</b>							
30 June	\$28,028	\$32,168	\$33,653	\$15,109	\$21,977	\$42,581	\$24,038
<b>Capital Expenditure and Depreciation (\$000)</b>							
Capital expenditure	\$1,956	\$2,898	\$2,481	\$2,119	\$4,705	\$1,622	\$2,123
Depreciation - owned assets	\$845	\$683	\$379	\$2,418	\$3,479	\$3,561	\$3,251
Depreciation - right-of-use assets	\$994	\$954	\$534	\$1,779	\$0	\$0	\$0

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT (CONT'D)

### GLOSSARY OF FINANCIAL TERMS

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
EBITDA (normalised)	Earnings before abnormal costs, interest, tax, depreciation and amortisation
EBIT (normalised)	Earnings before abnormal costs, interest and tax
Net assets	Total assets less total liabilities

### USE OF FUNDS AND RETURN ON INVESTMENT

Return on average shareholders' equity (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$
Basic earnings per ordinary share (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year}}$
Diluted earnings per ordinary share (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year (including the maximum number of shares that could be issued under the Company's LTI Scheme and the Bremworth Option Scheme)}}$

### FINANCIAL STRUCTURE

Net tangible asset backing per ordinary share	$\frac{\text{Net assets less goodwill and intangible assets}}{\text{Number of ordinary shares on issue at balance date}}$
Equity ratio	$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$

## GOVERNANCE AND OTHER DISCLOSURES DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 133 to 136, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in July 2017.

The Trend Statement has been prepared using the audited GAAP-compliant financial statements of the Group.

The Directors believe that the non-GAAP financial information contained within the Trend Statement (more particularly, the non-GAAP measures of financial performance such as "EBITDA (normalised)", "EBIT (normalised)", "Profit before income tax (normalised)" and "Profit after tax (normalised)" as well as the various other financial ratios that are based on normalised results – for example, earnings per share) provide useful information to investors regarding the performance of the Group because the calculations exclude restructuring costs and other gains/losses (for example, gain/loss on sale of property and investments) that are not expected to occur on a regular basis either by virtue of quantum or nature.

In arriving at this view, the Directors have also taken cognisance of the regular requests by users of the consolidated financial statements, including analysts and shareholders, regarding the nature and quantum of abnormal items within the GAAP-compliant results and the way analysts distinguish between GAAP and non-GAAP measures of profit.

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the Chief Executive Officer as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account items of an abnormal nature, including items that are unlikely to recur or otherwise unusual in nature.

Non-GAAP financial information does not have standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities.

In collating the Trend Statement, the Directors have taken into account all of the requirements within the guidance note. More specifically, these include:

- outlining why non-GAAP financial information is useful to investors and how it is used internally by management;
- identifying the source of non-GAAP financial information;
- ensuring that:
  - non-GAAP financial information is not presented with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information;
  - presentation of non-GAAP financial information does not in any way confuse or obscure presentation of GAAP financial information;
  - a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be easily accessed (see below);
  - a consistent approach is adopted from period to period with respect to the presentation of non-GAAP financial information, including that for comparative periods;
  - where there is any change in approach from the previous period, the nature of the change is explained and the reasons and financial impact provided;
  - non-GAAP financial information is unbiased; and
- taking care when describing, or referring to, items as 'one-off' or 'non-recurring'.

**GOVERNANCE AND OTHER DISCLOSURES**  
**DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (CONT'D)**

**RECONCILIATION OF GAAP-COMPLIANT TO NON-GAAP-COMPLIANT MEASURES OF PROFIT AFTER TAX**

	Year ended 30 June 2023			Year ended 30 June 2022		
	GAAP \$000	Adjustments \$000	Normalised \$000	GAAP \$000	Adjustments \$000	Normalised \$000
<b>Revenue</b>	<b>\$89,689</b>	<b>–</b>	<b>\$89,689</b>	<b>\$95,485</b>	<b>–</b>	<b>\$95,485</b>
EBITDA	13,381	(13,581)	(200)	4,918	–	4,918
Depreciation - owned assets	(845)	–	(845)	(683)	–	(683)
Depreciation - right-of-use assets	(994)	–	(994)	(954)	–	(954)
Depreciation - recycled through inventory	–	–	–	194	–	194
EBIT	11,542	(13,581)	(2,039)	3,475	–	3,475
Finance costs	(1,045)	–	(1,045)	(1,029)	–	(1,029)
Finance income	502	–	502	159	–	159
Profit before tax	10,999	(13,581)	(2,582)	2,605	–	2,605
Tax expense	(263)	–	(263)	(365)	(505)	(870)
<b>Profit after tax</b>	<b>\$10,736</b>	<b>(13,581)</b>	<b>(2,845)</b>	<b>\$2,240</b>	<b>(505)</b>	<b>1,735</b>
Abnormal gains after tax		13,581	13,581		505	505
<b>Profit after tax (GAAP)</b>		<b>\$0</b>	<b>\$10,736</b>		<b>\$0</b>	<b>\$2,240</b>

**Analysis of abnormal items**

	Year ended 30 June 2023			Year ended 30 June 2022		
	Profit before tax \$000	Tax effect \$000	Profit after tax \$000	Profit before tax \$000	Tax effect \$000	Profit after tax \$000
Cyclone Gabrielle related income	35,500	–	35,500	–	–	–
Cyclone Gabrielle related asset write offs and expenses	(21,919)	–	(21,919)	–	–	–
Reversal of normalised tax expense	–	–	–	–	505	505
<b>Total</b>	<b>\$13,581</b>	<b>\$0</b>	<b>\$13,581</b>	<b>\$0</b>	<b>\$505</b>	<b>\$505</b>

**GOVERNANCE AND OTHER DISCLOSURES**  
**DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (CONT'D)**

**Calculation of basic and diluted earnings per share under GAAP and non-GAAP measures of profit after tax**

	GAAP-compliant reported profit after tax	Reverse abnormal items (net of tax) where applicable	Non-GAAP-compliant normalised profit after tax
<b>Year ended 30 June 2023</b>			
Profit attributable to shareholders (\$000)	\$10,736	(\$13,581)	(\$2,845)
Weighted average number of ordinary shares (basic)	69,771,837		69,771,837
Earnings per share (basic) (cents)	15.39		(4.08)
Weighted average number of ordinary shares (diluted)	71,364,576		71,364,576
Earnings per share (diluted) (cents)	15.04		(3.99)
<b>Year ended 30 June 2022</b>			
Profit attributable to shareholders (\$000)	\$2,240	(\$505)	\$1,735
Weighted average number of ordinary shares (basic)	69,081,838		69,081,838
Earnings per share (basic) (cents)	3.24		2.51
Weighted average number of ordinary shares (diluted)	70,659,533		70,659,533
Earnings per share (diluted) (cents)	3.17		2.46

## GOVERNANCE AND OTHER DISCLOSURES CORPORATE DIRECTORY

### BOARD OF DIRECTORS

<b>George Adams</b> DipFSA(Hons), FCA, CFInstD <i>Independent</i>	Chairman of the Board of Directors Chairman of Nomination Committee Member of Audit and Remuneration Committees
<b>Paul Izzard</b> BA (Hons) Interior Design <i>Independent</i>	Member of Audit and Remuneration Committees
<b>John Rae</b> B.Com., LLB, CMInstD <i>Independent</i>	Member of Audit, Remuneration and Nomination Committees
<b>Katherine Turner</b> B.Com., CA, CMInstD <i>Independent</i>	Chairman of Audit Committee Member of Remuneration Committee
<b>Dianne Williams</b> B.Com., MBA, CMInstD <i>Independent</i>	Chairman of Remuneration Committee Member of Audit and Nomination Committees

### DIRECTOR EMERITUS

Grant Biel B.E. (Mech.)

### CHIEF EXECUTIVE OFFICER

Greg Smith

### CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Victor Tan CA, FCIS

### FOUNDING SHAREHOLDER

The late Anthony Charles Timpson ONZM

### REGISTERED OFFICE

7 Grayson Avenue, Auckland 2104,  
P O Box 97040, Auckland 2241.  
Telephone: 0800 808 303, Facsimile: 64-9-279 4756, Website: bremworth.co.nz

### SHARE REGISTRAR

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road, Auckland 0622,  
Private Bag 92119, Auckland 1142.  
Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777.

## GOVERNANCE AND OTHER DISCLOSURES CORPORATE DIRECTORY

### AUDITOR

PwC

### LEGAL ADVISORS

Russell McVeagh

### BANKERS

Bank of New Zealand  
National Australia Bank Limited

### CORPORATE

General Manager Health and Safety,  
People and Sustainability

Kirstine Hulse

Group Information Technology Manager

Trevor Jones

### CARPET OPERATION

General Manager Sales New Zealand  
and Australia

Dean Chandler

General Manager Logistics, Procurement  
and International Operations

Garth Clarke

General Manager Global Marketing,  
Product and Digital Business

Rochelle Flint

General Manager Tufting Plant

Jason Howearth

General Manager Yarn Plants

Andrew Karl

### WOOL OPERATION

General Manager Wool Procurement

Shane Eades

### WEBSITES

Corporate

bremworth.co.nz/investor-centre

Carpet Operation

bremworth.co.nz  
bremworth.com.au

Wool Operation

elcodirect.co.nz

Share Registrar

computershare.com/nz



Bremworth

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