

Primary WOOL CO-OPERATIVE LTD

46th Annual Report



**and
Statement of Accounts
for the year ended
30 June 2020**

Primary Wool Co-operative Limited

TABLE OF CONTENTS

Annual Resolution	2
Chair's Report	3
Audit Report	4-6
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	PKF Goldsmith Fox Audit, Christchurch
Secretary	Solution Integration Ltd, Palmerston North
Directors	H B deLautour M B deLautour MNZM, F.INST.D, JP W J Oliver R G Young

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 2020 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 21st day October 2020.



H B deLautour



M B deLautour



W J Oliver



R G Young

Primary Wool Co-operative Limited

CHAIR'S REPORT

As we finalise the annual audit and look to publish our financial statements for the year ended 30 June 2020, the chair would traditionally look back on the past financial year and reflect on what has been achieved.

It would be easy to simply focus on the dramatic worldwide changes with the COVID-19 pandemic. While our sheep kept growing wool oblivious to the worldwide upheaval, the paths to market for wool went into lockdown. It is therefore very pleasing to see how the team at CP Wool responded and how the first 3 months of the new financial year are actually ahead of budget.

On a number of fronts, we are seeing cautious but increasing trends toward natural, renewable resources and wool is well placed to benefit from this. Primary Wool Co-Operative through our joint ownership of CP Wool and commitment to NZ Yarn, are in a unique position to benefit further as we expand the relationship between NZ Yarn and Hemp NZ, to find new and exciting uses for wool that would not exist if these bold steps had not been taken. As well as new opportunities, NZ Yarn has recently made it possible for farmers to have their own wool made into high quality carpet at 60% of the cost of retail. So great opportunities through both traditional and new uses for wool.

Navigating business-as-usual in a COVID-affected market, and seeking new opportunities for wool, both cost money. The Primary Wool Co-Operative directors are therefore extremely grateful for the continued support of shareholders who put their hand up in support of the industry through our capital raise. Nearly \$2million has been committed which will ensure we are well placed to support CP Wool and our industry through the times ahead.

Along with the support of shareholders I would like to acknowledge the support of my fellow directors and was very pleased to welcome William Oliver and Richard Young to the board during the year. Both bring strong governance, industry experience and grass-roots farming reality to the table. While we sadly farewelled former director and chairperson Janette Osborne, whose contribution to the Co-Operative and to CP Wool was almost immeasurable, William and Richard ensure we continue to have a strong governance team going forward.

Through ongoing discussions with shareholders, particularly during the capital raise, a common desire for industry collaboration kept being voiced. It was therefore extremely satisfying to be able to finally announce the formal collaboration between Primary Wool Co-Operative and Wools of New Zealand in August 2020. Since then the two organisations have been meeting regularly as we share ideas for the mutual benefit of the 2000 shareholders we serve. I firmly believe this will provide the economies of scale and the paths to market that will be game-changers in the years ahead.

While no one can deny the world faces unprecedented challenges, I believe your Co-Operative is well placed to navigate these on behalf of your industry.



H B de Lautour, Chair

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Primary Wool Co-Operative Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Primary Wool Co-Operative Limited (the Company), which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements on pages 7 to 33 present fairly, in all material respects, the financial position of the Company as at 30 June 2020, and 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) Frameworks.

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

Basis for Qualified Opinion

The Company has an advance receivable from its equity accounted investee, Carrfields Primary Wool Limited ("CPW"), of \$3,980,500 at 30 June 2020. The advance is repayable on demand 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 outlined 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 determine whether any adjustments to the advance to Carrfields Primary Wool Limited were necessary.

The financial statements of the Company for the year ended 30 June 2019 were audited by another auditor who issued a disclaimer of opinion on those statements on 3 February 2020. The disclaimer was in respect of the inability to obtain sufficient appropriate audit evidence regarding the recoverability of the Company's advance to CPW. We consider the disclaimer issued by the previous auditor remains relevant and material.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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 we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Key Audit Matters

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

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

Why Significant	How our audit addressed the key audit matter
<p>Classification and measurement of Redeemable Preference Shares</p> <p>Refer to note 9 of the Statement of Accounts.</p> <p>The Company has issued a range of classes of redeemable preference shares for a total of \$2,663,239.</p> <p>As at 30 June 2020 the debt component of the redeemable preference shares was determined to be \$454,873 and the equity component of the redeemable preference shares was \$2,208,366.</p> <p>Classification and measurement of redeemable preference shares is complex, judgemental, and material to the financial statements.</p>	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> • evaluating management's methodology for determining the split between debt and equity and the requirements of the accounting standard; • challenging the key assumptions used; and • assessing the appropriateness of the disclosures.
<p>Going concern</p> <p>The financial statements have been prepared on a going concern basis as detailed in note 22.</p> <p>For the year ended 30 June 2020, the Company made a loss of \$396,173 and had retained earnings of negative \$4,784,275.</p> <p>We included the going concern assumption as a key audit matter as it relies on existing cash reserves, share payments, and revenue growth generating sufficient cash flows to cover necessary expenditure.</p>	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> • reviewing management's assessment of the company's ability to continue as a going concern; • challenging the key assumptions used in the assessment to determine whether they are reasonable and appropriate in the circumstances; and • assessing the appropriateness of the disclosures.

Information Other than the Financial Statements and Auditor's Report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and audit report which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the directors are responsible, on behalf of the Company, for assessing the Company'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 Company or cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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) 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 financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PKF Goldsmith Fox Audit.

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 2020.

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 Limited. Carrfields Primary Wool Limited's principal activities were the purchasing, brokering and selling of wool as well as a majority shareholding in NZ Yarn Limited 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	\$23,098 (Directors Fees)
Hamish Bayly de LAUTOUR	\$40,000 (Directors Fees)
Janette Ruth OSBORNE (resigned 31 May 2020)	\$3,333 (Directors Fees)
William John OLIVER (appointed 28 May 2020)	Nil
Richard George YOUNG (appointed 28 May 2020)	Nil

Details of director's interests are covered in Note 21 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 \$16,000 are payable to PKF Goldsmith Fox Audit for the year to 30 June 2020.

Signed on behalf of the Board on 21 October 2020


H B de Lautour
DIRECTOR


W J Oliver
DIRECTOR

Primary Wool Co-operative Limited

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2020

	Notes	2020	2019
Directors Fees and Other Income	4	42,000	104,559
Audit Fees		(16,875)	(15,625)
Overhead Expenses	5	(315,839)	(237,012)
Operating Profit (Loss)		(290,714)	(148,078)
Finance Income	6	123	140,723
Finance Expenses	6	(105,582)	(57,118)
Profit (Loss) before income tax and equity accounted income		(396,173)	(64,474)
Equity Accounted Income	8	-	393,152
Profit (Loss) before income tax		(396,173)	328,678
Income tax expense	7	-	-
Profit (Loss) for the year		(396,173)	328,678
Other Comprehensive Income		-	-
Total Comprehensive Income (Loss) for the year		(396,173)	328,678

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 2020

	Notes	Share Capital	Retained Earnings	Total Equity
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>
Balance at 1 July 2019	9	6,778,311	(4,388,102)	2,390,209
Total comprehensive income for the year				
Profit (Loss) for the year		-	(396,173)	(396,173)
Transactions with owners, recorded directly in equity				
Ordinary and Redeemable Preference Shares Issued	9	4,882,562	-	4,882,562
Less Unpaid Shares Issued	9	(3,854,677)	-	(3,854,677)
Balance at 30 June 2020		<u>7,806,196</u>	<u>(4,784,275)</u>	<u>3,021,921</u>

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

Primary Wool Co-operative Limited

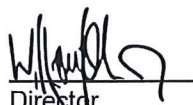
STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2020

	Notes	2020	2019
Assets			
Cash and cash equivalents	10	95,850	6,999
Other receivables and prepayments	11	7,449	6,354
Advance to Investee	12	3,980,500	2,930,500
Equity Accounted Investments	8	-	-
Total Current Assets		<u>4,083,799</u>	<u>2,943,853</u>
Total Assets		<u>4,083,799</u>	<u>2,943,853</u>
Liabilities			
Trade and other payables	14	99,992	91,466
Current Loans and Borrowings	15	507,013	7,305
Total Current Liabilities		<u>607,005</u>	<u>98,771</u>
Non-Current Loans and Borrowings	16	454,873	454,873
Total Non-Current Liabilities		<u>454,873</u>	<u>454,873</u>
Total Liabilities		<u>1,061,878</u>	<u>553,644</u>
Equity			
Share Capital		7,806,196	6,778,311
Retained Earnings		(4,784,275)	(4,388,102)
Total Equity	9	<u>3,021,921</u>	<u>2,390,209</u>
Total Equity and Liabilities		<u>4,083,799</u>	<u>2,943,853</u>


Director

Date: 21 October 2020


Director

Date: 21 October 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 2020

	Notes	2020	2019
Net Cash Flows from Operating Activities			
<i>Cash provided from:</i>			
Receipts from Customers		42,000	69,000
Interest Received		123	-
		<u>42,123</u>	<u>69,000</u>
<i>Cash applied to:</i>			
Payments to Suppliers		(345,083)	(155,845)
Interest Expense Paid		(85,782)	(38,219)
		<u>(430,865)</u>	<u>(194,064)</u>
Net Cash from (used in) Operating Activities	17	<u>(388,742)</u>	<u>(125,064)</u>
Cash Flows from Investing Activities			
<i>Cash applied to:</i>			
Advances to Subsidiaries and Investee		(1,050,000)	(270,000)
		<u>(1,050,000)</u>	<u>(270,000)</u>
Net Cash from (used in) Investing Activities		<u>(1,050,000)</u>	<u>(270,000)</u>
Cash Flows from Financing Activities			
<i>Cash provided from:</i>			
Shares Issued for Cash		1,027,885	370,355
Loans Advanced by Shareholders		500,000	-
Monument Premium Funding Ltd Advances		9,556	9,572
		<u>1,537,441</u>	<u>379,927</u>
<i>Cash applied to:</i>			
Monument Premium Funding Ltd Repayments		(9,848)	(9,758)
		<u>(9,848)</u>	<u>(9,758)</u>
Net Cash from (used in) Financing Activities		<u>1,527,593</u>	<u>370,169</u>
Net Increase (Decrease) in Cash Held		88,851	(24,895)
Cash Balances at Beginning of Year		6,999	31,894
Closing Cash Balances	10	<u>95,850</u>	<u>6,999</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 2020

Summary of Significant Accounting Policies

1 Reporting Entity

Primary Wool Co-operative Limited is a co-operative company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The registered office is 7 Morocco Terrace, Kelvin Grove, Palmerston North.

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 2020 were approved and authorised for issue by the board on the 21 October 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 for-profit 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 for-profit 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 2020 (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

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. After transition to NZ IFRS 9, these financial assets continue to be measured at amortised cost and classified as "Amortised Cost".

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 2020 (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 introduced 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 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 2020 (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 liability.

(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 new accounting standard was adopted from 1 July 2019 onwards:

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

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

3 Specific Accounting Policies (Continued)

(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 17 Insurance Contracts

The standard becomes mandatorily effective for periods beginning on or after 1 January 2023. The Company does not intend to apply this pronouncement until its effective date.

NZ IFRS 17 Insurance Contracts

The new standard establishes principles for the recognition, measurement and disclosure of insurance contracts within the scope of the standard. The Company is in the process of assessing the impact of the application of NZ IFRS 17 and is not yet able to reasonably estimate the impact on its financial statements.

(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 2020 (Continued)

	2020	2019
4 Revenue		
Directors' Fees	42,000	100,000
Revenue from Continuing Operations	42,000	100,000
Other Income	-	4,559
Total Revenues	42,000	104,559
5 Overhead Expenses		
Directors' Fees	66,431	52,083
Woolpack Discounts to Members	-	74,217
Other	249,408	110,712
Total Overhead Expenses	315,839	237,012

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.

Fees payable to PKF Goldsmith Fox Audit for audit services for the year ended 30 June 2020 were \$16,000 (2019 KPMG: \$17,500). No non-audit services were provided.

6 Finance Income and Expense		
Interest on Advance to Investee and Bank Interest	123	140,723
Finance Income	123	140,723
Interest on Loans to Shareholders and Redeemable Preference Shares	(105,582)	(57,118)
Finance Expenses	(105,582)	(57,118)
Net Finance Income	(105,459)	83,605

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

	2020	2019
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	(396,173)	328,678
Prima facie tax credit @ 28%	110,928	(92,030)
Adjust for non-assessable/non-deductible items:		
Non-deductible equity accounted profit (losses) (100%) 2020: \$Nil (2019: 393,152)	-	110,083
Non-deductible expenditure (100%) 2020 \$107,637 (2019 \$91,062)	(30,138)	(25,497)
	80,790	(7,444)
Tax Losses for which no deferred tax asset recognised	(80,790)	7,444
Tax Expense/(credit) per Statement of Comprehensive Income	-	-
<i>Imputation Credits</i>		
Opening Balance - 1 July 2019	1,151,491	1,151,491
Dividends Received	-	-
Closing Balance - 30 June 2020	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 2020 of \$5,001,530 (30 June 2019: \$4,712,995).

2020 Non-Deductible expenditure of \$107,637 relates to accountancy fee accruals and non-deductible legal expenses. Included in this is a \$50,000 payment to the liquidator of Bruce Woollen Mill Limited (in Liquidation) for full settlement of the claim that \$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 held the view that the loan was made to Bruce Woollen Mill Limited (in Liquidation) when it was deemed to be insolvent. See Note 23.

2019 Non-Deductible expenditure of \$91,062 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 2020 (Continued)

8 Equity Accounted Investments

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 operated throughout the year and was incorporated in New Zealand. The following table summarises the financial information of Carrfields Primary Wool Limited as included in its own unaudited 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.

	2020	2019
Percentage ownership interest	50%	50%
	(unaudited)	(unaudited)
Current assets (including cash and cash equivalents of 2020 \$608, 2019 \$409,000)	8,667,520	9,306,000
Non Current Assets	16,008,035	6,515,000
Current liabilities (including trade and other payables and provisions 2020 \$6,003,430, 2019 \$6,034,000)	(21,848,122)	(18,970,000)
Non Controlling Interest	(434,342)	(728,000)
Net Assets (Liabilities) (100%)	2,393,091	(3,877,000)
Company's share of net assets (liabilities) (50%)	-	-
Carrying value of the interest in joint venture	-	-
Revenue (including other income of \$995,620 (2019: \$1,032,000))	31,183,143	29,473,000
Depreciation and amortisation	413,222	429,000
Interest expense	600,555	610,000
Income Tax Expense	-	-
Profit (Loss) from Continuing Operations	(1,434,748)	(2,982,000)
Other Comprehensive Income	-	(6,000)
Profit (Loss) and total comprehensive income (loss) (100%)	(1,434,748)	(2,988,000)
Non Controlling Interest share of profit (loss)	(292,819)	(773,000)
Company's 2020 share of total comprehensive income (loss) (50%)	(570,965)	(1,107,500)
Comprehensive Loss not recognised by Company	570,965	1,107,500
Equity Accounting Losses Reversed	-	393,152
Company's share of total comprehensive income (loss) (50%)	-	393,152

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

8 Equity Accounted Investments (continued)

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.

No contingent liabilities have been incurred on behalf of, or in relation to the investee, other than as recorded in Note 23.

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 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	(4,388,102)	610,970	3,958,975	2,208,366	2,390,209
Balance 1 July 2019	(4,388,102)	610,970	3,958,975	2,208,366	2,390,209
Total Recognised Income and Expense	(396,173)	-	-	-	(396,173)
Total Shares Issued	-	-	4,882,562	-	4,882,562
Less Share Subscriptions Receivable	-	-	(3,854,677)	-	(3,854,677)
Balance 30 June 2020	(4,784,275)	610,970	4,986,860	2,208,366	3,021,921
					Total
<u>Number of Shares on Issue at 30 June 2020 (fully paid)</u>		610,970	4,644,788	2,663,239	7,918,997
Unpaid Shares Issued		-	3,051,472	-	3,051,472
Partially Paid Shares Issued		-	1,145,277	-	1,145,277
<u>Total Number of Shares on Issue at 30 June 2020</u>		<u>610,970</u>	<u>8,841,537</u>	<u>2,663,239</u>	<u>12,115,746</u>

All shares have a \$1 notional face value.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (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 (2019 \$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 (2019 \$47,500).
Class E	\$100,000	Being those associated with M B de Lautour loan that were converted to equity (2019: \$100,000)
Class F	\$110,000	Being those associated with H C Gardner loan of which \$100,000 was converted to equity (2019: \$110,000)
Class G	\$120,000	Being those associated with H B de Lautour loan of which \$100,000 was converted to equity (2019: \$120,000)
Class H	\$1,650,000	Being those associated with M B de Lautour loan that were converted to equity (2019: \$1,650,000)
Class I:	\$180,000	Being those associated with M B de Lautour loan advanced 6 August 2018 (2019: \$180,000)

(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 (2019: 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 2020 (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, 2019: 5 or 6%) 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% (2019: 15%). Adjustments have been made to reflect the time value of money and credit risk (a discount of 50% of the interest entitlement; 2019: 50%) in determining fair value. Inputs into the determination of the fair value are reassessed annually as appropriate.

At 30 June 2020, the fair value of the debt component was \$454,873 (2019: \$454,873), with the equity component at \$2,208,366 (2019: \$2,208,366). The interest expense for the year was \$103,779 (2019: \$55,467), 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 2020. Interest for the full year on Classes A and B of Redeemable Preference Shares amounting to \$25,162 was waived by the holders in 2020 (2019: \$25,162). Interest for part of the year on Classes H and I of Redeemable Preference Shares amounting to \$7,771 was waived by the holder in 2020 (2019: \$53,145). Therefore total interest of \$32,933 was waived (2019: \$78,307).

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (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>			
		Reduce discount rate by 1.0%	Reduce discount rate by 0.5%	Increase discount rate by 0.5%	Increase 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 2020 (Continued)

	2020	2019
10 Cash and Cash Equivalents		
BNZ Cheque Account	29,490	6,902
BNZ Call Account	66,360	96
Total Cash and Cash Equivalents	<u>95,850</u>	<u>6,999</u>
11 Other Receivables and Prepayments		
Prepayments	6,355	6,354
GST receivable	1,094	-
Total Receivables and Prepayments	<u>7,449</u>	<u>6,354</u>
The Company's trade and other receivables have been reviewed for indicators of impairment.		
	2020	2019
12 Advances to Investee		
Carrfields Primary Wool Limited - Advance Account	2,930,500	2,300,000
Add Additional Advances	1,050,000	270,000
Add Interest Outstanding on Loan	-	360,500
Total Advance	<u>3,980,500</u>	<u>2,930,500</u>
Accumulated equity accounted losses (applied to long-term interest)	-	-
Total Advance before Impairment	<u>3,980,500</u>	<u>2,930,500</u>
Impairment	-	-
Advance to investee	<u>3,980,500</u>	<u>2,930,500</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 2020 (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 2020 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 Intangible Assets

Primary Wool Co-operative Limited has acquired the Just Shorn Trademark from its subsidiary Wool Marketing Enterprises Limited at no cost. Intangible assets are initially measured at cost and subsequently stated at cost less any amortisation and impairment losses. Subsequent expenditure that increases the economic benefits derived from the asset is capitalised. All other expenditure is expensed as incurred.

14 Accounts Payable and Accruals

	2020	2019
Accounts Payable and Accruals	99,878	85,929
Unclaimed Dividends	25	25
Unclaimed Rebates	89	89
GST Payable	-	5,423
Total Accounts Payable and Accruals	99,992	91,466

15 Current Loans and Borrowings

Monument Premium Funding Limited	7,013	7,305
Shareholder Loan - H B de Lautour	500,000	-
Total Current Loans and Borrowings	507,013	7,305

Monument Premium Funding is for insurance premiums financed over 10 months with a flat interest rate of 6.87%. Monthly repayments are \$937.14 with the final instalment due February 2021.

The shareholder loan from H B de Lautour is unsecured and for an undefined term with an interest rate of 6% per annum up to balance date. The loan is repayable on demand provided cashflow of the Company allows. The expectation is that 15c/kg collections will occur but full repayment is not anticipated within 12 months.

16 Non- Current Loans and Borrowings

Debt Component of Redeemable Preference Shares	454,873	454,873
Total Non-Current Loans and Borrowings	454,873	454,873

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

	2020	2019
17 Reconciliation of Cash Flow		
Reported profit (loss) after taxation	(396,173)	328,678
Non-Cash and Non-Operating Items:		
Share Loss (Profit) in Investee	-	(393,152)
Working Capital Items Classified as Investment Activities:		
Increase (Decrease) in Accounts Payable	7,432	31,104
Decrease (Increase) in Other Accrued Revenue	(1)	(91,694)
Net Cash from (used in) Operating Activities	(388,742)	(125,064)

18 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. (2019: 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 \$3,980,500 (2019: \$2,930,500) 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 2020 (Continued)

18 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 2020	0-6 Months	6-12 Months	1-2 years	2+ years	Total
Liabilities					
Accounts Payable & GST	99,878	-	-	-	99,878
Loan and Borrowings	7,013	500,000	-	-	507,013
Interest on Redeemable Preference Shares	68,230	68,230	136,460	136,460	409,380
	175,121	568,230	136,460	136,460	1,016,271

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

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 (2019: 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 2020 (Continued)

18 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 2020			
Assets			
Cash and Cash Equivalents	-	95,850	95,850
Other Receivables and Prepayments	-	1,094	1,094
Loans	-	3,980,500	3,980,500
Total Assets	-	4,077,444	4,077,444
Liabilities			
Trade and Other Payables	-	99,992	99,992
Loans	454,873	507,013	961,886
Total Liabilities	454,873	607,005	1,061,878
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

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 2020 (Continued)

19 Operating Commitments

At balance date, there were no operating commitments. (2019: Nil)

20 Capital Commitments

At balance date, there were no capital commitments. (2019: Nil)

21 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

	2020	2019
Joint Ventures		
Interest Received	-	140,710
Service Fees Received	42,000	100,000
Purchase of Woolpacks	-	74,217
Amounts Owed		
Advance to Carrfields Primary Wool Limited	3,980,500	2,930,500
Total advances to investee	<u>3,980,500</u>	<u>2,930,500</u>

Amounts owing to Carrfields Primary Wool Limited at 30 June 2020 were \$Nil (2019: \$Nil).

Apart from the transactions listed above, there were no other significant trading transactions with the Investee (2019: Nil).

Transactions with Directors

Directors fees of \$66,431 were paid during the period ended 30 June 2020 (2019: \$52,083).

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. (2019: Nil)

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

As disclosed in Note 15, H B de Lautour has advanced a loan to the Company of \$500,000 (2019: Nil). The unsecured loan is for an undefined term (not anticipated to be within 12 months) with an interest rate of 6% at balance date. There is no interest on the loan unpaid at balance date. 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 2020 (Continued)

21 Related Party Disclosures (Continued)

	2020	2019
Shareholdings of Related Parties		
<i>Shares under the control of the Director</i>		
M B de Lautour		
Shares Held at 1 July 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>
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>2,462,571</u>
Shares Held at 30 June 2020		
Redeemable Preference Shares	2,385,739	2,385,739
Ordinary Shares	76,332	76,332
Ordinary Rebate Shares	500	500
	<u>2,462,571</u>	<u>2,462,571</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 previously lent funds. He is a Shareholder of NZ Yarn Holdings Limited, which has a 3.6% shareholding in NZ Yarn Limited.

H B de Lautour		
Shares Held at 1 July 2019		
Redeemable Preference Shares	167,500	47,500
Ordinary Rebate Shares	22,677	22,677
	<u>190,177</u>	<u>70,177</u>
Shares Issued		
Rebates retained and converted to Ordinary Rebate Shares	-	-
Loans converted to Redeemable Preference Shares	-	100,000
Redeemable Preference Shares Issued for Cash	-	20,000
	<u>190,177</u>	<u>190,177</u>
Shares Held at 30 June 2020		
Redeemable Preference Shares	167,500	167,500
Ordinary Rebate Shares	22,677	22,677
	<u>190,177</u>	<u>190,177</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. He is also a Director and Shareholder of Tangihau Limited to whom \$35,464 shares were issued and paid up during the year.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

21 Related Party Disclosures (Continued)

	2020	2019
J R Osborne		
Shares Held at 1 July 2019		
Ordinary Rebate Shares	7,728	4,963
	<u>7,728</u>	<u>4,963</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	-	2,765
	<u>7,728</u>	<u>7,728</u>
Shares Held at 30 June 2020		
Ordinary Rebate Shares	7,728	7,728
	<u>7,728</u>	<u>7,728</u>

J R Osborne became a Director of the Joint Venture Carrfields Primary Wool Limited on 27 August 2018 and ceased being a Director on 29 May 2020.

W J Oliver		
Shares Held at 1 July 2019		
Ordinary Rebate Shares	6,376	6,376
	<u>6,376</u>	<u>6,376</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	7,062	-
	<u>13,438</u>	<u>-</u>
Shares Held at 30 June 2020		
Ordinary Rebate Shares	13,438	6,376
	<u>13,438</u>	<u>6,376</u>

W J Oliver became a Director of the Joint Venture Carrfields Primary Wool Limited on 29 June 2019

R G Young		
Shares Held at 1 July 2019		
Ordinary Rebate Shares	2,222	2,222
	<u>2,222</u>	<u>2,222</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	3,741	-
	<u>5,963</u>	<u>-</u>
Shares Held at 30 June 2020		
Ordinary Rebate Shares	5,963	2,222
	<u>5,963</u>	<u>2,222</u>

R G Young became a Director of the Joint Venture Carrfields Primary Wool Limited on 3 June 2020

Total Key Management Personnel Compensation	<u>164,675</u>	<u>90,450</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.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

22 Going Concern

The financial statements of the Company have been prepared on a going concern basis. Although the company reported a Total Comprehensive Loss of \$396,172 for the year, the assets were greater than liabilities by \$3,021,922 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.

23 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.

In 2017 the liquidator of Bruce Woollen Mill Limited (In Liquidation) 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. In the 2020 year the Company has paid the liquidator \$50,000 in full settlement of the litigation, reducing the contingent liability to \$Nil (2019: \$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 2020 (2019: Nil).

24 Post Balance Date Events

2020

There are no material post balance date events

2019

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.

Primary Wool Co-operative Limited

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2020 (Continued)

25 COVID-19

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Company's principal activities through its strategic investment in the joint venture company Carrfields Primary Wool Limited were largely suspended throughout level 3 and level 4 lockdown.

The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of the consequences as well as the impact on the financial position and results of the Company for future periods. Management will continue to assess the Company's ability to continue as a going concern and consider all available information about the future. Key financial and non-financial areas identified as requiring on-going assessment relate to the impact on the Joint Venture and the economic outlook of the agriculture sector.