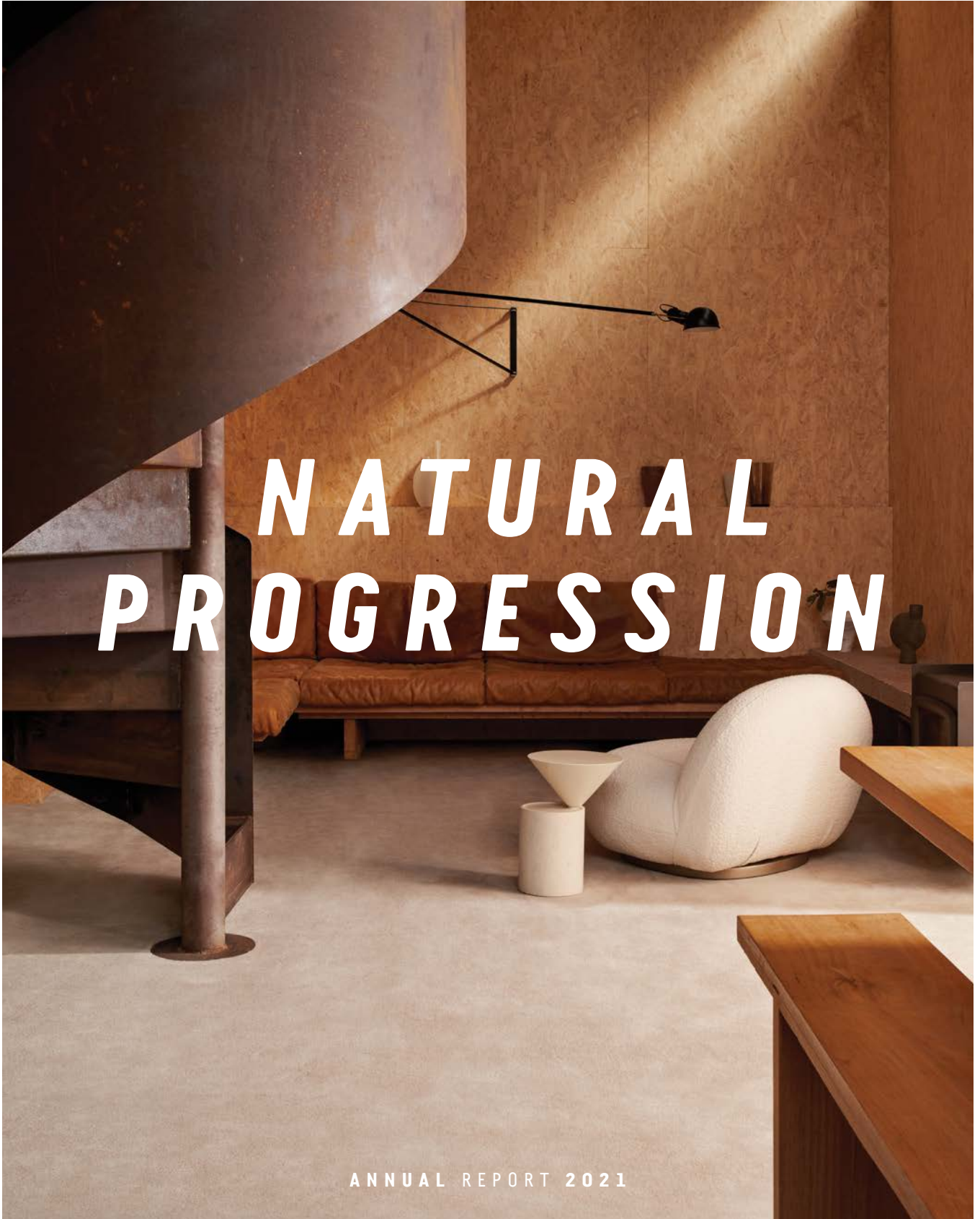


Brennworth



ANNUAL REPORT 2021

Let's Go Good Together

VISION

Bremworth

# TAKING A GOOD LOOK INTO THE FUTURE

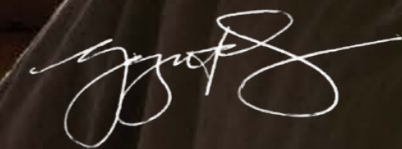
WE'RE ON A MISSION TO  
BECOME A GLOBAL LEADER IN  
DESIGNING & CREATING DESIRABLE,  
SUSTAINABLE, SAFE & HIGH-  
PERFORMING NATURAL INTERIORS.

THAT'S OUR VISION

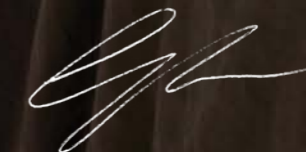
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On behalf of the Board and  
management of Bremworth Ltd,  
we are pleased to present the  
Annual Report for the year  
ended 30 June 2021.



**George Adams**  
Chairman



**Greg Smith**  
Chief Executive Officer

30 September 2021

Bremworth

# ***FINDING A MORE SUSTAINABLE WAY***

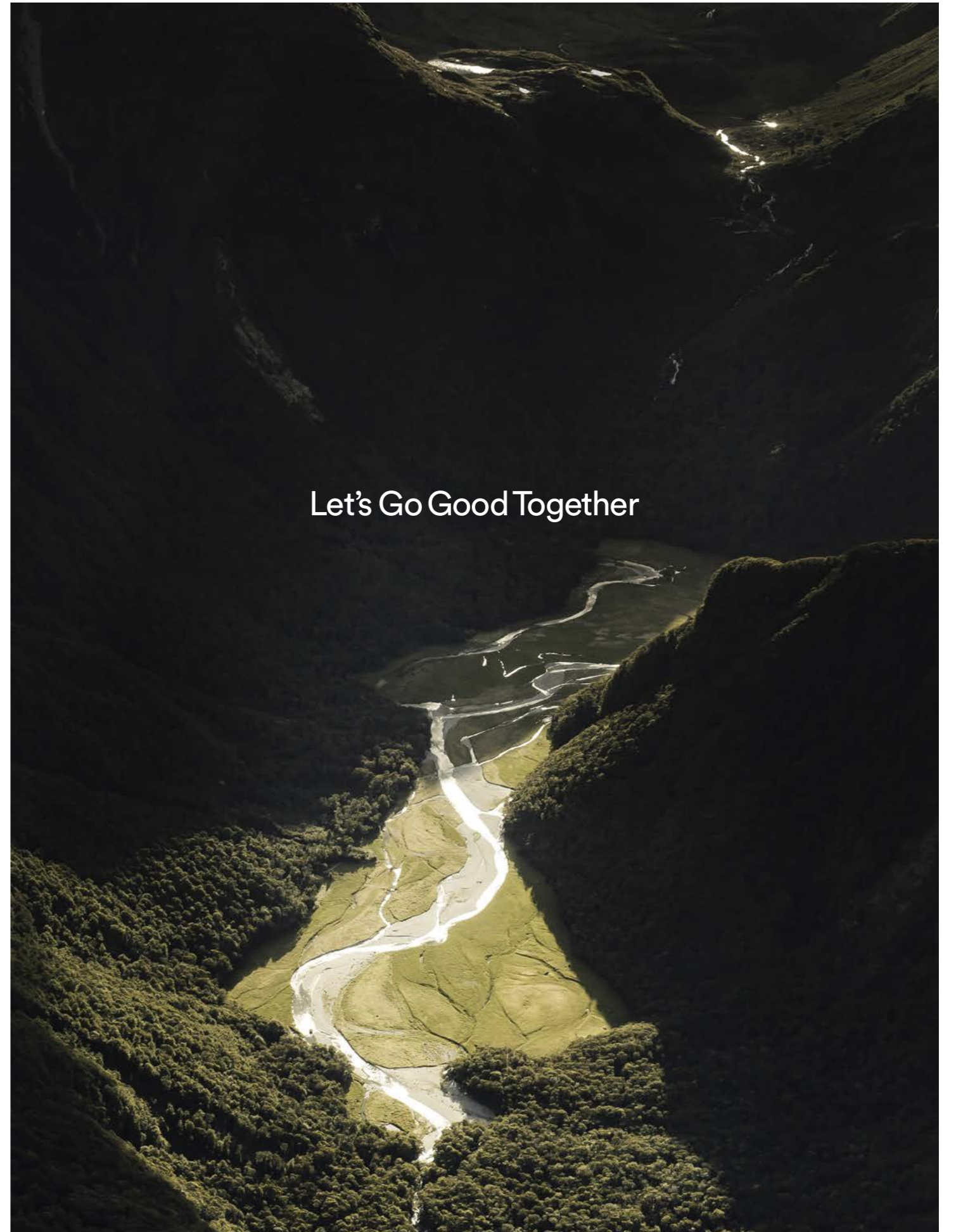
A year of transformation has redefined Bremworth as a premium design and natural fibre company.

Guided by a new purpose-led strategy, we've said goodbye to synthetic and hello to natural.

With consumers demanding more natural and sustainable quality products, we're making positive changes and doing more of what really matters.

Progressive new initiatives are plotting a fresh course for our future. Now we invite you to unite with us.

Let's Go Good Together



Brenworth

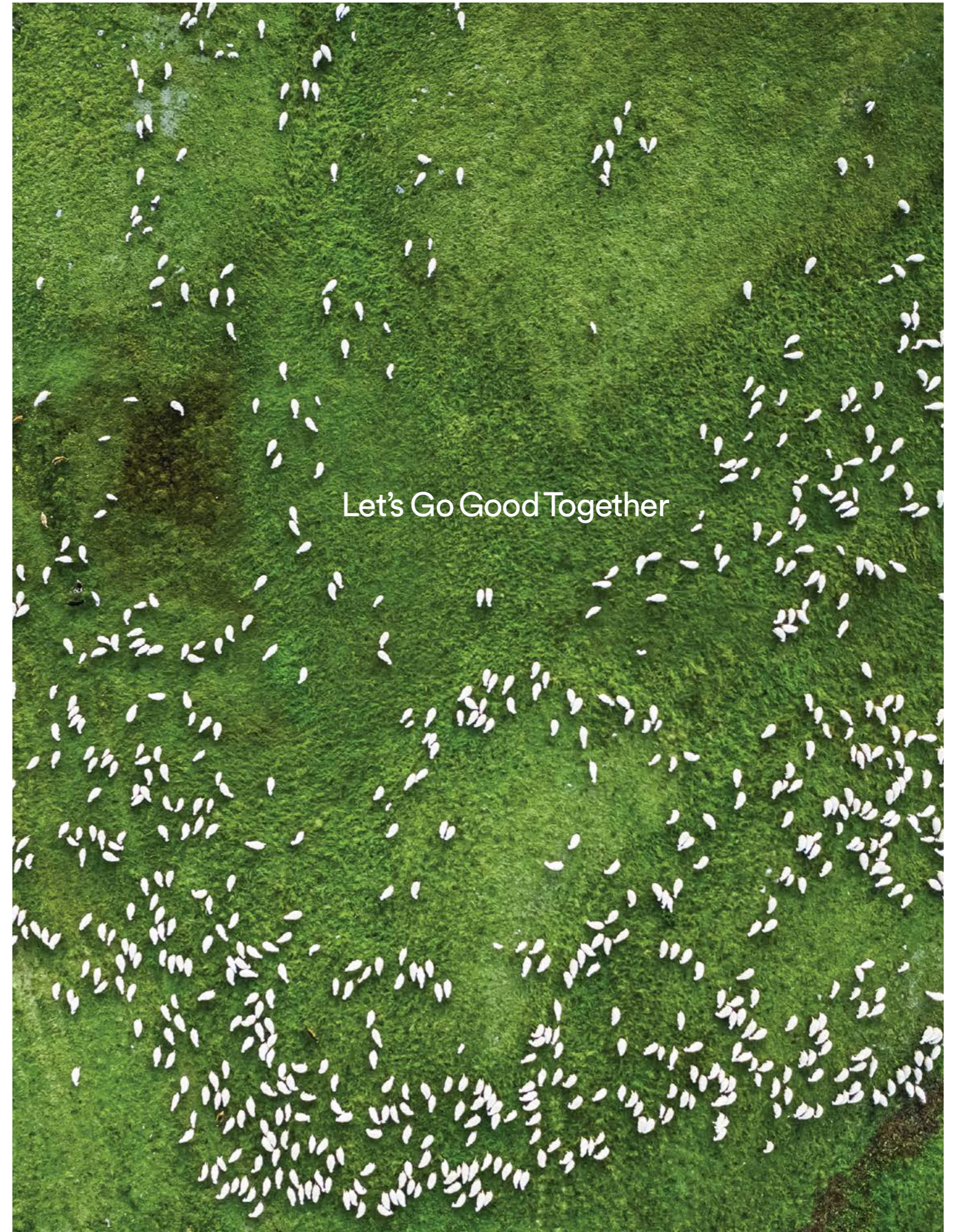
# **PURPOSE NOT PLASTIC**

In May 2021 we farewelled synthetic fibre carpet for good.

Some would say brave. Some might think silly. But for us, moving on from synthetic carpets was the right thing to do for people, the planet and our business.

Not only have we reduced our contribution to the worldwide plastic problem, this statement move has already led to a lift in sales of our higher margin, higher quality wool carpet.

We expect this momentum to continue as consumer demand for natural and sustainable products accelerates.



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Bremworth



# **NATURAL BORN LEADER**

**GREG SMITH CEO**

**"WE ONLY HAVE A FINITE  
TIME ON THIS PLANET,  
I JOINED BREMWORDH TO BE  
PART OF SOMETHING GOOD"**

In July, we welcomed Greg Smith as CEO. Previously CEO of Icebreaker and a senior executive with Michael Hill Jeweller, Greg has extensive international business experience, running iconic New Zealand companies and helping them scale on the world stage.

Greg's proven ability to build a highly successful business and valuable brand based on a natural ethos, makes him the ideal person to lead our company forward.

"I could see a huge opportunity for the brand and I'm stoked to be a part of this transformational journey. Looking ahead, we'll prioritise innovation, sustainability and partnerships as we drive demand for Bremworth branded product.

Naturally, we'll continue to optimise operational efficiency and commercial excellence. And it's time to supercharge the digital side of the business."

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# A SUSTAINABLE FUTURE HAS STARTED

Sustainability isn't a choice, it's essential to future-proof any business. Consumers search for it. Stakeholders demand it. And, because it's the right thing to do, a focus on sustainability feels good too. Our goal is to operate at the highest environmental standards based on science, with efficiency across energy, resources, operations, and supply chain.

## A \$4.9 MILLION INVESTMENT

This year our \$4.9m research based sustainability programme began with support from the Ministry for Primary Industries' Sustainable Food and Fibre Futures fund.

To assist with this work we are partnering with the University of Auckland and AgResearch and are in the process of appointing three PhD students to add even more brain power to our research team.

## CARBON ASSESSMENT

Recently completed carbon assessments have identified opportunities to reduce emissions right across our operations. To this end, we have signed up to EECA's Energy Transition Accelerator programme to develop a pathway to decarbonisation.



Let's Go Good Together

**OUR FOCUS**  
**ENERGY EFFICIENCY AND CARBON REDUCTION.**  
**NATURAL AND COMPOSTABLE SOLUTIONS.**  
**DECREASING WASTE.**

GROWN GOOD

Bremworth



# WOOL GROWN GOOD

**"WE ARE FULLY COMMITTED  
TO SUPPORTING NEW ZEALAND  
WOOL GROWERS AND THE  
NEW ZEALAND WOOL INDUSTRY."**

Greg Smith, CEO

Our fully owned subsidiary Elco Direct is one of Aotearoa's largest wool buyers.

By continually providing a competitive price and unequalled service to farmers, Elco Direct has established an extensive and loyal customer base.

To give our consumers certainty about the integrity, traceability, biosecurity, sustainability, and animal welfare of our wool products, Bremworth recently signed up to the New Zealand Farm Assurance Programme.

Before long 100% of our wool will be sourced from NZFAP accredited sources.

Let's Go Good Together

PASSION

Brennworth

**SPUN  
WITH  
LOVE**



**MADE  
WITH  
CARE**

Every product we make is made with the same care, belief and attention to detail that has made us the trusted, respected and iconic brand we are today.

The creation of each of our products involves beautiful, honest materials, careful craftsmanship and unique design.

But above all, we make a genuine, wholehearted difference to the daily lives of every one of our consumers.

Let's Go Good Together



CAMPAIGN

Bremworth

&

YOU

# TAKING OUR BRAND TO A GOOD PLACE

Conscious consumption has become mainstream. Plastic isn't so fantastic. And natural is more important than ever.

To reflect these changes and appeal to a burgeoning mindful market, we've repositioned our business and redefined the Bremworth brand.

We're presenting wool where it's always belonged:  
at the heart of a healthy home.

Let's Go Good Together

CAMPAIGN

Bremworth

&

TE PAPA

# SURREAL MADE REAL



SURREALIST ART  
EXHIBITION PARTNER

Let's Go Good Together

Bremworth were approached by Te Papa to collaboratively create a sensory art experience. Shared values, inspired design and real craftsmanship led to something truly magical.

We designed a custom carpet made from 100% NZ wool for the exhibition space.

The beautiful black, dense and lush carpet immersed visitors into a surrealist world.

CAMPAIGN

Bremworth

&

CONTEMPORARY  
DESIGN

**NATURAL  
INSPIRES OUR  
EVERYDAY**

Contemporary design embracing nature's beauty. Bremworth's wool carpets and rugs are right at home in this modern interior, bringing a richness of warmth and texture only nature can bring.

Let's Go Good Together

CAMPAIGN

Bremworth

&

DESIGNER  
SPACES

**A NATURAL  
STEP FORWARD  
IN FLOORING**

Bremworth blends innovation and nature's gift – wool. Each carpet and rug is designed to bring long lasting comfort, dependability and elevated design into today's homes.

Let's Go Good Together

# Bremworth

&  
BRAKE  
HOUSE

## REFLECTING NEW ZEALAND

Let's Go Good Together

Designed by architect Ron Sang in the 1970's for photographer Brian Brake, the Brake House is admired for the way it blends into its surrounding native bush, and has a connection to the natural environment.

**"When it came to the carpet we wanted to be natural, we wanted 100% wool fibre, we wanted a New Zealand brand. That began and ended at Bremworth."**

Eric Young  
Brake House Custodian

# **EMPOWERING GOOD PEOPLE TO DO GREAT THINGS**

## **PEOPLE, TEAMS & TOGETHERNESS ARE OUR BACKBONE.**

This year we've invested in new skills and capability, particularly in new areas of focus such as sustainability.

To better understand how we can connect people and technology, we completed an Industry 4.0 SIRI assessment with the assistance of Callaghan Innovation. With a focus on enabling our people to be their best, the findings will be used to boost productivity, and innovation.

## **WE CONTINUE TO FOCUS ON HELPING OUR PEOPLE THRIVE.**

Making sure our people are fit and well, and that they go home safely every day from work is always a priority.

The wellbeing of our people away from work has also been paramount, especially during COVID lockdowns. All staff have 24/7 access to Benestar which is an Employee Assistance Programme and we've offered staff programmes on sleep, yoga, mindfulness and resilience.



Mele Leaaemanu - Day Shift Production Supervisor

**"WE'VE GOT A FAMILY DYNAMIC ON  
OUR MANUFACTURING FLOOR, WHICH IS  
GREAT BECAUSE EVERYONE IS WILLING  
TO JUMP IN AND HELP"**

Let's Go Good Together

# WE INVITE YOU TO UNITE WITH US

Let's Go Good Together



**George Adams**  
Independent Chairman

George Adams is an independent Director and was appointed to the Board on 1 June 2018. He was appointed Chair of the Board in July 2020, having served as Deputy Chair of the Board since April 2019. George was also appointed Chair of the Board's Nomination Committee in July 2020 and is a member of the Board's Audit and Remuneration Committees. George brings outstanding commercial and governance experience from more than 25 years of international business experience in the fast-moving consumer goods and telecommunications industries, as well as a strong background in occupational health and safety.



**Dianne Williams**  
Independent Director

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



**Paul Izzard**  
Independent Director

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



**Grant Biel**  
Non-Independent Director

Grant Biel is a non-independent Director by virtue of his interests in Rural Aviation (1963) Limited, a substantial product holder in Bremworth. He has been on the Bremworth Board since July 1984, held the position of executive Director from July 1984 to September 1995 and is a member of the Board's Audit, Remuneration and Nomination Committees. Grant is the surviving co-founder of the Cavalier Carpets business which he founded with Tony Timpson in 1972.



**John Rae**  
Independent Director

John Rae is an independent Director and joined the Bremworth Board in July 2015. He was appointed Chair of the Board's Audit Committee in July 2020 and is a member of the Board's Remuneration and Nomination Committees. John has degrees in Law and Commerce and spent his early career in banking in New Zealand and London in various treasury and capital market roles for 10 years before returning to New Zealand and undertaking a number of private equity, venture capital and corporate finance transactions in Australasia.

# FY21 CHAIRMAN'S REVIEW

**GEORGE ADAMS**

FY21 marked the beginning of a new era for Bremworth.

We took the first bold steps towards becoming a global leader in desirable, sustainable, high performing natural interior solutions, building solid foundations for our future.

## **ALL WOOL, ALL GOOD**

Our 'all wool and natural fibres' strategy saw us exit the synthetic carpet market - which previously accounted for around half our sales - to fully pursue higher margin, higher quality wool carpet sales.

Our growth strategy is built on four pillars – to grow the wool flooring market, to grow our share of this market, to expand our presence and to continue with the design-led innovation for which Bremworth is famous for.

To support the execution of our strategy and investment in the new way forward, we successfully concluded the sale and leaseback of our Auckland property in December 2020 for \$25.0 million net. We have also right sized the organisational structure in response to our exit from synthetics – downsizing Auckland manufacturing and increasing capacity at Napier and Whanganui.

Our priorities for FY21 to FY23 are to push forward with our new strategy and navigate the economic recovery post-COVID.

A number of initiatives in FY21 drove progress towards our goals:

- **The launch of the re-energised Bremworth brand for the core carpet business;**
- **Rollout of new colour options, providing greater choice for consumers;**
- **Expansion of our retailer distribution networks, predominantly in Australia;**



**"ALREADY WE ARE SEEING A  
LIFT IN OUR WOOL CARPET SALES  
& WE EXPECT DEMAND TO GROW"**

Let's Go Good Together



- **Launch of a differentiated brand strategy in 2H21, to build demand for Bremworth branded product, grow the New Zealand wool carpet category and support the broader New Zealand wool industry.**

## **SUSTAINABILITY GOAL-SETTING**

Hand-in-hand with our commercial strategy, we have set forth on our sustainability journey. Our goal is to reduce our environmental impact through research, science and innovation. We are systematically identifying opportunities to be more sustainable and efficient throughout our supply chain and production processes.

True, we're not perfect but we are committed to being better, underlined by the launch of a \$4.9 million sustainability-based research programme.

This will focus on:

- **Reducing the company's carbon footprint;**
- **Using more natural solutions; and**
- **Finding new, innovative ways to manufacture our products so that they are better for people and the planet.**

## **CAVALIER BECOMES BREMWORTH**

We started FY22 with the announcement of our company name change from Cavalier to Bremworth. This is a natural progression for our company and follows the 2020 move to return the carpet business to the original Bremworth brand. The renewed commitment to the Bremworth name is another defining step in our transformation. We look forward to a future where we can deliver value to our shareholders and make a genuine difference to the wellbeing of people and the planet. All while providing the design and performance attributes consumers care about.

## **GOOD PEOPLE**

Our people have always been the backbone of our business, with a number of multi-generational family members part of our 400 strong 'work family'. Over what has been a very challenging year, our people have continued to work hard, add value and come to work every day with a great attitude. On behalf of the Board and management, our sincere thanks go to everyone in the Bremworth team for their efforts and contribution.

## **LEADING CHANGE**

In April this year, we accepted the resignation of Paul Alston as CEO. Paul joined Bremworth as chief financial officer in 2012 and served as chief executive officer from May 2015. He led the business through an intensive period of change, restructuring and positioning it for the future as a more sustainable and focused business. The Board wishes to acknowledge the significant value that Paul brought to Bremworth over his nine years with the business.

In July, we were delighted to welcome Greg Smith as the incoming CEO. His proven business acumen, natural leadership skills and visionary thinking make him the ideal person to lead our company forward.

## **GOVERNANCE**

In another turning point for our company, founder Grant Biel has announced his intention to step down from the Board at this year's Annual Shareholders' Meeting. Alongside co-founder, Tony Timpson, Grant created Bremworth and has helped guide its progression from a tin shed operation to be New Zealand's leading carpet manufacturer today. Grant will continue his association with Bremworth as the company's first ever Director Emeritus, a position he will hold for life. The honorary appointment is in recognition of the pivotal role Grant has played in our history.

We also appointed Paul Izzard to the Board during the year. He is one of the leading commercial interior designers in the country, as well as a strong business leader, and is providing significant insight and advice as we transform our business towards a 'consumer and design-led' future.

## **LOOKING FORWARD**

Our decision to stop selling synthetic carpets was brave and disruptive. But that's just the start.

We are looking at every aspect of our business to see what we can do better, backed by more than 50 years of experience in the market and current consumer insights.

The opportunity for Bremworth is significant. Wool carpets make up only a small portion of carpet sales overall and there is an enormous opportunity to rebuild wool's share of market as consumers seek more natural alternatives.

## **GROWTH STRATEGY**

Our first strategic pathway is to grow demand for wool carpet. Already our digital marketing campaigns are promoting New Zealand wool as a natural, high performing alternative to synthetic carpet fibres. We firmly believe wool carpet is the optimum offer for consumers. Along with design and performance benefits, wool is natural, fire retardant, warm in winter and cool in summer, and stain resistant. The trend for hard flooring looks set to stay. Rugs are becoming an integral part of this flooring style, adding softness, warmth, texture and design flair to people's homes. As such, we are seeing strong and growing demand for Bremworth rugs.

## **TOWARDS FY22**

We will continue to invest in our transformation, particularly around technology, sustainability and marketing. Supply chain and COVID-related disruptions including a tight labour market are expected to continue over the short term. However, consumer demand has strengthened over the pandemic period as people spend money on consumer goods and housing in lieu of travel.

There is also growing awareness of, and sentiment towards, natural products, with Government policy increasingly addressing sustainability and climate change.

We are in a strong financial position, confident in our strategy and excited about the opportunities ahead of us and the future of our company. Our thanks go to our shareholders for your support during this time.



**George Adams**, Chairman

30 September 2021

Brenworth

FINANCIAL  
PERFORMANCE

**REVENUE**  
**\$111.6M**

DOWN 5% ON PCP

**INCREASED**  
**WOOL CARPET**  
**SALES**

17% GROWTH  
YEAR ON YEAR

**OPERATING**  
**CASH FLOW**  
**\$16.2M**

UP 138% ON  
THE PRIOR YEAR

**48% IMPROVEMENT**  
**IN NORMALISED EBITDA**

EBITDA \$4.7M  
NORMALISED \$3.4M

**RETURN**  
**TO PROFIT**

\$1.7M NET PROFIT AFTER TAX  
UP FROM LOSS OF \$21.5M IN FY20

**ROBUST**  
**BALANCE**  
**SHEET**

NIL BANK DEBT.  
\$22.5M CASH & BANK  
AS AT 30 JUNE 2021

# FY21 FINANCIAL REVIEW



Let's Go Good Together

## INCREASING WOOL CARPET SALES

Bremworth reported significantly improved wool carpet sales, strong cash flows and a return to profit as we continue our journey to execute our all wool and natural fibres strategy.

We are still seeing the impact of the global pandemic, with ongoing restrictions and lockdowns in Australia and New Zealand, and supply chain issues. However, consumer demand has strengthened over this time as people spend money on consumer goods and housing in lieu of travel. There is also growing awareness and sentiment towards natural products, and increasing Government policy addressing sustainability and climate change.

## RETURN TO PROFIT

Revenue was \$111.6m, with earnings before interest, tax, depreciation and amortisation (EBITDA) of \$4.7m and normalised EBITDA up 48% to \$3.4m. Net profit after tax improved to \$1.7m, up from a loss of \$21.5m in the prior year.

Group revenue was down 5% on the prior year, reflecting Bremworth's exit from the synthetic carpet market, with synthetic carpet stocks selling down faster and at a higher margin than anticipated. Pleasingly, sales of wool carpets increased 17% year on year, with strong growth in the second half. The improved sales mix was underpinned by strong consumer demand in both New Zealand and Australia, despite supply chain issues and COVID-related disruption to the export supply chain.

Revenue from the wool buying business, Elco Direct, was down 5%, but it recorded strong year on year margin growth as operating conditions improved.

Operating expenses increased as expected, with the right sizing of the business for the new strategy and commencement of brand awareness campaigns in the second half of the year.

EBITDA increased to \$4.7m, up from \$(8.9)m in FY20, while normalised EBITDA was up 48% to \$3.4m. Net profit after tax of \$1.7m included the costs associated with the right-sizing of the organisation and a \$2.6m net gain on the sale and leaseback of the Auckland property.

Excluding these one-off items, normalised profit after tax was \$0.4m (FY20: normalised loss after tax of \$3.5m).

## STRONG PLATFORM TO EXECUTE STRATEGY

Tight control over working capital continues. Inventory levels reduced as planned due to the sell down of synthetic carpets. These are expected to increase again over time as wool carpet sales grow.

All debt was repaid during the year, with cash and bank of \$22.5m at year end providing a strong platform and the financial resources to execute the new strategy. Operating cash flow improved to \$16.2m, up 138% on the prior year.

Prudent capital management remains a priority as the Company continues to invest in resetting the business and expanding capacity to support growth. No dividend was declared.

Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 131 and 132.

# SUMMARY

July 2020

**New purpose led strategic direction was announced.**

We started our journey to deliver natural, sustainable and beautiful interior products that help create happy and healthy homes

November 2020

**Re-launched Bremworth brand.**

We returned our carpet business to the original Bremworth brand and, more recently, we also changed our company name from Cavalier to Bremworth

December 2020

**Secured funding to execute the strategic plan.**

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

April 2021

**Secured SFFF grant from MPI to support Bremworth's sustainability programme.**

We took the first step in our sustainability journey, securing Government funding to support our \$4.9 million sustainability-based research programme which seeks to create better and greener ways to manufacture wool carpet

May 2021

**Bremworth's last ever synthetic carpet production was celebrated.**

MPI helped us to celebrate the end of synthetic carpet production in our plants, which reduces our use of imported synthetic fibre annually by 2,500 tonnes

June/ July 2021

**June**  
We signed up to the New Zealand Farm Assurance Programme. This provides our consumers certainty about the integrity, traceability, biosecurity, sustainability, and animal welfare of our wool.

**July**  
We were pleased to welcome Greg Smith as the new Chief Executive Officer for Bremworth, farewelling Paul Alston after nine years with the company.

**EOYF**  
Results in line with expectations as we continue to execute our all wool and natural fibres strategy

# FY22 LET'S KEEP GOING GOOD

FUTURE FOCUS FROM  
GREG SMITH CEO

Consumers are increasingly looking to bring more natural alternatives into their homes. They're making good choice and we want to be one of them.

To continue the transformation journey we have set four key priorities for the year ahead.

- **Create demand for Bremworth branded product**
- **Optimise operational efficiency and commercial excellence**
- **Super charge the digital business**
- **Prioritise innovation, sustainability and partnerships.**



Let's Go Good Together

**"AT BREMWORTH, WE HAVE AN ENORMOUS OPPORTUNITY TO REBUILD WOOL'S SHARE OF THE FLOORING MARKET AND GROW OUR BUSINESS"**

Greg Smith - CEO

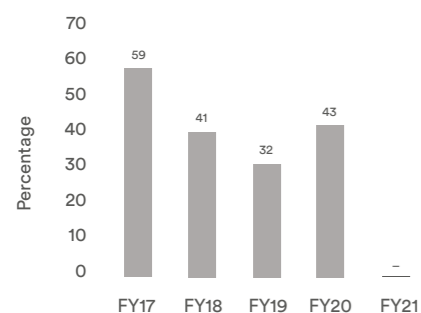


**TREND  
STATEMENT**

## TREND STATEMENT FIVE YEAR PERFORMANCE GRAPHS

### UNAUDITED

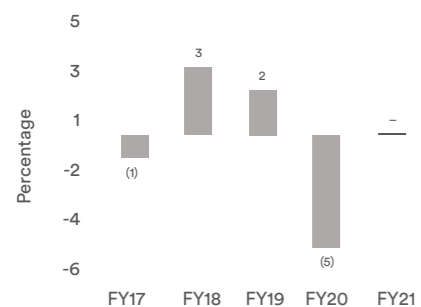
#### GEARING %



#### GROSS PROFIT %



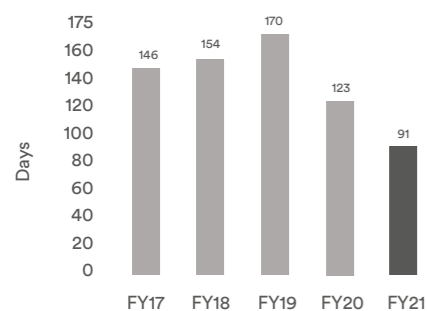
#### RETURN (NORMALISED NPAT) ON ASSETS %



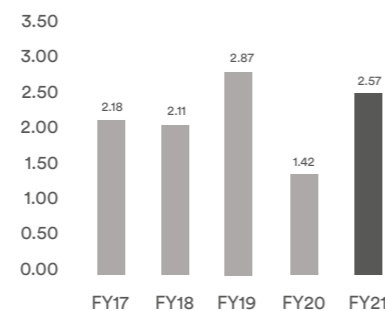
#### DAYS SALES IN RECEIVABLES



#### INVENTORY TURNOVER IN DAYS



#### CURRENT RATIO



Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 131 and 132.

## TREND STATEMENT

### UNAUDITED

|   | 2021<br>\$000    | 2020<br>\$000    | 2019<br>\$000    | 2018<br>\$000    | 2017<br>\$000    | 2016<br>\$000    | 2015<br>\$000    |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Operating revenue</b>  | <b>\$111,577</b> | <b>\$117,981</b> | <b>\$135,234</b> | <b>\$148,120</b> | <b>\$156,120</b> | <b>\$190,371</b> | <b>\$215,728</b> |
| <b>EBITDA (normalised)</b>  | <b>3,385</b>     | <b>2,300</b>     | <b>7,076</b>     | <b>9,998</b>     | <b>2,572</b>     | <b>12,275</b>    | <b>8,517</b>     |
| <b>EBIT (normalised)</b>  | <b>1,708</b>     | <b>(2,162)</b>   | <b>3,597</b>     | <b>6,437</b>     | <b>(679)</b>     | <b>8,923</b>     | <b>2,655</b>     |
| <b>Profit/(Loss) before income tax (normalised)</b>                               | <b>652</b>       | <b>(4,697)</b>   | <b>2,451</b>     | <b>5,058</b>     | <b>(2,818)</b>   | <b>8,219</b>     | <b>741</b>       |
| <b>Profit/(Loss) after income tax (normalised)</b>                                | <b>376</b>       | <b>(3,457)</b>   | <b>1,879</b>     | <b>3,974</b>     | <b>(1,856)</b>   | <b>6,313</b>     | <b>1,195</b>     |
| <b>Abnormal costs (after tax)</b>   | <b>1,353</b>     | <b>(17,994)</b>  | <b>(18,659)</b>  | <b>107</b>       | <b>(268)</b>     | <b>(3,198)</b>   | <b>(26,910)</b>  |
| <b>Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)</b> | <b>1,729</b>     | <b>(21,451)</b>  | <b>(16,780)</b>  | <b>4,081</b>     | <b>(2,124)</b>   | <b>3,115</b>     | <b>(25,715)</b>  |
| <b>Financial Position</b>   |                  |                  |                  |                  |                  |                  |                  |
| Shareholders' equity  | <b>35,592</b>    | <b>33,637</b>    | <b>54,989</b>    | <b>72,222</b>    | <b>67,890</b>    | <b>69,361</b>    | <b>66,184</b>    |
| Loans and borrowings  | <b>-</b>         | <b>15,800</b>    | <b>20,500</b>    | <b>31,500</b>    | <b>41,500</b>    | <b>37,700</b>    | <b>56,767</b>    |
| Fixed assets  | <b>12,094</b>    | <b>22,725</b>    | <b>30,164</b>    | <b>35,142</b>    | <b>37,123</b>    | <b>36,820</b>    | <b>47,910</b>    |
| Right-of-use assets   | <b>9,968</b>     | <b>430</b>       | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         |
| Goodwill and other intangibles  | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>2,362</b>     | <b>2,362</b>     | <b>2,362</b>     | <b>2,362</b>     |
| Cash and bank   | <b>22,508</b>    | <b>1,276</b>     | <b>2,724</b>     | <b>2,111</b>     | <b>1,255</b>     | <b>1,200</b>     | <b>2,834</b>     |
| Return on average shareholders' equity (normalised)                               | <b>1.1%</b>      | <b>(7.8)%</b>    | <b>3.0%</b>      | <b>5.7%</b>      | <b>(2.7)%</b>    | <b>9.3%</b>      | <b>1.5%</b>      |
| Basic earnings per ordinary share (normalised) – cents                            | <b>0.55c</b>     | <b>(5.03)c</b>   | <b>2.74c</b>     | <b>5.79c</b>     | <b>(2.70)c</b>   | <b>9.19c</b>     | <b>1.74c</b>     |
| Diluted earnings per ordinary share (normalised) – cents                          | <b>0.54c</b>     | <b>(5.03)c</b>   | <b>2.74c</b>     | <b>5.79c</b>     | <b>(2.70)c</b>   | <b>9.19c</b>     | <b>1.74c</b>     |
| Net tangible asset backing per ordinary share                                     | <b>\$0.36</b>    | <b>\$0.47</b>    | <b>\$0.72</b>    | <b>\$0.94</b>    | <b>\$0.87</b>    | <b>\$0.92</b>    | <b>\$0.91</b>    |

A photograph of a desk with a newspaper, a cup of coffee, and flowers. The desk is covered with a brown, marbled paper. A white cup of coffee is on the left, and a bouquet of pink flowers is in the bottom left corner. A newspaper is open in the center, with the headline "What really happened in the lower lockdowns" visible. The background is a dark, textured surface.

# CONSOLIDATED FINANCIAL STATEMENTS



# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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# CONSOLIDATED FINANCIAL STATEMENTS DIRECTORS' RESPONSIBILITY STATEMENT

## DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the consolidated financial statements of Bremworth Limited (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 53 to 103, the consolidated financial statements for the year ended 30 June 2021.

These audited consolidated financial statements were authorised for issue by the Directors on 30 September 2021 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



**J M Rae**  
Chairman of the Audit Committee

# CONSOLIDATED FINANCIAL STATEMENTS INDEPENDENT AUDITOR'S REPORT



To the shareholders of Bremworth Limited

## OUR OPINION

In our opinion, the accompanying consolidated financial statements of Bremworth Limited (formerly known as "Cavalier Corporation Limited") (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2021, 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 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## BASIS FOR OPINION

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

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

### Independence

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

Our firm carried out other services for the Group in the areas of treasury advisory services prior to the acceptance of our audit engagement services. The provision of these other services has not impaired our independence as auditor of the Group.

## KEY AUDIT MATTERS

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

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



## DESCRIPTION OF THE KEY AUDIT MATTER

### Liquidity and cash flow forecasts

The consolidated financial statements have been prepared on a going concern basis and the Group expects to be able to realise its assets and meet its financial obligations in the normal course of business for the foreseeable future. This is primarily supported by the Group's current liquidity and cash flow forecasts.

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 and its ability to meet its financial commitments as they fall due in the normal course of business through to 30 June 2023.

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.

In forming its going concern conclusion, the Board has also taken into consideration a number of factors, including the cash surplus resulting from the successful execution of the sale and leaseback of the Auckland property and the sell down of non-wool inventory, with no outstanding external debt as at balance date, the potential impact of the recent COVID-19 lockdowns in New Zealand and the Group's ability to resort to other sources of funding (including the sale of other properties) and to reduce discretionary spending, if required.

The Group's all-wool and natural materials strategy involves some uncertainty around the successful execution of this transformation and the cash flow forecasts of the business, therefore it is an area of focus for the audit and a key audit matter.

Refer to Note 2c to the consolidated financial statements describing the Group's cash flow forecasts and conclusion on the use of going concern assumption for the preparation of the consolidated financial statements.

## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

To audit the Group's cash flow forecasts for the period to 30 June 2023, which are used to support the going concern assumption for the preparation of the consolidated financial statements, our audit procedures included the following:

- gaining an understanding of key assumptions used in the cash flow forecasts through discussions with management;
- checking these key assumptions are consistent with the Board approved forecasts;
- assessing and challenging key assumptions such as sales volumes and margins, wool price and exchange rates with reference to independent data sources and contracts, where possible, and to recent actual sales and margin performance;
- performing sensitivity testing on the key sales assumptions used in the forecast cash flows to assess the level of forecasting risk;
- evaluating the accuracy of the Group's previous forecasts by comparing the actual performance against forecasts in prior periods; and
- performing subsequent events procedures to identify events that may affect the Group's cash flow forecasts, including consideration of the expected impacts of the most recent New Zealand COVID-19 lockdown.

We also considered the adequacy of the related disclosures in the consolidated financial statements against the requirements of NZ IFRS.

**DESCRIPTION OF THE KEY AUDIT MATTER**

**Valuation of inventory**

The carrying value of the Group's inventory at 30 June 2021 was \$20.03 million (30 June 2020 \$32.08 million) net of inventory provisions of \$1.98 million (30 June 2020 \$4.74 million).

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

The Group has recorded inventory provisions, which represent a deduction from the cost of inventory, for obsolete, aged and discontinued inventory and carpet oddments to reflect management's best estimate of their net realisable value. Determining these provisions involves significant judgements considering a range of factors such as inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margins data.

Valuation of inventory is 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.

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.

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

**To audit the cost of inventory, our procedures included:**

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

**To audit the inventory provisions, our procedures included:**

- observing management's stocktake process by attending selected locations to confirm the existence and condition of the inventory;
- gaining an understanding of and assessing the Group's methodology for identifying slow moving, oddments and obsolete inventories, taking into consideration other key attributes used such as piece sizes, low grade quality and discontinued products;
- assessing the accuracy of management's estimate of provisioning by comparing actual inventory write offs with the corresponding prior year provisions;
- testing the net realisable value of finished goods, on a sample basis, by comparing the cost with recent sales prices and margins; and
- reviewing the inventory aging schedules to verify, on a sample basis, whether provisions were recorded for aged stock in accordance with the Group's policy

**OUR AUDIT APPROACH**

**Overview**



Overall group materiality: \$557,000, which represents approximately 0.5% of revenue. 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.

Following our assessment of the risk of material misstatement, full scope audits were performed for five of 28 entities in the Group based on their financial significance. These five entities covered all of the Group's trading entities, which accounted for all of the Group's revenue. Specified audit procedures and analytical review procedures were performed on the remaining entities.

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

- Liquidity and cash flow forecasts
- Valuation of inventory

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

**Materiality**

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

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

**How we tailored our group audit scope**

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

**OTHER MATTER**

The consolidated financial statements of Bremworth Limited for the year ended 30 June 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 20 November 2020.

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



### 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. Our opinion on the consolidated financial statements does not cover the other information and we 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.

### 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  
30 September 2021

Auckland

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2021

| Audited  | Note | 2021<br>\$000  | 2020<br>\$000     |
|--|------|----------------|-------------------|
| Revenue from contracts with customers            | 3c   | 111,577        | 117,981           |
| Cost of sales                                    |      | (80,145)       | (95,227)          |
| <b>Gross profit</b>                              |      | <b>31,432</b>  | <b>22,754</b>     |
| Other income and gains                           | 3d   | 2,823          | 35                |
| Distribution expenses                            |      | (19,914)       | (18,255)          |
| Administration expenses                          | 3e   | (10,009)       | (6,696)           |
| Restructuring costs                              |      | (1,271)        | (1,186)           |
| Impairment of plant and equipment                | 5a   | –              | (7,077)           |
| Impairment of right-of-use assets                | 5a   | –              | (2,909)           |
|  |      | <b>3,061</b>   | <b>(13,334)</b>   |
| Finance costs                                    | 3h   | (1,124)        | (2,535)           |
| Finance income                                   |      | 68             | –                 |
| <b>Profit/(Loss) before income tax</b>           |      | <b>2,005</b>   | <b>(15,869)</b>   |
| Income tax (expense)/benefit                     | 3i   | (276)          | 7,309             |
| Derecognition of deferred tax assets             | 3i   | –              | (12,891)          |
| <b>Profit/(Loss) after tax for the year</b>      |      | <b>\$1,729</b> | <b>(\$21,451)</b> |
| <b>Basic earnings/(loss) per share (cents)</b>   | 3b   | <b>2.52</b>    | <b>(31.23)</b>    |
| <b>Diluted earnings/(loss) per share (cents)</b> | 3b   | <b>2.50</b>    | <b>(31.23)</b>    |

*This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 60 to 103.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

| Audited   | Note | 2021<br>\$000  | 2020<br>\$000     |
|---|------|----------------|-------------------|
| <b>Profit/(Loss) after tax for the year</b>   |      | <b>1,729</b>   | <b>(21,451)</b>   |
| <b>Other comprehensive income that may be reclassified subsequently to profit or loss</b> |      |                |                   |
| Effective portion of changes in fair value of cash flow hedges                            |      | 299            | (178)             |
| Net change in fair value of cash flow hedges transferred to profit or loss                |      | (77)           | 315               |
| Income tax on changes in fair value of cash flow hedges                                   | 3i   | (47)           | (38)              |
| <b>Total other comprehensive income</b>   |      | <b>175</b>     | <b>99</b>         |
| <b>Total comprehensive income for the year</b>  |      | <b>\$1,904</b> | <b>(\$21,352)</b> |

*This Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 60 to 103.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

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

*This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 60 to 103.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D) FOR THE YEAR ENDED 30 JUNE 2020

| Audited   | Share Capital<br>\$000 | Cash Flow<br>Hedging Reserve<br>\$000 | Foreign<br>Currency<br>Translation<br>Reserve<br>\$000 | Retained<br>Earnings<br>\$000 | Total<br>Equity<br>\$000 |
|---|------------------------|---------------------------------------|--|-------------------------------|--------------------------|
| <b>Total equity at 1 July 2019</b>  | 21,846                 | (219)                                 | (1,420)  | 34,782                        | 54,989                   |
| <b>Total comprehensive income for the year</b>  |                        |                                       |  |                               |                          |
| Loss after tax  | –                      | –                                     | –  | (21,451)                      | (21,451)                 |
| <b>Other comprehensive income that may be reclassified subsequently to profit or loss</b> |                        |                                       |  |                               |                          |
| Changes in fair value of cash flow hedges (net of income tax)                             | –                      | 99                                    | –  | –                             | 99                       |
| <b>Total comprehensive income for the year</b>  | –                      | 99                                    | –  | (21,451)                      | (21,352)                 |
| <b>Total equity at 30 June 2020</b>   | \$21,846               | (\$120)                               | (\$1,420)  | \$13,331                      | \$33,637                 |

This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 60 to 103.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

| Audited  | Note   | 2021<br>\$000   | 2020<br>\$000   |
|--|--------|-----------------|-----------------|
| <b>ASSETS</b>  |        |                 |                 |
| Property, plant and equipment - owned                | 5a     | 12,094          | 22,725          |
| Property, plant and equipment - right-of-use         | 8a     | 9,968           | 430             |
| Deferred tax asset                                   | 3i     | 732             | 600             |
| <b>Total non-current assets</b>                      |        | <b>22,794</b>   | <b>23,755</b>   |
| Cash and bank  | 6a     | 22,508          | 1,276           |
| Trade receivables, other receivables and prepayments | 6b     | 12,520          | 12,607          |
| Inventories  | 6c     | 20,035          | 32,081          |
| Derivative financial instruments                     | 7      | 109             | 160             |
| Income tax receivable                                |        | 57              | 102             |
| <b>Total current assets</b>                          |        | <b>55,229</b>   | <b>46,226</b>   |
| <b>Total assets</b>                                  |        | <b>\$78,023</b> | <b>\$69,981</b> |
| <b>EQUITY</b>  |        |                 |                 |
| Share capital  | 4b     | 21,846          | 21,846          |
| Cash flow hedging reserve                            | 4b     | 55              | (120)           |
| Foreign currency translation reserve                 | 4b     | (1,420)         | (1,420)         |
| Share-based payment reserve                          | 4b, 8b | 51              | –               |
| Retained earnings                                    |        | 15,060          | 13,331          |
| <b>Total equity</b>                                  |        | <b>35,592</b>   | <b>33,637</b>   |
| <b>LIABILITIES</b>                                   |        |                 |                 |
| Lease liabilities                                    | 8a     | 19,530          | 2,224           |
| Employee benefits                                    | 8e     | 776             | 703             |
| Provisions   | 8d     | 672             | 584             |
| <b>Total non-current liabilities</b>                 |        | <b>20,978</b>   | <b>3,511</b>    |
| Loans and borrowings                                 | 4c     | –               | 15,800          |
| Trade payables and accruals                          | 6d     | 13,064          | 10,617          |
| Employee benefits                                    | 8e     | 136             | 128             |
| Employee entitlements                                | 6e     | 5,203           | 3,501           |
| Lease liabilities                                    | 8a     | 2,003           | 1,345           |
| Provisions   | 8d     | 662             | 710             |
| Derivative financial instruments                     | 7      | 34              | 732             |
| Deferred income                                      | 3g     | 351             | –               |
| <b>Total current liabilities</b>                     |        | <b>21,453</b>   | <b>32,833</b>   |
| <b>Total liabilities</b>                             |        | <b>42,431</b>   | <b>36,344</b>   |
| <b>Total equity and liabilities</b>                  |        | <b>\$78,023</b> | <b>\$69,981</b> |

This Consolidated Statement of Financial Position is to be read in conjunction with the notes on pages 60 to 103.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

| Audited   | Note | 2021<br>\$000   | 2020<br>\$000  |
|---|------|-----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |      |                 |                |
| Cash receipts from customers                                |      | 111,527         | 117,836        |
| Cash paid to suppliers and employees                        |      | (94,083)        | (107,965)      |
|   |      | <b>17,444</b>   | <b>9,871</b>   |
| Government grants received                                  |      | 495             | –              |
| Other receipts  |      | 6               | 5              |
| GST paid  |      | (229)           | (10)           |
| Interest paid – loans and borrowings                        |      | (515)           | (2,006)        |
| Interest component of lease payments                        |      | (675)           | (536)          |
| Interest received   |      | 53              | –              |
| Income tax paid   |      | (363)           | (551)          |
| <b>Net cash flow from operating activities</b>              |      | <b>16,216</b>   | <b>6,773</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |                 |                |
| Proceeds from sale of plant and equipment                   |      | 29              | 28             |
| Proceeds from sale of property                              | 8c   | 25,022          | –              |
| Acquisition of plant and equipment                          | 5a   | (2,481)         | (2,119)        |
| Short term deposits   |      | (12,000)        | –              |
| <b>Net cash flow from investing activities</b>              |      | <b>10,570</b>   | <b>(2,091)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |      |                 |                |
| Repayment of loans and borrowings                           | 4c   | (15,800)        | (4,700)        |
| Principal component of lease payments                       | 8a   | (1,744)         | (1,490)        |
| <b>Net cash flow from financing activities</b>              |      | <b>(17,544)</b> | <b>(6,190)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |      | <b>9,242</b>    | <b>(1,508)</b> |
| Cash and cash equivalents at beginning of the year          |      | 1,276           | 2,724          |
| Effect of exchange rate changes on cash                     |      | (10)            | 60             |
| <b>Cash and cash equivalents at end of the year</b>         |      | <b>\$10,508</b> | <b>\$1,276</b> |

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 60 to 103.

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

| Audited  | 2021<br>\$000   | 2020<br>\$000   |
|--|-----------------|-----------------|
| <b>Profit/(Loss) after tax for the year</b>              | <b>1,729</b>    | <b>(21,451)</b> |
| Add/(Deduct) non-cash items:                             |                 |                 |
| Depreciation – owned assets                              | 379             | 2,683           |
| Depreciation – right-of-use assets                       | 534             | 1,779           |
| Share-based payments – value of employee services        | 51              | –               |
| Impairment of plant and equipment                        | –               | 7,077           |
| Impairment of right-of-use assets                        | –               | 2,909           |
| Deferred tax   | (132)           | (8,073)         |
| Derecognition of deferred tax assets                     | –               | 12,891          |
| Net (gain)/loss on sale of property, plant and equipment | (2,651)         | 35              |
| Net loss/(gain) on foreign currency balance              | 10              | (60)            |
| Changes in working capital items:                        |                 |                 |
| Trade receivables, other receivables and prepayments     | 87              | (263)           |
| Inventories  | 12,046          | 15,332          |
| Income tax receivable                                    | 45              | 213             |
| Trade payables and accruals                              | 2,446           | (6,400)         |
| Employee benefits and entitlements                       | 1,783           | (427)           |
| Provisions   | 10              | (174)           |
| Deferred income  | 351             | (9)             |
| Derivative financial instruments                         | (472)           | 711             |
| <b>Net cash flow from operating activities</b>           | <b>\$16,216</b> | <b>\$6,773</b>  |

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 60 to 103.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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 2021.

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

##### Transformation to the all-wool and natural materials business model

On 22 May 2020, the Board of Directors approved the strategy to transform the business to an all-wool and natural materials organisation, with the Board advising shareholders and the market that it would require significant additional investment and funding to execute the transformation.

As part of this transformation, the Group commenced its exit from the non-wool carpet business during the financial year so that it can focus on its woollen carpet operations – with the funds released from the sale of non-wool inventory being used to significantly reduce the Group's net bank debt position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 2c. GOING CONCERN (CONT'D)

##### Transformation to the all-wool and natural materials business model (cont'd)

On 23 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 and the balance of the net proceeds of sale to be applied towards providing the Group with the financial resources to undertake its strategic transformation.

The Group's transformation represents a material change in direction of the business and therefore the forecasts inherently include a level of estimation uncertainty and execution risk. Five-year modelling of the Group's future financial performance and the investment needed to bring about the transformation were undertaken by management and external advisers.

In summary:

- The surplus cash at the end of FY21, arising primarily as a result of the sell down of non-wool inventory, the sale and leaseback of the Auckland property and settlement of bank debt during FY21, will be required in FY22 and beyond for the ongoing transformation;
- Total sales revenue for FY22 is expected to reduce, with the Group having exited its non-wool carpet business, even though sales revenue is expected to grow again from FY23 onwards as the Group's transformation programme gathers momentum;
- Investment costs, including the restructuring of the Group's operations, will be incurred as the business adjusts its manufacturing and sales base to reflect the new sales focus, with these costs also inclusive of new display stands at retail to expand its market presence;
- Marketing spend and people costs associated with the sustainability initiative will increase as the Group invests in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated, understood and implemented – in the process growing the wool flooring market while also growing its share of the wool market;
- As the Group's strategy progresses and sales of higher margin, higher value woollen carpets replace and eclipse the previous non-wool carpet sales, the Group's financial performance is forecast to improve, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales;
- The full benefits from the transformation are expected from FY25 onwards.

The Board is currently not considering any further sources of funding, with the sell down of non-wool inventory and the sale and leaseback of the Auckland property leaving the Group with a significant cash and bank surplus of \$22.5 million at balance date.

The Board notes that to date, the transformation has gone better than originally planned and will continue to ensure that management remains focused on key areas in the business, including the Group's funding requirements and structure, the capital expenditures that will be needed to increase manufacturing capacity, the levels of working capital required to support sales and the management of leasing arrangements.

##### 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 are required to close unless the workplace is 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.

The Group has considered the impact of COVID-19 in general, and the impact of this latest Level 4 lockdown, in forecasting the Group's projected cashflows for the purposes of assessing its ongoing liquidity. The Group has concluded that COVID-19 generally (particularly in Australia) and the latest Level 4 lockdown (in New Zealand) are unlikely to materially impact the Group's ongoing liquidity adversely.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 2c. GOING CONCERN (CONT'D)

##### 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.

Management forecasts the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations and its ability to meet its other financial commitments as they fall due in the normal course of business through to 30 June 2023.

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

- the Group's strategic transformation to an all-wool and natural materials business model and, in particular, the capital investments and marketing spends that would be required to execute the transformation and reposition the Group as discussed above;
- projected growth in woollen sales volumes from the implementation of initiatives underpinning the transformation;
- future economic and market conditions, including consideration of the impact of COVID-19 and the implications of the 17 August 2021 Level 4 lockdown in New Zealand as highlighted earlier;
- NZD/AUD exchange rate changes, after considering hedged positions;
- wool prices movements, after recognising wool purchase contracts;
- manufacturing discipline and cost control.

The Group decided to exit the non-wool carpet market and return to an all-wool and natural materials business model – focusing on designing and creating desirable, sustainable, safe and high-performing natural interior solutions - during the year ended 30 June 2020.

To facilitate that transformation to the new model, the Group needed to raise capital, with the Group taking extensive external independent advice and investigating a range of opportunities to realise additional funds to allow the Group to execute its transformation as well as support the business in light of the impact of, and the uncertainty caused by, COVID 19.

The sale and leaseback of the Auckland property represented the most effective way of accessing capital, even though the Board is continuing to consider other capital raising options to further strengthen the Group's balance sheet if required.

The net proceeds from the sale and leaseback will be used to provide the Group with:

- the financial resources to undertake its strategic transformation to the all-wool and natural materials business model;
- additional liquidity and funding during the current uncertain operating environment; and
- a sound financial footing to better capitalise on opportunities in the carpet market.

The Board notes that while these 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 material uncertainty relating to going concern.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 2c. GOING CONCERN (CONT'D)

##### Assessment of going concern (cont'd)

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

- how the sell-down of non-wool inventory has progressed during the year, with the funds released from the sale of that inventory more than originally anticipated and able to be used to largely reduce the Group's net bank debt position;
- the successful sale and leaseback of the Auckland property on 23 December 2020, with the net proceeds of sale of \$25.0 million almost \$1.0 million more than originally expected and used to fully repay bank debt outstanding at that date and the balance to be applied towards providing the Group with the financial resources to undertake its strategic transformation while also providing it with liquidity to meet ongoing commitments;
- in relation to the COVID-19 Level 4 lockdown in New Zealand in August 2021, the Group's eligibility to claim the Government's COVID-19 wage subsidy for the period from 18 August 2021 through to 14 September 2021 to assist it in meeting its obligations to continue to pay its employees during the lockdown;
- the cash and bank surplus of approximately \$22.5 million as at balance date along with positive equity, positive working capital and positive cash flows from operations;
- 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 8d** – measurement of provisions

**Note 8e** – 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 2e. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2021 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

The Group previously capitalised costs incurred in configuring or customising certain suppliers' application software in certain cloud computing arrangements as fixed assets, as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. Following the IFRS Interpretations Committee (IFRIC) agenda discussion on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 (ratified by International Accounting Standards Board (IASB) in April 2021), the Group has reconsidered its accounting treatment and adopted the guidance set out in the IFRIC agenda decision, which is to recognise those costs as intangible assets only if the activities create an intangible asset that the Group controls and the intangible asset meets the recognition criteria. Costs that do not result in an intangible asset are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

As a result of this change in accounting policy, the Group has determined that certain costs relating to the implementation of cloud-based software would need to be expensed when they were incurred, as the amounts were paid to third parties who were not subcontracted by the supplier of the cloud-based software and did not create separate intangible assets controlled by the Group, or significantly customise the cloud-based software for the Group.

The change in policy has been applied retrospectively. The impact of this change is:

- an increase of \$494,000 to administration expenses in the Consolidated Statement of Profit or Loss for the year ended 30 June 2021 with a corresponding decrease to property, plant and equipment (owned) in the Consolidated Statement of Financial Position. The impact on the consolidated financial statements for the year ended 30 June 2020 is nil.
- a decrease in basic earnings per share of 0.72 cents (2020: Nil) and a decrease in diluted earnings per share of 0.71 cents (2020: Nil).

#### 2g. RESTATEMENT OF PRIOR YEAR BALANCES

The Consolidated Statement of Profit or Loss for the year ended 30 June 2020 included \$784,000 in distribution expenses that should have been included in cost of sales as the expenses relate to inventory. This has been corrected by restating both distribution expenses and cost of sales during the year ended 30 June 2020 by \$784,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) 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 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.

|                           | 2021<br>\$000                  | 2020<br>\$000                  |
|---------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>            |                                |                                |
| New Zealand               | 63,901                         | 65,012                         |
| Australia                 | 45,067                         | 50,071                         |
| USA                       | 1,139                          | 1,371                          |
| Canada                    | 1,070                          | 729                            |
| Rest of the world         | 400                            | 798                            |
|                           | <b>\$111,577</b>               | <b>\$117,981</b>               |
|                           |                                |                                |
|                           | As at<br>30 June 2021<br>\$000 | As at<br>30 June 2020<br>\$000 |
| <b>Non-current assets</b> |                                |                                |
| New Zealand               | 22,154                         | 22,740                         |
| Australia                 | 640                            | 1,015                          |
|                           | <b>\$22,794</b>                | <b>\$23,755</b>                |

##### Major customers

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3a. SEGMENT PERFORMANCE (CONT'D)

|   | Carpets sales and manufacturing |                 | Wool acquisition |               | Total            |                   |
|---|---------------------------------|-----------------|------------------|---------------|------------------|-------------------|
|   | 2021<br>\$000                   | 2020<br>\$000   | 2021<br>\$000    | 2020<br>\$000 | 2021<br>\$000    | 2020<br>\$000     |
| External revenue  | 95,548                          | 101,135         | 16,029           | 16,846        | 111,577          | 117,981           |
| Inter-segment revenue   | –                               | –               | 2,313            | 1,788         | 2,313            | 1,788             |
| <b>Total revenue</b>  | <b>95,548</b>                   | <b>101,135</b>  | <b>18,342</b>    | <b>18,634</b> | <b>113,890</b>   | <b>119,769</b>    |
| Elimination of inter-segment revenue  |                                 |                 |                  |               | (2,313)          | (1,788)           |
| <b>Consolidated revenue</b>   |                                 |                 |                  |               | <b>\$111,577</b> | <b>\$117,981</b>  |
| Segment result before depreciation, restructuring related expenses and impairment | 6,784                           | 3,484           | 784              | 102           | 7,568            | 3,586             |
| Depreciation – owned assets   | (236)                           | (2,267)         | (143)            | (151)         | (379)            | (2,418)           |
| Depreciation – right-of-use assets  | (411)                           | (1,649)         | (123)            | (130)         | (534)            | (1,779)           |
| Depreciation – recycled through inventory   | (764)                           | (265)           | –                | –             | (764)            | (265)             |
| <b>Segment result before restructuring and impairment</b>                         | <b>5,373</b>                    | <b>(697)</b>    | <b>518</b>       | <b>(179)</b>  | <b>5,891</b>     | <b>(876)</b>      |
| Restructuring costs   | (1,271)                         | (1,186)         | –                | –             | (1,271)          | (1,186)           |
| Impairment of plant and equipment   | –                               | (7,077)         | –                | –             | –                | (7,077)           |
| Impairment of right-of-use assets   | –                               | (2,909)         | –                | –             | –                | (2,909)           |
| <b>Segment result after restructuring and impairment</b>                          | <b>4,102</b>                    | <b>(11,869)</b> | <b>518</b>       | <b>(179)</b>  | <b>4,620</b>     | <b>(12,048)</b>   |
| Elimination of inter-segment profits  |                                 |                 |                  |               | (49)             | 50                |
| Unallocated corporate costs   |                                 |                 |                  |               | (1,510)          | (1,336)           |
| <b>Results from operating activities</b>  |                                 |                 |                  |               | <b>3,061</b>     | <b>(13,334)</b>   |
| Finance costs   |                                 |                 |                  |               | (1,124)          | (2,535)           |
| Finance income  |                                 |                 |                  |               | 68               | –                 |
| <b>Profit/(Loss) before income tax</b>  |                                 |                 |                  |               | <b>2,005</b>     | <b>(15,869)</b>   |
| Income tax (expense)/benefit  |                                 |                 |                  |               | (276)            | 7,309             |
| Derecognition of deferred tax assets  |                                 |                 |                  |               | –                | (12,891)          |
| <b>Profit/(Loss) after tax for the year</b>                                       |                                 |                 |                  |               | <b>\$1,729</b>   | <b>(\$21,451)</b> |

|  | Carpets sales and manufacturing |               | Wool acquisition |               | Total           |                 |
|--|---------------------------------|---------------|------------------|---------------|-----------------|-----------------|
|  | 2021<br>\$000                   | 2020<br>\$000 | 2021<br>\$000    | 2020<br>\$000 | 2021<br>\$000   | 2020<br>\$000   |
| Reportable segment assets                      | 50,987                          | 67,474        | 4,528            | 2,507         | 55,515          | 69,981          |
| Unallocated assets - Cash and bank             |                                 |               |                  |               | 22,508          | –               |
| <b>Total assets</b>                            |                                 |               |                  |               | <b>\$78,023</b> | <b>\$69,981</b> |
| <b>Capital expenditure</b>                     | <b>2,481</b>                    | <b>2,067</b>  | <b>–</b>         | <b>52</b>     | <b>\$2,481</b>  | <b>\$2,119</b>  |
| Reportable segment liabilities                 | 18,920                          | 19,363        | 1,978            | 1,181         | 20,898          | 20,544          |
| Unallocated liabilities - Lease liabilities    |                                 |               |                  |               | 21,533          | –               |
| Unallocated liabilities - Loans and borrowings |                                 |               |                  |               | –               | 15,800          |
| <b>Total liabilities</b>                       |                                 |               |                  |               | <b>\$42,431</b> | <b>\$36,344</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3b. EARNINGS PER SHARE

##### Basic earnings/(loss) per share (Basic EPS)

|   | 2021        | 2020           |
|---|-------------|----------------|
| Profit/(Loss) after tax attributable to shareholders of the Company (\$000) | 1,729       | (21,451)       |
| Weighted average number of ordinary shares outstanding                      | 68,679,098  | 68,679,098     |
| <b>Basic EPS (cents)</b>  | <b>2.52</b> | <b>(31.23)</b> |

##### Diluted earnings/(loss) per share (Diluted EPS)

|   | 2021        | 2020           |
|---|-------------|----------------|
| Profit/(Loss) after tax attributable to shareholders of the Company (\$000) | 1,729       | (21,451)       |
| Weighted average number of ordinary shares outstanding                      | 69,242,681  | 68,679,098     |
| <b>Diluted EPS (cents)</b>  | <b>2.50</b> | <b>(31.23)</b> |

In calculating the diluted earnings per share, the Company has taken into account the maximum number of shares that could be issued under the Company's long term incentive scheme as further discussed at note 8b (Share-based payment) to the consolidated financial statements over that period from grant date of the performance rights of 21 December 2020 to balance date.

#### 3c. REVENUE FROM CONTRACTS WITH CUSTOMERS

|                                    | 2021<br>\$000    | 2020<br>\$000    |
|------------------------------------|------------------|------------------|
| Sales of goods                     |                  |                  |
| Carpet                             | 94,700           | 98,985           |
| Wool fibre                         | 16,029           | 16,846           |
| Carpet yarn                        | 605              | 1,014            |
|                                    | 111,334          | 116,845          |
| Provision of installation services | 243              | 1,136            |
| <b>Total revenue</b>               | <b>\$111,577</b> | <b>\$117,981</b> |

Installation contracts outstanding at balance date totalled \$355,000 (2020: \$105,000). The contracts outstanding at balance date are expected to be fulfilled during the year ending 30 June 2022. All of the contracts outstanding at 30 June 2020 were fulfilled in the current year ended 30 June 2021.

Credit terms for carpet 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3c. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

##### 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 and 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 | 2021<br>\$000  | 2020<br>\$000 |
|--|------|----------------|---------------|
| Rentals received                               |      | 5              | 4             |
| Dividends received                             |      | 1              | 1             |
| Government grants recognised                   | 3g   | 166            | –             |
| Net gain on sale and leaseback of property     |      | 2,624          | –             |
| Net gain/(loss) on sale of plant and equipment |      | 27             | (35)          |
| Other income                                   |      | –              | 65            |
| <b>Total other income and gains/losses</b>     |      | <b>\$2,823</b> | <b>\$35</b>   |

#### 3e. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

|  | 2021<br>\$000 | 2020<br>\$000 |
|--|---------------|---------------|
| <b>Donations</b>   | <b>\$2</b>    | <b>\$3</b>    |
| Fees paid to KPMG for:   |               |               |
| Audit of consolidated financial statements - current year              | –             | 371           |
| Audit of consolidated financial statements - additional for prior year | 259           | 61            |
| Tax services   | 22            | 20            |
| Other services   | 18            | –             |
| <b>Total fees paid to KPMG</b>   | <b>\$299</b>  | <b>\$452</b>  |
| Fees paid and payable to PwC for:                                      |               |               |
| Audit of consolidated financial statements - current year              | 567           | –             |
| Treasury advisory services   | 20            | 34            |
| <b>Total fees paid and payable to PwC</b>                              | <b>\$587</b>  | <b>\$34</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3e. ADMINISTRATION EXPENSES (CONT'D)

Fees paid to KPMG for tax services were in respect of transfer pricing review and review of income tax returns (2020: transfer pricing review, R&D incentive tax advice, review of income tax returns and assistance with COVID-19 wage subsidy applications).

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

#### 3f. PERSONNEL EXPENSES

|   | Note | 2021<br>\$000   | 2020<br>\$000   |
|---|------|-----------------|-----------------|
| Directors' fees   | 8g   | 386             | 368             |
| Wages, salaries, bonuses and holiday pay  |      | 28,390          | 27,898          |
| Other employee related costs  |      | 1,234           | 1,260           |
| Restructuring costs   |      | 1,271           | –               |
| Employee termination benefits   |      | 494             | 364             |
| Employee benefits   |      | 1,354           | 1,263           |
| Increase/(Decrease) in liability for retiring allowances and long service leave |      | 23              | (15)            |
| <b>Total personnel expenses</b>   |      | <b>\$33,152</b> | <b>\$31,138</b> |

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

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

#### 3g. GOVERNMENT GRANTS

##### COVID-19 wage subsidy

|   | 2021<br>\$000 | 2020<br>\$000 |
|---|---------------|---------------|
| COVID-19 wage subsidy   |               |               |
| Balance at 1 July   | 1,500         | –             |
| Wage subsidy received during the year                             | –             | 2,819         |
| Amount recognised in the Consolidated Statement of Profit or Loss | (1,500)       | (1,319)       |
| Balance at 30 June carried forward in inventory                   | \$0           | \$1,500       |

The Group did not apply for any COVID-19 wage subsidy from the New Zealand Government during the year (2020: Applied for and received \$2,819,000 of COVID-19 wage subsidy).

\$1,500,000 of that wage subsidy was recognised in cost of sales in the Consolidated Statement of Profit or Loss during the financial year (2020: \$1,319,000 was recognised in cost of sales, distribution expenses and administration expenses in the Consolidated Statement of Profit or Loss).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3g. GOVERNMENT GRANTS (CONT'D)

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

Grants totalling \$88,000 (2020: Nil) from the government's International Growth Fund (IG Fund) and \$78,000 (2020: Nil) 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 \$351,000 at balance date (2020: Nil).

##### Others

The Group also received a one-off grant from the Energy Efficiency and Conservation Authority (EECA) of \$31,000 during the year, being EECA's contribution towards the costs incurred by the Group in assessing opportunities under EECA's Energy Transition Accelerator programme. 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

|  | 2021<br>\$000    | 2020<br>\$000    |
|--|------------------|------------------|
| Interest expense - loans and borrowings    | (449)            | (1,531)          |
| Interest rate swap - hedge ineffectiveness | -                | (468)            |
| Interest component of lease payments       | (675)            | (536)            |
| <b>Finance costs</b>                       | <b>(\$1,124)</b> | <b>(\$2,535)</b> |

##### Accounting policies

Finance costs include interest expense on borrowings and interest income on funds invested. All interest expense and income are recognised in profit or loss using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3i. INCOME TAX

|   | 2021<br>\$000 | 2020<br>\$000  |
|---|---------------|----------------|
| <b>INCOME TAX EXPENSE IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS</b> |               |                |
| <b>Current tax expense</b>  |               |                |
| Current year  | 408           | 773            |
| Adjustment for prior years  | -             | (9)            |
|   | <b>408</b>    | <b>764</b>     |
| <b>Deferred tax expense/(benefit)</b>                                     |               |                |
| Origination and reversal of temporary differences                         | 196           | (8,082)        |
| Adjustment for prior years  | (230)         | 9              |
| Derecognition of deferred tax assets                                      | -             | 12,891         |
| Unrecognised deferred tax assets  | (98)          | -              |
|   | <b>(132)</b>  | <b>4,818</b>   |
| <b>Income tax expense</b>   | <b>\$276</b>  | <b>\$5,582</b> |

|   | 2021<br>\$000  | 2020<br>\$000     |
|---|----------------|-------------------|
| <b>RECONCILIATION OF EFFECTIVE TAX RATE</b>                               |                |                   |
| Profit/(Loss) after tax for the year                                      | 1,729          | (21,451)          |
| Income tax expense  | 276            | 5,582             |
| <b>Profit/(Loss) excluding income tax</b>                                 | <b>\$2,005</b> | <b>(\$15,869)</b> |
| Income tax using the Company's domestic tax rate of 28% (2020: 28%)       | 561            | (4,443)           |
| Unrecognised deferred tax assets  | (98)           | -                 |
| Impending change in legislation relating to tax depreciation on buildings | -              | (2,940)           |
| Derecognition of deferred tax assets                                      | -              | 12,891            |
| Non-deductible expenses   | 11             | 41                |
| Effect of tax rate difference in foreign jurisdiction                     | 34             | 33                |
| Prior period adjustment   | (232)          | -                 |
| <b>Income tax expense</b>   | <b>\$276</b>   | <b>\$5,582</b>    |

|   | 2021<br>\$000 | 2020<br>\$000 |
|---|---------------|---------------|
| <b>INCOME TAX RECOGNISED DIRECTLY IN EQUITY</b>                       |               |               |
| Derivative financial instruments                                      | 47            | 38            |
| <b>Income tax on income and expense recognised directly in equity</b> | <b>\$47</b>   | <b>\$38</b>   |

##### IMPUTATION CREDITS

|  |                |                |
|--|----------------|----------------|
| <b>Imputation credits available to shareholders of the Company</b> | <b>\$9,233</b> | <b>\$9,233</b> |
|--|----------------|----------------|

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3i. INCOME TAX (CONT'D)

##### Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

|                                     | Assets        |               | Liabilities   |               | Net           |               |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                     | 2021<br>\$000 | 2020<br>\$000 | 2021<br>\$000 | 2020<br>\$000 | 2021<br>\$000 | 2020<br>\$000 |
| Property, plant and equipment       | 378           | 181           | –             | –             | 378           | 181           |
| Inventories                         | –             | 100           | –             | –             | –             | 100           |
| Employee benefits                   | 156           | 130           | –             | –             | 156           | 130           |
| Lease liabilities                   | 80            | 146           | –             | –             | 80            | 146           |
| Provisions                          | 118           | 43            | –             | –             | 118           | 43            |
| <b>Net tax assets/(liabilities)</b> | <b>\$732</b>  | <b>\$600</b>  | <b>\$0</b>    | <b>\$0</b>    | <b>\$732</b>  | <b>\$600</b>  |

No deferred tax assets in respect of temporary differences and tax loss carry-forwards were derecognised during the year (2020: \$12,891,000).

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

Deferred tax assets have not been recognised in respect of temporary differences and tax loss carry-forwards totalling \$16,389,000 (2020: \$12,891,000) relating to the Group's New Zealand operations on the basis that it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Deferred tax assets have also not been recognised in respect of temporary differences and tax loss carry-forwards totalling \$24,150,000 (2020: \$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 \$40,539,000 (2020: \$37,041,000).

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<br>30 June 2020<br>\$000 | Recognised in<br>consolidated<br>statement of<br>profit or loss<br>\$000 | Recognised in<br>equity<br>\$000 | Derecognition<br>of deferred<br>tax assets in<br>profit or loss<br>\$000 | Balance<br>30 June 2021<br>\$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                              |
| <b>Total</b>                  | <b>\$600</b>                     | <b>\$132</b>   | <b>\$0</b>                       | <b>\$0</b>   | <b>\$732</b>                     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 3i. INCOME TAX (CONT'D)

##### Deferred tax assets and liabilities (cont'd)

|                                  | Balance<br>30 June 2019<br>\$000 | Recognised on<br>transition to<br>NZ IFRS 16<br>\$000 | Recognised in<br>consolidated<br>statement of<br>profit or loss<br>NZ IFRS 16<br>\$000 | Recognised in<br>equity<br>\$000 | Derecognition<br>of deferred<br>tax assets in<br>profit or loss<br>\$000 | Balance<br>30 June 2020<br>\$000 |
|----------------------------------|----------------------------------|---|--|----------------------------------|--|----------------------------------|
| Property, plant and equipment    | (1,130)                          | –   | 4,476  | –                                | (3,165)  | 181                              |
| Right-of-use assets              | –                                | (2,194)   | 1,245  | –                                | 949  | –                                |
| Derivative financial instruments | –                                | –   | 38   | (38)                             | –  | –                                |
| Inventories                      | 644                              | –   | 612  | –                                | (1,156)  | 100                              |
| Employee benefits                | 1,124                            | –   | (5)  | –                                | (989)  | 130                              |
| Lease liabilities                | –                                | 2,177   | (349)  | –                                | (1,683)  | 145                              |
| Provisions                       | 1,193                            | 17  | (216)  | –                                | (950)  | 44                               |
| Deferred income                  | –                                | –   | –  | –                                | –  | –                                |
| Tax loss carry-forwards          | 3,625                            | –   | 2,272  | –                                | (5,897)  | –                                |
| <b>Total</b>                     | <b>\$5,456</b>                   | <b>–</b>  | <b>\$8,073</b>   | <b>(\$38)</b>                    | <b>(\$12,891)</b>  | <b>\$600</b>                     |

##### Accounting policies

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

##### Estimates, judgements and assumptions

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each balance date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset. In arriving at the decision to derecognise deferred tax assets at 30 June 2020, regard was given to the history of tax losses generated by the Group, the further losses that are expected in FY21 and FY22 as the Company executes its strategic decision to restructure the business to an all-wool and natural materials business, the significant level of estimation uncertainty in management's forecasts and the execution risk underlying the transformation and the material change in direction of the business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 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

|   | 2021              | 2020       |
|---|-------------------|------------|
| <b>Number of ordinary shares issued</b> | <b>68,679,098</b> | 68,679,098 |

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 4b. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONT'D)

##### Dividends

No dividends were paid during the year (2020: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2021 (2020: 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 2021 (2020: 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 4c. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. 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 (2020: \$20,000,000, with \$15,800,000 drawn down at balance date).

The Group also has no overdraft facilities at balance date (2020: \$1,598,000 at balance date).

The Group fully repaid its Bank loans and borrowings, while also putting itself in a surplus cash position, during the financial year 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.

Details of the Group's loans and borrowings at 30 June are as follows:

|                                 | Nominal interest rate 2021 % | Notional value 2021 \$000 | Fair value 2021 \$000 | Nominal interest rate 2020 % | Notional value 2020 \$000 | Fair value 2020 \$000 |
|---------------------------------|------------------------------|---------------------------|-----------------------|------------------------------|---------------------------|-----------------------|
| Non-current                     |                              | –                         | –                     |                              | –                         | –                     |
| Current                         |                              | –                         | –                     |                              | 15,800                    | 15,800                |
| <b>Total secured bank loans</b> |                              | <b>\$0</b>                | <b>\$0</b>            | 7.3                          | <b>\$15,800</b>           | <b>\$15,800</b>       |

The Group had no other borrowings at balance date (2020: Nil).

Following the full repayment of the Group's Bank loans and borrowings in December 2020, the parties 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 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      |
|---|--------------------------|---------------------------|--------------------|--------------------------|------------------|
| <b>COST</b>                               |                          |                           |                    |                          |                  |
| 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)                  | –                |
| <b>Balance at 30 June 2021</b>            | <b>\$10,427</b>          | <b>\$64,793</b>           | <b>\$11,448</b>    | <b>\$1,322</b>           | <b>\$87,990</b>  |
| Balance at 1 July 2019                    | 24,159                   | 68,848                    | 16,169             | 957                      | 110,133          |
| Additions                                 | 387                      | 221                       | 892                | 619                      | 2,119            |
| Disposals                                 | –                        | (1,321)                   | (2,845)            | –                        | (4,166)          |
| Transfers                                 | 282                      | 350                       | 289                | (921)                    | –                |
| <b>Balance at 30 June 2020</b>            | <b>\$24,828</b>          | <b>\$68,098</b>           | <b>\$14,505</b>    | <b>\$655</b>             | <b>\$108,086</b> |
| <b>DEPRECIATION AND IMPAIRMENT LOSSES</b> |                          |                           |                    |                          |                  |
| 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)                    | –                |
| <b>Balance at 30 June 2021</b>            | <b>\$1,544</b>           | <b>\$63,848</b>           | <b>\$10,459</b>    | <b>\$45</b>              | <b>\$75,896</b>  |
| Balance at 1 July 2019                    | 2,651                    | 63,938                    | 13,380             | –                        | 79,969           |
| Depreciation for the year                 | 338                      | 1,524                     | 556                | –                        | 2,418            |
| Impairment losses provided                | –                        | 3,874                     | 2,548              | 655                      | 7,077            |
| Disposals                                 | –                        | (1,271)                   | (2,832)            | –                        | (4,103)          |
| <b>Balance at 30 June 2020</b>            | <b>\$2,989</b>           | <b>\$68,065</b>           | <b>\$13,652</b>    | <b>655</b>               | <b>\$85,361</b>  |
| <b>CARRYING AMOUNTS</b>                   |                          |                           |                    |                          |                  |
| <b>At 30 June 2021</b>                    | <b>\$8,883</b>           | <b>\$945</b>              | <b>\$989</b>       | <b>1,277</b>             | <b>\$12,094</b>  |
| <b>At 30 June 2020</b>                    | <b>\$21,839</b>          | <b>\$33</b>               | <b>\$853</b>       | <b>\$0</b>               | <b>\$22,725</b>  |
| <b>At 1 July 2019</b>                     | <b>\$21,508</b>          | <b>\$4,910</b>            | <b>\$2,789</b>     | <b>\$957</b>             | <b>\$30,164</b>  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 5a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

##### Land and buildings

The Group entered into a sale and leaseback of its Auckland property, which had a carrying value of \$12,732,500, during the year. The impact of, and further details relating to, the sale and leaseback transaction can be found at note 8c (Sale and leaseback of property) to the consolidated financial statements.

##### 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 2021, the Group has not identified any indicators of impairment over the assets held.

The Group's market capitalisation at balance date was approximately \$2.0 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 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, while progressing to plan, is in its early stages.

##### Security

At balance date, the Group's property, plant and equipment were subject to various registered charges in favour of the Group's bankers as security for the Group's banking facilities and arrangements (see note 4c (Loans and borrowings) to the consolidated financial statements).

##### Accounting policies

###### Recognition and measurement

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

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

###### Under construction

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 5a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

###### Depreciation

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

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

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

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

###### Impairment

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

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

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

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

##### Estimates, judgements and assumptions

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

For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU), which as at 30 June 2021 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 \$1,016,000 at balance date (2020: \$469,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 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:

|                           | 2021<br>\$000   | 2020<br>\$000  |
|---------------------------|-----------------|----------------|
| Cash and cash equivalents | 10,508          | 1,276          |
| Short term deposits       | 12,000          | –              |
|                           | <b>\$22,508</b> | <b>\$1,276</b> |

#### Accounting policies

Cash is cash on hand and demand deposits and includes bank overdrafts used for cash management purposes where formal arrangements for set off has been agreed with the Bank. Under these set off arrangements, the Group is able to set off overdrawn balances up to a maximum of \$1,000,000 against credit balances in selected accounts as long as the net balance of all these accounts (including overdrawn accounts) as a whole remain in credit. At balance date, the overdrawn amount subject to set off totalled \$130,000 (2020: \$4,000). 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

|   | 2021<br>\$000   | 2020<br>\$000   |
|---|-----------------|-----------------|
| Trade receivables due from external customers | 11,793          | 12,148          |
| Other receivables                             | 88              | 17              |
| Prepayments                                   | 639             | 442             |
|   | <b>\$12,520</b> | <b>\$12,607</b> |

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 policies

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 6c. INVENTORIES

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

|  | 2021<br>\$000   | 2020<br>\$000   |
|--|-----------------|-----------------|
| Raw materials and consumables  | 5,922           | 12,547          |
| Work in progress   | 1,200           | 1,439           |
| Finished goods   | 12,913          | 18,095          |
|  | <b>\$20,035</b> | <b>\$32,081</b> |
| Carrying amount of inventories subject to retention of title clauses | <b>\$3,152</b>  | <b>\$1,851</b>  |
| Inventory provision at 1 July  | 4,741           | 2,576           |
| Change in provision during the year                                  | (2,765)         | 2,165           |
| Inventory provision at 30 June                                       | <b>\$1,976</b>  | <b>\$4,741</b>  |

Additional inventory provisioning taken up during 2020 largely against non-wool carpet inventory as a consequence of the Group's transformation to the all-wool and natural materials business model was able to be released in 2021 as the Group completed its sell down of non-wool inventory.

Write downs of inventory during the year totalled \$1,299,000 (2020: \$1,228,000).

#### 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 6d. TRADE PAYABLES AND ACCRUALS

|                | 2021<br>\$000   | 2020<br>\$000   |
|----------------|-----------------|-----------------|
| Trade payables | 11,658          | 8,705           |
| Accruals       | 1,406           | 1,912           |
|                | <b>\$13,064</b> | <b>\$10,617</b> |

#### Accounting policies

Trade payables are unsecured - except to the extent to which they have retention of title 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

|                         | 2021<br>\$000  | 2020<br>\$000  |
|-------------------------|----------------|----------------|
| Leave obligations       | 3,760          | 3,356          |
| Bonus entitlement       | 587            | -              |
| Termination entitlement | 509            | -              |
| Wages accruals          | 347            | 145            |
|                         | <b>\$5,203</b> | <b>\$3,501</b> |

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

#### Accounting policies

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 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 2021 due to the impact of COVID-19 (2020: 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### MANAGEMENT COMMENTARY (CONT'D)

##### 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 (refer to note 8c (Sale and leaseback of property) to the consolidated financial statements for further information).

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 (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 86.

##### 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

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

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 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:

|                                    | 2021<br>\$000   | 2020<br>\$000   |
|------------------------------------|-----------------|-----------------|
| New Zealand                        | 5,207           | 7,323           |
| Australia                          | 6,046           | 4,431           |
| Other regions                      | 628             | 411             |
| <b>Trade and other receivables</b> | <b>\$11,881</b> | <b>\$12,165</b> |

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

|   | Current | 0 – 30 days<br>past due | 31 – 120 days<br>past due | More than 120<br>days past due | Total  |
|---|---------|-------------------------|---------------------------|--------------------------------|--------|
| <b>2021</b>   |         |                         |                           |                                |        |
| 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)   |
| <b>2020</b>   |         |                         |                           |                                |        |
| Expected loss rate                                  | 0%      | 0%                      | 0%                        | 56%                            |        |
| Gross carrying amount – trade and other receivables | 11,275  | 754                     | 103                       | 75                             | 12,207 |
| Loss allowance                                      | –       | –                       | –                         | (42)                           | (42)   |

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

|  | 2021<br>\$000   | 2020<br>\$000   |
|--|-----------------|-----------------|
| Trade and other receivables - gross      | 11,894          | 12,207          |
| Individual impairment provisions         | (13)            | (42)            |
| <b>Trade and other receivables - net</b> | <b>\$11,881</b> | <b>\$12,165</b> |

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

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

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

|  | 2021<br>\$000 | 2020<br>\$000 |
|--|---------------|---------------|
| Balance at 1 July                      | (42)          | (13)          |
| Impaired trade receivables written off | 11            | –             |
| Changes in impairment provision        | 18            | (29)          |
| <b>Balance at 30 June</b>              | <b>(\$13)</b> | <b>(\$42)</b> |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### QUANTITATIVE DISCLOSURES (CONT'D)

##### Liquidity risk

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

|  | Statement of consolidated financial position \$000 | Total contractual cash flows \$000 | Timing of contractual cash flows |                   |                 |                 | Greater than 5 years \$000 |
|--|--|------------------------------------|----------------------------------|-------------------|-----------------|-----------------|----------------------------|
|  |  |                                    | 6 months or less \$000           | 6-12 months \$000 | 1-2 years \$000 | 2-5 years \$000 |                            |
| <b>2021</b>  |  |                                    |                                  |                   |                 |                 |                            |
| Secured bank loans   | -  | -                                  | -                                | -                 | -               | -               | -                          |
| Trade payables   | 11,658   | 11,658                             | 11,658                           | -                 | -               | -               | -                          |
| Lease liabilities  | 21,533   | 28,429                             | 1,522                            | 1,458             | 2,766           | 5,607           | 17,076                     |
| <b>Total non-derivative liabilities</b>                          | <b>\$33,191</b>                                    | <b>\$40,087</b>                    | <b>\$13,180</b>                  | <b>\$1,458</b>    | <b>\$2,766</b>  | <b>\$5,607</b>  | <b>\$17,076</b>            |
| Interest rate swaps  | -  | -                                  | -                                | -                 | -               | -               | -                          |
| Forward exchange contracts                                       |  |                                    |                                  |                   |                 |                 |                            |
| Inflow   |  | (22,763)                           | (14,113)                         | (8,649)           | -               | -               | -                          |
| Outflow  |  | 22,666                             | 14,062                           | 8,604             | -               | -               | -                          |
|  | 75   | (97)                               | (51)                             | (45)              | -               | -               | -                          |
| <b>Total derivative liabilities</b>                              | <b>\$75</b>  |                                    |                                  |                   |                 |                 |                            |
| <b>Disclosed in consolidated statement of financial position</b> |  |                                    |                                  |                   |                 |                 |                            |
| Current assets   | 109  |                                    |                                  |                   |                 |                 |                            |
| Current liabilities  | (34)   |                                    |                                  |                   |                 |                 |                            |
| <b>Total derivative liabilities</b>                              | <b>\$75</b>  |                                    |                                  |                   |                 |                 |                            |
| <b>2020</b>  |  |                                    |                                  |                   |                 |                 |                            |
| Secured bank loans   | 15,800   | 16,206                             | 6,048                            | 2,158             | 8,000           | -               | -                          |
| Trade payables   | 8,705  | 8,705                              | 8,705                            | -                 | -               | -               | -                          |
| Lease liabilities  | 3,569  | 3,938                              | 807                              | 748               | 1,224           | 1,154           | 4                          |
| <b>Total non-derivative liabilities</b>                          | <b>\$28,074</b>                                    | <b>\$28,849</b>                    | <b>\$15,560</b>                  | <b>\$2,906</b>    | <b>\$9,224</b>  | <b>\$1,154</b>  | <b>\$4</b>                 |
| Interest rate swaps  | (560)  | (571)                              | (166)                            | (68)              | (137)           | (200)           | -                          |
| Forward exchange contracts                                       |  |                                    |                                  |                   |                 |                 |                            |
| Inflow   |  | (20,478)                           | (16,775)                         | (3,703)           | -               | -               | -                          |
| Outflow  |  | 20,496                             | 16,744                           | 3,752             | -               | -               | -                          |
|  | (12)   | 18                                 | (31)                             | 49                | -               | -               | -                          |
| <b>Total derivative assets</b>                                   | <b>(\$572)</b>                                     |                                    |                                  |                   |                 |                 |                            |
| <b>Disclosed in consolidated statement of financial position</b> |  |                                    |                                  |                   |                 |                 |                            |
| Current assets   | 160  |                                    |                                  |                   |                 |                 |                            |
| Current liabilities  | (732)  |                                    |                                  |                   |                 |                 |                            |
| <b>Total derivative liabilities</b>                              | <b>(\$572)</b>                                     |                                    |                                  |                   |                 |                 |                            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### QUANTITATIVE DISCLOSURES (CONT'D)

##### Foreign currency risk

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

|   | AUD \$000  | USD \$000      | EUR \$000  | Others \$000 |
|---|------------|----------------|------------|--------------|
| <b>NZD equivalent of these currencies</b>   |            |                |            |              |
| <b>2021</b>   |            |                |            |              |
| Trade receivables   | 5,997      | 432            | 6          | -            |
| Trade payables  | (2,146)    | (274)          | -          | (9)          |
| Net consolidated statement of financial position exposure before hedging activity | 3,851      | 158            | 6          | (9)          |
| Estimated forecast sales for which hedging is in place                            | 18,911     | -              | -          | -            |
| Estimated forecast purchases for which hedging is in place                        | -          | -              | -          | -            |
| Net cash flow exposure before hedging activity                                    | 22,762     | 158            | 6          | (9)          |
| Forward exchange contracts  |            |                |            |              |
| Notional amounts  | (22,762)   | -              | -          | -            |
| <b>Net unhedged exposure</b>  | <b>\$0</b> | <b>\$158</b>   | <b>\$6</b> | <b>(\$9)</b> |
| <b>2020</b>   |            |                |            |              |
| Trade receivables   | 4,699      | 320            | 6          | -            |
| Trade payables  | (1,745)    | (1,130)        | (1)        | -            |
| Net consolidated statement of financial position exposure before hedging activity | 2,954      | (810)          | 5          | -            |
| Estimated forecast sales for which hedging is in place                            | 14,805     | -              | -          | -            |
| Estimated forecast purchases for which hedging is in place                        | -          | (320)          | -          | -            |
| Net cash flow exposure before hedging activity                                    | 17,759     | (1,130)        | 5          | -            |
| Forward exchange contracts  |            |                |            |              |
| Notional amounts  | (17,759)   | 2,618          | -          | -            |
| <b>Net unhedged exposure</b>  | <b>\$0</b> | <b>\$1,488</b> | <b>\$5</b> | <b>\$0</b>   |

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

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

|   | Total \$000       | 6 months or less \$000 | 6-12 months \$000 | 1-2 years \$000 | 2-5 years \$000  | Greater than 5 years \$000 |
|---|-------------------|------------------------|-------------------|-----------------|------------------|----------------------------|
| <b>2021</b>                             |                   |                        |                   |                 |                  |                            |
| <b>Financial assets and liabilities</b> |                   |                        |                   |                 |                  |                            |
| Cash and bank                           | 22,508            | 19,508                 | 3,000             | -               | -                | -                          |
| Loans and borrowings                    | -                 | -                      | -                 | -               | -                | -                          |
|   | 22,508            | 19,508                 | 3,000             | -               | -                | -                          |
| <b>Related derivatives</b>              |                   |                        |                   |                 |                  |                            |
| Effect of interest rate swaps           | -                 | -                      | -                 | -               | -                | -                          |
| <b>Total</b>                            | <b>\$22,508</b>   | <b>\$19,508</b>        | <b>\$3,000</b>    | <b>\$0</b>      | <b>\$0</b>       | <b>\$0</b>                 |
| <b>2020</b>                             |                   |                        |                   |                 |                  |                            |
| <b>Financial assets and liabilities</b> |                   |                        |                   |                 |                  |                            |
| Cash and bank                           | 1,276             | 1,276                  | -                 | -               | -                | -                          |
| Loans and borrowings                    | (15,800)          | (15,800)               | -                 | -               | -                | -                          |
|   | (14,524)          | (14,524)               | -                 | -               | -                | -                          |
| <b>Related derivatives</b>              |                   |                        |                   |                 |                  |                            |
| Effect of interest rate swaps           | -                 | 5,000                  | -                 | -               | (5,000)          | -                          |
| <b>Total</b>                            | <b>(\$14,524)</b> | <b>(\$9,524)</b>       | <b>\$0</b>        | <b>\$0</b>      | <b>(\$5,000)</b> | <b>\$0</b>                 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 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 2021 and 2020. The impact on equity, net of tax, for these foreign exchange contracts, is disclosed in the table below:

|                     | Strengthen | Weaken | Strengthen         | Weaken |
|---------------------|------------|--------|--------------------|--------|
|                     | P&L        |        | Equity, net of tax |        |
|                     | \$000      | \$000  | \$000              | \$000  |
| <b>30 June 2021</b> |            |        |                    |        |
| NZD/AUD (+/- 5%)    | -          | -      | 609                | (673)  |
| <b>30 June 2020</b> |            |        |                    |        |
| NZD/AUD (+/- 5%)    | -          | -      | 433                | (480)  |

For foreign exchange contracts that do not meet the hedge accounting criteria at the balance sheet date, the estimated impact on the Group's profit or loss due to a general change in the value of the New Zealand dollar is disclosed in the table below:

|  | Strengthen | Weaken  | Strengthen         | Weaken  |
|--|------------|---------|--------------------|---------|
|  | P&L        |         | Equity, net of tax |         |
|  | 10.0%      | (10.0%) | 10.0%              | (10.0%) |
|  | \$000      | \$000   | \$000              | \$000   |
| Impact of the derecognition at balance date of US dollar denominated forward exchange contracts as at 30 June 2021 | -          | -       | -                  | -       |
| Impact of the derecognition at balance date of US dollar denominated forward exchange contracts as at 30 June 2020 | (181)      | 221     | -                  | -       |

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 | Decrease   | Increase           | Decrease   |
|---------------------------------|----------|------------|--------------------|------------|
|                                 | P&L      |            | Equity, net of tax |            |
|                                 | 1% point | (1% point) | 1% point           | (1% point) |
|                                 | \$000    | \$000      | \$000              | \$000      |
| Interest rate impact - Net FY21 | \$150    | (\$150)    | -                  | -          |
| Interest rate impact - Net FY20 | \$152    | (\$152)    | \$18               | (\$18)     |

#### 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.

The Critical Matched Terms method was used to assess hedge effectiveness at inception and on an ongoing basis. At 30 June 2020, because the Group was expected to be repaying bank debt within 12 months of the balance date as a result of the sale and leaseback of the Auckland property, it was determined that the interest rate hedges would be ineffective from the date of the sale and leaseback.

##### Forecast transactions

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### HEDGING (CONT'D)

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 | Line item in profit or loss that includes hedge ineffectiveness | Balance in CFHR | Average rate of hedging |
|--|-----------------|-----------------|-------------|---|--|--|---|-----------------|-------------------------|
|  |                 | Assets          | Liabilities |   |  |  |   |                 |                         |
| 2021   | \$000           | \$000           | \$000       |   | \$000  | \$000  |   | \$000           |                         |
| <b>Foreign currency risk</b>                                       |                 |                 |             |   |  |  |   |                 |                         |
| Forward exchange contracts – sales and receivables <sup>1, 2</sup> | AUD21,075       | 109             | (34)        | Derivative financial instruments – assets and liabilities | 109  | -  | -   | 55              | 0.9259                  |
| <b>Interest rate risk</b>  |                 |                 |             |   |  |  |   |                 |                         |
| Interest rate swaps  | -               | -               | -           | Derivative financial instruments – liabilities            | 66   | -  | -   | -               | -                       |

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

<sup>2</sup> 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 | Line item in profit or loss that includes hedge ineffectiveness | Balance in CFHR | Average rate of hedging |
|--|-----------------------|-----------------|-------------|---|--|--|---|-----------------|-------------------------|
|  |                       | Assets          | Liabilities |   |  |  |   |                 |                         |
| 2020   | \$000                 | \$000           | \$000       |   | \$000  | \$000  |   | \$000           |                         |
| <b>Foreign currency risk</b>                                       |                       |                 |             |   |  |  |   |                 |                         |
| Forward exchange contracts – sales and receivables <sup>1, 3</sup> | AUD16,675             | 62              | (172)       | Derivative financial instruments – assets and liabilities | (348)  | -  | -   | (77)            | 0.9390                  |
| Forward exchange contracts – inventory purchases <sup>1, 3</sup>   | USD1,746 <sup>2</sup> | 98              | -           | Derivative financial instruments – assets                 | (44)   | 60   | Cost of sales   | -               | 0.6624                  |
| <b>Interest rate risk</b>  |                       |                 |             |   |  |  |   |                 |                         |
| Interest rate swaps <sup>3, 4</sup>                                | NZD10,000             | -               | (560)       | Derivative financial instruments – liabilities            | (529)  | (468)  | Finance costs   | (92)            | 2.88% - 4.88%           |

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

<sup>2</sup> Includes USD1,019k of foreign exchange contracts relating to inventory purchases which are deemed to be ineffective as at 30 June 2020.

<sup>3</sup> Hedge ratio 1:1.

<sup>4</sup> \$5 million of notional amount of interest rate swaps expiring within 6 months of balance date. Balance of \$5 million expiring over the next four years. However, it was expected that the interest rate swaps would be settled within 12 months of balance date following the sale and leaseback of the Auckland property.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### CLASSIFICATION AND FAIR VALUES

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

|                                      | Hedging<br>instruments<br>\$000 | Amortised<br>cost<br>\$000 | Total carrying<br>amount<br>\$000 | Fair value hierarchy<br>Level 2<br>\$000 |
|--------------------------------------|---------------------------------|----------------------------|-----------------------------------|--|
| <b>2021</b>                          |                                 |                            |                                   |  |
| <b>Assets</b>                        |                                 |                            |                                   |  |
| Derivative financial instruments     | 109                             | –                          | 109                               | 109                                      |
| Trade and other receivables          | –                               | 11,881                     | 11,881                            |  |
| Cash and bank                        | –                               | 22,508                     | 22,508                            |  |
| <b>Total assets</b>                  | <b>\$109</b>                    | <b>\$34,389</b>            | <b>\$34,498</b>                   |  |
| <b>Liabilities</b>                   |                                 |                            |                                   |  |
| Lease liabilities                    | –                               | 19,530                     | 19,530                            |  |
| Employee benefits                    | –                               | 776                        | 776                               |  |
| <b>Total non-current liabilities</b> | <b>–</b>                        | <b>20,306</b>              | <b>20,306</b>                     |  |
| Loans and borrowings                 | –                               | –                          | –                                 |  |
| Derivative financial instruments     | 34                              | –                          | 34                                | 34                                       |
| Trade payables and accruals          | –                               | 13,064                     | 13,064                            |  |
| Employee benefits and entitlements   | –                               | 5,203                      | 5,203                             |  |
| Lease liabilities                    | –                               | 2,003                      | 2,003                             |  |
| <b>Total current liabilities</b>     | <b>34</b>                       | <b>20,270</b>              | <b>20,304</b>                     |  |
| <b>Total liabilities</b>             | <b>\$34</b>                     | <b>\$40,576</b>            | <b>\$40,610</b>                   |  |
| <b>2020</b>                          |                                 |                            |                                   |  |
| <b>Assets</b>                        |                                 |                            |                                   |  |
| Derivative financial instruments     | 160                             | –                          | 160                               | 160                                      |
| Trade and other receivables          | –                               | 12,165                     | 12,165                            |  |
| Cash and bank                        | –                               | 1,276                      | 1,276                             |  |
| <b>Total assets</b>                  | <b>\$160</b>                    | <b>\$13,441</b>            | <b>\$13,601</b>                   |  |
| <b>Liabilities</b>                   |                                 |                            |                                   |  |
| Lease liabilities                    | –                               | 2,224                      | 2,224                             |  |
| Employee benefits                    | –                               | 703                        | 703                               |  |
| <b>Total non-current liabilities</b> | <b>–</b>                        | <b>2,927</b>               | <b>2,927</b>                      |  |
| Loans and borrowings                 | –                               | 15,800                     | 15,800                            |  |
| Derivative financial instruments     | 732                             | –                          | 732                               | 732                                      |
| Trade payables and accruals          | –                               | 10,617                     | 10,617                            |  |
| Employee benefits and entitlements   | –                               | 3,500                      | 3,500                             |  |
| Lease liabilities                    | –                               | 1,345                      | 1,345                             |  |
| <b>Total current liabilities</b>     | <b>732</b>                      | <b>31,262</b>              | <b>31,994</b>                     |  |
| <b>Total liabilities</b>             | <b>\$732</b>                    | <b>\$34,189</b>            | <b>\$34,921</b>                   |  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

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

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

Non-derivative financial instruments comprise trade and other receivables, cash and bank, loans and borrowings 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.

The underlying interest rate margins of loans and borrowings, which were repaid in December 2020, approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

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

#### 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:

|  | 2021                       |                                 | 2020                       |                                 |
|--|----------------------------|---------------------------------|----------------------------|---------------------------------|
|  | Derivative assets<br>\$000 | Derivative liabilities<br>\$000 | Derivative assets<br>\$000 | Derivative liabilities<br>\$000 |
| Gross amounts in the consolidated statement of financial position      | 109                        | (34)                            | 160                        | (732)                           |
| Amounts offset   | –                          | –                               | –                          | –                               |
| <b>Net amounts in the consolidated statement of financial position</b> | <b>109</b>                 | <b>(34)</b>                     | <b>160</b>                 | <b>(732)</b>                    |
| Related amounts that are not offset based on ISDA                      | (34)                       | 34                              | (160)                      | 160                             |
| <b>Net amounts</b>   | <b>\$75</b>                | <b>\$0</b>                      | <b>\$0</b>                 | <b>(572)</b>                    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 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

|                     | 2021<br>\$000  | 2020<br>\$000 |
|---------------------|----------------|---------------|
| Buildings           | 9,662          | 430           |
| Plant and equipment | 281            | –             |
| Motor vehicles      | 25             | –             |
|                     | <b>\$9,968</b> | <b>\$430</b>  |

##### Lease liabilities

|             | 2021<br>\$000   | 2020<br>\$000  |
|-------------|-----------------|----------------|
| Non-current | 19,530          | 2,224          |
| Current     | 2,003           | 1,345          |
|             | <b>\$21,533</b> | <b>\$3,569</b> |

Additions to right-of-use assets during the year were \$10,071,000 (2020: \$24,700,000).

There was no impairment of right-of-use assets during the year (2020: \$2,909,000).

There was also no reversal of prior year impairment of right-of-use assets during the year (2020: Nil).

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

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

|                     | 2021<br>\$000 | 2020<br>\$000  |
|---------------------|---------------|----------------|
| Buildings           | 483           | 1,116          |
| Plant and equipment | 51            | 663            |
|                     | <b>\$534</b>  | <b>\$1,779</b> |

|   |              |            |
|---|--------------|------------|
| <b>Interest expense (included in finance costs)</b> | <b>\$675</b> | <b>536</b> |
|---|--------------|------------|

|   |              |              |
|---|--------------|--------------|
| <b>Expense relating to short-term leases (included in cost of goods sold and administration expenses)</b> | <b>\$459</b> | <b>\$266</b> |
|---|--------------|--------------|

|   |             |             |
|---|-------------|-------------|
| <b>Expense relating to leases of low-value assets that are not disclosed above as short-term leases (included in administrative expenses)</b> | <b>\$28</b> | <b>\$45</b> |
|---|-------------|-------------|

#### AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| <b>Total cash outflow for leases</b> | <b>\$2,419</b> | <b>\$2,026</b> |
|--------------------------------------|----------------|----------------|



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8a. LEASES (CONT'D)

##### AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

###### Accounting policies

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

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

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

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8a. LEASES (CONT'D)

##### EXTENSION OPTIONS

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

###### Estimates, judgements and assumptions

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

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

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

As at balance date, potential future cash outflows of \$19,092,000 (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 (2020: \$5,361,000).

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 (2020: The Group revised its assessment of reasonable certainty with respect to extension options, in the process decreasing recognised lease liabilities and right-of-use assets by \$2,960,000).

#### 8b. SHARE-BASED PAYMENT

##### DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENT

On 18 December 2020, the Company established a long-term incentive scheme ("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.

On 21 December 2020, the Company offered Rights to selected key management personnel ("Participants") that will entitle the Participants to be issued shares in the Company for no cash consideration provided that total shareholder return ("TSR") over the period from 1 November 2020 to 1 May 2023 ("Performance Period") exceeds 14% per annum compounding and they remain employed by the Company as at 1 May 2023 ("Condition Date").

TSR is defined as the increase in share price over the Performance Period adjusted upwards for distributions made by the Company during that period.

The Company has determined the Rights issued under the Scheme to be an equity-settled share-based payment arrangement pursuant to NZ IFRS 2 *Share-based Payment*, with the Participants not able to request payment in cash.

The Company has established grant date of the Rights to be 21 December 2020 ("Grant Date"), being the date at which the parties had a shared understanding of the terms and conditions of the share-based arrangement.

Shares issued under the arrangement are subject to trading restrictions, with 40% of the shares able to be traded immediately, 30% one year after issue date and the remaining 30% two years after issue date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8b. SHARE-BASED PAYMENT (CONT'D)

##### MEASUREMENT OF FAIR VALUE

The fair value of the Rights at the Grant Date of \$395,000 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 Condition Date;
- to calculate the annualised TSR at the Condition Date implied by the simulated share price;
- to determine the extent to which the calculated TSR exceeds 14% per annum compounding;
- to calculate the number of shares to be issued, taking into account the share cap under the share-based arrangement, and the implied payoff to the Participants based on the number of shares issued and the simulated share price at Condition Date.

The inputs used in the measurement of the fair value at Grant Date of the Rights are as follows.

- Share price at Grant Date - \$0.36 per share, being the Company's closing share price on NZX on 21 December 2020;
- Share price at start of the Performance Period - \$0.31 per share, being the 20-day volume weighted average sale price of one of the Company's share on NZX up to 1 November 2020;
- Expected volatility - 58%, based on the annualised volatility for the 2.5 years prior to Grant Date, being the historical period commensurate with the expected term of the Rights;
- Expected term - 2.5 years;
- Expected dividends - Nil;
- Drift rate used to discount Participants' payoff from the Condition Date to the Grant Date - 14% per annum.

Post-vesting trading restrictions relating to the shares that may be issued on Condition Date have been incorporated into the Monte Carlo simulation modelling used to determine fair value at Grant Date of the Rights by discounting the simulated value of the shares at the Condition Date, with the discount rate based on the price of a notional put option which could be purchased to hedge share price exposure during the restriction period.

Service condition attached to the Rights has not been taken into account in determining fair value because it is classified as a "non-market" condition (being a condition that is not dependent on share price) under NZ IFRS 2, with service condition reflected in the number of shares expected to be issued as a result of the condition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8b. SHARE-BASED PAYMENT (CONT'D)

##### OUTSTANDING RIGHTS

The number of shares that will be issued on Condition Date of the outstanding Rights is unknown at balance date.

The following table summarises, as at Grant Date and as at 30 June 2021, the maximum number of shares that could be issued under the Scheme at Condition Date:

|   | Maximum number of shares<br>that could be issued under the<br>Scheme at Condition Date | % of total number of<br>shares on issue |
|---|--|---|
| As at Grant Date  | 1,854,336  | 2.7%                                    |
| Adjusted to reflect rights where service conditions were no longer met following the resignation of the Chief Executive Officer | (782,942)  | (1.1%)                                  |
| <b>As at 30 June 2021</b>   | <b>1,071,394</b>   | <b>1.6%</b>                             |

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 3.0% of the total number of shares on issue at Condition Date.

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.

##### EXPENSE RECOGNISED IN PROFIT OR LOSS

The assessed fair value of the Rights at Grant Date of \$395,000 will be 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 within equity.

\$51,200 (being the proportion of fair value of the Rights relating to the period from Grant Date to balance date - after adjusting to reflect only those Rights where the service condition will be met) has been recognised in administration expenses in the Consolidated Statement of Profit or Loss for the year ended 30 June 2021 - with a corresponding credit to the share-based payment reserve within equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8c. SALE AND LEASEBACK OF PROPERTY

On 23 December 2020, the Group completed the sale and leaseback of its Auckland property for net proceeds of \$25,022,500 (being gross of \$25,500,000 less transaction costs of \$477,500).

The initial term of the leaseback is 14 years plus one right of renewal of six years, with net rent at commencement date of \$1,600,000 per annum and a 2.5% increase in rent per annum on each anniversary of the commencement date (except where that anniversary coincides with a market rent review date). Market rent reviews will take place on the sixth anniversary of the commencement date and on the renewal date, with market rent to be no less than 100% and no greater than 110% of the annual rent immediately preceding the relevant rent review date.

The terms of the sale and leaseback are typical for those entered into for large industrial sites in the Auckland region and the triple-net lease (where the lessee assumes direct responsibility for all costs payable in respect of the property (including rates, insurance and maintenance of the premises (including structural repairs and capital works))) typical after having regard to the age and condition of the Auckland property.

The Group has estimated the present value of the rental obligations in respect of the leaseback to be \$19,306,000, based on the initial term of the leaseback of 14 years and the net rent during that initial term (but ignoring the market rent review to take place on the sixth anniversary of the commencement date), discounted at the Group's incremental borrowing rate of 4.5% per annum.

The sale and leaseback has been accounted for in accordance with paragraphs 98 to 103 of NZ IFRS 16 Leases because the Group had control of the underlying asset before that asset was transferred to the buyer-lessor, with the difference between the \$25,500,000 from the sale and leaseback of the property less transaction costs of \$477,500 and the carrying value of the property of \$12,732,500 giving rise to the following:

- lease liability assumed of \$19,306,000;
- right-of-use asset retained of \$9,640,000;
- net gain on sale and leaseback of \$2,624,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8d. PROVISIONS

|  | Workplace accidents<br>\$000 | Make good<br>\$000 | Onerous contracts<br>\$000 | Warranties<br>\$000 | Total<br>\$000 |
|--|------------------------------|--------------------|----------------------------|---------------------|----------------|
| 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 | –                            | –                  | –                          | –                   | –              |
| <b>Balance at 30 June 2021</b>             | <b>\$150</b>                 | <b>\$89</b>        | <b>–</b>                   | <b>\$1,095</b>      | <b>\$1,334</b> |
| Non-current                                | –                            | 89                 | –                          | 583                 | 672            |
| Current                                    | 150                          | –                  | –                          | 512                 | 662            |
| <b>Balance at 30 June 2021</b>             | <b>\$150</b>                 | <b>\$89</b>        | <b>–</b>                   | <b>1,095</b>        | <b>\$1,334</b> |
| Balance at 1 July 2019                     | 210                          | 150                | 14                         | 1,040               | 1,414          |
| Provided during the year                   | –                            | 59                 | –                          | –                   | 59             |
| Utilised during the year                   | –                            | (150)              | (14)                       | –                   | (164)          |
| Released to profit or loss during the year | –                            | –                  | –                          | (15)                | (15)           |
| <b>Balance at 30 June 2020</b>             | <b>\$210</b>                 | <b>\$59</b>        | <b>–</b>                   | <b>\$1,025</b>      | <b>\$1,294</b> |
| Non-current                                | –                            | 54                 | –                          | 530                 | 584            |
| Current                                    | 210                          | 5                  | –                          | 495                 | 710            |
| <b>Balance at 30 June 2020</b>             | <b>\$210</b>                 | <b>\$59</b>        | <b>–</b>                   | <b>\$1,025</b>      | <b>\$1,294</b> |

#### Workplace accidents

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

#### Make good

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

#### Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2021 and 2020. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group.

The amount of warranty costs recognised as an expense directly to the Consolidated Statement of Profit or Loss during the year totalled \$852,000 (2020: \$1,101,000).

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8d. PROVISIONS (CONT'D)

##### 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.

#### 8e. EMPLOYEE BENEFITS

|                                   | 2021<br>\$000 | 2020<br>\$000 |
|-----------------------------------|---------------|---------------|
| Liability for retiring allowances | 96            | 96            |
| Liability for long service leave  | 816           | 735           |
| <b>Total employee benefits</b>    | <b>\$912</b>  | <b>\$831</b>  |
| Non-current                       | 776           | 703           |
| Current                           | 136           | 128           |
| <b>Balance at 30 June</b>         | <b>\$912</b>  | <b>\$831</b>  |

##### 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 2021, 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 Cavalier, Deloitte were able to estimate the value of the long service leave liability as at balance date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8f. 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 \$2,418,000 (2020: \$899,000).

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 (2020: \$15,800,000).

#### 8g. 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

Some of the Directors are shareholders in the Company.

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 2021 (2020: Nil).

##### Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled \$386,000 during the year ended 30 June 2021 (2020: \$368,000).

No other services were provided by the Directors during the year (2020: 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 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8g. RELATED PARTIES (CONT'D)

##### TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL (CONT'D)

###### Directors' remuneration and benefits (cont'd)

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, is entitled to a lump sum retiring allowance. 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 NZX. 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:

|  | 2021<br>\$000  | 2020<br>\$000  |
|--|----------------|----------------|
| Salaries, bonuses and leave entitlements | 3,653          | 2,770          |
| Share-based payments                     | 51             | –              |
| Employee benefits                        | 278            | 116            |
| Termination payments                     | 509            | 107            |
|  | <b>\$4,491</b> | <b>\$2,993</b> |

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

###### 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.

The Board approved a one-off payment to the Chief Executive Office on his resignation from the Company in April 2021, with that amount of \$509,000 recognised in administration expenses in the Consolidated Statement of Profit or Loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2021

### 8. OTHERS (CONT'D)

#### 8h. GROUP ENTITIES

##### OPERATING SUBSIDIARIES OF THE GROUP

|   | Principal activity             | Country of incorporation | Interest (%) 2021 | Interest (%) 2020 |
|---|--------------------------------|--------------------------|-------------------|-------------------|
| 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               |

#### 8i. EVENTS AFTER BALANCE DATE

##### 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 are required to close unless the workplace is 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.

A discussion of the impact of COVID-19 in general, and the impact of this latest Level 4 lockdown, on the Group can be found at note 2c (Going concern) to the consolidated financial statements.

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 four weeks to 14 September 2021, \$926,000 under the wage subsidy scheme.

The Group was also eligible for the New Zealand Government's COVID-19 Resurgence Support Payment and applied for, and received, a further \$55,000 under that scheme.

##### CHANGE OF NAME

The Company changed its name from Cavalier Corporation Limited to Bremworth Limited on 30 August 2021.

##### ESTABLISHMENT OF BREMWORTH EQUITY OWNERSHIP PLAN AND BREMWORTH SHARE OPTION SCHEME

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

The Equity Plan and the 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 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 Equity Plan. The Option Scheme provides for elected 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.

The Company issued 500,000 ordinary shares pursuant to the terms of the Equity Plan and 480,000 options under the Option Scheme to the CEO on 10 September 2021.

#### 8j. 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.

A modern living room interior with a low wooden sofa, a large paper lantern, and a glass coffee table. The room features wood-paneled walls, a red artwork, and a black pendant light. A red blanket is draped over the sofa, and a bowl with an orange sits on the coffee table.

***GOVERNANCE  
& OTHER  
DISCLOSURES***

## GOVERNANCE AND OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2021

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## GOVERNANCE AND OTHER DISCLOSURES CORPORATE GOVERNANCE STATEMENT

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

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

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

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

A summary of Bremworth’s governance actions and performance against each of the principles in the NZX Corporate Governance Code and its compliance with the recommendations relating to each of these principles are set out on pages 107 to 118.

### PRINCIPLE 1 — CODE OF ETHICAL BEHAVIOUR

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

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

#### Whistleblowing

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

#### Conflicts of interest

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

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

Bremworth does not donate to political parties.

The Directors’ interest disclosures can be found on page 120.

#### Share trading policy

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

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

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

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE

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

##### Delegation

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

##### Board composition

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

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

With Bremworth's new strategy unveiled to shareholders and options to fund the transformation being finalised, Alan Clarke stepped down as Chairman on 22 July 2020 and was succeeded by George Adams. Alan retired as a Director following the 2020 Annual Meeting of shareholders on 23 December 2020.

Paul Izzard was appointed as an independent Director on 20 November 2020 and elected to the Board by shareholders at the 2020 Annual Meeting. Paul is founder and director of Paul Izzard Design, a leading interior design business in New Zealand. His industry knowledge and networks, as well as his business leadership experience, are considered valuable attributes as Bremworth transforms to being a global leader in designing and creating desirable, sustainable, safe and high performing natural interior solutions.

As at 30 June 2021, the Board comprised five Directors – George Adams (Chairman), Grant Biel, Paul Izzard, John Rae and Dianne Williams.

The profile of the Directors can be found on pages 26 and 27.

##### Director independence

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

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

George Adams, Paul Izzard, John Rae and Dianne Williams have been determined to be independent Directors of the Company as at 30 June 2021. Grant Biel is not an independent Director as he is an associate of a substantial product holder in the Company.

##### Director appointment

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

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

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONT'D)

##### Director appointment (cont'd)

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

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

The Company has written agreements with all Directors appointed since 1 October 2017, establishing the terms of their appointment.

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

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

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

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

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

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

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

##### Attendance at meetings

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

The table below sets out Director attendances at Board, Board committee and shareholder meetings for the year ended 30 June 2021.

|                          | Board     | Audit Committee | Nomination Committee | Remuneration Committee | Shareholder |
|--------------------------|-----------|-----------------|----------------------|------------------------|-------------|
| <b>Total held</b>        | <b>18</b> | <b>5</b>        | <b>1</b>             | <b>3</b>               | <b>2</b>    |
| <b>Attendances:</b>      |           |                 |                      |                        |             |
| George Adams             | 18/18     | 5/5             | 1/1                  | 3/3                    | 2/2         |
| Grant Biel               | 17/18     | 5/5             | 1/1                  | 3/3                    | 2/2         |
| Alan Clarke <sup>1</sup> | 12/13     | 3/3             | Not applicable       | 1/1                    | 2/2         |
| Paul Izzard <sup>2</sup> | 6/6       | 2/2             | Not applicable       | 2/2                    | 1/1         |
| John Rae                 | 18/18     | 5/5             | 1/1                  | 3/3                    | 2/2         |
| Dianne Williams          | 18/18     | 5/5             | 1/1                  | 3/3                    | 2/2         |

<sup>1</sup> Alan Clarke retired as a Director on 23 December 2020.

<sup>2</sup> Paul Izzard was appointed a Director on 20 November 2020.



## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONT'D)

##### Diversity and inclusion policy

Bremworth is committed to creating a culture of 'equality of opportunity' to drive business engagement and success and:

- sees the diversity of its work force as a key asset and contributor to improved business performance and decision making;
- does not discriminate based on age, race, gender, sexual orientation, ethnicity or any other non-performance related differentiating factor;
- treats its people fairly and respectfully; and
- promotes diversity of thought and action, and unbiasedly rewards capability and achievement.

The Company has a Diversity and Inclusion Policy, a copy of which is published on the Company's website. The key areas of focus are:

- sharing and promotion of this Policy with employees;
- a capability-based approach to recruitment of people from a diverse as possible range of candidates;
- facilitation of opportunities for diversity of thought and action from all levels of the organisation; and
- promotion of diversity and inclusion through company culture programmes and celebrations that bring employees with differing perspectives together.

A number of initiatives are in place to support diversity and the Board believes the principles in the Policy were adhered to in the 2021 financial year.

Bremworth has a diverse workforce, representing more than 15 different ethnicities. English is a second language for a number of these staff, so Bremworth has initiatives in place to support them in the workplace, including the opportunity to participate in numeracy and literacy programmes.

The gender composition of the Company's Directors and officers is summarised below.

|                            | 30 June 2021   |                |                 | 30 June 2020   |                |                 |
|----------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|
|                            | Male           | Female         | Total           | Male           | Female         | Total           |
| Directors                  | 4/80%          | 1/20%          | 5/100%          | 4/80%          | 1/20%          | 5/100%          |
| Officers <sup>1</sup>      | 7/70%          | 3/30%          | 10/100%         | 7/70%          | 3/30%          | 10/100%         |
| Direct reports of officers | 39/57%         | 29/43%         | 68/100%         | 38/63%         | 22/37%         | 60/100%         |
| Rest of organisation       | 227/62%        | 138/38%        | 365/100%        | 212/59%        | 146/41%        | 358/100%        |
| <b>Total</b>               | <b>277/62%</b> | <b>171/38%</b> | <b>448/100%</b> | <b>261/60%</b> | <b>172/40%</b> | <b>433/100%</b> |

<sup>1</sup> An officer is a person, however designated, who is concerned or takes part in the management of the Company's business but excludes a person who does not report directly to the Board or report directly to a person who reports directly to the Board.

| Age composition       | 30 June 2021 |            | 30 June 2020 |            |
|-----------------------|--------------|------------|--------------|------------|
|                       | Number       | %          | Number       | %          |
| Under 30 years of age | 74           | 17         | 47           | 11         |
| 30 to 50 years of age | 181          | 40         | 179          | 41         |
| Over 50 years of age  | 193          | 43         | 207          | 48         |
| <b>Total</b>          | <b>448</b>   | <b>100</b> | <b>433</b>   | <b>100</b> |

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 3 — BOARD COMMITTEES

The Board utilises committees to enhance Board effectiveness in key areas, while retaining Board responsibility. Committees established by the Board make recommendations to the Board on those matters falling within the scope of the relevant committee charter. They do not act or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

The Board has three standing committees – the Audit Committee, Remuneration Committee and Nomination Committee. Each of these has a Board approved charter (which can be found on the Company's website), setting out the role, responsibilities, delegations and membership requirements. The Board regularly reviews the charters of each Board committee, their performance against those charters and membership of each committee.

The Board believes that committee charters comply with the recommendations in the NZX Corporate Governance Code.

The Board appoints the Chairman of each committee. Members are chosen for the skills, experience and other qualities that they bring to the relevant committees.

Bremworth's Board committees as at 30 June 2021 were:

| Committee                     | Role   | Members   |
|-------------------------------|--|---|
| <b>Audit Committee</b>        | Assists the Board in ensuring adequacy of financial management, internal reporting and monitoring processes, integrity of financial reporting, statutory audit quality and independence, internal audit and internal controls. | John Rae (Chairman)<br>George Adams<br>Grant Biel<br>Paul Izzard<br>Dianne Williams |
| <b>Remuneration Committee</b> | Assists the Board in establishing and maintaining a strong governance framework in respect of remuneration packages for Directors and for the CEO and senior management.   | Dianne Williams (Chairman)<br>George Adams<br>Grant Biel<br>Paul Izzard<br>John Rae |
| <b>Nomination Committee</b>   | Assists the Board in ensuring appropriate Board performance and composition and in appointing directors.   | George Adams (Chairman)<br>Grant Biel<br>John Rae<br>Dianne Williams                |

##### Independent Takeover Committee

As the Company has a small Board, it is not envisaged that the Board would appoint an Independent Takeover Committee, upon a takeover offer being received, unless there are Directors who are interested in the takeover offer or certain Directors are unavailable to assist on the matter.

The Board has a Takeover Response Policy setting out the objectives of the Company's takeover response strategy and establishing the appropriate protocols to be followed in the event of a takeover offer for the Company, covering, among other things:

- structure of the takeover response team and roles of key groups in the team;
- the Takeovers Code process and timetable;
- steps to be taken on receipt of a takeover notice;
- communication between the Company and the bidder; and
- potential takeover response strategies.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 4 — REPORTING AND DISCLOSURE

##### Continuous disclosure

The Board is responsible for the timeliness, accuracy and completeness of all Company disclosures, including its results, financial reporting and all matters relating to its business activities that could have a material effect on the price of Bremworth shares if they were generally available to the market.

Bremworth is committed to promoting investor confidence by providing timely, accurate, complete and equal access to material information, both positive and negative, in accordance with the NZX Listing Rules. To achieve and maintain high standards of disclosures, Bremworth has adopted a Continuous Disclosure Policy, which is designed to ensure compliance with NZX continuous disclosure guidance note.

This Policy, a copy of which is published on the Company's website, sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

##### Financial reporting

The Directors are committed not only to preparing consolidated financial statements that comply with New Zealand Generally Accepted Accounting Practice and fairly present the Group's financial position as at balance date and of its operations and cash flows for the year ended on that date, but also to balanced, clear and objective financial reporting.

The Audit Committee assists the Board in providing oversight of the quality and integrity of external financial reporting including the accuracy and completeness of the consolidated financial statements. In preparing the consolidated financial statements, the Company also ensures that its financial reporting is accompanied by sufficient explanation and is expressed in a clear and objective manner to assist investors make informed investment decisions.

All matters required to be addressed, and for which the Committee has responsibility, were addressed during the reporting period.

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

The CFO holds the role of Company Secretary. In all secretarial matters, the Board ensures that the Company Secretary's reports are objective and that the Company Secretary has unfettered access to the Chairman and the Audit Committee, without reference to the CEO.

##### Non-financial reporting

In addition to shareholders, Bremworth has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

Bremworth is committed to conducting the activities of the Company's business responsibly and sustainably by balancing its economic, environmental and social responsibilities and having regard to how its activities affect employees, contractors, communities and the environment in which it operates.

Insight into Bremworth's assessment of its business, strategy, performance and the transformational shift that is underway to position Bremworth as a design-led wool-focused company can be found on pages 2 to 39.

A detailed framework addressing the Company's environmental and social responsibilities was developed over the 2020 financial year, with a new Sustainability division established, the appointment of a Sustainability Manager made and the first area of focus being the establishment of baseline sustainability data.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 4 — REPORTING AND DISCLOSURE (CONT'D)

##### Non-financial reporting (cont'd)

The Board is pleased to be able to share with shareholders the progress for the 2021 financial year as the Company continues to forge ahead towards more formal measuring and monitoring of these key areas within the context of our business.

In April 2021, the Company announced the \$4.9 million research-based sustainability programme in partnership with the Ministry for Primary Industries (MPI) via the Sustainable Food, Fibre and Futures Fund - with MPI contributing \$1.9 million to the programme.

The programme will run for the next three years and is grounded on the sustainability principles of People, Planet and Profitability. This focuses on three main work streams:

- developing a more sustainable and compostable carpet;
- increasing process efficiency through Industry 4.0 principles and technology; and
- leveraging technology to further develop technical capability and future pipeline of talent.

The Company also signed up to the Energy Efficiency and Conservation Authority Energy Transition Accelerator Programme during the year. As part of this, an assessment of the decarbonisation options available to the Group has been completed enabling the business to begin defining its carbon reduction priorities.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 5 — REMUNERATION

The Board has a clear policy for setting remuneration of Directors and senior management at levels that are fair and reasonable to attract, reward and retain the skills, knowledge and experience required to enhance the Company's performance.

The Remuneration Committee assists the Board in discharging its responsibilities in relation to setting and reviewing Directors' remuneration and senior management objective setting, performance review and remuneration.

External advice is sought as required to ensure remuneration is benchmarked to the market for Directors and senior management positions.

#### Directors' remuneration

Shareholders resolved at the October 2018 Annual Meeting that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding \$450,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine.

The remuneration payable to the Directors was last reviewed and approved by the Board on 18 January 2019, with the current scale of Directors' remuneration applying from 1 January 2019 set out on page 101 (note 8g of the notes to the consolidated financial statements).

The total remuneration paid to the Directors for the year ended 30 June 2021 was \$386,427, with the details paid to each Director set out on page 121.

#### CEO's remuneration

The remuneration of the CEO is set independently, and without any involvement of the CEO, on an arm's length commercial basis as recommended by the Remuneration Committee and approved by the Board.

The CEO's remuneration comprises a fixed base salary, fringe benefits and a variable short-term incentive that is payable annually subject to attainment of targets. These targets may include growth in revenue and/or profitability as well as the delivery of strategy, health and safety, leadership and culture outcomes as agreed with the CEO at the commencement of the period.

The remuneration of the CEO can be analysed as follows:

| Year ended 30 June | Fixed base salary received <sup>1</sup> | Short term incentive receivable <sup>1,2</sup> | Termination payment receivable <sup>1,3</sup> | Fair value of performance rights pursuant to long-term incentive scheme <sup>4</sup> | Other benefits received or receivable <sup>5</sup> | Total remuneration |
|--------------------|---|--|---|--|--|--------------------|
| 2021               | \$508,559                               | \$107,278                                      | \$508,560                                     | –  | \$104,467  | \$1,228,864        |
| 2020               | \$508,559                               | –  | Not applicable                                | Not applicable   | \$18,110   | \$526,669          |
| 2019               | \$508,559                               | –  | Not applicable                                | Not applicable   | \$17,708   | \$526,267          |

<sup>1</sup> Inclusive of 3.0% Employer KiwiSaver

<sup>2</sup> Maximum of 24% of fixed base salary subject to attainment of revenue growth target and delivery of other quantitative and qualitative measures covering the wider business, with CEO eligible for 21%

<sup>3</sup> In lieu of notice and inclusive of an ex-gratia payment

<sup>4</sup> Nil, with fair value of performance rights recognised to 22 April 2021 of \$23,438 reversed as a consequence of the forfeiture of the CEO's performance rights upon his resignation from the Company

<sup>5</sup> Include fringe benefits and holiday pay entitlement.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 5 — REMUNERATION (CONT'D)

#### CEO's remuneration (cont'd)

The Board established a share-based long-term incentive scheme for the CEO and executive employees in December 2020, pursuant to which the Company would issue performance 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 – in the process aligning the participants' interests with those of shareholders.

Entitlements under the scheme are based on the extent to which the CEO and the other participants are able to generate total shareholder returns (being increase in share price adjusted upwards for dividends paid) in excess of 14% per annum compounding over a two and a half-year performance period, with shares to be issued under the scheme subject to the 3% share cap provided for under the NZX Listing Rules (see note 8b of the notes to the consolidated financial statements for further information).

In deciding on the two and a half-year performance period, the Board took into account the considerable efforts that had already been expended on the Group's transformation to the all-wool and natural materials by the participants by the time of the establishment of the share-based long-term incentive scheme in December 2020.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 6 — RISK MANAGEMENT

Bremworth is committed to the effective management of risk, which is fundamental to the Company's growth and profitability targets and outcomes.

The Company maintains a risk management framework for the identification, assessment, monitoring and management of risk and has in place, among other policies, a Treasury Management Policy and a Delegated Authority Policy to manage specific risks.

The Board is responsible for overseeing and approving the risk management framework and tolerance levels as well as ensuring that an effective assurance system is in place.

The material financial risks facing the business and the management of these risks are discussed at pages 83 to 92 (note 7 of the notes to the consolidated financial statements) with management reporting on these financial risks to the Board at every scheduled Board meeting.

#### Health and safety

The Board has a Health and Safety Policy, a copy of which is published on the Company's website.

The Policy provides the context, direction and framework within which all other health and safety materials are developed. It is the foundation for managing health and safety risks whilst applying a learning and people-centric lens to our operations and risk management.

The Board adopts a risk-based approach to health and safety risk management, focusing on strengthening critical risk management, while continuing to develop organisational capability and accountability for making health and safety an integrated part of our business. Health and safety management is a regular agenda item at Board meetings and Directors complete site visits which include a health and safety focus.

While the Board does not have a Health and Safety Committee, there is a Health and Safety forum which George Adams, as the Board's representative, and the CEO are part of, along with employees across the whole business. The quarterly Health and Safety forum involves employees from different backgrounds, experience, roles and levels of the organisation. The diversity of thought, demographics and perspectives brought by this group is a valuable contribution and helps shape the overall Health and Safety programme while also demonstrating our Diversity and Inclusion Policy in action.

There is an ongoing emphasis to learn from high-risk potential events and to proactively manage risks to prevent reoccurrence. A key initiative to support this is the adoption of a "Learning Teams" approach to investigations.

The Health and Safety programme concentrates on clearly identifying critical risks and strengthening control effectiveness for these key critical risks. Initiatives are executed within a cycle of continuous improvement and with the input and support of our site Health and Safety committees and the Health and Safety forum. Underpinning this is a focus to protect and grow our talent, maintain strong safety leadership and create psychologically safe workplaces for our people to thrive.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 7 — AUDITORS

##### External audit

The Board is responsible for ensuring the quality and independence of the statutory audit process and has adopted an External Audit Independence Policy, a copy of which is published on the Company's website.

The Audit Committee is charged with considering, and making recommendations to the Board regarding, any issues relating to the independence, performance, appointment or termination of the external auditor.

The Committee reviews the quality and cost of the statutory audit undertaken by the Company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor. The Committee also assesses the external auditor's independence on an annual basis.

The external auditor is prohibited from undertaking any work that impairs, or is seen to impair, independence and objectivity with respect to the statutory audit.

The Board appointed PwC as the Group's external auditor for the year ended 30 June 2021 on 25 May 2021.

PwC previously provided the Group with treasury advisory services, but ceased to provide these services prior to their appointment as auditors. No non-audit services have been provided by PwC since their appointment as auditors.

Bremworth's external auditor attends the Annual Meeting and is available to answer questions relating to the conduct of the statutory audit and the preparation and content of the auditor's report.

The fees paid to the previous external auditor, KPMG, for audit and non-audit work for the year ended 30 June 2020 and the fees paid to PwC for audit and non-audit work for the year ended 30 June 2021 are set out on page 68 (note 3e of the notes to the consolidated financial statements).

All non-audit work carried out by the external auditor were approved by the Board pursuant to the External Audit Independence Policy as having no effect on the independence or objectivity of the external auditor in relation to its statutory audit work.

In determining whether a non-audit related service impinges on the independence or objectivity of the external auditor, consideration is given to, among other things, the people doing the work, the nature of the work done and whether it involves any calculations of balances in the consolidated financial statements or for financial reporting.

##### Internal audit

Bremworth operates an independent internal audit programme that provides objective assurance of the effectiveness of the internal control framework.

Internal audit assists the Board and the Audit Committee to accomplish their objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes.

Internal audit adopts a risk-based assurance approach that is approved by the Board and has the autonomy to report significant issues directly to the Audit Committee or, if considered necessary, the Chairman of the Board.

## GOVERNANCE AND OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### PRINCIPLE 8 — SHAREHOLDER RIGHTS AND RELATIONS

Bremworth respects the rights of shareholders, is focused on fostering constructive relationships with shareholders that encourage them to engage with the Company and values dialogue with institutional and private investors.

Bremworth is also committed to giving all shareholders comprehensive, timely and equal access to information about its activities and keeps shareholders informed through:

- periodic and continuous disclosure, including shareholder presentations, to NZX;
- half year and annual reports;
- the Investor Newsletter;
- the Annual Meeting and any other meetings of shareholders called to obtain approval for Board actions as appropriate; and
- the Company's website [www.bremworth.co.nz/investor-centre](http://www.bremworth.co.nz/investor-centre) where investors and interested stakeholders can access financial and operational information and key corporate governance information about the Company.

The Board encourages shareholders to opt to receive communications from the Company electronically, thereby ensuring that they get access to communications efficiently and in a timely manner.

#### Shareholder meetings

The Board encourages full participation of shareholders at shareholder meetings to ensure a high level of Director and management accountability and shareholder understanding of Bremworth's strategies and goals.

Shareholders are able to ask questions of and express their views to the Board, management and the external auditors at Annual Meetings of shareholders. The Board adopts the one share, one vote principle, conducting voting at shareholder meetings by poll. Shareholders are also able to cast postal votes or vote by proxy ahead of meetings without having to physically attend those meetings.

Bremworth aims to make its notice of Annual Meeting and any other meetings of shareholders available on its website at least 20 working days prior to the meeting.

- Notice of special meeting: Bremworth held a special meeting of shareholders on 17 September 2020 to approve the sale and leaseback of its Auckland property. While Bremworth had intended to give shareholders at least 20 working days' notice for the special meeting and had made arrangements on this basis pursuant to recommendation 8.5 of the NZX Corporate Governance Code, it was unable to meet that recommendation because of ongoing delays with the negotiation of the sale and purchase agreement and requests by the purchaser for extension of time to complete due diligence. The notice period provided complied with the minimum period under schedule 1 of the Companies Act 1993.
- Notice of Annual Meeting: Due to the termination of the original agreement for the sale and leaseback of Bremworth's Auckland property and the timing of the second offer which required further shareholder approval, 14 working days' notice was provided for the 23 December 2020 Annual Meeting of shareholders.

#### VARIANCES TO NZX CORPORATE GOVERNANCE CODE

| NZX Corporate Governance Code Principle     | NZX Corporate Governance Code Recommendation  | Key difference  | Board's position   |
|---|---|---|--|
| <b>2. Board Composition and Performance</b> | 2.5: The Board should set measurable objectives for achieving diversity   | The Board has not set measurable objectives under the Diversity and Inclusion Policy for achieving diversity  | The Board considers diversity outcomes can be achieved without measurable objectives, with the increase in the number of woman in middle management over the 2021 financial year demonstrating this approach   |
| <b>8. Shareholder Rights and Relations</b>  | 8.5: Notices of annual or special meetings should be posted on the Company's website at least 20 working days prior to the meetings in question | The notices for the special meeting and Annual Meeting of shareholders held in 2020 were not made available on the Company's website at least 20 working days prior to the meetings | It is the Board's policy to make notices of meetings available on the Company's website at least 20 working days prior to the meeting, while noting that this was not possible in relation to the two meetings held in 2020 because of the circumstances explained above |

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE COMPANIES ACT 1993 FOR THE YEAR ENDED 30 JUNE 2021

#### DIRECTORS

The Directors of the Company as at 30 June 2021 were:

George Adams  
Grant Biel  
Paul Izzard  
John Rae  
Dianne Williams

Paul Izzard was appointed a Director on 20 November 2020 and Alan Clarke retired as a Director on 23 December 2020.

#### INTERESTS REGISTER

The Companies Act 1993 requires the Company to maintain an interests register in which are recorded the particulars of certain transactions and matters (e.g. use of company information, remuneration, indemnity and insurance and share dealing) involving the Directors. It further requires particulars of the entries in the interests register for the year to be disclosed in the annual report.

#### Use of company information

No notices were received from the Directors regarding the use of company information that would not otherwise have been available to them, except in their capacity as directors, during the year.

#### Remuneration

The scale of remuneration payable to the Directors with effect from 1 January 2019 was approved by the Board of Directors on 18 January 2019 and is set out on page 101 (note 8g of the notes to the consolidated financial statements).

#### Indemnity and insurance

The Board of Directors authorised, during the year, the renewal of the Company's directors' and officers' liability insurance policies covering the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries to the extent normally covered by such policies.

The total cost of these policies for the year ended 30 August 2021 was \$112,100 which was considered fair to the Company.

#### Share dealing

No notices were received from the Directors in relation to share dealing during the year.

Directors' relevant interests in shares in the Company as at 30 June 2021 were:

#### Grant Biel

|            |           |
|------------|-----------|
| Beneficial | –         |
| Other      | 8,567,642 |

#### Dianne Williams

|            |       |
|------------|-------|
| Beneficial | 5,000 |
| Other      | –     |

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

#### FOR THE YEAR ENDED 30 JUNE 2021

#### INTERESTS REGISTER (CONT'D)

##### Specific disclosures of interest

No specific disclosures of interest were received during the year.

##### General disclosures of interest

General disclosures of interest that were current as at 30 June 2021 were:

|                                    |  |                                     |
|------------------------------------|--|-------------------------------------|
| <b>George Adams</b>                | Apollo Foods Limited                         | Executive Chairman and shareholder  |
|                                    | Mars Manufacturing Limited                   | Director                            |
|                                    | The Apple Press Limited                      | Director                            |
|                                    | Apollo Brands Limited                        | Director                            |
|                                    | Arborgen Holdings Limited                    | Director                            |
|                                    | Insightful Mobility Limited                  | Chairman and shareholder            |
|                                    | Mix Global Holdings Limited                  | Chairman                            |
|                                    | Essano Limited                               | Director                            |
|                                    | Mix IP Limited                               | Director                            |
|                                    | Netlogix Group Holdings Limited              | Chairman                            |
|                                    | New Zealand Frost Fans Limited               | Chairman                            |
|                                    | Tegel Group Holdings Limited                 | Director                            |
|                                    | Business Leaders Health and Safety Forum     | Chairman                            |
|                                    | Competenz                                    | Chairman                            |
| Worksafe Partners Advisory Group   | Member                                       |                                     |
| <b>Grant Biel</b>                  | Auckland Air Charter Limited                 | Director                            |
|                                    | Bay Cliffe Industries Limited                | Director and shareholder            |
|                                    | Baycliffe Enterprises Limited                | Director and shareholder            |
|                                    | Bondworth Carpets Limited                    | Director and shareholder            |
|                                    | Heli Harvest Limited                         | Director                            |
|                                    | Heli Harvest (2012) Limited                  | Director                            |
|                                    | Rural Aviation (1963) Limited                | Director and shareholder            |
| Westburn Investments Limited       | Director                                     |                                     |
| <b>Paul Izzard</b>                 | Paul Izzard Design Limited                   | Director and shareholder            |
|                                    | Windswept Trust                              | Trustee                             |
| <b>John Rae</b>                    | Abodo Limited                                | Chairman of Advisory Board          |
|                                    | Corson Grain Limited                         | Director                            |
|                                    | Eastland Group Limited                       | Director                            |
|                                    | Eastland Network Limited                     | Director                            |
|                                    | Eastland Port Limited                        | Director                            |
|                                    | F J Hawkes & Co. Limited                     | Director and shareholder            |
|                                    | Gisborne Airport Limited                     | Director                            |
|                                    | Gobble Limited                               | Director and shareholder as nominee |
|                                    | Jaffa Holdings Limited                       | Director and shareholder            |
|                                    | Kingyo Foods Limited                         | Director and shareholder as nominee |
|                                    | Ngapuhi Asset Holding Company Limited        | Chairman                            |
|                                    | Smart Environmental Limited                  | Director                            |
|                                    | Thos Corson Holdings Limited                 | Chairman                            |
|                                    | Wet Gisborne Limited                         | Chairman                            |
| Te Rahui Herenga Waka Whakatane GP | Chairman                                     |                                     |
| JR Family Trust                    | Trustee                                      |                                     |
| <b>Dianne Williams</b>             | Coromandel Pure Honey 2020 Limited           | Director and shareholder            |
|                                    | Darden Limited                               | Director and shareholder            |
|                                    | Darden Holdings Limited                      | Director and shareholder            |
|                                    | Stepchange Consulting Limited                | Director and shareholder            |
|                                    | West Auckland Trust Services Limited         | Director                            |
|                                    | Chartered Accountants Australia New Zealand  | Director                            |
|                                    | Netball Northern Zone (Incorporated Society) | Director                            |

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

#### FOR THE YEAR ENDED 30 JUNE 2021

#### DIRECTORS' REMUNERATION

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2021 were:

|                 | Board            | Audit Committee | Remuneration Committee | Nomination Committee | Other benefits | Total            |
|-----------------|------------------|-----------------|------------------------|----------------------|----------------|------------------|
| George Adams    | \$122,935        | \$451           | –                      | –                    | –              | \$123,386        |
| Grant Biel      | \$59,983         | –               | –                      | –                    | –              | \$59,983         |
| Alan Clarke     | \$31,346         | –               | –                      | –                    | –              | \$31,346         |
| Paul Izzard     | \$37,447         | –               | –                      | –                    | –              | \$37,447         |
| John Rae        | \$59,983         | \$9,382         | \$226                  | –                    | –              | \$69,591         |
| Dianne Williams | \$59,983         | –               | \$4,691                | –                    | –              | \$64,674         |
| <b>Total</b>    | <b>\$371,677</b> | <b>\$9,833</b>  | <b>\$4,917</b>         | <b>–</b>             | <b>–</b>       | <b>\$386,427</b> |

The Directors' fees earned reflect the 20% reduction in fees from 1 July to 31 July 2020 that the Directors agreed to in response to the uncertain COVID-19 operating environment.

#### EMPLOYEES' REMUNERATION

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2021 fall into the various brackets specified by the Companies Act 1993 is as follows:

| Remuneration and value of other benefits (\$) | Number of employees – 2021 | Number of employees – 2020 |
|---|----------------------------|----------------------------|
| 100,000 – 109,999                             | 9                          | 8                          |
| 110,000 – 119,999                             | 10                         | 13                         |
| 120,000 – 129,999                             | 13                         | 9                          |
| 130,000 – 139,999                             | 4                          | 5                          |
| 140,000 – 149,999                             | 5                          | 1                          |
| 150,000 – 159,999                             | 2                          | 4                          |
| 160,000 – 169,999                             | 3                          | 4                          |
| 170,000 – 179,999                             | 2                          | 2                          |
| 180,000 – 189,999                             | 1                          | 2                          |
| 190,000 – 199,999                             | 2                          | 2                          |
| 200,000 – 209,999                             | 1                          | 1                          |
| 220,000 – 229,999                             | –                          | 1                          |
| 230,000 – 239,999                             | 2                          | –                          |
| 240,000 – 249,999                             | –                          | 1                          |
| 250,000 – 259,999                             | 2                          | –                          |
| 260,000 – 269,999                             | 1                          | –                          |
| 310,000 – 319,999                             | 1                          | –                          |
| 330,000 – 339,999                             | –                          | 1                          |
| 390,000 – 399,999                             | –                          | 1                          |
| 470,000 – 479,999                             | 1                          | –                          |
| 490,000 – 499,999                             | 1                          | –                          |
| 520,000 – 529,999                             | –                          | 1                          |
| 1,220,000 – 1,229,999                         | 1                          | –                          |
| <b>Total number of employees</b>              | <b>61</b>                  | <b>56</b>                  |

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

#### FOR THE YEAR ENDED 30 JUNE 2021

#### DONATIONS

Refer to page 68 (note 3e of the notes to the consolidated financial statements).

#### AUDIT FEES

Refer to page 68 (note 3e of the notes to the consolidated financial statements).

#### SUBSIDIARY COMPANY DIRECTORS

The following persons respectively held office as directors of subsidiary companies as at the end of the year:

| Subsidiaries  | Directors   |
|---|-------------|
| Bremworth Carpets and Rugs Limited (formerly Bremworth Limited)           | Paul Alston |
| Bremworth Spinners Limited (formerly Cavalier Spinners Limited)           |             |
| Elco Direct Limited   |             |
| Cavalier Bremworth Limited (formerly Elcotex Limited)                     |             |
| Cavalier Bremworth (North America) Limited                                |             |
| Cavalier Spinners Limited (formerly Heron Distributors Limited)           |             |
| Knightsbridge Carpets Limited   |             |
| EnCasa Carpets Limited  |             |
| Norman Ellison Carpets Limited  |             |
| Carpet Distributors Limited   |             |
| Horizon Yarns Limited   |             |
| NEC Limited   |             |
| Cavalier Commercial Limited   |             |
| Radford Yarn Technologies Limited   |             |
| E Lichtenstein and Company Limited  |             |
| Elcopac Limited   |             |
| Elcowool Limited  |             |
| e-Wool Limited  |             |
| Microbial Technologies Limited  |             |
| Northern Prospecting Limited  |             |
| Bremworth Pty. Limited (formerly Cavalier Bremworth Pty. Limited)         | Paul Alston |
| Cavalier Bremworth (Australia) Limited                                    | Scott Bain  |
| Cavalier Holdings (Australia) Pty. Limited                                |             |
| Cavalier Bremworth Pty. Limited (formerly Kimberley Carpets Pty. Limited) |             |
| Norman Ellison Carpets Pty. Limited                                       |             |
| Cavalier Commercial Pty. Limited  |             |

No subsidiary company directors received, in their capacity as such, directors' fees or other benefits from the subsidiaries.

There were no entries in the interests register in respect of any of the subsidiary company directors. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 121.

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE NZX LISTING RULES

#### AS AT 31 AUGUST 2021

#### ANALYSIS OF SHAREHOLDINGS

|                              | Number of shareholders | %             | Shares held       | %             |
|------------------------------|------------------------|---------------|-------------------|---------------|
| <b>Size of shareholdings</b> |                        |               |                   |               |
| Up to 199                    | 98                     | 3.22          | 8,328             | 0.01          |
| 200 – 499                    | 123                    | 4.04          | 41,985            | 0.06          |
| 500 – 999                    | 225                    | 7.39          | 157,230           | 0.23          |
| 1,000 – 1,999                | 511                    | 16.79         | 699,027           | 1.02          |
| 2,000 – 4,999                | 781                    | 25.67         | 2,408,855         | 3.51          |
| 5,000 – 9,999                | 516                    | 16.96         | 3,419,519         | 4.98          |
| 10,000 – 49,999              | 645                    | 21.20         | 12,802,007        | 18.64         |
| 50,000 – 99,999              | 77                     | 2.53          | 4,889,765         | 7.12          |
| Over 99,999                  | 67                     | 2.20          | 44,252,382        | 64.43         |
|                              | <b>3,043</b>           | <b>100.00</b> | <b>68,679,098</b> | <b>100.00</b> |

#### Location of shareholders

|             | Number of shareholders | %             | Shares held       | %             |
|-------------|------------------------|---------------|-------------------|---------------|
| New Zealand | 2,927                  | 96.19         | 67,734,483        | 98.62         |
| Overseas    |                        |               |                   |               |
| Australia   | 70                     | 2.30          | 493,014           | 0.72          |
| Others      | 46                     | 1.51          | 451,601           | 0.66          |
|             | <b>3,043</b>           | <b>100.00</b> | <b>68,679,098</b> | <b>100.00</b> |

|  | Shares held       | %            |
|--|-------------------|--------------|
| <b>Top 20 shareholders</b>   |                   |              |
| Marama Trading Limited   | 9,610,718         | 13.99        |
| Rural Aviation (1963) Limited  | 8,567,642         | 12.47        |
| Brian Edward Woolf   | 3,250,000         | 4.73         |
| FNZ Custodians Limited   | 2,911,784         | 4.24         |
| New Zealand Depository Nominee Limited (Account 1 Cash Account)                                | 1,411,715         | 2.06         |
| Gregory John Muir  | 1,225,000         | 1.78         |
| Custodial Services Limited (Account 4)   | 1,170,066         | 1.70         |
| Ian David McIlraith  | 1,100,000         | 1.60         |
| Fergus David Elliott Brown   | 1,000,000         | 1.46         |
| F B Trustee Limited (Fergus Brown Family Account)  | 1,000,000         | 1.46         |
| Masfen Securities Limited  | 787,500           | 1.15         |
| Maarten Arnold Janssen   | 747,516           | 1.09         |
| Percy Keith McFadzean  | 715,000           | 1.04         |
| BNP Paribas Nominees (NZ) Limited  | 709,700           | 1.03         |
| FNZ Custodians Limited (DTA Non Resident Account)  | 647,778           | 0.94         |
| Forsyth Barr Custodians Limited (1-Custody)  | 584,472           | 0.85         |
| Graham James Munro and Zita Lillian Munro  | 580,000           | 0.84         |
| Peter William Beasley and Anne Kathryn Beasley and Kevin Harborne (Waitemata Ventures Account) | 500,000           | 0.73         |
| Maosong Zhang  | 398,308           | 0.58         |
| FNZ Custodians Limited (DRP NZ Account)  | 324,500           | 0.47         |
|  | <b>37,241,699</b> | <b>54.23</b> |

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE NZX LISTING RULES (CONT'D)

#### AS AT 31 AUGUST 2021

#### NZX WAIVER RELIED ON

Bremworth relied on the NZX Class Waiver from NZX Listing Rules 3.5.1 and 3.6.1, dated 3 April 2020, which provided Bremworth with an additional 30 days to release its results announcement, and an additional two months for the preparation and release of its annual report, for the year ended 30 June 2020.

#### NZX WAIVER LISTING RULE 2.11.4

On 10 June 2021, NZ RegCo granted Bremworth a waiver from NZX Listing Rule 2.11.4, to the extent that this Rule would have otherwise required Bremworth to obtain authorisation by an Ordinary Resolution to pay a lump sum retiring allowance to Bremworth Director, Grant Biel.

This waiver was released by NZ RegCo to the market on the NZX Market Announcement Platform on 10 June 2021 and is also available on the Company's website [bremworth.co.nz](http://bremworth.co.nz).

#### NZX WAIVER LISTING RULE 4.6.1(C)

On 5 August 2021, NZ RegCo granted Bremworth a waiver from NZX Listing Rule 4.6.1(c), to the extent that this Rule would have prohibited Bremworth from issuing Equity Securities to Chief Executive Officer, Greg Smith, as a consequence of the threshold in the Rule having already been met as result of Performance Rights having been previously issued to the previous Chief Executive Officer, Paul Alston (which subsequently lapsed upon his resignation).

The waiver had the effect that the Equity Securities issued to Greg Smith "replaced" the Performance Rights issued to Paul Alston for the purposes of calculating the 3% threshold in accordance with Rule 4.6.1(c). That is, the Performance Rights issued to Paul Alston would not have to be counted when calculating the Equity Securities that Bremworth would be able to issue pursuant to Rule 4.6.1 to Greg Smith.

This waiver was released by NZ RegCo to the market on the NZX Market Announcement Platform on 8 September 2021 and is also available on the Company's website [bremworth.co.nz](http://bremworth.co.nz).

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURES UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013

#### AS AT 30 JUNE 2021

#### SUBSTANTIAL HOLDINGS

The substantial product holders in the Company in respect of whom notices have been received were:

|                               | Number of ordinary shares<br>(being the only class of listed<br>voting securities) where<br>relevant interest exists |
|-------------------------------|--|
| A C Timpson Trust             | 9,610,718  |
| Marama Trading Limited        | 9,610,718  |
| G C W Biel                    | 8,467,642  |
| Rural Aviation (1963) Limited | 8,467,642  |

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2021 was 68,679,098.

The definition of the term "relevant interest" in the Financial Markets Conduct Act 2013 is extremely wide, and more than one relevant interest can exist in the same voting securities.



## GOVERNANCE AND OTHER DISCLOSURES

### SHAREHOLDER INFORMATION

#### ANNUAL MEETING OF SHAREHOLDERS

|               |   |
|---------------|---|
| Time and date | 2 p.m., Thursday, 25 November 2021            |
| Venue         | This will be advised in the Notice of Meeting |

#### CORPORATE CALENDAR

|                       |  |
|-----------------------|--|
| 25 November 2021      | 2021 Annual Meeting of shareholders  |
| 31 December 2021      | End of 2022 half year  |
| Mid-February 2022     | Announcement of 2022 half year result and release of 2022 half year report |
| 30 June 2022          | End of 2022 financial year   |
| Late August 2022      | Announcement of 2022 annual result   |
| September 2022        | Period for director nominations  |
| End of September 2022 | Release of 2022 Annual Report  |

## GOVERNANCE AND OTHER DISCLOSURES

### TREND STATEMENT

|  | 2021<br>\$000 | 2020<br>\$000 | 2019<br>\$000 | 2018<br>\$000 | 2017<br>\$000 | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Financial Performance</b>   |               |               |               |               |               |               |               |
| Operating revenue  | \$111,577     | \$117,981     | \$135,234     | \$148,120     | \$156,120     | \$190,371     | \$215,728     |
| EBITDA (normalised)  | 3,385         | 2,300         | 7,076         | 9,998         | 2,572         | 12,275        | 8,517         |
| Depreciation – owned assets  | (379)         | (2,418)       | (3,479)       | (3,561)       | (3,251)       | (3,352)       | (5,862)       |
| Depreciation – right-of-use assets   | (534)         | (1,779)       | –             | –             | –             | –             | –             |
| Depreciation – recycled through inventory                                  | (764)         | (265)         | –             | –             | –             | –             | –             |
| EBIT (normalised)  | 1,708         | (2,162)       | 3,597         | 6,437         | (679)         | 8,923         | 2,655         |
| Finance costs (net)  | (1,056)       | (2,535)       | (1,790)       | (2,798)       | (2,936)       | (3,374)       | (3,948)       |
| Share of profit after tax of equity-accounted investees (normalised)       | –             | –             | 644           | 1,419         | 797           | 2,670         | 2,034         |
| Profit/(Loss) before income tax (normalised)                               | 652           | (4,697)       | 2,451         | 5,058         | (2,818)       | 8,219         | 741           |
| Income tax (expense)/benefit   | (276)         | 1,240         | (572)         | (1,084)       | 962           | (1,906)       | 454           |
| Profit/(Loss) after tax (normalised)                                       | 376           | (3,457)       | 1,879         | 3,974         | (1,856)       | 6,313         | 1,195         |
| Abnormal gains/(losses) (after tax)  | 1,353         | (17,994)      | (18,659)      | 107           | (268)         | (3,198)       | (26,910)      |
| Profit/(Loss) after tax attributable to shareholders of the Company (GAAP) | 1,729         | (21,451)      | (16,780)      | 4,081         | (2,124)       | 3,115         | (25,715)      |
| Ordinary dividends paid  | –             | –             | –             | –             | –             | –             | –             |
| Profit/(Loss) after dividends  | \$1,729       | (\$21,451)    | (\$16,780)    | \$4,081       | (\$2,124)     | \$3,115       | (\$25,715)    |
| <b>Financial Position</b>  |               |               |               |               |               |               |               |
| Shareholders' equity   | 35,592        | 33,637        | 54,989        | 72,222        | 67,890        | 69,361        | 66,184        |
| Loans and borrowings - term portion  | –             | –             | 20,500        | 27,500        | 35,000        | 37,700        | 45,000        |
| Term liabilities   | 20,978        | 3,511         | 1,618         | 2,029         | 3,728         | 4,461         | 4,938         |
| Loans and borrowings – current portion                                     | –             | 15,800        | –             | 4,000         | 6,500         | –             | 11,767        |
| Current liabilities  | 21,453        | 17,033        | 22,227        | 27,253        | 25,739        | 35,854        | 41,237        |
| Shareholders' equity and total liabilities                                 | \$78,023      | \$69,981      | \$99,334      | \$133,004     | \$138,857     | \$147,376     | \$169,126     |
| Property, plant and equipment  | 12,094        | 22,725        | 30,164        | 35,142        | 37,123        | 36,820        | 47,910        |
| Right-of-use assets  | 9,968         | 430           | –             | –             | –             | –             | –             |
| Investment in equity-accounted investees                                   | –             | –             | –             | 24,544        | 23,490        | 23,175        | 24,937        |
| Goodwill and other intangibles   | –             | –             | –             | 2,362         | 2,362         | 2,362         | 2,362         |
| Deferred tax asset   | 732           | 600           | 5,456         | 4,971         | 5,532         | 3,496         | 1,388         |
| Non-current assets   | 22,794        | 23,755        | 35,620        | 67,019        | 68,507        | 65,853        | 76,597        |
| Cash and bank  | 22,508        | 1,276         | 2,724         | 2,111         | 1,255         | 1,200         | 2,834         |
| Current assets   | 32,721        | 44,950        | 60,990        | 63,874        | 69,095        | 80,323        | 89,695        |
| Total assets   | \$78,023      | \$69,981      | \$99,334      | \$133,004     | \$138,857     | \$147,376     | \$169,126     |

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT (CONT'D)

|   | 2021<br>\$000        | 2020<br>\$000      | 2019<br>\$000     | 2018<br>\$000 | 2017<br>\$000        | 2016<br>\$000        | 2015<br>\$000   |
|---|----------------------|--------------------|-------------------|---------------|----------------------|----------------------|-----------------|
| <b>Abnormal items (after tax)</b>   |                      |                    |                   |               |                      |                      |                 |
| Impairment of carpet tile business assets                                     | -                    | -                  | -                 | -             | -                    | -                    | (9,132)         |
| Impairment of plant and equipment   | -                    | (5,095)            | (4,413)           | -             | -                    | (1,573)              | (4,344)         |
| Impairment of right-of-use assets   | -                    | (2,094)            | -                 | -             | -                    | -                    | -               |
| Impairment of intangible assets   | -                    | -                  | (2,362)           | -             | -                    | -                    | (5,432)         |
| Impending change in legislation relating to tax depreciation on buildings     | -                    | 2,940              | -                 | -             | -                    | -                    | -               |
| Derecognition of deferred tax assets  | -                    | (12,891)           | -                 | -             | -                    | -                    | (6,771)         |
| Restructuring costs   | (1,271) <sup>1</sup> | (854) <sup>1</sup> | -                 | 136           | (4,542) <sup>2</sup> | (3,222) <sup>2</sup> | (711)           |
| Reversal of impairment of fixed assets  | -                    | -                  | -                 | 99            | 1,083                | -                    | -               |
| Gain on sale of property  | 2,624                | -                  | -                 | -             | -                    | 2,035                | -               |
| Scour merger costs  | -                    | -                  | -                 | (128)         | (738)                | (438)                | (520)           |
| 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)          | -             | -                    | -                    | -               |
| <b>Total</b>  | <b>\$1,353</b>       | <b>(\$17,994)</b>  | <b>(\$18,659)</b> | <b>\$107</b>  | <b>(\$268)</b>       | <b>(\$3,198)</b>     | <b>(26,910)</b> |

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

<sup>2</sup> Incurred as part of the Group's strategic plan to address its cost base, with the consolidation of its yarn spinning operations in Napier, Whanganui 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 Wanganui; and
- closure of the Christchurch plant.

## GOVERNANCE AND OTHER DISCLOSURES TREND STATEMENT (CONT'D)

|  | 2021     | 2020     | 2019     | 2018     | 2017     | 2016     | 2015     |
|--|----------|----------|----------|----------|----------|----------|----------|
| <b>Financial Ratios and Summary</b>                      |          |          |          |          |          |          |          |
| <b>Use of Funds and Return on Investment</b>             |          |          |          |          |          |          |          |
| Return on average shareholders' equity (normalised) - %  | 1.1%     | (7.8%)   | 3.0%     | 5.7%     | (2.7%)   | 9.3%     | 1.5%     |
| Basic earnings per ordinary share (normalised) - cents   | 0.55     | (5.03)   | 2.74     | 5.79     | (2.70)   | 9.19     | 1.74     |
| Diluted earnings per ordinary share (normalised) - cents | 0.54     | (5.03)   | 2.74     | 5.79     | (2.70)   | 9.19     | 1.74     |
| <b>Financial Structure</b>                               |          |          |          |          |          |          |          |
| Net tangible asset backing per ordinary share - \$       | \$0.36   | \$0.47   | \$0.72   | \$0.94   | \$0.87   | \$0.92   | \$0.91   |
| Equity ratio - %   | 45.6%    | 48.1%    | 55.4%    | 54.3%    | 48.9%    | 47.1%    | 39.1%    |
| <b>Return to Shareholders</b>                            |          |          |          |          |          |          |          |
| Dividends paid per ordinary share                        | -        | -        | -        | -        | -        | -        | -        |
| <b>Share Price</b>                                       |          |          |          |          |          |          |          |
| 30 June  | \$0.49   | \$0.22   | \$0.32   | \$0.62   | \$0.35   | \$0.76   | \$0.36   |
| 52 week high   | \$0.49   | \$0.38   | \$0.68   | \$0.63   | \$0.95   | \$0.77   | \$1.36   |
| 52 week low  | \$0.21   | \$0.16   | \$0.31   | \$0.27   | \$0.33   | \$0.35   | \$0.31   |
| <b>Market Capitalisation (\$000)</b>                     |          |          |          |          |          |          |          |
| 30 June  | \$33,653 | \$15,109 | \$21,977 | \$42,581 | \$24,038 | \$52,196 | \$24,724 |
| <b>Capital Expenditure and Depreciation (\$000)</b>      |          |          |          |          |          |          |          |
| Capital expenditure                                      | \$2,481  | \$2,119  | \$4,705  | \$1,622  | \$2,123  | \$2,076  | \$2,564  |
| Depreciation - owned assets                              | \$379    | \$2,418  | \$3,479  | \$3,561  | \$3,251  | \$3,352  | \$5,862  |
| Depreciation - right-of-use assets                       | \$534    | \$1,779  | \$0      | \$0      | \$0      | \$0      | \$0      |

## GOVERNANCE AND OTHER DISCLOSURES

### TREND STATEMENT (CONT'D)

#### GLOSSARY OF FINANCIAL TERMS

|                            |  |
|----------------------------|--|
| <b>EBITDA</b>              | Earnings before interest, tax, depreciation and amortisation                 |
| <b>EBIT</b>                | Earnings before interest and tax   |
| <b>EBITDA (normalised)</b> | Earnings before abnormal costs, interest, tax, depreciation and amortisation |
| <b>EBIT (normalised)</b>   | Earnings before abnormal costs, interest and tax                             |
| <b>Net assets</b>          | Total assets less total liabilities  |

#### USE OF FUNDS AND RETURN ON INVESTMENT

|  |  |
|--|--|
| <b>Return on average shareholders' equity (normalised)</b> | $\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$  |
| <b>Basic earnings per ordinary share (normalised)</b>      | $\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year}}$ |

#### FINANCIAL STRUCTURE

|  |  |
|--|--|
| <b>Net tangible asset backing per ordinary share</b> | $\frac{\text{Net assets less goodwill and other intangibles}}{\text{Number of ordinary shares on issue at balance date}}$                        |
| <b>Equity ratio</b>                                  | $\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$  |
| <b>Net interest bearing debt : equity ratio</b>      | Interest-bearing debt less cash and bank : Shareholders' equity  |
| <b>Net interest cover (normalised)</b>               | $\frac{\text{EBIT (normalised) plus dividends received from equity-accounted investees grossed up for imputation}}{\text{Net interest expense}}$ |

#### RETURN TO SHAREHOLDERS

|   |  |
|---|--|
| <b>Ordinary dividend cover (normalised)</b> | $\frac{\text{Profit/(Loss) after tax attributable to shareholders of the Company (normalised)}}{\text{Ordinary dividends paid}}$ |
|---|--|

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 127 to 130, 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 consolidated financial statements of the Group.

The Directors believe that the non-GAAP financial information contained within the Trend Statement (more particularly, the non-GAAP measures of financial performance such as "EBITDA (normalised)", "EBIT (normalised)", "Profit before income tax (normalised)" and "Profit after tax (normalised)" as well as the various other financial ratios that are based on normalised results – for example, earnings per share) provide useful information to investors regarding the performance of the Group because the calculations exclude restructuring costs and other gains/losses (for example, gain/loss on sale of property and investments) that are not expected to occur on a regular basis either by virtue of quantum or nature.

In arriving at this view, the Directors have also taken cognisance of the regular requests by users of the consolidated financial statements, including analysts and shareholders, regarding the nature and quantum of abnormal items within the GAAP-compliant results and the way analysts distinguish between GAAP and non-GAAP measures of profit.

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the Chief Executive Officer as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account items of an abnormal nature, including items that are unlikely to recur or otherwise unusual in nature.

Non-GAAP financial information does not have standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities.

In collating the Trend Statement, the Directors have taken into account all of the requirements within the guidance note. More specifically, these include:

- outlining why non-GAAP financial information is useful to investors and how it is used internally by management;
- identifying the source of non-GAAP financial information;
- ensuring that:
  - non-GAAP financial information is not presented with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information;
  - presentation of non-GAAP financial information does not in any way confuse or obscure presentation of GAAP financial information;
  - a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be easily accessed (see below);
  - a consistent approach is adopted from period to period with respect to the presentation of non-GAAP financial information, including that for comparative periods;
  - where there is any change in approach from the previous period, the nature of the change is explained and the reasons and financial impact provided;
  - non-GAAP financial information is unbiased; and
- taking care when describing, or referring to, items as 'one-off' or 'non-recurring'.

## GOVERNANCE AND OTHER DISCLOSURES

### DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (CONT'D)

#### RECONCILIATION OF GAAP-COMPLIANT TO NON-GAAP-COMPLIANT MEASURES OF PROFIT/LOSS AFTER TAX

|   | YEAR ENDED 30 JUNE 2021 |                      |                     | YEAR ENDED 30 JUNE 2020 |                      |                     |
|---|-------------------------|----------------------|---------------------|-------------------------|----------------------|---------------------|
|   | GAAP<br>\$000           | Adjustments<br>\$000 | Normalised<br>\$000 | GAAP<br>\$000           | Adjustments<br>\$000 | Normalised<br>\$000 |
| <b>Revenue</b>                            | <b>\$111,577</b>        | <b>–</b>             | <b>\$111,577</b>    | <b>\$117,981</b>        | <b>–</b>             | <b>\$117,981</b>    |
| EBITDA                                    | 4,738                   | (1,353)              | 3,385               | (8,872)                 | 11,172               | 2,300               |
| Depreciation – owned assets               | (379)                   | –                    | (379)               | (2,418)                 | –                    | (2,418)             |
| Depreciation – right-of-use assets        | (534)                   | –                    | (534)               | (1,779)                 | –                    | (1,779)             |
| Depreciation – recycled through inventory | (764)                   | –                    | (764)               | (265)                   | –                    | (265)               |
| EBIT                                      | 3,061                   | (1,353)              | 1,708               | (13,334)                | 11,172               | (2,162)             |
| Finance costs (net)                       | (1,056)                 | –                    | (1,056)             | (2,535)                 | –                    | (2,535)             |
| Profit/(Loss) before tax                  | 2,005                   | (1,353)              | 652                 | (15,869)                | 11,172               | (4,697)             |
| Tax (expense)/benefit                     | (276)                   | –                    | (276)               | (5,582)                 | 6,823                | 1,241               |
| <b>Profit/(Loss) after tax</b>            | <b>1,729</b>            | <b>(1,353)</b>       | <b>376</b>          | <b>(21,451)</b>         | <b>17,995</b>        | <b>(3,456)</b>      |
| Abnormal gains/(losses) after tax         |                         | 1,353                | 1,353               |                         | (17,995)             | (17,995)            |
| <b>Profit/(Loss) after tax (GAAP)</b>     |                         | <b>\$0</b>           | <b>\$1,729</b>      |                         | <b>\$0</b>           | <b>(\$21,451)</b>   |

#### Analysis of abnormal items

|   | Profit/(Loss)<br>before tax<br>\$000 | Tax effect<br>\$000 | Profit/(Loss)<br>after tax<br>\$000 | (Loss)/Profit<br>before tax<br>\$000 | Tax effect<br>\$000 | (Loss)/Profit<br>after tax<br>\$000 |
|---|--------------------------------------|---------------------|-------------------------------------|--------------------------------------|---------------------|-------------------------------------|
| Restructuring costs   | (1,271)                              | –                   | (1,271)                             | (1,186)                              | 332                 | (854)                               |
| Impairment of plant and equipment   | –                                    | –                   | –                                   | (7,077)                              | 1,982               | (5,095)                             |
| Impairment of right-of-use assets   | –                                    | –                   | –                                   | (2,909)                              | 815                 | (2,094)                             |
| Impending change in legislation relating to tax depreciation on buildings | –                                    | –                   | –                                   | –                                    | 2,940               | 2,940                               |
| Derecognition of deferred tax assets                                      | –                                    | –                   | –                                   | –                                    | (12,891)            | (12,891)                            |
| Gain on sale and leaseback of property                                    | 2,624                                | –                   | 2,624                               | –                                    | –                   | –                                   |
|   | <b>\$1,353</b>                       | <b>\$0</b>          | <b>\$1,353</b>                      | <b>(\$11,172)</b>                    | <b>(\$6,823)</b>    | <b>(\$17,995)</b>                   |

#### Calculation of basic and diluted earnings/(loss) per share under GAAP and non-GAAP measures of profit/(loss) after tax

|  | GAAP-compliant reported<br>profit/(loss) after tax | Reverse abnormal<br>items (net of tax)<br>where applicable | Non-GAAP-compliant<br>normalised profit/(loss) after tax |
|--|--|--|--|
| <b>Year ended 30 June 2021</b>                                 |  |  |  |
| 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   |
| <b>Year ended 30 June 2020</b>                                 |  |  |  |
| Loss attributable to shareholders (\$000)                      | (\$21,451)   | 17,995   | (\$3,456)  |
| Weighted average number of ordinary shares (basic and diluted) | 68,679,098   |  | 68,679,098   |
| Loss per share (basic and diluted) (cents)                     | (31.23)  |  | (5.03)   |

## CORPORATE DIRECTORY

#### BOARD OF DIRECTORS

**George Adams** DipFSA(Hons), FCA, CFInstD

*Independent*

Chairman of the Board of Directors

Chairman of Nomination Committee

Member of Audit and Remuneration Committees

**Grant Biel** B.E. (Mech.)

*Non-independent*

Member of Audit, Remuneration and Nomination Committees

**Paul Izzard** BA (Hons) Interior Design

*Independent*

Member of Audit and Remuneration Committees

**John Rae** B.Com., LLB, CMInstD

*Independent*

Chairman of Audit Committee

Member of Remuneration and Nomination Committees

**Dianne Williams** B.Com., MBA, CMInstD

*Independent*

Chairman of Remuneration Committee

Member of Audit and Nomination Committees

#### CHIEF EXECUTIVE OFFICER

**Greg Smith**

#### CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

**Victor Tan** CA, FCIS

#### FOUNDING SHAREHOLDER

The late **Anthony Charles Timpson** ONZM

#### REGISTERED OFFICE

7 Grayson Avenue, Auckland 2104

P O Box 97040, Auckland 2241

Telephone: 0800 808 303

Facsimile: 64-9-279 4756

Website: bremworth.co.nz

#### SHARE REGISTRAR

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road, Auckland 0622,

Private Bag 92119, Auckland 1142.

Telephone: 64-9-488 8700

Facsimile: 64-9-488 8787

Investor Enquiries: 64-9-488 8777

#### AUDITORS

PwC

#### LEGAL ADVISORS

Russell McVeagh

#### BANKERS

Bank of New Zealand

National Australia Bank Limited

#### CORPORATE

**General Manager Health and Safety, People and Sustainability**

Kirstine Hulse

**Group Financial Controller**

Linda Arbuckle

**Group Information Services Manager**

Trevor Jones

#### CARPET OPERATION

**General Manager New Zealand Sales**

Dean Chandler

**General Manager Marketing and Australian Operations**

Rochelle Flint

**Logistics Manager**

Garth Clarke

**Auckland Carpet Tufting Plant Manager**

Jason Howearth

**Napier Yarn Spinning Plant Manager**

Karl Thin

**Whanganui Yarn Spinning Plant Manager**

Andrew Karl

#### WOOL OPERATION

**General Manager Wool Acquisition**

Shane Eades

#### WEBSITES

**Corporate**

bremworth.co.nz/investor-centre

**Carpet Operation**

bremworth.co.nz

bremworth.com.au

**Wool Operation**

elcodirect.co.nz

**Share Registrar**

computershare.co.nz/investorcentre

# Bremworth



**Bremworth Ltd**

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