

CONSOLIDATED FINANCIAL STATEMENTS - YEAR ENDED 30 JUNE 2022

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Bremworth Limited and subsidiary companies

Directors' Responsibility Statement

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the consolidated financial statements of Bremworth Limited (formerly known as Cavalier Corporation 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 judgements and estimates. 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 8 to 46, the consolidated financial statements for the year ended 30 June 2022.

These audited consolidated financial statements were authorised for issue by the Directors on 29 August 2022 and, as required by section 461(1)(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



Independent auditor's report

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 2022, 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 2022;
- 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current 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	How our audit addressed the key audit matter
<p>Forecast liquidity and cash flows</p> <p>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 for the foreseeable future.</p> <p>During the year the Group has continued to progress its previously announced strategic transformation, having ceased production and sales of synthetic carpets to focus solely on its all-wool carpet business. Consistent with management’s forecasts, cash has reduced from \$22.5 million in 2021 to \$14.9 million at year end.</p> <p>As this represents a material change in direction of the business there is inherently a level of estimation uncertainty and execution risk associated with the Group’s ability to maintain sufficient liquidity to meet its financial commitments as they fall due in the normal course of business, until the full benefits of the strategy eventuate, which management expect to occur from FY25 onwards. Consequently it is an area of focus for the audit and a key audit matter.</p> <p>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, management has forecast the Group’s financial performance, cash flows and financial position as part of its management and monitoring of the Group’s operations through to 30 June 2024.</p> <p>In preparing these forecasts, assumptions included the Group’s strategic transformation plans, future economic and market conditions, such as forecast sales volumes, expected NZD/AUD exchange rate movements (after considering the Group’s hedged positions) and forecast wool prices.</p> <p>In forming its going concern conclusion, the Board has also taken into consideration a number of factors including the cash surplus, the improvement in manufacturing efficiencies, margins and profile of its inventory during the year, the Group’s potential ability to obtain other sources of funding (including the sale of other properties) and the option to reduce discretionary spending, if required.</p>	<p>To audit the Group’s cash flow forecasts for the period to 30 June 2024, which are used to support the going concern assumption for the preparation of the consolidated financial statements, our audit procedures included the following:</p> <ul style="list-style-type: none"> ● gaining an understanding of management’s process and controls to prepare cash flow forecasts; ● gaining an understanding of key assumptions used in the cash flow forecasts through discussions with management; ● evaluating the accuracy of the Group’s previous forecasts by comparing the actual performance against forecasts in prior periods; ● checking these key assumptions are consistent with the Board approved forecasts; ● assessing and challenging key assumptions such as sales volumes, wool price and exchange rates with reference to independent data sources and contracts, where possible, and to recent actual sales and performance; ● performing sensitivity testing on the key sales assumptions used in the forecast cash flows to assess the level of forecasting risk; ● assessing the Group’s ongoing ability to obtain funding from other sources such as the sale of other properties and to reduce discretionary spending, if required; and ● performing subsequent events procedures to identify events that may affect the Group’s cash flow forecasts. <p>We also considered the adequacy of the related disclosures in the consolidated financial statements against the requirements of NZ IFRS.</p>

Description of the key audit matter	How our audit addressed the key audit matter
<p>Refer to Note 2c to the consolidated financial statements describing the cash flow forecasts and basis for conclusion on the use of the going concern assumption for the preparation of the consolidated financial statements.</p>	
<p>Valuation of inventory</p> <p>The carrying value of the Group's inventory at 30 June 2022 was \$27.26 million (30 June 2021 \$20.03 million) net of inventory provisions of \$1.35 million (30 June 2021 \$1.98 million).</p> <p>The cost of inventory reflects raw materials and manufacturing costs, including an allocation of production overheads based on normal operating capacity.</p> <p>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.</p> <p>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.</p> <p>Valuation of inventory is an area of focus and key audit matter for the audit due to the significance of the inventory balance, the complexity of inventory costing, and the judgements involved in estimating the inventory provisions.</p> <p>Note 6c of the consolidated financial statements describes the accounting policy on inventories and the judgements and estimates applied by management to determine the inventory provision.</p>	<p>To audit the cost of inventory, our procedures included:</p> <ul style="list-style-type: none"> ● 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. <p>To audit the inventory provisions, our procedures included:</p> <ul style="list-style-type: none"> ● gaining an understanding of and assessing the Group's methodology for inventory provision process and controls, taking into consideration key attributes used such as piece sizes, low grade quality, discontinued products and recent sale prices; ● 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 provision with the corresponding prior year provisions; and ● testing the net realisable value of finished goods, on a sample basis, by comparing the cost with recent sales prices and margins.

Our audit approach

Overview

	<p>Overall group materiality: \$478,000, which represents approximately 0.5% of revenue.</p> <p>We chose revenue as the benchmark because, in our view, it is the stable benchmark against which the performance of the Group is most commonly measured by users and is an accepted benchmark.</p> <p>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.</p> <p>As reported above, we have two key audit matters, being:</p> <ul style="list-style-type: none"> • Liquidity and cash flow forecasts • Valuation of inventory
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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.

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
29 August 2022

Auckland



Bremworth Limited and subsidiary companies

Consolidated Statement of Profit or Loss

For the year ended 30 June 2022

	Note	Audited 2022 \$000	Audited 2021 \$000
Revenue from contracts with customers	3c	95,485	111,577
Cost of sales		(65,785)	(80,145)
Gross profit		29,700	31,432
Other income and gains	3d	688	2,823
Distribution expenses		(16,286)	(19,914)
Administration expenses	3e	(10,627)	(10,009)
Restructuring costs		-	(1,271)
		3,475	3,061
Finance costs	3h	(1,029)	(1,124)
Finance income		159	68
Profit before income tax		2,605	2,005
Income tax expense	3i	(365)	(276)
Profit after tax for the year		\$2,240	\$1,729
Basic earnings per share (cents)	3b	3.24	2.52
Diluted earnings per share (cents)	3b	3.17	2.50

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Note	Audited 2022 \$000	Audited 2021 \$000
Profit after tax for the year		2,240	1,729
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		(576)	299
Net change in fair value of cash flow hedges transferred to profit or loss		(55)	(77)
Income tax on changes in fair value of cash flow hedges	3i	-	(47)
Total other comprehensive income		(631)	175
Total comprehensive income for the year		\$1,609	\$1,904

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Audited					Total Equity \$000
		Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share-based Payment Reserve \$000	Retained Earnings \$000	
Total equity at 1 July 2021		21,846	55	(1,420)	51	15,060	35,592
Total comprehensive income for the year							
Profit after tax		-	-	-	-	2,240	2,240
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of income tax)		-	(631)	-	-	-	(631)
Total comprehensive income for the year		-	(631)	-	-	2,240	1,609
Transaction with owners in their capacity as owners							
Share-based payments - value of employee services	8b	-	-	-	362	-	362
Issue of shares pursuant to the Bremworth Equity Plan	4b, 8b	208	-	-	-	-	208
Total equity at 30 June 2022		\$22,054	(\$576)	(\$1,420)	\$413	\$17,300	\$37,771

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2022

	Note	Audited					Total Equity \$000
		Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share-based Payment Reserve \$000	Retained Earnings \$000	
Total equity at 1 July 2020		21,846	(120)	(1,420)	-	13,331	33,637
Total comprehensive income for the year							
Profit after tax		-	-	-	-	1,729	1,729
Other comprehensive income that may be reclassified subsequently							
Changes in fair value of cash flow hedges (net of income tax)		-	175	-	-	-	175
Total comprehensive income for the year		-	175	-	-	1,729	1,904
Transaction with owners in their capacity as owners							
Share-based payments - value of employee services	8b	-	-	-	51	-	51
Total equity at 30 June 2021		\$21,846	\$55	(\$1,420)	\$51	\$15,060	\$35,592

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	Audited 2022 \$000	Audited 2021 \$000
ASSETS			
Property, plant and equipment - owned	5a	14,306	12,094
Property, plant and equipment - right-of-use	8a	9,280	9,968
Deferred tax asset	3i	532	732
Total non-current assets		24,118	22,794
Cash and bank	6a	14,874	22,508
Trade receivables, other receivables and prepayments	6b	12,201	12,520
Inventories	6c	27,263	20,035
Advances to employees	8b	160	-
Derivative financial instruments	7	8	109
Income tax receivable		278	57
Total current assets		54,784	55,229
Total assets		\$78,902	\$78,023
EQUITY			
Share capital	4b	22,054	21,846
Cash flow hedging reserve	4b	(576)	55
Foreign currency translation reserve	4b	(1,420)	(1,420)
Share-based payment reserve	4b, 8b	413	51
Retained earnings		17,300	15,060
Total equity		37,771	35,592
LIABILITIES			
Lease liabilities	8a	17,820	19,530
Employee benefits	8d	720	776
Provisions	8c	711	672
Total non-current liabilities		19,251	20,978
Trade payables and accruals	6d	12,210	13,064
Customer deposits	3c	203	-
Employee benefits	8d	53	136
Employee entitlements	6e	5,376	5,203
Lease liabilities	8a	1,938	2,003
Provisions	8c	988	662
Derivative financial instruments	7	694	34
Deferred income	3g	418	351
Total current liabilities		21,880	21,453
Total liabilities		41,131	42,431
Total equity and liabilities		\$78,902	\$78,023

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	Audited 2022 \$000	Audited 2021 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		96,808	111,527
Cash paid to suppliers and employees		(101,010)	(94,083)
		(4,202)	17,444
Government grants received		640	495
COVID-19-related subsidies received	3g	1,776	-
Other receipts		5	6
GST paid		107	(229)
Interest paid - loans and borrowings		(39)	(515)
Interest component of lease payments	8a	(990)	(675)
Interest received		172	53
Income tax paid		(386)	(363)
Net cash flow from operating activities		(2,917)	16,216
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		-	29
Proceeds from sale of property		105	25,022
Acquisition of plant and equipment	5a	(2,898)	(2,481)
Short term deposits		8,000	(12,000)
Advances to employees pursuant to the Bremworth Equity Plan	8b	(160)	-
Net cash flow from investing activities		5,047	10,570
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares pursuant to the Bremworth Equity Plan	8b	208	0
Repayment of loans and borrowings	4c	-	(15,800)
Principal component of lease payments	8a	(2,041)	(1,744)
Net cash flow from financing activities		(1,833)	(17,544)
Net increase in cash and cash equivalents		297	9,242
Cash and cash equivalents at beginning of the year		10,508	1,276
Effect of exchange rate changes on cash		69	(10)
Cash and cash equivalents at end of the year		\$10,874	\$10,508

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Consolidated Statement of Cash Flows (continued)

For the year ended 30 June 2022

RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	Audited 2022 \$000	Audited 2021 \$000
Profit after tax for the year		2,240	1,729
Add/(Deduct) non-cash items:			
Depreciation - owned assets	5a	683	379
Depreciation - right-of-use assets	8a	954	534
Share-based payments - value of employee services	8b	362	51
Deferred tax		200	(132)
Net gain on sale of property, plant and equipment		(102)	(2,651)
Net (gain)/loss on foreign currency balance		(69)	10
Changes in working capital items:			
Trade receivables, other receivables and prepayments		321	87
Inventories		(7,228)	12,046
Income tax receivable		(221)	45
Trade payables and accruals		(856)	2,446
Customer deposits		203	-
Employee benefits and entitlements		34	1,783
Provisions		365	10
Deferred income		67	351
Derivative financial instruments		130	(472)
Net cash flow from operating activities		(\$2,917)	\$16,216

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 15 to 46.



Bremworth Limited and subsidiary companies

Notes to the consolidated financial statements

For the year ended 30 June 2022

1. COMPANY INFORMATION

On 30 August 2021, Cavalier Corporation Limited changed its name to Bremworth Limited.

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 2022.

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 7 (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. Going concern

Assessment of 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.

In May 2020, the Group embarked on a strategy to transform the business to an all-wool and natural materials organisation. This led to the exit of the business from the synthetic carpet market, with steps taken to convert and sell down all of its remaining synthetic yarn and carpet inventory. In December 2020, the Group settled the sale and leaseback of its Auckland property, with the net proceeds of sale of \$25.0 million used to fully repay bank debt outstanding at that date with the balance of the net proceeds of sale applied towards providing the Group with the financial resources to undertake its strategic transformation.

The Board notes that, despite the ongoing disruptions from COVID-19 (with further discussion of the impact of COVID-19 set out at note 8i (COVID-19) to the consolidated financial statements) and inflationary impacts on costs experienced during FY22, the Group continues to make positive progress with its transformation plans. These included the successful re-set of the business model during FY22 to focus on higher-margin residential cut-length business - in the process allowing it to not only increase margins, but also rationalise non-performing stock-keeping units (SKUs), improve manufacturing efficiencies and reduce lead times to market through improved profile of inventories and service levels.

The full benefits of the transformation are expected from FY25 onwards.

However, the Group's transformation represents a material change in direction of the business and therefore there is inherently a level of uncertainty and execution risk.

For FY22, net cash flow from operations was a negative \$2.9 million, largely reflecting the investment in inventories. Cash and bank at balance date of \$14.9 million was consistent with management's forecasts prepared at the start of FY22.



2c. Going concern (continued)

Assessment of going concern (continued)

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, management has forecast the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations through to 30 June 2024.

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

- the capital investments and marketing spends that would be required to execute the Group's transformation strategy;
- projected growth in woollen carpet sales volumes from the implementation of initiatives underpinning the strategy;
- future economic and market conditions, including consideration of the impact of COVID-19;
- NZD/AUD exchange rate changes, after considering hedged positions;
- wool price movements, after recognising wool purchase contracts;
- manufacturing discipline and cost control.

The Board notes that while the financial forecasts and the success of the transformation are highly dependent on the projected increase in woollen carpet sales, even if the projected increase in woollen carpet sales were to fall somewhat short of forecast, going concern is still supported with the Group having sufficient liquidity to meet its financial commitments for a period of at least 12 months following the issuance of the consolidated financial statements.

The Board also notes that even though there are some uncertainties relating to the transformation plan, these uncertainties are not significant and would not lead to a material uncertainty relating to going concern.

In forming these views, the Board has taken into account the following:

- the cash surplus of approximately \$14.9 million as at balance date along with positive equity and positive working capital, with the negative cash flows from operations the result of the Group's investment in inventory to support sales growth and service levels;
- the successful re-set of the business model during FY22 which has increased margins, rationalised non-performing stock-keeping units (SKUs), improved manufacturing efficiencies, reduced lead times to market and improved the profile of its inventory and service levels;
- the Group's ongoing ability to resort to other sources of funding (including the sale of properties) and to reduce discretionary spending if required.

2d. 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 judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Judgements and estimates 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.

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 2c – going concern
- Note 3i – measurement and recoverability of tax losses
- Note 5a – recoverability of property, plant and equipment
- Note 6c – inventory provisioning
- Note 8a – determination of lease term
- Note 8c – measurement of provisions
- Note 8d – 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



2e. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2022 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.

2f. Changes in accounting policies

There were no changes in accounting policies during the year ended 30 June 2022.

2g. Restatement of prior year balances

Wages, salaries, bonuses and holiday pay for the previous year ended 30 June 2021 as disclosed in note 3f (Personnel expenses) to the consolidated financial statements have been restated from \$28,390,000 to \$32,347,000 to correct for a mapping error of the amount disclosed in note 3f to the underlying financial records. This error had no other impact on the financial statements for the year ended 30 June 2021.

3. 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.

3a. 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

All inter-segmental transactions included in revenue and operating expenses for each segment are on an arm's-length basis. 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.

	2022 \$000	2021 \$000
Revenue		
New Zealand	54,595	63,901
Australia	37,797	45,067
Canada	1,460	1,070
USA	1,331	1,139
Rest of the world	302	400
	\$95,485	\$111,577
	As at 30 Jun 2022 \$000	As at 30 Jun 2021 \$000
Non-current assets		
New Zealand	23,084	22,154
Australia	1,034	640
	\$24,118	\$22,794

Major customers

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



3a. Segment performance (continued)

	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
External revenue	76,307	95,548	19,178	16,029	95,485	111,577
Inter-segment revenue	-	-	2,401	2,313	2,401	2,313
Total revenue	76,307	95,548	21,579	18,342	97,886	113,890
Elimination of inter-segment revenue					(2,401)	(2,313)
Consolidated revenue					\$95,485	\$111,577
Segment result before depreciation, restructuring related expenses and impairment	4,880	6,784	949	784	5,829	7,568
Depreciation - owned assets	(515)	(236)	(168)	(143)	(683)	(379)
Depreciation - right-of-use assets	(822)	(411)	(132)	(123)	(954)	(534)
Depreciation - recycled through inventory	194	(764)	-	-	194	(764)
Segment result before restructuring and impairment	3,737	5,373	649	518	4,386	5,891
Restructuring costs	-	(1,271)	-	-	-	(1,271)
Segment result after restructuring and impairment	3,737	4,102	649	518	4,386	4,620
Elimination of inter-segment profits					52	(49)
Unallocated corporate costs					(963)	(1,510)
Results from operating activities					3,475	3,061
Finance costs					(1,029)	(1,124)
Finance income					159	68
Profit before income tax					2,605	2,005
Income tax expense					(365)	(276)
Profit after tax for the year					\$2,240	\$1,729

	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Reportable segment assets	59,122	50,987	4,906	4,528	64,028	55,515
Unallocated assets - Cash and bank					14,874	22,508
Total assets					\$78,902	\$78,023
Capital expenditure	2,621	2,481	277	-	\$2,898	\$2,481
Reportable segment liabilities	20,229	18,920	1,144	1,978	21,373	20,898
Unallocated liabilities - Lease liabilities					19,758	21,533
Total liabilities					\$41,131	\$42,431

3b. Earnings per share

Basic earnings per share (Basic EPS)

	2022	2021
Profit after tax attributable to shareholders of the Company (\$000)	2,240	1,729
Weighted average number of ordinary shares outstanding	69,081,838	68,679,098
Basic EPS (cents)	3.24	2.52

Diluted earnings per share (Diluted EPS)

	2022	2021
Profit after tax attributable to shareholders of the Company (\$000)	2,240	1,729
Weighted average number of ordinary shares outstanding	70,659,533	69,242,681
Diluted EPS (cents)	3.17	2.50

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 Scheme and the Bremworth Option Scheme as further discussed at note 8b (Share-based payment) to the consolidated financial statements.



3c. Revenue from contracts with customers

	2022 \$000	2021 \$000
Sales of goods		
Carpet	72,296	91,533
Rugs	773	660
Wool	19,178	16,029
Carpet yarn	598	605
Others	2,130	2,507
	94,975	111,334
Provision of installation	510	243
Total revenue	\$95,485	\$111,577

There were no installation contracts outstanding at balance date (2021: \$355,000). All of the contracts outstanding at 30 June 2021 were fulfilled in the current year ended 30 June 2022.

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 \$203,000 of customers deposits booked as at balance date (2021: Nil).

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.

3d. Other income and gains

	Note	2022 \$000	2021 \$000
Rentals received		4	5
Dividends received		1	1
Government grants recognised	3g	581	166
Net gain on sale and leaseback of property		-	2,624
Net gain on sale of plant and equipment		102	27
Total other income and gains		\$688	\$2,823

3e. Administration expenses

The following items of expenditure are included in administration expenses:

	2022 \$000	2021 \$000
Donations	\$2	\$2
Audit fees		
Fees paid and payable to PwC for:		
Audit of consolidated financial statements	515	567
Treasury advisory services	-	20
Total fees paid and payable to PwC	\$515	\$587

KPMG were auditors of the Company up until the financial year ended 30 June 2020, with PwC appointed auditors with effect from the financial year ended 30 June 2021.

PwC ceased providing the Group with all advisory services prior to their appointment as auditors.



3f. Personnel expenses

	Note	2022 \$000	2021 \$000
Directors' fees	8f	372	386
Wages, salaries, bonuses and holiday pay		33,218	32,347
Other employee related costs		1,494	1,234
Restructuring costs		121	1,271
Employee termination benefits		-	494
Employee benefits		1,130	1,354
Increase/(Decrease) in liability for retiring allowances and long service leave		392	23
Total personnel expenses		\$36,727	\$37,109

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.

3g. Government grants

COVID-19 subsidies

	2022 \$000	2021 \$000
Balance at 1 July brought forward in inventory	-	1,500
Subsidies received during the year	1,776	-
Amount recognised in the Consolidated Statement of Profit or Loss	(1,667)	(1,500)
Balance at 30 June carried forward in inventory	\$109	\$0

The Group 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 during the year (2021: Nil).

\$1,308,000 of those subsidies were recognised in cost of sales in the Consolidated Statement of Profit or Loss during the financial year, with \$257,000 and \$102,000 recognised in distribution expenses and administration expenses respectively (2021: \$1,500,000 was recognised in cost of sales in the Consolidated Statement of Profit or Loss).

International Growth Fund and Sustainable Food and Fibre Futures Fund

Grants totalling \$242,000 (2021: \$88,000) from the Government's International Growth Fund (IG Fund) and \$339,000 (2021: \$78,000) 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 December 2023.

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 \$418,000 at balance date (2021: \$351,000).

Others

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

Notes 3d (Other income and gains) and 3g (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.



3h. Finance costs

	2022 \$000	2021 \$000
Interest expense - loans and borrowings	(39)	(449)
Interest component of lease payments	(990)	(675)
Finance costs	(\$1,029)	(\$1,124)

Accounting policies

Finance costs include interest expense on loans and borrowings and interest component of lease payments. All interest expense are recognised in profit or loss using the effective interest method.

3i. Income tax

	2022 \$000	2021 \$000
Income tax expense in the Consolidated Statement of Profit or Loss		
Current tax expense		
Current year	66	408
Adjustment for prior years	99	-
	165	408
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	695	196
Adjustment for prior years	10	(230)
Unrecognised deferred tax liabilities	(505)	(98)
	200	(132)
Income tax expense	\$365	\$276

	2022 \$000	2021 \$000
Reconciliation of effective tax rate		
Profit after tax for the year	2,240	1,729
Income tax expense	365	276
Profit excluding income tax	\$2,605	\$2,005
Income tax using the Company's domestic tax rate of 28% (2021: 28%)	729	561
Non-deductible expenses	15	11
Effect of tax rate difference in foreign jurisdiction	17	34
Adjustment for prior years	109	(232)
Unrecognised deferred tax liabilities	(505)	(98)
Income tax expense	\$365	\$276

	2022 \$000	2021 \$000
Income tax recognised directly in equity		
Derivative financial instruments	-	47
Income tax on income and expense recognised directly in equity	\$0	\$47

Imputation credits

Imputation credits available to shareholders of the Company	\$9,233	\$9,233
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Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Property, plant and equipment	302	378	-	-	302	378
Employee benefits	101	156	-	-	101	156
Lease liabilities	21	80	-	-	21	80
Provisions	108	118	-	-	108	118
Net tax assets/(liabilities)	\$532	\$732	\$0	\$0	\$532	\$732

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.



3i. Income tax (continued)

Deferred tax assets and liabilities (continued)

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 \$16,601,000 at balance date (2021: \$16,389,000).

While the Board has confidence in the prospects of the business as discussed at note 2c (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 5a (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.

Deferred tax assets have also not been recognised in respect of temporary differences and tax loss carry-forwards totalling \$24,150,000 (2021: \$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 \$40,751,000 (2021: \$40,539,000).

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 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
Total	\$732	(\$200)	\$532

	Balance 30 June 2020 \$000	Recognised in Consolidated Statement of Profit or Loss \$000	Balance 30 June 2021 \$000
Property, plant and equipment	181	197	378
Inventories	100	(100)	-
Employee benefits	130	26	156
Lease liabilities	145	(65)	80
Provisions	44	74	118
Total	\$600	\$132	\$732

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.



4. CAPITAL AND FUNDING

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

4a. 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.



4b. Share capital, dividends and reserves

Share capital

	2022 \$000	2021 \$000
Shares on issue		
Balance at 1 July	68,679,098	68,679,098
Issued during the year	500,000	-
balance as at 30 June	69,179,098	68,679,098

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

The Company issued 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 8b (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.

Dividends

No dividends were paid during the year (2021: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2022 (2021: 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 2022 (2021: 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 8b (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.



4c. 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 7 (Risks and financial instruments) to the consolidated financial statements.

The Group's banking facilities are provided by Bank of New Zealand and National Australia Bank Limited (together, "the Bank").

The Group has no funding facilities at balance date (2021: 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 5a (Property, plant and equipment) to the consolidated financial statements).

The Group had no other borrowings at balance date (2021: Nil).



5. 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 the acquisition and sale of wool fibre, to generate revenues and profits.

5a. Property, plant and equipment

	Land and buildings \$000	Plant and equipment \$000	Other assets \$000	Under construction \$000	Total \$000
Cost					
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)	-
Balance at 30 June 2022	\$10,970	\$65,663	\$12,784	\$669	\$90,086
Balance at 1 July 2020	24,828	68,098	14,505	655	108,086
Additions	-	38	204	2,239	2,481
Disposals	(14,401)	(4,427)	(3,541)	(208)	(22,577)
Transfers	-	1,084	280	(1,364)	-
Balance at 30 June 2021	\$10,427	\$64,793	\$11,448	\$1,322	\$87,990
Depreciation and impairment losses					
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)
Balance at 30 June 2022	\$1,672	\$63,518	\$10,545	\$45	\$75,780
Balance at 1 July 2020	2,989	68,065	13,652	655	85,361
Depreciation for the year	224	17	138	-	379
Disposals	(1,669)	(4,423)	(3,544)	(208)	(9,844)
Transfers	-	189	213	(402)	-
Balance at 30 June 2021	\$1,544	\$63,848	\$10,459	45	\$75,896
Carrying amounts					
At 30 June 2022	\$9,298	\$2,145	\$2,239	624	\$14,306
At 30 June 2021	\$8,883	\$945	\$989	\$1,277	\$12,094
At 1 July 2020	\$21,839	\$33	\$853	\$0	\$22,725

Other assets

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

Impairment

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.

As at 30 June 2022, the Group has not identified any indicators of impairment over the assets held.

The Group's market capitalisation at balance date was approximately \$5.3 million below the carrying value of net assets. However, this market capitalisation value excluded any control premium and may not reflect the value of 100% of the Group's net assets. Furthermore, the Group has seen improved trading performance by the woollen carpet business in the current financial year when compared with the previous financial year.

The Directors also note that improvements in the share price subsequent to balance date have resulted in the Group's market capitalisation exceeding the carrying value of its net assets.

The Group has therefore concluded that no impairment is required as at 30 June 2022 (2021: 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.



5a. Property, plant and equipment (continued)

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 4c (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.

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 - 10.0% straight line
• other assets	
o display stands	10.0% straight line
o computer equipment	20.0 - 25.0% straight line
o office equipment	10.0 - 20.0% straight line
o cars	20.0% diminishing value
o 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.



5a. Property, plant and equipment (continued)

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 2022 were identified as being the Carpets and Wool Acquisition CGUs.

5b. Capital commitments

The Group had outstanding commitments for the purchase of plant and equipment of \$208,000 at balance date (2021: \$1,016,000).

In addition, the Group committed to two decarbonisation projects during the year ended 30 June 2022.

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 is expected to continue into FY23 and FY24.

The second decarbonisation initiative at the Group's Whanganui carpet yarn spinning plant, which is also being co-funded by EECA, will see a gas-fired dryer replaced with an alternative radio frequency dryer for use in felted yarn production. This project is expected to cost \$440,000, with the EECA co-funding agreed at 40% (\$176,000), and will run over FY23 and FY24.

6. 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).

6a. Cash and bank

Cash and bank at balance date comprise the following:

	2022 \$000	2021 \$000
Cash and cash equivalents	10,874	10,508
Short term deposits	4,000	12,000
	\$14,874	\$22,508

Accounting policy

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 (2021: \$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.

6b. Trade receivables, other receivables and prepayments

	2022 \$000	2021 \$000
Trade receivables due from external customers	11,145	11,793
Other receivables	39	88
Prepayments	1,017	639
	\$12,201	\$12,520

The Group's approach and policy with respect to, and quantitative disclosure of, credit risk are discussed at note 7 (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 policy

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



6c. Inventories

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

	2022 \$000	2021 \$000
Raw materials	6,984	5,922
Work in progress	1,024	1,200
Finished goods	19,255	12,913
	\$27,263	\$20,035
Carrying amount of inventories subject to retention of title clauses	\$3,378	\$3,152
Inventory provision at 1 July	1,976	4,741
Change in provision during the year	(623)	(2,765)
Inventory provision at 30 June	\$1,353	\$1,976

The approach to inventory provisioning in 2022 is substantially consistent with 2021, with improved selling prices, quality and profile of inventory (from the transformation to all-wool and the re-set of the business to focus on margins) contributing to the reduction in provisioning at balance date. \$699,000 of the inventory provision as at 30 June 2021 was able to be released during the year ended 30 June 2022 as a consequence of the improvement in selling prices and margins.

Write downs of inventory during the year totalled \$935,000 (2021: \$1,299,000).

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.

Judgement and estimates 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.

6d. Trade payables and accruals

	2022 \$000	2021 \$000
Trade payables	10,766	11,658
Accruals	1,444	1,406
	\$12,210	\$13,064

Accounting policy

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.

6e. Employee entitlements

	2022 \$000	2021 \$000
Leave obligations	4,351	3,760
Bonus entitlement	732	587
Termination entitlement	-	509
Wages accruals	293	347
	\$5,376	\$5,203

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.

Accounting policy

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.



7. 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. There has been no indication of a significant change in amounts or timing of receipts from trade receivables as at 30 June 2022 due to the impact of COVID-19 (2021: Nil).

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.

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.



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Management commentary (continued)

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.

As part of the Group's transformation to its new business model, it completed the sale and leaseback of its Auckland property on 23 December 2020.

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 4c (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 33.

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.

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.



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

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:

	2022 \$000	2021 \$000
New Zealand	5,797	5,207
Australia	4,677	6,046
Other regions	710	628
Trade and other receivables	\$11,184	\$11,881

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
2022					
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)
2021					
Expected loss rate	0%	0%	0%	18%	
Gross carrying amount – trade and other receivables	10,379	1,149	293	73	11,894
Loss allowance	-	-	-	(13)	(13)

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

	2022 \$000	2021 \$000
Trade and other receivables - gross	11,190	11,894
Individual impairment provisions	(6)	(13)
Trade and other receivables - net	\$11,184	\$11,881

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:

	2022 \$000	2021 \$000
Balance at 1 July	(13)	(42)
Impaired trade receivables written off	7	11
Changes in impairment provision	-	18
Balance at 30 June	(6)	(\$13)

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



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

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
2022							
Trade payables	10,766	10,766	10,766	-	-	-	-
Lease liabilities	19,758	26,537	1,427	1,408	2,735	5,726	15,241
Total non-derivative liabilities	\$30,524	\$37,303	\$12,193	\$1,408	\$2,735	\$5,726	15,241
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	-	-
Net derivative liabilities/(assets)	\$686						
Disclosed in Consolidated Statement of Financial Position							
Current assets	(8)						
Current liabilities	694						
Net derivative liabilities/(assets)	\$686						
2021							
Trade payables	11,658	11,658	11,658	-	-	-	-
Lease liabilities	21,533	28,429	1,522	1,458	2,766	5,607	17,076
Total non-derivative liabilities	\$33,191	\$40,087	\$13,180	\$1,458	\$2,766	\$5,607	\$17,076
Forward exchange contracts							
Inflow		(22,762)	(14,113)	(8,649)	-	-	-
Outflow		22,666	14,062	8,604	-	-	-
	(75)	(96)	(51)	(45)	-	-	-
Net derivative (assets)/liabilities	(\$75)						
Disclosed in Consolidated Statement of Financial Position							
Current assets	(109)						
Current liabilities	34						
Net derivative (assets)/liabilities	(\$75)						



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

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
2022				
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)	-	-	-
Net unhedged exposure	\$0	(\$701)	(\$94)	(\$13)
2021				
Trade receivables	5,997	431	6	-
Trade payables	(2,146)	(274)	-	(9)
Net Consolidated Statement of Financial Position exposure before hedging activity	3,851	157	6	(9)
Estimated forecast sales for which hedging is in place	18,911	-	-	-
Net cash flow exposure before hedging activity	22,762	157	6	(9)
Forward exchange contracts				
Notional amounts	(22,762)	-	-	-
Net unhedged exposure	\$0	\$157	\$6	(\$9)

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
2022						
Financial assets and liabilities						
Cash and bank	14,874	14,874	-	-	-	-
2021						
Financial assets and liabilities						
Cash and bank	22,508	19,508	3,000	-	-	-



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

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 2022 and 2021. The impact on equity, net of tax, for these foreign exchange contracts, is disclosed in the table below:

	Strengthen	Weaken	Strengthen	Weaken
	P&L \$000	\$000	Equity, net of tax \$000	\$000
30 June 2022				
NZD/AUD (+/- 5%)	-	-	1,318	(1,457)
30 June 2021				
NZD/AUD (+/- 5%)	-	-	609	(673)

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)	Increase 1% point	Decrease (1% point)
	P&L \$000	\$000	Equity, net of tax \$000	\$000
Interest rate impact - Net FY22	\$40	(\$40)	-	-
Interest rate impact - Net FY21	\$150	(\$150)	-	-

Hedging

Interest rate hedges

The Group has a policy of ensuring that between 25% and 75% of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

This policy has no application at the present time, with the Group having completed the sale and leaseback of its Auckland property and fully repaid all of its borrowings during the year.

Forecast transactions

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



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Hedging (continued)

The following relates to items designated as hedging instruments:

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

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

² Hedge ratio 1:1

	Notional amount	Carrying amount		Line item in Consolidated Statement of Financial Position	Changes in the value of the hedging instrument recognised in OCI during the year	Hedge ineffectiveness recognised in profit or loss	Balance in CFHR	Average rate of hedging
		Assets	Liabilities					
	\$000	\$000	\$000		\$000	\$000	\$000	
2021								
Foreign currency risk								
Forward exchange contracts – sales and receivables ^{1, 2}	AUD21,075	109	(34)	Derivative financial instruments - assets and liabilities	109	-	55	0.9259
Interest rate risk								
Interest rate swaps	-	-	-	Derivative financial instruments - liabilities	66	-	-	-

¹ 100% of notional amount expiring within 12 months of balance date

² Hedge ratio 1:1



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

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	Amortised cost	Total carrying amount	Fair value hierarchy Level 2
	\$000	\$000	\$000	\$000
2022				
Assets				
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	
Total assets	\$8	\$26,218	\$26,226	
Liabilities				
Lease liabilities	-	17,820	17,820	
Employee benefits	-	720	720	
Total non-current liabilities	-	18,540	18,540	
Derivative financial instruments	694	-	694	694
Trade payables and accruals	-	12,210	12,210	
Employee benefits and entitlements	-	5,429	5,429	
Lease liabilities	-	1,938	1,938	
Total current liabilities	694	19,577	20,271	
Total liabilities	\$694	\$38,117	\$38,811	
2021				
Assets				
Derivative financial instruments	109	-	109	109
Trade and other receivables	-	11,881	11,881	
Cash and bank	-	22,508	22,508	
Total assets	\$109	\$34,389	\$34,498	
Liabilities				
Lease liabilities	-	19,530	19,530	
Employee benefits	-	776	776	
Total non-current liabilities	-	20,306	20,306	
Derivative financial instruments	34	-	34	34
Trade payables and accruals	-	13,064	13,064	
Employee benefits and entitlements	-	5,339	5,339	
Lease liabilities	-	2,003	2,003	
Total current liabilities	34	20,406	20,440	
Total liabilities	\$34	\$40,712	\$40,746	

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.



7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Classification and fair values (continued)

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.

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:

	2022		2021	
	Derivative assets \$000	Derivative liabilities \$000	Derivative assets \$000	Derivative liabilities \$000
Gross amounts in the Consolidated Statement of Financial Position	8	(694)	109	(34)
Amounts offset	-	-	-	-
Net amounts in the Consolidated Statement of Financial Position	8	(694)	109	(34)
Related amounts that are not offset based on ISDA	(8)	8	(34)	34
Net amounts	\$0	(\$686)	\$75	\$0



8. 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.

8a. 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

	2022	2021
	\$000	\$000
Buildings	8,839	9,662
Plant and equipment	361	281
Motor vehicles	80	25
	\$9,280	\$9,968

Lease liabilities

	2022	2021
	\$000	\$000
Non-current	17,820	19,530
Current	1,938	2,003
	\$19,758	\$21,533

Additions to right-of-use assets during the year were \$266,000 (2021: \$10,071,000).

There was no impairment of right-of-use assets during the year (2021: Nil).

There was also no reversal of prior year impairment of right-of-use assets during the year (2021: Nil).

Amounts recognised in the Consolidated Statement of Profit or Loss

Depreciation charge in respect of right-of-use assets

	2022	2021
	\$000	\$000
Buildings	823	483
Plant and equipment	131	51
	\$954	\$534

Interest expense (included in finance costs)

\$990

\$675

Expense relating to short-term leases (included in cost of goods sold and administration expenses)

\$594

\$459

Expense relating to leases of low-value assets that are not disclosed above as short-term leases (included in administrative expenses)

\$71

\$28

Amounts recognised in the Consolidated Statement of Cash Flows

Total cash outflow for leases

\$3,031

\$2,419

Accounting policy

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.



8a. Leases (continued)

Accounting policy (continued)

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;
- 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.

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 (2021: \$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 (2021: Nil).



8b. Share-based payment

Description of share-based payment arrangements

The Board approved the establishment of the Bremworth Equity Ownership Plan (Bremworth Equity Plan) and the Bremworth Share Option Scheme (Bremworth Option Scheme) on 27 August 2021.

The Bremworth Equity Plan and the Bremworth Option Scheme are designed to incentivise certain employees and align their interests with the Company's shareholders by providing them with equity interests in the Company.

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.

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.

The Company issued two tranches of options under the Bremworth Option Scheme to the Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer.

The Board also approved on 18 December 2020 the establishment of a long-term incentive scheme (LTI Scheme) for executive employees pursuant to which the Company will issue performance rights ("Rights") to the participants which would entitle the participants to be issued shares in the Company, subject to service and performance conditions being met, at the end of the stipulated performance period.

No Rights were issued pursuant to the LTI Scheme during the year ended 30 June 2022.

The Company has determined that the shares issued under the Bremworth Equity Plan, the options issued under the Bremworth Option Scheme and the Rights issued under the LTI Scheme 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.

Measurement of fair value of options granted under the Bremworth Option Scheme

The fair value of the options at the grant date has been determined using a Monte Carlo simulation.

Specifically, the Monte Carlo simulation is used as follows:

- to predict the Company's future share prices (a "market condition" under NZ IFRS 2), gross of dividends, using a random-walk process which is driven by assumptions regarding volatility and the underlying drift rate from grant date through to vesting date;
- to calculate the annualised total shareholder return (TSR) at the vesting date implied by the simulated share price;
- to determine the extent to which the calculated TSR exceeds the TSR set out in the vesting schedule;
- to calculate the number of shares to be issued and the implied payoff to the Chief Executive Officer based on the number of shares issued and the simulated share price at vesting date.

The inputs used in the measurement of the fair value at grant dates of the options are as follows.

- Share price at grant date - \$0.78 per share, being the Company's closing share price on NZX on 7 September 2021, in respect of the first tranche of 480,000 options;
- Share price at grant date - \$0.42 per share, being the Company's closing share price on NZX on 7 April 2022, in respect of the second tranche of 520,000 options;
- Exercise price - \$0.4161 per share, being the 20-day volume weighted average sale price of a Bremworth share on NZX up to 23 June 2021 when the Chief Executive Officer was appointed.

Outstanding options under the Bremworth Option Scheme

The only options outstanding at balance date are the 1,000,000 options granted and issued to the Chief Executive Officer under the Bremworth Option Scheme during the year ended 30 June 2022.

The maximum number of shares that will be issued in respect of these 1,000,000 options is 1,000,000 shares, 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.



8b. Share-based payment (continued)

Outstanding Rights under the LTI Scheme

There are no changes to the outstanding Rights on issue during the year ended 30 June 2022.

The number of shares that will be issued on condition date (being 1 May 2023) of the outstanding Rights under the LTI Scheme is unknown at balance date.

The number of shares to be issued is dependent on the extent to which 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.

The maximum number of shares that could be issued in respect of all outstanding Rights under the LTI Scheme at condition date is 1,071,394 (or 1.54% of the total number of shares on issue at balance date of 69,179,098).

For the number of shares issued at Condition Date to all current Participants to equal 1.56% of the total number of shares currently on issue, the share price would have to exceed \$0.5128 per share at Condition Date - based on the share price at the start of the Performance Period of \$0.3141 per share, TSR of 14% per annum compounding over the Performance Period and no dividends payable during the Performance Period.

Maximum number of shares that could be issued under the Bremworth Option Scheme and the LTI Scheme

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:

	2022 \$000	2021 \$000
Balance at 1 July	1,071,394	-
Issued during the year	1,000,000	1,854,336
Lapsed during the year	-	(782,942)
Balance as at 30 June	2,071,394	1,071,394
% of total number of shares on issue	2.99	1.56

Impact of share-based payment arrangements on the financial statements

The assessed fair value of the options and Rights 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 options and Rights 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 2022:

- \$46,000, being the proportion of fair value of the options granted to the Chief Executive Officer in September 2021, for the period from commencement of employment through to balance date;
- \$27,000 being the proportion of the fair value of the options granted to the Chief Executive Officer in April 2022, for the period from commencement of employment through to balance date;
- \$192,000, being the difference between the \$0.4161 issue price per share and the \$0.8000 market price per share at issue date in respect of the 500,000 fully paid up ordinary shares issued to the Chief Executive Officer in September 2021 under the Bremworth Equity Plan;
- \$97,000, being the proportion of fair value of the Rights relating to the year ended 30 June 2022;

with a corresponding credit totalling \$362,000 to the share-based payment reserve within equity (30 June 2021: \$51,000).

Interest-free full-recourse loan

The Company has accounted for the interest-free, full-recourse, loan made by the Company to the Chief Executive Officer to fund the \$208,050 payable for the shares issued under the Bremworth Equity Plan at fair value of \$152,000, with the difference between fair value and face value of the loan to be recognised as an employee benefit in administration expenses in the Consolidated Statement of Profit or Loss over the period of service.



8c. Provisions

	Workplace accidents \$000	Make good \$000	Warranties \$000	Claims \$000	Total \$000
Balance at 1 July 2021	150	89	1,095	-	1,334
Provided during the year	-	-	15	350	365
Utilised during the year	-	-	-	-	-
Released to profit or loss during the year	-	-	-	-	-
Balance at 30 June 2022	\$150	\$89	\$1,110	\$350	\$1,699
Non-current	-	89	622	-	711
Current	150	-	488	350	988
Balance at 30 June 2022	\$150	\$89	\$1,110	\$350	\$1,699
Balance at 1 July 2020	210	59	1,025	-	1,294
Provided during the year	-	30	70	-	100
Utilised during the year	(60)	-	-	-	(60)
Released to profit or loss during the year	-	-	-	-	-
Balance at 30 June 2021	\$150	\$89	\$1,095	\$0	\$1,334
Non-current	-	89	583	-	672
Current	150	-	512	-	662
Balance at 30 June 2021	\$150	\$89	\$1,095	\$0	\$1,334

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.

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2022 and 2021. 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 \$1,024,000 (2021: \$852,000).

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 2022 for products supplied by a previously-owned business unit, with these claims yet to be resolved at balance date (2021: 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.



8d. Employee benefits

	2022 \$000	2021 \$000
Liability for retiring allowances	-	96
Liability for long service leave	773	816
Total employee benefits	\$773	\$912
Non-current	720	776
Current	53	136
Balance at 30 June	\$773	\$912

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 2022, 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.

8e. Contingencies

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 operating leases and other commitments totalling \$2,248,000 (2021: \$2,418,000).

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 (2021: 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.

8f. 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.

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 8b (Share-based payment) to the consolidated financial statements.

Their shares rank pari 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 2022 (2021: Nil), except as further disclosed below.

An interest-free, full-recourse, loan of \$208,050 was provided to the Chief Executive Officer during the 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 8b (Share-based payment) to the consolidated financial statements.



8f. Related parties (continued)

Transactions with directors and key management personnel (continued)

Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled \$372,000 during the year ended 30 June 2022 (2021: \$392,000).

No other services were provided by the Directors during the year (2021: 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

The Directors agreed to a 20% reduction in fees from 1 April 2020 to 31 July 2020 in response to the uncertain COVID-19 operating environment.

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.

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:

	2022 \$000	2021 \$000
Salaries, bonuses and leave entitlements	3,582	3,653
Share-based payments	362	51
Employee benefits	254	278
Termination payments	10	509
	\$4,208	\$4,491

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 8b (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 goods 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.



8g. Group entities

Operating subsidiaries of the Group

	Principal activity	Country of incorporation	Interest (%)	
			2022	2021
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

8h. Events after balance date

There have been no events subsequent to 30 June 2022 which would materially affect the consolidated financial statements.

8i. COVID-19

On 17 August 2021, in response to a potential outbreak of the COVID-19 Delta variant of the virus, the New Zealand Government imposed Level 4 lockdown throughout the country effective from 11.59 pm that same day. Under Level 4 lockdown, all workplaces in New Zealand were required to close unless the workplace was deemed to be essential. As a consequence, all of the Group's carpet yarn making facilities in Napier and Whanganui had to cease operations during the duration of the Level 4 lockdown from 18 August 2021 through to 31 August 2021, while its carpet manufacturing operation in Auckland was not able to recommence operation until 22 September 2021.

Notwithstanding the ability to return to work, protocols that were in place to keep our people safe - such as separations of our shifts to keep our people apart and bubbles in the workplace - affected plant efficiency and operating levels and impacted manufacturing capacity.

As a consequence of the Level 4 lockdown and the loss in revenue, the Group was eligible to apply for the New Zealand Government's COVID-19 wage subsidy. The Group received, for the duration of the lockdown, \$1,488,000 under the wage subsidy scheme.

The Group was also eligible for the New Zealand Government's COVID-19 Resurgence Support Payment and the COVID-19 Leave Support Payment, with the Group applying for, and receiving, a further \$76,000 and \$112,000 respectively under those schemes.

In addition, the Group's Australian operation also applied for and received \$100,000 under the New South Wales Government's COVID-19 JobSaver scheme.

More information on the accounting of the various COVID-19 subsidies can be found in note 3g (Government grants) to the consolidated financial statements.

8j. 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 manufacturing plants in Napier and Whanganui;
- 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.

In relation to the exposure to carbon pricing, the Group has in place 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.

More information on these decarbonisation projects can be found in note 5b (Capital commitments) to the consolidated financial statements.

In relation to the exposure to adverse climatic conditions, the Group has in place insurances to protect the Group against losses arising from such events while also having established appropriate stormwater infrastructure and processes to mitigate the current levels of risk posed by these events.

Based on the Group's assessment, there is nothing to indicate that climate-related risks has had any impact on the carrying value of its non-financial assets as on 30 June 2022, with the Board closely monitoring developments in this area.

8k. 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.

NON-GAAP FINANCIAL INFORMATION

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Bremworth Limited and subsidiary companies

Trend Statement

	2022	2021	2020	2019	2018	2017	2016
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial Performance							
Operating revenue	\$95,485	\$111,577	\$117,981	\$135,234	\$148,120	\$156,120	\$190,371
EBITDA (normalised)	4,918	3,385	2,300	7,076	9,998	2,572	12,275
Depreciation - owned assets	(683)	(379)	(2,418)	(3,479)	(3,561)	(3,251)	(3,352)
Depreciation - right-of-use assets	(954)	(534)	(1,779)	-	-	-	-
Depreciation - recycled through inventory	194	(764)	(265)	-	-	-	-
EBIT (normalised)	3,475	1,708	(2,162)	3,597	6,437	(679)	8,923
Finance costs	(1,029)	(1,124)	(2,535)	(1,790)	(2,798)	(2,936)	(3,374)
Finance income	159	68	-	-	-	-	-
Share of profit after tax of equity-accounted investees (normalised)	-	-	-	644	1,419	797	2,670
Profit/(Loss) before income tax (normalised)	2,605	652	(4,697)	2,451	5,058	(2,818)	8,219
Income tax (expense)/benefit	(870)	(276)	1,240	(572)	(1,084)	962	(1,906)
Profit/(Loss) after tax (normalised)	1,735	376	(3,457)	1,879	3,974	(1,856)	6,313
Abnormal gains/(losses) (after tax)	505	1,353	(17,994)	(18,659)	107	(268)	(3,198)
Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)	2,240	1,729	(21,451)	(16,780)	4,081	(2,124)	3,115
Ordinary dividends paid	-	-	-	-	-	-	-
Profit/(Loss) after dividends	\$2,240	\$1,729	(\$21,451)	(\$16,780)	\$4,081	(\$2,124)	\$3,115
Financial Position							
Shareholders' equity	37,771	35,592	33,637	54,989	72,222	67,890	69,361
Loans and borrowings - term portion	-	-	-	20,500	27,500	35,000	37,700
Term liabilities	19,251	20,978	3,511	1,618	2,029	3,728	4,461
Loans and borrowings - current portion	-	-	15,800	-	4,000	6,500	-
Current liabilities	21,880	21,453	17,033	22,227	27,253	25,739	35,854
Shareholders' equity and total liabilities	\$78,902	\$78,023	\$69,981	\$99,334	\$133,004	\$138,857	\$147,376
Property, plant and equipment	14,306	12,094	22,725	30,164	35,142	37,123	36,820
Right-of-use assets	9,280	9,968	430	-	-	-	-
Investment in equity-accounted investees	-	-	-	-	24,544	23,490	23,175
Goodwill and other intangibles	-	-	-	-	2,362	2,362	2,362
Deferred tax asset	532	732	600	5,456	4,971	5,532	3,496
Non-current assets	24,118	22,794	23,755	35,620	67,019	68,507	65,853
Cash and bank	14,874	22,508	1,276	2,724	2,111	1,255	1,200
Current assets	39,910	32,721	44,950	60,990	63,874	69,095	80,323
Total assets	\$78,902	\$78,023	\$69,981	\$99,334	\$133,004	\$138,857	\$147,376
Abnormal items (after tax)							
	2022	2021	2020	2019	2018	2017	2016
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Impairment of plant and equipment	-	-	(5,095)	(4,413)	-	-	(1,573)
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, 2}	-	(1,271)	(854)	-	136	(4,542)	(3,222)
Reversal of impairment of fixed assets	-	-	-	-	99	1,083	-
Gain on sale of property	-	2,624	-	-	-	-	2,035
Scour merger costs	-	-	-	-	(128)	(738)	(438)
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	-	-	-	-	-	-
Total	\$505	\$1,353	(\$17,994)	(\$18,659)	\$107	(\$268)	(\$3,198)

¹ Incurred as part of the Group's strategic transformation into the all-wool and natural materials business model

² Incurred as part of the Group's strategic plan to address its cost base, with the consolidation of its yarn spinning operations in Napier, Wanganui and Christchurch. The costs included employee termination benefits, employee support costs, costs to relocate plant and equipment and abnormal manufacturing costs and inefficiencies during the consolidation process, which included:

- consolidation of woollen yarn spinning operations (previously in Napier and Whanganui) to a single hub at the Napier plant;
- down-scaling of the semi-worsted yarn spinning operation in Whanganui;
- relocation of the felted yarn operation from Christchurch to Whanganui; and
- closure of the Christchurch plant.



Bremworth Limited and subsidiary companies

Trend Statement (continued)

	2022	2021	2020	2019	2018	2017	2016
Financial Ratios and Summary							
Use of Funds and Return on Investment							
Return on average shareholders' equity (normalised) - %	4.7%	1.1%	(7.8%)	3.0%	5.7%	(2.7%)	9.3%
Basic earnings per ordinary share (normalised) - cents	2.51	0.55	(5.03)	2.74	5.79	(2.70)	9.19
Diluted earnings per ordinary share (normalised) - cents	2.46	0.54	(5.03)	2.74	5.79	(2.70)	9.19
Financial Structure							
Net tangible asset backing per ordinary share - \$	\$0.40	\$0.36	\$0.47	\$0.72	\$0.94	\$0.87	\$0.92
Equity ratio - %	47.9%	45.6%	48.1%	55.4%	54.3%	48.9%	47.1%
Return to Shareholders							
Dividends paid per ordinary share	-	-	-	-	-	-	-
Share Price							
30 June	\$0.465	\$0.490	\$0.220	\$0.320	\$0.620	\$0.350	\$0.760
52 week high	\$0.850	\$0.490	\$0.380	\$0.680	\$0.630	\$0.950	\$0.770
52 week low	\$0.445	\$0.205	\$0.160	\$0.310	\$0.270	\$0.330	\$0.350
Market Capitalisation (\$000)							
30 June	\$32,168	\$33,653	\$15,109	\$21,977	\$42,581	\$24,038	\$52,196
Capital Expenditure and Depreciation (\$000)							
Capital expenditure	\$2,898	\$2,481	\$2,119	\$4,705	\$1,622	\$2,123	\$2,076
Depreciation - owned assets	\$683	\$378	\$2,418	\$3,479	\$3,561	\$3,251	\$3,352
Depreciation - right-of-use assets	\$954	\$534	\$1,779	\$0	\$0	\$0	\$0



Bremworth Limited and subsidiary companies

Trend Statement (continued)

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	$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$



Bremworth Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 48 to 50, 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'.



Bremworth Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information (continued)

Reconciliation of GAAP-compliant to non-GAAP-compliant measures of profit after tax

	Year ended 30 June 2022			Year ended 30 June 2021		
	GAAP \$000	Adjustments \$000	Normalised \$000	GAAP \$000	Adjustments \$000	Normalised \$000
Revenue	\$95,485	-	\$95,485	\$111,577	-	\$111,577
EBITDA	4,918	-	4,918	4,738	(1,353)	3,385
Depreciation - owned assets	(683)	-	(683)	(379)	-	(379)
Depreciation - right-of-use assets	(954)	-	(954)	(534)	-	(534)
Depreciation - recycled through inventory	194	-	194	(764)	-	(764)
EBIT	3,475	-	3,475	3,061	(1,353)	1,708
Finance costs	(1,029)	-	(1,029)	(1,124)	-	(1,124)
Finance income	159	-	159	68	-	68
Profit before tax	2,605	-	2,605	2,005	(1,353)	652
Tax expense	(365)	(505)	(870)	(276)	-	(276)
Profit after tax	\$2,240	(505)	1,735	\$1,729	(1,353)	376
Abnormal gains after tax		505	505		1,353	1,353
Profit after tax (GAAP)		\$0	\$2,240		\$0	\$1,729
Analysis of abnormal items	Profit before tax \$000	Tax effect \$000	Profit after tax \$000	Profit before tax \$000	Tax effect \$000	Profit after tax \$000
Reversal of normalised tax expense	-	505	505	-	-	-
Restructuring costs	-	-	-	(1,271)	-	(1,271)
Gain on sale and leaseback of property	-	-	-	2,624	-	2,624
	\$0	\$505	\$505	\$1,353	\$0	\$1,353

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
Year ended 30 June 2022			
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

Year ended 30 June 2021			
Profit attributable to shareholders (\$000)	\$1,729	(\$1,353)	\$376
Weighted average number of ordinary shares (basic)	68,679,098		68,679,098
Earnings per share (basic) (cents)	2.52		0.55
Weighted average number of ordinary shares (diluted)	69,242,681		69,242,681
Earnings per share (diluted) (cents)	2.50		0.54