

MEDIA RELEASE

Contact: Janette Osborne
Chair, Primary Wool Co-operative
Mob: 021 890 933
Email: janette@briarpatch.co.nz



Shareholders continue to back Primary Wool Co-Operative, providing strong support for organisation's future

February 11 2020 – A bright future for Primary Wool Co-Operative and the New Zealand wool industry is now a step closer, with shareholders supporting a recent capital raise and the organisation filing an improved balance sheet.

Following Primary Wool Co-Operative submitting its 45th annual report to the Companies Office on February 11, the co-operative's chair, Janette Osborne, says the organisation has emerged from a year of reflection and consolidation on a positive footing.

"I'm pleased to report that we have laid the foundation for a very positive future for Primary Wool Co-Operative. We are very happy with the initial response to our capital raise and our accounts are in good shape. This will enable the continuation of industry-good investment, value-add initiatives and sustainable returns to shareholders," says Mrs Osborne.

The strong support received from shareholders for the capital raise – with \$1.8 million received or committed to be paid via deductions so far – demonstrates shareholders' commitment to the organisation and the New Zealand wool industry as a whole, she says.

"The board is extremely grateful to shareholders for backing their organisation. We are now a step closer to being able to start work on some of the exciting initiatives we are planning to help boost demand for New Zealand wool."

Primary Wool Co-Operative is also very pleased with the performance of Carrfields Primary Wool (CP Wool), in which it has a 50% shareholding, Mrs Osborne says.

"The Primary Wool Co-Operative board is confident in CP Wool's ability to deliver on its five year strategic plan, which forges a solid path towards a positive future for New Zealand wool farmers. Our directors have no intention of calling up Primary Wool Co-Operative's loan to CP Wool, and in fact have received the support of our shareholders to invest further in the company."

Among CP Wool's initiatives are several new partnerships aimed at raising awareness globally of New Zealand wool as a highly valuable and versatile natural fibre. CP Wool is also investigating the "huge potential" of hemp through its subsidiary NZ Yarn.

"We're thrilled to have established such a strong platform for the future of Primary Wool Co-operative. At a time when wool prices are presenting significant challenges to farmers, our shareholders have demonstrated their optimism about several industry initiatives, as well as supporting greater industry cohesion to achieve positive outcomes," says Mrs Osborne.

ENDS

MEDIA RELEASE

Contact: Janette Osborne
Chair, Primary Wool Co-operative
Mob: 021 890 933
Email: janette@briarpatch.co.nz



[Primary Wool Co-Operative](#) is a 100% farmer-owned co-operative, committed to capturing the real value of wool, returning profits to members and supporting industry-good initiatives. It was formed in 1974 by a group of local farmers to increase returns for wool growers and invest in the future of the New Zealand wool industry.

Primary WOOL CO-OPERATIVE LTD

45th Annual Report



**and
Statement of Accounts
for the year ended
30 June 2019**

Primary Wool Co-operative Limited

TABLE OF CONTENTS

Annual Resolution	1
Chair's Report	2-4
Audit Report	5-6
Annual Report	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Statement of Cash Flows	11
Notes to the Financial Report	12-33

DIRECTORY

Registered Office	7 Morocco Terrace, Palmerston North 4414
Postal Address	Box 5343, Palmerston North 4441
Telephone	(06) 353 8200
Facsimile	(06) 353 8201
Bankers	Bank of New Zealand, Christchurch
Solicitors	Fitzherbert Rowe, Palmerston North
Auditors	KPMG, Christchurch
Secretary	Solution Integration Ltd, Palmerston North
Directors	J R Osborne M B deLautour MNZM, F.INST.D, JP H B deLautour

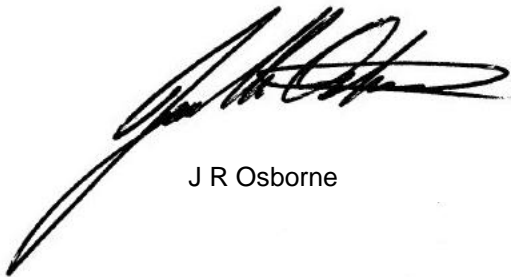
Primary Wool Co-operative Limited

ANNUAL RESOLUTION BY DIRECTORS OF A CO-OPERATIVE COMPANY

It was the opinion of the Board that Primary Wool Co-operative Limited has through the year ended 30 June 2019 and since the date of the registration of the Company under the Co-operative Companies Act 1996, been a Co-operative Company within the meaning of that Act on the following grounds:

- a) The Company carried on as its principal activity a cooperative activity as that term is defined in the Cooperative Companies Act 1996;
- b) The Constitution of Primary Wool Co-operative Limited states its principal activities as being cooperative activities;
- c) Not less than 60.7% of the voting rights of Primary Wool Co-operative Limited were held by transacting shareholders as that term is defined in the Cooperative Companies Act 1996.

Dated this 31st day January 2020.



J R Osborne



M B deLautour



H B deLautour

Primary Wool Co-operative Limited

CHAIR'S REPORT

Adaptation, Change and Building for Future Prosperity

It is a testament to you, our members, and your continuing belief in the benefits and properties of wool that I have the pleasure of presenting Primary Wool Co-Operative's 45th annual report.

Weathering four and a half decades of highs and lows in the wool industry is also a credit to our current and previous directors and in this regard, I would like to formally thank Howie Gardner, who retired from Primary Wool Co-Operative in May 2019, for his 25 years plus of dedicated service to the wool industry including his 17 years and huge contribution as a director of Primary Wool Co-Operative.

The Co-Operative has seen a year of reflection and consolidation which has laid the foundation for a very positive future to enable the continuation of industry-good investment, value-add initiatives and sustainable returns to shareholders.

Last year shareholders gave their overwhelming support that "The Board shall be directed to use every effort to maintain the Co-Operative's 50% shareholding in Carrfields Primary Wool Ltd". To enable this, shareholders also voted strongly in favour of the board being able to make calls on quota shareholding. I am very pleased to say that to date we have received payments of \$844,766 with a further \$960,621 committed to be paid progressively via 15c/kg deductions from future wool proceeds. This is proof of the long-term dedication of members to the future of the New Zealand wool industry. The board is very grateful for your extremely clear mandate.

We have received responses from over 50% of those included in the capital raise with another 312 shareholders totalling \$2,100,000 yet to respond. The receipt of these funds would enable Primary Wool Co-Operative to start work immediately on the tangible New Zealand based demand creation and awareness initiatives it has on hold.

We also welcome all our new shareholders who have joined during the past year.

Carrfields Primary Wool (CP Wool) - In Good Shape

In line with the presentation at last year's AGM CP Wool Limited's result for 2018-19 was lower than the previous year but still a profit as we settled back into normal wool volumes after the record on hold/low sale volumes of 2016/17 and the flow on peak volumes that occurred in the 2017/18 year as these on hold bales from the previous season were sold.

During the year in review we also made the strategic decision to strengthen the breadth of governance of CP Wool by expanding the board from four to six directors. During the year CP Wool welcomed Barry Brook, Maurice Noone, Hamish de Lautour, William Oliver and myself onto the board. The latter three being CP Wool directors appointed by Primary Wool Co-Operative. We also farewelled Howie Gardner as mentioned earlier and Bay de Lautour from the CP Wool board. I would like to personally thank Bay de Lautour for his 14 years of service and contribution on the CP Wool board and his years as Chair of Primary Wool Co-Operative and am delighted he remains a director of Primary Wool Co-Operative. His contribution has been invaluable and neither organisation would be where it is today without his valuable input.

Sadly, the New Zealand Wool Industry continues to face challenges with depressed wool prices for a third year in a row. Combined with increased shearing and associated costs this now means a net loss on wool for many farmers. We are also seeing an overall gradual decline in total wool volumes with both lambs and ewes going to the works woolly and lower grade oddments including dags being used on farm for environmental work. As a result, we are adapting CP Wool accordingly to ensure long-term sustainability. These strategic changes are flowing through in the 2019-20 results and year to date, to 31 December 2019, CP Wool are ahead of budget and well on track for a considerably improved full year profit.

It should also be noted that the liability section of the CP Wool Group balance sheet includes \$7.5m of shareholder loans provided by Primary Wool Co-Operative and Carrfields which are treated as equity for banking covenant purposes.

CP Wool continues to strive to be New Zealand's most trusted wool partner connecting farmers to the market and continuing to offer superior advice, service and logistics from farm to market and provide sustainable returns to its two shareholders – Primary Wool Co-Operative Ltd and Carrfields Ltd

Value Add – NZ Yarn – Expanding Opportunities

Time and time again we hear cries for “Why aren’t we adding value in New Zealand?”, “Why does it have to go offshore?”. “Why are there no wool processing facilities left in New Zealand?”, “Why doesn’t someone do something?”

Primary Wool Co-Operative and CP Wool are definitely the “someone” who back in 2014 did the “something”. The “something” is keeping NZ Yarn producing top quality carpet yarn directly from CP Wool suppliers and exporting it to Australia, USA and Europe.

CP Wool as majority 70.2% shareholder in NZ Yarn, along with a number of passionate minority shareholders (who now collectively hold 17.4%), have embarked on a strategy of producing unique niche yarn styles in order not to compete head on with our low-cost competitors. However, it is a long slow and expensive process taking a new yarn concept right through to carpet sales – the average length of time from sample yarn to a commercial range is two years.

The majority of funds injected into NZ Yarn by CP Wool over the past few years has been to develop the NZ Yarn business including extensive market development in North America. It is incredibly satisfying to realise that almost all of New Zealand's total \$13 million of carpet yarn exports per annum are produced by NZ Yarn.

The financial results for NZ Yarn for the 2018-19 year, which are consolidated into the CP Wool Group results, are a considerable loss. However, the directors are of the view that the business has now turned the corner and year to date results to 31 December 2019 confirm this view. Sales volumes and average selling prices are continuing to increase and the major resizing in 2018 ensures greater profitability with a break-even at a lower throughput of 65,000 kilograms per month.

To further expand the opportunities for wool as a sustainable fibre, in December 2018 we welcomed a new strategic partner, Hemp New Zealand Ltd, to NZ Yarn. Hemp NZ purchased a 12.4% shareholding by injecting \$1,500,000 into the development of the NZ Yarn business. The NZ Yarn losses in 2018-19 included \$500,000 of expensed capital/demolition work in the factory to make way for new Hemp processing equipment being imported from Europe. It is anticipated that this will complement NZ Yarn equipment and will be up and running by July 2020. Along with a range of other Hemp products, NZ Yarn will be producing unique Hemp and Wool carpet yarn blends which our customers are very keen to sample. This will be a world first and a completely unique yarn that will be extremely hard to replicate.

Industry-Good Activities

Primary Wool Co-Operative's industry good activities have been quite limited over the recent period as the priority has been to utilise capital raise funds to equalise the shareholder contributions made by Primary Wool Co-Operative into CP Wool, to the level of those contributions from Carrfields Ltd.

This is very important to ensure Primary Wool Co-Operative not only retains 50% control but are also eligible for 50% of profits in order to have a sustainable ongoing revenue stream to fund future industry good work while also providing a return to shareholders on their capital invested.

We have undertaken to provide monthly email newsletters featuring good news and other informative snippets about wool and the industry. These can also be found at <https://primarywool.co.nz/news/>

Your board is working hard, to drive better outcomes through collaboration, innovation, promotion, advocacy and good governance. We have a number of initiatives planned in response to shareholder feedback and a cross sector project ready to activate as soon as adequate funding is available.

Primary Wool Co-Operative Financial Results

Some of the changes made in CP Wool to ensure long term sustainability also flow through to the way Primary Wool Co-Operative earns its revenue. This is reflected in the reduction in revenue in the 2018-19

year. The intention is to move to a more usual investor/investee model where returns on investment come as equity accounted income and dividends.

Changes to traditional revenue streams include the following:

- Interest on shareholder loans – this ceased on 31 December 2018
- \$180,000 directors' fees – these also ceased on 31 December 2018. Traditionally CP Wool paid Primary Wool Co-Operative a bulk directors fee of \$180,000 per year. Part of this fee was passed onto Primary Wool Co-Operative directors at shareholder approved rates of \$25,000 for directors and \$35,000 for the chair. The remaining directors' fees were retained by Primary Wool Co-Operative. In the 2018-19 year \$100,000 of directors' fees were received and \$52,083 of this passed onto directors who were paid for the first six months of the year only. (In the 2017-18 year \$103,078 of the \$180,000 of fees received were passed onto directors).
- \$100,000 administration fees paid by Wool Marketing Enterprises who held the Just Shorn Trademark – this ceased 31 December 2018. The Just Shorn Trademark has now been transferred to Primary Wool Co-Operative ownership.

On the expense side - funding for the wool pack subsidy for Primary Wool Co-Operative members moved from Primary Wool Co-Operative to CP Wool from 31 December 2018.

The 2018-19 accounts have seen the introduction of the new accounting standard IFRS9 in relation to the loan of \$2,930,500 from Primary Wool Co-Operative to CP Wool. This standard introduces a new impairment model based on expected credit losses. Note 12 outlines the assessment the directors undertook to arrive at a conclusion that there is no impairment loss to the loan – which included exploring three theoretical scenarios as to how the loan could be repaid, if it was demanded, and whether the full amount of the loan would be recovered. It was the directors' conclusion that the loan is fully recoverable.

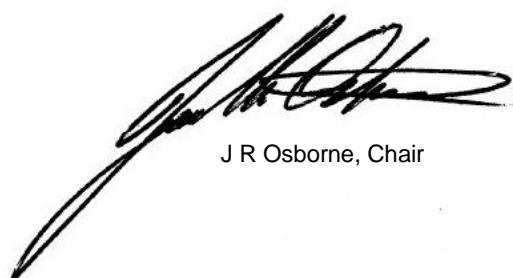
It is important to note that Primary Wool Co-Operative did not and have no intention of calling up the loan and are very pleased with the performance of CP Wool. This is merely a theoretical exercise under an accounting standard to estimate loan recoverability for the purposes of impairment assessment.

A considerable amount of supporting evidence running to nearly 50 pages was also provided including year to date 31 December 2019 financial performance against budget as well as a five-year plan including full financials. The auditors have however sought to obtain audit evidence to be "highly confident in the options being executed and, on the basis, assumed". Given the options are only theoretical and not intended to be executed because Primary Wool Co-Operative is not seeking repayment of the loan it is virtually impossible to provide sufficient evidence. The auditors have indicated that they believe one or more of the strategies is plausible however they have chosen to disclaim the audit on the basis of being "unable to obtain sufficient appropriate audit evidence in respect of the outcome of each of the options that would enable us to form an opinion in respect of the recoverability of the Company's advance to Carrfields Primary Wool." As per the Financial Markets Authority Investors' Guide to Auditing: "A disclaimer of opinion means the auditor was unable to complete their audit due to insufficient evidence and cannot form an opinion on the financial statements".

The directors strongly believe that the full amount of the loan is recoverable and would not be undertaking the current capital raise and increasing the amount of the loan to CP Wool if they felt otherwise. As an issuer under the Financial Markets Conduct Act the reasons for the disclaimer will be looked into by the Financial Markets Authority. We are confident we have fulfilled all our obligations regarding this and welcome FMA looking into the matter further.

Concluding Remarks

I would like to thank my fellow board members for their input and hard work during the year. However, I would like to give particular thanks to our Secretary, Alan White and his staff from Solution Integration Ltd who have gone above and beyond during this last year with the extra workload around both the capital raise and the extended audit.



J R Osborne, Chair



Independent Auditor's Report

To the shareholders of Primary Wool Co-operative Limited

Report on the audit of the financial statements

Disclaimer of opinion

We were engaged to audit the accompanying financial statements of Primary Wool Co-operative Limited (the Company) on pages 8 to 33, which comprise the statement of financial position as at 30 June 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, including a summary of significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying financial statements of the Company. Due to the significance of the matter described in the basis for disclaimer of opinion section of our report we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.



Basis for disclaimer of opinion

The Company has an advance receivable from its equity accounted investee, Carrfields Primary Wool Limited group ("CPW"), of \$2.9m at 30 June 2019. The advance is repayable on demand, secured by a General Security Agreement, and although interest bearing, the rate of interest has been varied to 0%. CPW is not currently in a position to repay the advance on demand.

As set out in note 12 to the financial statements, the Directors completed their impairment assessment and concluded that the advance was not impaired. The impairment assessment was based on the Directors' assessment of multiple alternative recovery options.

We have been unable to obtain sufficient appropriate audit evidence in respect of the outcome of each of the options that would enable us to form an opinion in respect of the recoverability of the Company's advance to Carrfields Primary Wool Limited.

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this set of financial statements

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

For and on behalf of

KPMG

KPMG
Christchurch

3 February 2020

Primary Wool Co-operative Limited

ANNUAL REPORT

The Directors submit the annual report of the Company and the financial statements of the Company for the year ended 30 June 2019.

1 FINANCIAL STATEMENTS

The Financial Statements attached to this report form part of and should be read in conjunction with this report.

2 PRINCIPAL ACTIVITIES

The Company's principal activities during the year were through its strategic investment in the joint venture company Carrfields Primary Wool Ltd. Carrfields Primary Wool Limited's principal activities were the purchasing, brokering and selling of wool as well as a majority shareholding in NZ Yarns an independent carpet yarn mill based in Christchurch. Primary Wool Co-Operative Limited has joint control and 50% ownership and economic interest in Carrfields Primary Wool Limited.

3 DIRECTORS

The Directors of the Company and their remuneration during the period under review were:

Maurice Bayly de LAUTOUR	\$14,583 (Directors Fees)
Howard Clyde GARDNER (resigned 19 May 2019)	\$12,500 (Directors Fees)
Hamish Bayly de LAUTOUR	\$12,500 (Directors Fees)
Janette Ruth OSBORNE	\$12,500 (Directors Fees)

Details of director's interests are covered in Note 19 to the financial report.
No payments were made on behalf of Directors.

4 DONATIONS

No donations were made by the Company during the period.

5 EMPLOYEE REMUNERATION

No employees, or former employees of the Company not being Directors, received during the accounting period total remuneration and other benefits in respect of employment from the Company valued in excess of \$100,000.

6 AUDIT FEES

Audit Fees of \$17,500 are payable to KPMG for the year to 30 June 2019.

Signed on behalf of the Board on 31 January 2020



J R Osborne
DIRECTOR



M B de Lautour
DIRECTOR

Primary Wool Co-operative Limited

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	2019	2018
Directors Fees and Other Income	4	104,559	280,326
Audit Fees		(15,625)	(16,350)
Overhead Expenses	5	(237,012)	(532,761)
Operating Profit (Loss)		(148,078)	(268,785)
Finance Income	6	140,723	246,023
Finance Expenses	6	(57,118)	(100,626)
Loss on Sale of Assets Held for Resale	11	-	(184,388)
Profit (Loss) before income tax and equity accounted income		(64,474)	(307,776)
Equity Accounted Income	8	393,152	(87,000)
Profit (Loss) before income tax		328,678	(394,776)
Income tax expense	7	-	-
Profit (Loss) for the year		328,678	(394,776)
Other Comprehensive Income		-	-
Total Comprehensive Income (Loss) for the year		328,678	(394,776)

These financial statements should be read in conjunction with the accompanying notes, accounting policies and audit report

Primary Wool Co-operative Limited

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	Share Capital	Retained Earnings	Total Equity
Balance at 1 July 2017		4,415,528	(4,322,004)	93,524
Total comprehensive income for the year				
Profit (Loss) for the year		-	(394,776)	(394,776)
Transactions with owners, recorded directly in equity				
Shares Issued	9	505,171	-	505,171
Shares Redeemed	9	(7,870)	-	(7,870)
Balance at 30 June 2018		<u>4,912,829</u>	<u>(4,716,780)</u>	<u>196,049</u>
Balance at 1 July 2018	9	4,912,829	(4,716,780)	196,049
Total comprehensive income for the year				
Profit (Loss) for the year		-	328,678	328,678
Transactions with owners, recorded directly in equity				
Ordinary and Redeemable Preference Shares Issued	9	1,865,482	-	1,865,482
Balance at 30 June 2019		<u>6,778,311</u>	<u>(4,388,102)</u>	<u>2,390,209</u>

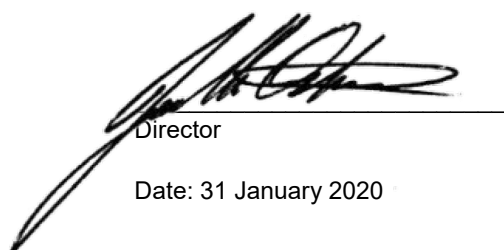
These financial statements should be read in conjunction with the accompanying notes, accounting policies and audit report

Primary Wool Co-operative Limited

STATEMENT OF FINANCIAL POSITION

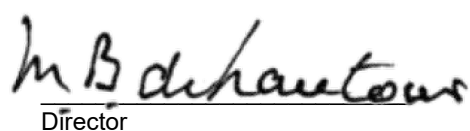
AS AT 30TH JUNE 2019

	Notes	2019	2018
Assets			
Cash and cash equivalents	10	6,999	31,894
Other receivables and prepayments	11	6,354	13,430
Advance to Investee	12	2,930,500	-
Equity Accounted Investments	8	-	-
Total Current Assets		<u>2,943,853</u>	<u>45,324</u>
Advance to Investee	12	-	2,175,494
Total Non-Current Assets		<u>-</u>	<u>2,175,494</u>
Total Assets		<u>2,943,853</u>	<u>2,220,818</u>
Liabilities			
Trade and other payables	13	91,466	67,277
Loans and Borrowings	14	7,305	1,957,492
Total Current Liabilities		<u>98,771</u>	<u>2,024,769</u>
Loans and Borrowings	14	454,873	-
Total Non-Current Liabilities		<u>454,873</u>	<u>-</u>
Total Liabilities		<u>553,644</u>	<u>2,024,769</u>
Equity			
Share Capital		6,778,311	4,912,829
Retained Earnings		(4,388,102)	(4,716,780)
Total Equity	9	<u>2,390,209</u>	<u>196,049</u>
Total Equity and Liabilities		<u>2,943,853</u>	<u>2,220,818</u>



Director

Date: 31 January 2020



Director

Date: 31 January 2020

These financial statements should be read in conjunction with the accompanying notes, accounting policies and audit report

Primary Wool Co-operative Limited

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	2019	2018
Net Cash Flows from Operating Activities			
Cash provided from:			
Receipts from Customers		69,000	338,334
Interest Received		-	31,350
		<u>69,000</u>	<u>369,684</u>
Cash applied to:			
Payments to Suppliers		(155,845)	(590,201)
Interest Expense Paid		(38,219)	(82,626)
		<u>(194,064)</u>	<u>(672,827)</u>
Net Cash from (used in) Operating Activities	15	<u>(125,064)</u>	<u>(303,143)</u>
Cash Flows from Investing Activities			
Cash provided from:			
Sale of Assets Held for Resale		-	150,612
		<u>-</u>	<u>150,612</u>
Cash applied to:			
Advances to Subsidiaries and Investee		(270,000)	-
		<u>(270,000)</u>	<u>-</u>
Net Cash from (used in) Investing Activities		<u>(270,000)</u>	<u>150,612</u>
Cash Flows from Financing Activities			
Cash provided from:			
Shares Issued for Cash		370,355	125,350
Monument Premium Funding Ltd Advances		9,572	7,491
		<u>379,927</u>	<u>132,841</u>
Cash applied to:			
Share Redemptions		-	(7,870)
Monument Premium Funding Ltd Repayments		(9,758)	-
		<u>(9,758)</u>	<u>(7,870)</u>
Net Cash from (used in) Financing Activities		<u>370,169</u>	<u>124,971</u>
Net Increase (Decrease) in Cash Held		<u>(24,895)</u>	<u>(27,561)</u>
Cash Balances at Beginning of Year		31,894	59,454
Closing Cash Balances	10	<u><u>6,999</u></u>	<u><u>31,894</u></u>

These financial statements should be read in conjunction with the accompanying notes, accounting policies and audit report

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019

Summary of Significant Accounting Policies

1 Reporting Entity

Primary Wool Co-operative Limited is a co-operative company domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996.

Primary Wool Co-operative Limited is an issuer for the purposes of the Financial Reporting Act 2013. Primary Wool Co-operative Limited became a FMC reporting entity under the Financial Markets Conduct Act 2013 on 23 November 2016.

The principal activities of Primary Wool Co-operative Limited are the purchasing, brokering and selling of wool, carried out through a joint venture with Carrfields Primary Wool Limited group together with brand development and marketing.

The financial statements for the year ended 30 June 2019 were approved and authorised for issue by the board on the 31 January 2020.

2 Basis of Preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS Tier 1"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on historical cost basis.

The Company is a profit-orientated entity.

These financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar.

Use of Estimates and Judgements

The preparation of financial statements requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The key source of estimation uncertainty are in the assumptions and their risk factors relating to the value of the investment in the investee.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key Judgements

Key judgements in these financial statements relate to the Directors' assessment of the recoverability of the loan and investment in Carrfields Primary Wool Limited (refer to Note 8 and Note 12) and the classification and measurement of the debt component of Redeemable Preference Shares (refer to Note 9).

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

3 Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations in the contract expire or are discharged or cancelled. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset.

Classification of Financial Assets and Liabilities

There are new measurement categories under NZ IFRS 9 for each class of the Company's financial assets as at 1 July 2018.

The Company's cash and cash equivalents and trade and other receivables are held to collect contractual cashflows that are expected to represent solely payments of principal and interest. On transition to NZ IFRS 9, these financial assets will continue to be measured at amortised cost and classified as "Amortised Cost".

The change in categories does not affect the carrying values of the financial assets with all balances remaining the same as at 1 July 2018.

There is no significant impact on the Company's accounting for financial liabilities and these continue to be recognised at amortised cost.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and Other Receivables

Trade and other receivables are classified as a financial instrument, and are stated at amortised cost using the effective interest method, less any impairment losses.

Loans and Borrowings

Loans and borrowings originated by the Company are carried in the Statement of Financial Position at amortised cost using the effective interest method, less provision for impairment.

Trade and Other Payables

Trade and other payables are classified as an other liabilities financial instrument and are stated at amortised cost.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

3 Specific Accounting Policies (Continued)

(b) Share Capital

All shares are classified as equity because although such instruments are redeemable, the Directors reserve the right to approve or decline any application for redemption. Further, any proposed dividends would be discretionary.

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity.

Redeemable Preference Shares are compound financial instruments with the debt component recognised as a liability and the residual attributed to equity. Refer to Note 9.

(c) Impairment

The carrying amount of the Company's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

NZ IFRS 9 introduces a new impairment model that requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under NZ IAS 39.

The new impairment model applies to the Company's financial assets measured at amortised cost and consequently the Company will be required to record expected credit losses either on a 12 month or lifetime basis on all trade and other receivables. Regular reviews of market conditions will be performed to assess any expected credit loss that may need to be recorded.

(d) Revenue

All revenue is accounted for in proportion to the stage of completion of the related transaction at reporting date. Revenue arises from the rendering of services (Directors fees, Administration services), the share of the investment in Carrfields Primary Wool Limited and interest and dividends. Rendering of services is recognised as revenue in the period it is earned. Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

(e) Rebates Policy

Rebates are provided for based on the qualifying kilograms of wool sold for the year at a rate determined by the Board. Shareholders who hold less than the quota shareholding as determined by the Board may have some or all of their rebate retained and converted to additional shares. For financial reporting purposes rebates are treated as an expense in the Statement of Comprehensive Income.

(f) Finance Income and Expenses

Finance income comprises interest income on funds invested, dividend income and changes in value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive the payment is established.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the Statement of Comprehensive Income using the effective income method.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

3 Specific Accounting Policies (Continued)

(g) Income Tax

Income tax expense comprises current and deferred tax.

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

When applicable deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for differences relating to investments in associates to the extent that they probably will not reverse in the foreseeable future. In the specific situation as the company has no depreciable assets or other timing differences, nor considers that tax losses are an asset, there is actually no current deferred tax asset or liability.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Please refer to Note 7 in regard to the fact losses are not recognised in this situation.

(h) Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Where applicable, information about any assumptions made in determining fair values is disclosed in the notes specific to that asset or

(i) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Company meets its objectives through a mix of shareholders' funds comprising share capital and retained earnings and reserves.

(j) New standards, interpretations and amendments

The following two new accounting standards were adopted from 1 July 2018 onwards:

Initial Application of NZ IFRS 9 Financial Instruments

As of 1 July 2018, NZ IFRS 9 Financial Instruments became effective for the Company. NZ IFRS 9 replaced NZ IAS 39 Financial Instruments: Recognition and Measurement and introduced changes to the classification and measurement of financial assets, hedge accounting, and the model to be applied when assessing whether financial assets are impaired. No material adjustments were identified as a result of applying NZ IFRS 9 at 1 July 2018.

The main ongoing impact of NZ IFRS 9 for the Company relates to the measurement of impairment losses. NZ IFRS 9 introduced a new impairment model based on expected credit losses rather than incurred losses as per NZ IAS 39. No trade receivables are held by the Company and as such, no collective expected credit losses provision was identified. An individual assessment of impairment for the Company's loan to its equity accounted investment, Carrfields Primary Wool Limited, has been performed with no impairment identified by the Directors at 30 June 2019. Refer to note 12 for further details.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

3 Specific Accounting Policies (Continued)

(j) New standards, interpretations and amendments (Continued)

NZ IFRS 15 Revenue from Contracts with Customers

The Company earns the majority of its revenues from contracts with customers from Administration Fees from Carrfields Primary Wool Limited. The Company recognises this revenue at a point in time, typically on the first of each month as it is typically during the month of attending these meetings or providing the administration services that those performance obligations to Carrfields Primary Wool Limited are satisfied.

The Company has concluded that adoption of NZ IFRS 15 has not resulted in revenue being recognised differently and therefore the adoption of NZIFRS 15 has had no material effect on the financial statements.

(k) New standards, interpretations and amendments not yet effective

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these is:

- NZ IFRS 16 Leases

The standard becomes mandatorily effective for periods beginning on or after 1 January 2019. The Company has progressed the implementation of this new accounting standard since reporting its annual results for the year ended 30 June 2019 and is able to provide the following information regarding their likely impact:

NZ IFRS 16 Leases

The new standard introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the rights to use the leased item during the lease term and a liability for the obligation to make lease payments. This removes the distinction between operating and finance leases and aims to provide users of the financial statements relevant information to assess the effect that leases have on the balance sheet, income statement and cash flows of the reporting entity. One of the key judgement areas in applying the new requirements relates to the assessment of whether an option to extend or terminate the lease contract will be exercised. Lessor accounting remains largely unchanged from NZ IAS 17.

The Company has identified that the adoption of NZ IFRS 16, which replaces NZ IAS 17 Leases from 1 January 2019, will have no impact its financial statements as the company is neither a lessee or lessor with regard to operating or finance leases.

(l) Goods and Services Tax

These financial statements are exclusive of GST except for accounts receivable and accounts payable which are inclusive of GST.

(m) Changes in Accounting Policies

Outside of those changes identified above, there have been no significant changes in accounting policies. All policies have been applied on the bases consistent with those in previous years.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

	2019	2018
4 Revenue		
Directors' Fees	100,000	180,000
Administration Fees	-	100,000
Revenue from Continuing Operations	<u>100,000</u>	<u>280,000</u>
Other Income	<u>4,559</u>	<u>326</u>
Total Revenues	<u>104,559</u>	<u>280,326</u>

Sales of woolpacks in prior years at a discounted rate to shareholders helped to increase the shareholder base and in turn contributed to profits through the Investee.

Instead of buying and selling woolpacks in their own right, the role was passed across to Carrfields Primary Wool Limited from 1 April 2017. The difference between the buying and selling price of the discounted woolpacks supplied to co-operative members is paid by Primary Wool Co-operative Limited and recorded as woolpack discounts to members. From 1 January 2019 the discounted woolpacks are supplied to shareholders directly by Carrfields Primary Wool Limited rather than by the Company.

5 Overhead Expenses		
Directors' Fees	52,083	103,078
Rent	-	102,039
Wages & Salaries	-	12,042
Woolpack Discounts to Members	74,217	174,639
Other	<u>110,712</u>	<u>140,964</u>
Total Overhead Expenses	<u>237,012</u>	<u>532,761</u>

Fees payable to KPMG for audit services for the year ended 30 June 2019 were \$17,500 (2018: \$12,500). No non-audit services were provided.

6 Finance Income and Expense		
Interest on Advance to Investee	140,723	246,023
Finance Income	<u>140,723</u>	<u>246,023</u>
Interest on Loans to Shareholders and Redeemable Preference Shares	(57,118)	(100,626)
Finance Expenses	<u>(57,118)</u>	<u>(100,626)</u>
Net Finance Income	<u>83,605</u>	<u>145,397</u>

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

	2019	2018
7 Income Tax Expense in the Income Statement		
Current Tax Expense		
Current Period	-	-
Adjustment for Prior Periods	-	-
	-	-
Deferred Tax Expense		
Recognition of previously unrecognised tax losses	-	-
Total Income Tax Expense	-	-
<i>Reconciliation of Tax Expense</i>		
Profit/(Loss) for the year	328,678	(394,776)
Prima facie tax credit @ 28%	(92,030)	110,537
Adjust for non-assessable/non-deductible items:		
Non-deductible equity accounted profit (losses) (100%) 2019: \$393,152 [2018: (\$87,000)]	110,083	(24,360)
Non-deductible expenditure (100%) 2019 \$91,062 (2018 \$183,737)	(25,497)	(51,446)
	(7,444)	34,731
Tax Losses for which no deferred tax asset recognised	7,444	(34,731)
Tax Expense/(credit) per Statement of Comprehensive Income	-	-
<i>Imputation Credits</i>		
Opening Balance - 1 July 2018	1,151,491	1,151,491
Dividends Received	-	-
Closing Balance - 30 June 2019	1,151,491	1,151,491

Tax losses for accounting purposes are not carried forward as a deferred tax asset, as taxable profit is fully imputed from the Joint Venture Carrfields Primary Wool Limited and therefore it is not probable that the company will generate sufficient profit for the tax benefit resulting from the tax losses to be realised as the excess ICA credits end up converted back to losses.

The company had tax losses carried forward as at 30 June 2019 of \$4,712,996 (30 June 2018: \$4,739,582).

2019 Non-Deductible expenditure of \$91,062 relates to non-deductible discounts on the sale of woolpacks and non-deductible legal and capital raising expenses.

2018 Non-Deductible expenditure of \$183,737 relates to non-deductible losses made on the sale of woolpacks, non-deductible legal and capital raising expenses.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

8 Equity Accounted Investments

	2019	2018
Non-Current Investments		
Investment in Joint Venture	-	-
Total Non-Current Investments	-	-

Joint Venture

Carrfields Primary Wool Limited is a joint venture in which the Company has joint control and a 50% ownership and economic interest. It is the Company's strategic investment and is principally involved in purchasing, brokering and selling of wool. Carrfields Primary Wool Limited operates throughout and was incorporated in New Zealand. The following table summarises the financial information of Carrfields Primary Wool Limited as included in its own financial statements. The table also reconciles the summarised financial information to the carrying value of the Company's interest in Carrfields Primary Wool Limited. The Company accounts for its interest in Carrfields Primary Wool Limited applying the equity method, which has been discontinued because the investment is carried at \$nil.

Percentage ownership interest	50%	50%
	(unaudited)	
Current assets (including cash and cash equivalents of 2019 \$409,000, 2018 \$546,000)	9,306,000	10,257,000
Non Current Assets	6,515,000	6,751,000
Current liabilities (including trade and other payables and provisions 2019 \$6,034,000, 2018 \$7,368,000)	(18,970,000)	(18,463,000)
Non Controlling Interest	(728,000)	141,000
Net Assets (Liabilities) (100%)	(3,877,000)	(1,314,000)
Company's share of net assets (liabilities) (50%)	-	-
Carrying value of the interest in joint venture	-	-
Revenue (including other income of \$1,032,000 (2018: \$2,106,000))	29,473,000	36,539,000
Depreciation and amortisation	429,000	409,000
Interest expense	610,000	851,000
Income Tax Expense	-	71,000
Profit (Loss) from Continuing Operations	(2,982,000)	(564,000)
Other Comprehensive Income	(6,000)	(42,000)
Profit (Loss) and total comprehensive income (loss) (100%)	(2,988,000)	(606,000)
Non Controlling Interest share of profit (loss)	(773,000)	432,000
Company's 2019 share of total comprehensive income (loss) (50%)	(1,107,500)	(87,000)
Comprehensive Loss not recognised by Company	1,107,500	-
Equity Accounting Losses Reversed	393,152	-
Company's share of total comprehensive income (loss) (50%)	393,152	(87,000)

The carrying value of the loan to Carrfields Primary Wool Limited was previously written down by the equity accounted losses of Carrfields Primary Wool Limited after having reduced that investment to \$nil. This was on the basis that the advance formed part of the long-term interest in Carrfields Primary Wool Limited, in accordance with NZ IAS 28 Investments in Joint Ventures and Associates. At 30 June 2019, this position was reassessed and the Directors determined that advance no longer performed part of the long-term interest and recovery of the advance was expected in the foreseeable future, accordingly the previous periods' equity accounted losses applied have been reversed at 30 June 2019. An impairment assessment for the advance was separately performed. Refer to Note 12.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

8 Equity Accounted Investments (continued)

No contingent liabilities have been incurred on behalf of, or in relation to the investee, other than as recorded in Note 21.

9 Equity

	Retained Earnings	Ordinary Shares	Ordinary Rebate Shares	Redeemable Preference Shares	Total Equity
<i>Reconciliation of Movement in Equity</i>					
Balance at 1 July 2017	(4,322,004)	589,232	3,323,057	503,239	93,524
Total Recognised Income and Expense	(394,776)	-	-	-	(394,776)
Shares Issued for Cash	-	-	125,350	-	125,350
Shares Issued from Rebates Retained	-	23,238	356,583	-	379,821
Shares Redeemed	-	(1,500)	(6,370)	-	(7,870)
Balance 30 June 2018	<u>(4,716,780)</u>	<u>610,970</u>	<u>3,798,620</u>	<u>503,239</u>	<u>196,049</u>
Balance 1 July 2018	(4,716,780)	610,970	3,798,620	503,239	196,049
Total Recognised Income and Expense	328,678	-	-	-	328,678
Shares Issued for Cash	-	-	160,355	210,000	370,355
Conversion of Shareholder Loans into Redeemable Preference Shares	-	-	-	1,950,000	1,950,000
Debt Component of Redeemable Preference Shares recognised as a liability	-	-	-	(454,873)	(454,873)
Balance 30 June 2019	<u>(4,388,102)</u>	<u>610,970</u>	<u>3,958,975</u>	<u>2,208,366</u>	<u>2,390,209</u>
					Total
<u>Shares on Issue at 30 June 2019</u> <i>(All fully paid)</i>		610,970	3,958,975	2,663,239	7,233,184

All shares have a \$1 notional face value.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

9 Equity (Continued)

There are seven classes of Redeemable Preference Shares:

Class A:	\$455,739	Being those associated with M B de Lautour loans and advances that were converted to equity (2018 \$455,739).
Class B:	\$47,500	Being those associated with H B de Lautour which were issued in relation to the purchase of the CRT shares (2018 \$47,500).
Class E	\$100,000	Being those associated with M B de Lautour loan that were converted to equity (2018: Nil)
Class F	\$110,000	Being those associated with H C Gardner loan of which \$100,000 was converted to equity (2018: Nil)
Class G	\$120,000	Being those associated with H B de Lautour loan of which \$100,000 was converted to equity (2018: Nil)
Class H	\$1,650,000	Being those associated with M B de Lautour loan that were converted to equity (2018: Nil)
Class I:	\$180,000	Being those associated with M B de Lautour loan advanced 6 August 2018 (2018: Nil)

(a) Ordinary Shares and Ordinary Rebate Shares

The Company has on issue Ordinary Shares ("OS") and Ordinary Rebate Shares ("ORS"). Both OS and ORS have identical features and were issued at a nominal value of \$1.

Voting rights

Shareholders of OS and ORS are entitled to one vote, and on a poll each share is entitled to one vote. Since 22 September 2002 the voting rights have been capped at 20,000 votes maximum for any one shareholder.

Distribution on winding up

In the event of the Company winding up, both OS and ORS participate equally in the distribution of any surplus assets after the repayment of redeemable preference shares at par value.

Dividends

There were no dividends approved by the Company in this financial period (2018: Nil).

Classification of OS and ORS

OS and ORS are puttable financial instruments on the basis that under certain conditions specified in the Co-operative Companies Act 1996, holders have the right to surrender shares to the Company, requiring repayment. However, as permitted by IFRS, these shares have been classified as equity on the basis that they satisfy the criteria in NZ IAS 32.

Specifically, OS and ORS:

- Are entitled to a pro-rata share of net assets in the event of liquidation;
- Are subordinate to all other classes of financial assets or equity instruments;
- Have identical features;
- Do not have any contractual entitlement to cash or another financial instrument;
- Have cash flows substantially based on the profit of the Company. OS and ORS are entitled to rebates from shareholders' level of transactions with the Company's equity-accounted investment, Carrfields Primary Wool Limited. Rebates are paid to shareholders in their capacity as owners; and

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

9 Equity (Continued)

- There are no other financial instruments that have total cash flows based substantially on profit, net assets or the fair value of recognised and unrecognised net assets of the Company, nor have the effect of restricting or fixing the residual return to OS and ORS holders.

(b) Redeemable Preference Shares ("RPS")

All classes of RPS have the same characteristics. RPS are perpetual instruments, have a \$1 notional face value, accrue interest at either 5 or 6% per annum (subject to periodic review by the Directors, 2018: 5%) and are entitled to discretionary dividends in line with ordinary shareholders.

RPS rank ahead of ordinary shareholders in respect of repayment, however, can only be redeemed by the Company at the option of the Company, not the holders. Unpaid interest accumulates, save for where a RPS holder elects to waive their interest entitlement.

Because RPS have features of both debt (a contractual entitlement to interest) and equity (only redeemable at the discretion of the Directors), they meet the definition of a compound financial instrument. All classes continue to be redeemable at the discretion of the Directors.

In accordance with NZ IAS 32, the debt and equity components of the RPS are separated and accounted for as individual financial instruments, with the fair value of the debt component determined first and the residual being attributed to equity.

The Company has determined that the appropriate discount rate for calculating the fair value of the debt component of the RPS is 15% (2018: 15%). Adjustments have been made to reflect the time value of money and credit risk (a discount of 50% of the interest entitlement; 2018: 50%) in determining fair value. Inputs into the determination of the fair value are reassessed annually as appropriate.

At 30 June 2019, the fair value of the debt component was \$454,873 (2018: \$83,873), with the equity component at \$2,208,366 (2018: \$419,366). The interest expense for the year was \$55,467 (2018: \$100,626), which has been recognised on an effective interest rate basis. Interest on Classes A and B of Redeemable Preference Shares was waived by the holders in 2019. Interest for the full year on Classes A and B of Redeemable Preference Shares amounting to \$25,162 was waived by the holders in 2019. Interest for part of the year on Classes H and I of Redeemable Preference Shares amounting to \$53,145 was waived by the holder in 2019. Therefore total interest of \$78,307 was waived.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

9 Equity (Continued)

The estimation of the debt component of the RPS is inherently judgmental, particularly as relates to the discount rate and credit risk adjustment. The table below illustrates the impact of possible changes in the assumptions reflected in these financial statements:

		<i>(Inc)/dec in liability by changing discount rate to...</i>			
		Increase discount rate by 1.0%	Increase discount rate by 0.5%	Reduce discount rate by 0.5%	Reduce discount rate by 1.0%
<i>(Inc)/dec in liability by changing haircut on interest to...</i>	No haircut	519,855	486,244	425,527	398,014
	15% haircut	373,646	345,076	293,467	270,081
	30% haircut	227,437	203,909	161,407	142,148
	70% haircut	(162,455)	(172,538)	(190,753)	(199,007)
	85% haircut	(308,664)	(313,706)	(322,813)	(326,940)

(c) Redemption Policy

Applications for redemption of OS, ORS and RPS are considered by Directors on an annual basis. The Directors reserve the right to approve or decline an application. Whenever a remuneration is considered to general shareholders, repayment to preference shareholders is considered as if they are a first ranking priority.

All other preference shares have no fixed term for redemption and any redemptions are at the discretion of the Directors.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

10 Cash and Cash Equivalents

BNZ Cheque Account	6,902	16,810
BNZ Call Account	96	15,084
Total Cash and Cash Equivalents	<u>6,999</u>	<u>31,894</u>

11 Other Receivables and Prepayments

Prepayments	6,354	6,515
GST receivable	-	6,916
Total Receivables and Prepayments	<u>6,354</u>	<u>13,430</u>

The Company's trade and other receivables have been reviewed for indicators of impairment. The loan to Bruce Woollen Mill Limited (In Liquidation) was secured by a first ranking general security agreement over the assets of Bruce Woollen Mill Limited (In Liquidation) formalised on 3 November 2014. There was also a personal guarantee of up to \$200,000 plus interest, charges and costs from John Stevens. As recovery under the personal guarantee has been unsuccessful, this was fully impaired in 2018.

Bruce Woollen Mill Limited (In Liquidation) is 62.51% owned by Wool Equities Limited. Primary Wool Co-operative Limited has a 4.92% shareholding in Wool Equities Limited.

Due to Bruce Woollen Mill Limited (In Liquidation) going into liquidation, and following unsuccessful legal proceedings under the personal guarantee, in the 2018 year the Directors have fully impaired the \$200,000 investment in Bruce Woollen Mill Limited (In Liquidation).

The property, plant and equipment at Bruce Woollen Mill held as an asset for resale was sold during the 2018 financial year at a loss of \$184,388.

	2019	2018
12 Advances to Investee		
Carrfields Primary Wool Limited - Advance Account	2,300,000	2,300,000
Add Additional Advances	270,000	-
Add Interest Outstanding on Loan	360,500	268,646
Total Advance	<u>2,930,500</u>	<u>2,568,646</u>
Accumulated equity accounted losses (applied to long-term interest)	-	- 393,152
Total Advance before Impairment	<u>2,930,500</u>	<u>2,175,494</u>
Impairment	-	-
Advance to investee	<u>2,930,500</u>	<u>2,175,494</u>

Interest Rate

Prior to 31 December 2018 the interest rate on the Advance was 10%. However pursuant to clause 3 of the Deed of Acknowledgement of Debt dated 27 November 2014 between the Investor and the Investee, the parties have agreed an interest rate of 0% from 1 January 2019.

Nature and Term of Advance

As outlined in clause 1 of the Deed of Acknowledgement of Debt dated 27 November 2014 "The Debt shall remain outstanding as a debt payable by the Debtor to the Creditor on demand".

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

12 Advances to Investee (Continued)

Impairment Review

In accordance with NZ IFRS 9 Financial Instruments, intercompany loans in separate financial statements are to be assessed for impairment by the Directors. For loans that are repayable on demand, such as this Advance, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. The Directors acknowledge that the Investee did not have sufficient liquid funds at 30 June 2019 to repay the Advance. However, the Directors have determined that multiple alternative "expected manner of recovery" options exist to recover the Advance and that any or a combination of these recovery strategies would fully recover the full outstanding balance of the Advance. Given this, the expected credit loss is limited to the effect of discounting the amount due on the loan, at the loan's effective interest rate over the period until cash is realised. As the effective interest rate is 0% and the recovery strategies indicate the Investor would fully recover the outstanding balance of the loan, the Directors have concluded there is no impairment loss to recognise on the Advance.

13 Accounts Payable and Accruals

	2019	2018
Accounts Payable	85,929	62,604
Unclaimed Dividends	25	4,584
Unclaimed Rebates	89	89
GST Payable	5,423	-
Total Accounts Payable and Accruals	<u>91,466</u>	<u>67,277</u>

14 Loans and Borrowings

Debt Component of Redeemable Preference Shares	454,873	-
Monument Premium Funding Limited	7,305	7,492
Shareholder Loan - M B de Lautour	-	1,650,000
Shareholder Loan 2017 - M B de Lautour	-	100,000
Shareholder Loan 2017- H B de Lautour	-	100,000
Shareholder Loan 2017- H C Gardner	-	100,000
Total Loan and Borrowings	<u>462,178</u>	<u>1,957,492</u>

The shareholder loan from M B de Lautour was converted to Redeemable Preference Shares in the 2019 year. The unsecured loan was for an undefined term, with an interest rate of 5% up to balance date. (2018 5%). Mr de Lautour previously confirmed that he would not require repayment of this loan until sufficient funds were released from Carrfields Primary Wool Limited.

The 2017 shareholder loans were converted to Redeemable Preference Shares in the 2019 year. They were unsecured and for an undefined term with an interest rate of 6% per annum up to balance date (2018 6%).

Monument Premium Funding is for insurance premiums financed over 12 months with a flat interest rate of 8.43%. Monthly repayments are \$792.38 with the final instalment due April 2020.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

15 Reconciliation of Cash Flow

Reported profit (loss) after taxation	328,678	(394,776)
Non-Cash and Non-Operating Items:		
Share Loss (Profit) in Investee	(393,152)	87,000
Shares Issued Retained from Rebates	-	379,821
Loss on Sale of Assets Held for Resale	-	184,388
Working Capital Items Classified as Investment Activities:		
Increase (Decrease) in Accounts Payable	31,104	(22,909)
Decrease (Increase) in Account Receivable	-	58,008
Decrease (Increase) in Other Accrued Revenue	(91,694)	(214,854)
Increase (Decrease) in Provision for Rebate	-	(379,821)
<u>Net Cash from (used in) Operating Activities</u>	<u>(125,063)</u>	<u>(303,143)</u>

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

16 Financial Instruments

Exposure to market risk, interest rate and credit risk arises in respect to the Company's investment in Carrfields Primary Wool Limited.

No derivative financial instruments are used.

(a) Market Risk

The Directors are of the opinion that the Company's exposure to market risk is defined as

Risk Factor	Description	Sensitivity
(a) Currency risk	No significant assets denominated in overseas currencies	Immaterial
(b) Interest Rate Risk	Exposure to changes in interest rates of loan receivable	as below
(c) Other price risk	No securities are bought, sold or traded	nil

(b) Credit Risk

Credit risk is the risk that the counterparty to a transaction with the Company will fail to discharge its obligations, causing the Company to incur a financial loss. The Company is exposed to credit risk through the advance to Carrfields Primary Wool Limited. The Company holds second security over the assets of Carrfields Primary Wool Limited as security for the advance given.

Reputable financial institutions are used for investing and cash handling purposes. At balance date, there are no other credit risks. (2018: nil).

The maximum exposure to credit risk in respect of financial assets is represented by the carrying value of each financial asset in the balance sheet. The maximum exposure to credit risk for the advance to Carrfields Primary Wool Limited is \$2,930,500 (2018: \$2,175,494) as per note 12.

The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);

And debt securities at Fair Value Other Comprehensive Income are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

Significant financial difficulty of the borrower or issuer;

A breach of contract such as a default or being more than 90 days past due;

The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

It is probable that the borrower will enter bankruptcy or other financial reorganisation; or

The disappearance of an active market for a security because of financial difficulties.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

16 Financial Instruments (continued)

(c) Liquidity Risk

Liquidity Risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis.

Redeemable Preference Shares are redeemable at the discretion of the Company. Liquidity risk is limited to certain circumstances as per note 9.

Ordinary Rebate Shares are only redeemable under conditions in the Co-operative Companies Act 1996 and would not be settled under conditions unfavourable to the Company.

The non-discounted contractual cash flows are as follows:

30 June 2019	0-6 Months	6-12 Months	1-2 years	2+ years	Total
Liabilities					
Accounts Payable & GST	91,352	-	-	-	91,352
Loan and Borrowings	7,305	-	-	-	7,305
Interest on Redeemable Preference Shares	55,650	55,650	111,300	111,300	333,900
	154,307	55,650	111,300	111,300	432,557
<hr/>					
30 June 2018	0-6 Months	6-12 Months	1-2 years	2+ years	Total
Liabilities					
Accounts Payable & GST	62,604	-	-	-	62,604
Loan and Borrowings	1,957,492	-	-	-	1,957,492
	2,020,096	-	-	-	2,020,096
<hr/>					

For Interest on Redeemable Preference Shares, one years interest has been included in the 2+ years column as Redeemable Preference Shares are a perpetual instrument.

(d) Interest Rate Risk

Exposure to interest rate risk is limited to the borrowing from M B de Lautour, H B de Lautour and H C Gardner. These funds have been on-lent to Carrfields Primary Wool Limited at 10.0% per annum (2018: 10%). Interest has been suspended since 1 January 2019. As all interest rate risk is between related parties it was not anticipated that there was a significant risk. The loans have been converted to Redeemable Preference Shares in August 2018 but the debt component of the Redeemable Preference Shares has been separated and accounted for as an individual financial instrument.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

16 Financial Instruments (continued)

(e) Classification and Fair Values

The carrying amounts of all financial assets and liabilities approximate their fair value and are categorised below.

	Fair Value	Amortised Cost	Total Carrying Amount
30 June 2019			
Assets			
Cash and Cash Equivalents	-	6,999	6,999
Other Receivables and Prepayments	-	-	-
Loans	-	2,930,500	2,930,500
Total Assets	-	2,937,499	2,937,499
Liabilities			
Trade and Other Payables	-	91,466	91,466
Loans	454,873	7,305	462,178
Total Liabilities	454,873	98,771	553,644
30 June 2018			
Assets			
Cash and Cash Equivalents	-	31,894	31,894
Other Receivables and Prepayments	-	6,916	6,916
Loans	2,175,494	-	2,175,494
Total Assets	2,175,494	38,810	2,214,304
Liabilities			
Trade and Other Payables	-	67,277	67,277
Loans	-	1,957,492	1,957,492
Total Liabilities	-	2,024,769	2,024,769

Determination of Fair Value

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

(f) Fair Value Hierarchy

Financial instruments measured at fair value are classified according to the following levels.

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

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

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

17 Operating Commitments

At balance date, there were no operating commitments. (2018: Nil)

18 Capital Commitments

At balance date, there were no capital commitments. (2018: Nil)

19 Related Party Disclosures

Carrfields Primary Wool Limited and Group, a joint venture company is a related party as described in Note 1 Reporting Entity.

Transactions with Carrfields Primary Wool Limited

The Company has advanced money to its investee, Carrfields Primary Wool Limited. This advance is detailed in note 12.

Trading Transactions

	2019	2018
Joint Ventures		
Interest Received	140,710	245,997
Service Fees Received	100,000	280,000
Purchase of Woolpacks	74,217	174,639
Amounts Owed		
Advance to Carrfields Primary Wool Limited	2,930,500	2,300,000
Less Carrfields Primary Wool Limited losses offset against the loan	-	(393,152)
Plus interest outstanding on the loan	-	268,646
Total advances to investee	<u>2,930,500</u>	<u>2,175,494</u>

Amounts owing to Carrfields Primary Wool Limited at 30 June 2019 were \$Nil (2018: \$14,821).

Apart from the transactions listed above, there were no other significant trading transactions with the Investee (2018: Nil).

Transactions with Directors

Directors fees of \$52,083 were paid during the period ended 30 June 2018 (2018: \$103,078).

During the period the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them. (2018: Nil)

Directors' interests in significant transactions with the Company during the year were as follows:

As disclosed in Note 14, M B de Lautour has had his loan to the Company of \$1,650,000 converted to Redeemable Preference Shares during the 2019 year.

As disclosed in Note 14, M B de Lautour, H B de Lautour and H C Gardner each lent the company \$100,000 in 2017. The unsecured loans were converted to Redeemable Preference Shares during the 2019 year.

Directors also hold rebate shares and receive rebates on the same basis as other co-operative members.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

19 Related Party Disclosures (Continued)

	2019	2018
Shareholdings of Related Parties		
<i>Shares under the control of the Director</i>		
M B de Lautour		
Shares Held at 1 July 2018		
Redeemable Preference Shares	455,739	455,739
Ordinary Shares	76,332	76,332
Ordinary Rebate Shares	500	500
	<u>532,571</u>	<u>532,571</u>
Shares Issued		
Loans converted to Redeemable Preference Shares	1,750,000	-
Redeemable Preference Shares Issued for Cash	180,000	-
	<u>2,462,571</u>	<u>532,571</u>
Shares Held at 30 June 2019		
Redeemable Preference Shares	2,385,739	455,739
Ordinary Shares	76,332	76,332
Ordinary Rebate Shares	500	500
	<u>2,462,571</u>	<u>532,571</u>

M B de Lautour was a Director of the Joint Venture Carrfields Primary Wool Limited, as well as the subsidiaries of that company Wool Exports NZ Limited, Wool Marketing Enterprises Limited until 26 June 2019. He is a Director of Bruce Woollen Mill Limited (In Liquidation) of which Primary Wool Co-operative has lent funds per Note 11. He is a shareholder of NZ Yarn Holdings Limited, which has a 3.6% shareholding in NZ Yarn Limited.

H C Gardner		
Shares Held at 1 July 2018		
Ordinary Rebate Shares	12,668	11,904
	<u>12,668</u>	<u>11,904</u>
Shares Issued		
Rebates retained and converted to Ordinary Rebate Shares	-	764
Loans converted to Redeemable Preference Shares	100,000	-
Redeemable Preference Shares Issued for Cash	10,000	-
	<u>122,668</u>	<u>764</u>
Shares Held at 30 June 2019		
Redeemable Preference Shares	110,000	-
Ordinary Rebate Shares	12,668	12,668
	<u>122,668</u>	<u>12,668</u>

H C Gardner was a Director of the Joint Venture Carrfields Primary Wool Limited, as well as the subsidiaries of that company Wool Exports NZ Limited, Wool Marketing Enterprises Limited until 16 May 2019.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

19 Related Party Disclosures (Continued)

	2019	2018
H B de Lautour		
Shares Held at 1 July 2018		
Redeemable Preference Shares	47,500	47,500
Ordinary Rebate Shares	22,677	21,204
	<u>70,177</u>	<u>68,704</u>
Shares Issued		
Loans converted to Redeemable Preference Shares	100,000	-
Redeemable Preference Shares Issued for Cash	20,000	-
Rebates retained and converted to Ordinary Rebate Shares	-	1,473
	<u>190,177</u>	<u>70,177</u>
Shares Held at 30 June 2019		
Redeemable Preference Shares	167,500	47,500
Ordinary Rebate Shares	22,677	22,677
	<u>190,177</u>	<u>70,177</u>

H B de Lautour became a director of the Joint Venture Carrfields Primary Wool Limited and its subsidiary Wool Exports NZ Limited on 16 May 2019. He is also a Director of NZ Yarn Limited and a Director/Shareholder of NZ Yarn Holdings Limited, which has a 3.6% shareholding in NZ Yarn Limited.

J R Osborne

Shares Held at 1 July 2018		
Ordinary Rebate Shares	4,963	4,963
	<u>4,963</u>	<u>4,963</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	2,765	-
Rebates retained and converted to Ordinary Rebate Shares	-	1,473
	<u>7,728</u>	<u>6,436</u>
Shares Held at 30 June 2019		
Ordinary Rebate Shares	7,728	4,963
	<u>7,728</u>	<u>4,963</u>

J R Osborne became a Director of the Joint Venture Carrfields Primary Wool Limited on 27 August 2018.

Total Key Management Personnel Compensation	<u>90,450</u>	<u>203,578</u>
--	---------------	----------------

The Key Management personnel are considered to be the Directors of the Company.

Compensation of the Company's Key Management Personnel includes directors fees, interest, rebates and loan repayments.

20 Going Concern

The financial statements of the Company have been prepared on a going concern basis. The company reported Total Comprehensive Income of \$328,677 for the year, and assets were greater than liabilities by \$2,390,209 at balance date. The Directors are of the view that the Company has the ability to meet its obligations as and when they fall due for a period of no less than 12 months from the date of authorisation of these financial statements. This view is supported by the amounts received and promised in the capital raise programme as detailed in Note 22.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019 (Continued)

21 Contingent Assets and Liabilities

In line with its responsibilities as a 50% shareholder in Carrfields Primary Wool Limited, the Company has undertaken to provide financial support to Carrfields Primary Wool Limited for 12 months from the date of their financial statements.

The liquidator of Bruce Woollen Mill Limited (In Liquidation) has indicated \$150,000 of the \$350,000 covered by the general security agreement and subsequently used to fund the purchase of the Bruce Woollen Mill Limited (In Liquidation) plant by Primary Wool Co-operative Limited did not have preferential ranking as the liquidator holds the view the loan was made to Bruce Woollen Mill Limited (In Liquidation) when it was deemed to be insolvent. The Directors have obtained independent legal advice and determined that in their view the Company will be successful in this matter but notes that a contingent liability of up to \$150,000 exists if the liquidator is successful in proving their case. (2018: \$150,000)

The Company has given an undertaking to M B de Lautour to service the loan used to provide funding to the Company, in the event of his death. The total commitment is currently \$2,459,673 and servicing this would currently be \$11,300 per month.

There were no other contingent assets or liabilities as at 30 June 2019 (2018: Nil).

22 Post Balance Date Events

In June 2019 unpaid Ordinary Rebate Shares were issued as part of the capital raise. Subsequent to balance date \$844,766 has been received in payments of these and a further \$960,621 has been committed to being paid progressively via 15c/kg deductions from future wool proceeds.