

**Primary** WOOL CO-OPERATIVE LTD

# 47th Annual Report



and  
**Statement of Accounts**  
for the year ended  
**30 June 2021**

# ***Primary Wool Co-operative Limited***

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## **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	R G Young H B deLautour M B deLautour MNZM, F.INST.D, JP W J Oliver

# **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 2021 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 29th day October 2021.



R G Young



H B deLautour



M B deLautour



W J Oliver

# **Primary Wool Co-operative Limited**

## **CHAIR'S REPORT**

It feels a little ironic to be penning this report when in fact I have been in the Chair's role at Primary Wool Co-Operative for less than 4 months. I do want to make special mention of our previous Chair, Hamish de Lautour and the huge commitment he has made to the sector over many years. As you will be aware, it has been a tough year for the whole de Lautour family with the passing of Harry in September of 2020. I know all shareholders were deeply saddened by this tragedy and our deepest respect and sincerities are with yourself and Wynne, Kate and family, and the wider de Lautour family.

### **COVID-19**

As the world navigates the impacts of Covid-19, and latterly the Delta variant, we have been fortunate as an exporting nation, based at the bottom of the South Pacific, to get through the past year relatively unscathed. The ability of businesses to adapt in a rapidly dynamic working and exporting environment has been a real credit to our primary sector as we continue to generate export earnings and support the New Zealand economy.

Global shipping in this environment remains an on-going challenge across all sectors. Container availability and increased pricing has impacted across the board. Wool exporters are navigating the best they can, but there is no doubt this impact is being reflected in continued suppressed wool prices as we await a less congested supply route to market.

Other challenging dynamics remain and may well just become a part of doing business going forward as we anticipate what the 'new normal' may be. What is clear is that high vaccination rates will be our passport to a more normal future; a future when we can do business across international borders in a more face-to-face way. As an exporting nation we rely heavily on those international markets and the intimacy we have with our overseas customers and consumers. To maintain our strong trading position, we must look to our Government to provide flexible border protocols that protect our country's health, while at the same time enable New Zealand businesses to promote relationships that foster and continue to support the role our primary sector plays in our economy.

### **CP Wool**

It is pleasing to see that through the challenges outlined above, our 50% ownership in CP Wool delivered a solid return and one that is trending in a positive direction.

The CP Wool business was severely impacted with the initial lockdown which resulted in 3 months of non-trading. From a business perspective it was important we looked after our people, and it was pleasing to get through this period with all staff back to full employment on resumption of business.

The ability to utilise the Government wage subsidy was integral in making sure all staff remained safe and in a financial position that enabled some form of normality.

Although lockdown impacted trading, we all know sheep continue to grow wool and that the bales would eventually pass through the system. As the season progressed, we built bale numbers to eventually end the year ahead of budget on bale throughput; a result that had a direct impact on revenue which also finished the year ahead of budget.

The continued support of Primary Wool Co-Operative shareholders and CP Wool clients ensured that the business remained viable and was able to deliver the level of service you are used to. Our wool reps maintained contact with growers, albeit in a different form, and continued to offer expert advice as needed.

The CP Wool management and wider team should be applauded for their efforts in a challenging year.

### **The Wider Industry**

Over the past year we have seen renewed investment and promotion across the wool sector. It is an opportune time for the resurgence of wool, as we see the customer preference for natural, sustainable, and biodegradable fibres really move to the forefront of consumer thinking. This is not New Zealand trying to sell wool, however. We must move our thinking towards products that fulfil a consumer need and want – wool as an ingredient in a final branded product, delivering what that consumer really desires.

55% of strong wool is consumed in floor coverings in a flooring market that sees woollen carpets only accounting for around 15% of the market. Wools of New Zealand's carpet strategy looks to capture the value by selling branded woollen floor coverings. The combining of our CP Wool business with Wools of New Zealand is a significant opportunity for our sector. It is an opportunity to recapture the ground lost to plastic over the past 20 years. We have had the pleasure of interacting with many Flooring Xtra owners over the last few weeks on our roadshow. We are hearing from those experts that there is a real consumer preference emerging for purchasing woollen floor coverings. Their view is that the time is now to recapture the ground lost to plastic. Our proposed merger with Wools of New Zealand puts Primary Wool Co-Operative and its shareholders in a position to take advantage of an opportunity now.

The Strong Wool Action Group (SWAG) continues to look for opportunities to revitalise the industry and help build business cases to support such activities. Their work comes to an end later in the year and we hope that their impact will deliver better outcomes across the sector.

The Campaign for Wool continue their good work promoting wool in a generic fashion and have lent their support to back the New Zealand Farm Assurance Programme for the wool sector. This has enabled the sector to have an agreed industry assurance standard, an important component of building the integrity of our story. It should be remembered that the Campaign for Wool is funded by growers transacting with CPW with 1c/kg of wool sold going to fund their activity.

## The Future

It has been a busy year for the Board members of Primary Wool Co-Operative as we navigated our way through ending our joint venture with Carrfields in CP Wool and looked to the future with our proposed merged operations with Wools of New Zealand.

It's timely that we thank Craig Carr and the Carrfields team for their passion and vision for the sector. The enabling factor to move forward with Wools of New Zealand was in-fact Carrfield's willingness to move away from the CP Wool joint venture. It was great to work through this with all parties, never losing sight of the bigger picture and the benefits of a grower-owned integrated business model.

The efforts of all Board members and Alan White our Company Secretary have enabled us to present to you our shareholders a compelling proposal to merge with Wools of New Zealand. This merger sees two complimentary businesses coming together, in an attempt to change the industry dynamic, create scale in one farmer-owned entity, and ultimately attempt to raise the price of wool at the farm gate.

It is extremely important that sheep farmers get back to a position where we have a positive income stream from both meat and wool. The viability of rural communities depends on viable sheep and beef businesses as we navigate policy settings that encourage the transfer of blanket sheep and beef country toward exotic forestry and carbon farming.

During October, voting packs will be sent to all Primary Wool Co-Operative shareholders, giving you the opportunity to vote on the transaction that will see the operating businesses of CP Wool and Wools of New Zealand come together in a new limited partnership named Wools of New Zealand LP.

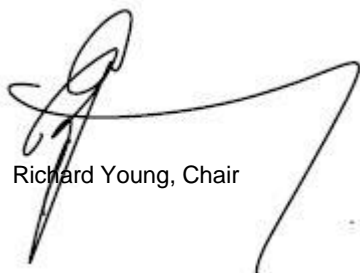
This is an opportunity for you our shareholders to endorse and approve what your Board believes to be a significant opportunity for our struggling sector. In no way do we believe it will be easy to turn wool growers' fortunes around, but Wools of New Zealand offer our very sound and profitable CP Wool business the ability to leverage our grunt to bring to life their customer-focused strategy of delivering affordable woollen floor coverings to New Zealand consumers and global markets.

This is not a strategy that we are *thinking* of putting into action, this is a strategy that *already* sees over 90 retail outlets in New Zealand stocking Wools of New Zealand carpets. These are carpets that are of the highest quality, and carpets that have already reached the initial sales budget of \$1 million after only 4 months in-market. A great result, especially with the issues caused by Covid lockdowns.

John McWhirter, CEO of Wools of New Zealand brings a rejuvenated mindset and fresh thinking to an industry somewhat caught in the past. Your Board believes that with his leadership of the recommended new partnership, the strategy has every opportunity to be successful in its aspiration of building a global décor business, not only here in New Zealand but also across the UK, North America, and Australia.

It is important as Primary Wool Co-Operative shareholders, that you have every opportunity to be able to ask any questions you may have in relation to this vital vote. Please feel free to contact myself or any other directors to discuss what your Board believes is a significant step in rekindling our sector's fortunes.

This is your opportunity to support and be part of a better future for sheep farmers now and into the future. It is a chance to give our children the opportunities afforded us by living in strong, vibrant, and prosperous rural communities.

A handwritten signature in black ink, appearing to read 'Richard Young', with a long horizontal line extending to the right.

Richard Young, 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 2021, 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 9 to 32 present fairly, in all material respects, the financial position of the Company as at 30 June 2021, 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 2021. The advance is repayable on demand and although interest bearing, the rate of interest has been varied to 0%. CPW was not in a position to repay the advance on demand.

As outlined in note 24 to the financial statements, subsequent to balance date the \$3,980,500 advance has been utilised to purchase the remaining shares in CPW.

We have been unable to obtain sufficient appropriate audit evidence in respect of the advance and whether the Company received sufficient value when purchasing the remaining 50% shareholding in CPW that would enable us to determine whether any adjustments to the advance to Carrfields Primary Wool Limited were necessary.

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.

#### Emphasis of Matter

In forming our qualified opinion, we have considered the fact that the company may be dependant upon the continued support of the shareholders, related parties and financiers as detailed in Note 21 of the financial statements should the proposed restructuring not occur or the effects of Covid-19 be significant.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would most likely have to be made to reflect the situation that assets would be realised at amounts lower than they are currently recorded in the balance sheet. In addition the company may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. Such adjustments could be significant.

## Key Audit Matter

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><b>Classification and measurement of Redeemable Preference Shares</b></p> <p>Refer to note 9 of the Notes to the Financial Report.</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 2021 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"> <li>• evaluating management's methodology for determining the split between debt and equity and the requirements of the accounting standard;</li> <li>• challenging the key assumptions used; and</li> <li>• assessing the appropriateness of the disclosures.</li> </ul>

## 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.



**Christchurch, New Zealand**  
30 October 2021



# 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 2021.

### 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 Natural Fibres Limited (previously known as NZ Yarn Limited until 4 March 2021) 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	\$25,000 (Directors Fees)
Hamish Bayly de LAUTOUR	\$40,000 (Directors Fees)
William John OLIVER	Nil
Richard George YOUNG	Nil

Details of director's interests are covered in Note 20 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 \$17,250 are payable to PKF Goldsmith Fox Audit for the year to 30 June 2021.

Signed on behalf of the Board on 29 October 2021



**R G Young**  
DIRECTOR



**H B de Lautour**  
DIRECTOR

# Primary Wool Co-operative Limited

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2021

	Notes	2021	2020
Directors Fees and Other Income	4	40,000	42,000
Audit Fees		(19,250)	(16,875)
Overhead Expenses	5	(220,125)	(315,839)
<b>Operating Profit (Loss)</b>		<b>(199,375)</b>	<b>(290,714)</b>
Finance Income	6	21	123
Finance Expenses	6	(136,166)	(105,582)
<b>Profit (Loss) before income tax and equity accounted income</b>		<b>(335,520)</b>	<b>(396,173)</b>
Equity Accounted Income	8	-	-
<b>Profit (Loss) before income tax</b>		<b>(335,520)</b>	<b>(396,173)</b>
Income tax expense	7	-	-
<b>Profit (Loss) for the year</b>		<b>(335,520)</b>	<b>(396,173)</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income (Loss) for the year</b>		<b>(335,520)</b>	<b>(396,173)</b>

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 2021

	Notes	Share Capital	Retained Earnings	Total Equity
Balance at 1 July 2019	9	6,778,311	(4,388,102)	2,390,209
<b>Total comprehensive income for the year</b>				
Profit (Loss) for the year		-	(396,173)	(396,173)
<b>Transactions with owners, recorded directly in equity</b>				
Ordinary and Redeemable Preference Shares				
Issued	9	4,882,562	-	4,882,562
Less Unpaid Shares Issued	9	(3,854,677)	-	(3,854,677)
<b>Balance at 30 June 2020</b>		<u>7,806,196</u>	<u>(4,784,275)</u>	<u>3,021,921</u>
Balance at 1 July 2020	9	7,806,196	(4,784,275)	3,021,921
<b>Total comprehensive income for the year</b>				
Profit (Loss) for the year		-	(335,520)	(335,520)
<b>Transactions with owners, recorded directly in equity</b>				
Ordinary and Redeemable Preference Shares				
Issued	9	2,052	-	2,052
Share Subscriptions Received	9	425,986	-	425,986
Less Unpaid Shares Issued	9	-	-	-
<b>Balance at 30 June 2021</b>		<u>8,234,234</u>	<u>(5,119,795)</u>	<u>3,114,439</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 2021

	Notes	2021	2020
<b>Assets</b>			
Cash and cash equivalents	10	49,993	95,850
Other receivables and prepayments	11	10,700	7,449
Advance to Investee	12	3,980,500	3,980,500
Equity Accounted Investments	8	-	-
<b>Total Current Assets</b>		<u>4,041,193</u>	<u>4,083,799</u>
<b>Total Assets</b>		<u>4,041,193</u>	<u>4,083,799</u>
<b>Liabilities</b>			
Trade and other payables	13	144,281	99,992
Current Loans and Borrowings	14	<u>327,600</u>	<u>507,013</u>
<b>Total Current Liabilities</b>		<u>471,881</u>	<u>607,005</u>
Non-Current Loans and Borrowings	15	<u>454,873</u>	<u>454,873</u>
<b>Total Non-Current Liabilities</b>		<u>454,873</u>	<u>454,873</u>
<b>Total Liabilities</b>		<u>926,754</u>	<u>1,061,878</u>
<b>Equity</b>			
Share Capital		8,234,234	7,806,196
Retained Earnings		<u>(5,119,795)</u>	<u>(4,784,275)</u>
<b>Total Equity</b>	9	<u>3,114,439</u>	<u>3,021,921</u>
<b>Total Equity and Liabilities</b>		<u>4,041,193</u>	<u>4,083,799</u>

  
\_\_\_\_\_  
Director

Date: 29 October 2021

  
\_\_\_\_\_  
Director

Date: 29 October 2021

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 2021

	Notes	2021	2020
<b>Net Cash Flows from Operating Activities</b>			
<i>Cash provided from:</i>			
Receipts from Customers		40,000	42,000
Interest Received		21	123
		<u>40,021</u>	<u>42,123</u>
<i>Cash applied to:</i>			
Payments to Suppliers		(218,137)	(345,083)
Interest Expense Paid		(116,366)	(85,782)
		<u>(334,503)</u>	<u>(430,865)</u>
<b>Net Cash from (used in) Operating Activities</b>	<b>16</b>	<u>(294,482)</u>	<u>(388,742)</u>
<b>Cash Flows from Investing Activities</b>			
<i>Cash applied to:</i>			
Advances to Subsidiaries and Investee		-	(1,050,000)
		<u>-</u>	<u>(1,050,000)</u>
<b>Net Cash from (used in) Investing Activities</b>		<u>-</u>	<u>(1,050,000)</u>
<b>Cash Flows from Financing Activities</b>			
<i>Cash provided from:</i>			
Shares Issued for Cash		428,038	1,027,885
Loans Advanced by Shareholders		-	500,000
Monument Premium Funding Ltd Advances		9,943	9,556
		<u>437,981</u>	<u>1,537,441</u>
<i>Cash applied to:</i>			
Loans Repaid to Shareholders		(180,000)	-
Monument Premium Funding Ltd Repayments		(9,356)	(9,848)
		<u>(189,356)</u>	<u>(9,848)</u>
<b>Net Cash from (used in) Financing Activities</b>		<u>248,625</u>	<u>1,527,593</u>
<b>Net Increase (Decrease) in Cash Held</b>		(45,857)	88,851
Cash Balances at Beginning of Year		95,850	6,999
<b>Closing Cash Balances</b>	<b>10</b>	<u>49,993</u>	<u>95,850</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 2021

### **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 2021 were approved and authorised for issue by the board on the 29 October 2021.

#### **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 2021 (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 2021 (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 2021 (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

No new accounting standards were adopted in the period.

#### (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.

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (Continued)

### 3 Specific Accounting Policies (Continued)

#### (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.

	2021	2020
<b>4 Revenue</b>		
Directors' Fees	40,000	42,000
Revenue from Continuing Operations	40,000	42,000
Other Income	-	-
Total Revenues	40,000	42,000

### 5 Overhead Expenses

Directors' Fees	65,000	66,431
Other	155,125	249,408
Total Overhead Expenses	220,125	315,839

Fees payable to PKF Goldsmith Fox Audit for audit services for the year ended 30 June 2021 were \$17,250 (2020: \$16,000). No non-audit services were provided.

### 6 Finance Income

Interest on Advance to Investee and Bank Interest	21	123
Finance Income	21	123
Interest on Finance, Loans and Redeemable Preference Shares	(136,166)	(105,582)
Finance Expenses	(136,166)	(105,582)
Net Finance Income	(136,145)	(105,459)

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (Continued)

	2021	2020
<b>7 Income Tax Expense in the Income Statement</b>		
<b>Current Tax Expense</b>		
Current Period	-	-
Adjustment for Prior Periods	-	-
	-	-
<b>Deferred Tax Expense</b>		
Recognition of previously unrecognised tax losses	-	-
<b>Total Income Tax Expense</b>	-	-
<i>Reconciliation of Tax Expense</i>		
Profit/(Loss) for the year	(335,520)	(396,173)
Prima facie tax credit @ 28%	93,946	110,928
Adjust for non-assessable/non-deductible items:		
Non-deductible equity accounted profit (losses) (100%) 2021: \$Nil (2020: \$Nil)	-	-
Non-deductible expenditure (100%) 2021 \$86,509 (2020 \$107,637)	(24,223)	(30,138)
	69,723	80,790
Tax Losses for which no deferred tax asset recognised	(69,723)	(80,790)
Tax Expense/(credit) per Statement of Comprehensive Income	-	-
<i>Imputation Credits</i>		
Opening Balance - 1 July 2020	1,151,491	1,151,491
Dividends Received	-	-
Closing Balance - 30 June 2021	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 2021 of \$5,250,541 (30 June 2020: \$5,001,530).

2021 Non-deductible expenditure of \$86,509 relates to accountancy accruals, non-deductible legal expenses and expenditure regarding the proposed merger with Wools of NZ Limited.

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.

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (Continued)

### 8 Equity Accounted Investments

	2021	2020
<b>Non-Current Investments</b>		
Investment in Joint Venture	-	-
Total Non-Current Investments	<u>-</u>	<u>-</u>

#### 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.

	2021	2020
<b>Percentage ownership interest</b>	50%	50%
	(unaudited)	restated (unaudited)
Current assets (including cash and cash equivalents of 2021 \$120,000, 2020 \$94,000)	9,777,000	6,713,000
Non Current Assets	16,823,000	13,928,000
Current liabilities (including trade and other payables and provisions 2021 \$6,740,000, 2020 \$4,789,000)	(21,308,000)	(19,651,000)
Non-current liabilities (including trade and other payables and provisions 2021 \$Nil, (2020 \$Nil))	(7,274,000)	(6,231,000)
Non Controlling Interest	(321,000)	(457,000)
<b>Net Assets (Liabilities) (100%)</b>	<u>(2,303,000)</u>	<u>(5,698,000)</u>
Company's share of net assets (liabilities) (50%)	-	-
<b>Carrying value of the interest in joint venture</b>	<u>-</u>	<u>-</u>
Revenue (including other income of \$866,000 2020: \$1,594,000)	29,034,000	25,633,000
Depreciation and amortisation	3,494,000	2,982,000
Interest expense	885,000	1,212,000
Income Tax Expense	260,000	221,000
Profit (Loss) from Continuing Operations	519,000	(2,163,000)
Other Comprehensive Income	-	-
Profit (Loss) and total comprehensive income (loss) (100%)	519,000	(2,163,000)
Non Controlling Interest share of profit (loss)	(136,000)	(271,000)
<b>Company's 2021 share of total comprehensive income (loss)</b>	327,500	(946,000)
Comprehensive loss (income) not recognised by Company	(327,500)	946,000
Equity Accounting Losses Reversed	-	-
<b>Company's share of total comprehensive income (loss) (50%)</b>	<u>-</u>	<u>-</u>

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (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 the 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 were 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 22.

### 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 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)
<b>Balance 30 June 2020</b>	<b>(4,784,275)</b>	<b>610,970</b>	<b>4,986,860</b>	<b>2,208,366</b>	<b>3,021,921</b>
Balance 1 July 2020	(4,784,275)	610,970	4,986,860	2,208,366	3,021,921
Total Recognised Income and Expense	(335,520)	-	-	-	(335,520)
Share Subscriptions Received	-	-	425,986	-	425,986
Shares Issued for Cash	-	-	2,052	-	2,052
<b>Balance 30 June 2021</b>	<b>(5,119,795)</b>	<b>610,970</b>	<b>5,414,898</b>	<b>2,208,366</b>	<b>3,114,439</b>
					Total
<b>Number of Shares on Issue at 30 June 2021 (fully paid)</b>		610,970	4,811,184	2,663,239	8,085,393
Unpaid Shares Issued		-	3,021,033	-	3,021,033
Partially Paid Shares Issued		-	1,011,372	-	1,011,372
<b>Total Number of Shares on Issue at 30 June 2021</b>		<b>610,970</b>	<b>8,843,589</b>	<b>2,663,239</b>	<b>12,117,798</b>

All shares have a \$1 notional face value.

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (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 (2020 \$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 (2020 \$47,500).
Class E	\$100,000	Being those associated with M B de Lautour loan that were converted to equity (2020: \$100,000)
Class F	\$110,000	Being those associated with H C Gardner loan of which \$100,000 was converted to equity (2020: \$110,000)
Class G	\$120,000	Being those associated with H B de Lautour loan of which \$100,000 was converted to equity (2020: \$120,000)
Class H	\$1,650,000	Being those associated with M B de Lautour loan that were converted to equity (2020: \$1,650,000)
Class I:	\$180,000	Being those associated with M B de Lautour loan advanced 6 August 2018 (2020: \$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 (2020: 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 2021 (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, 2020: 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% (2020: 15%). Adjustments have been made to reflect the time value of money and credit risk (a discount of 50% of the interest entitlement; 2020: 50%) in determining fair value. Inputs into the determination of the fair value are reassessed annually as appropriate.

At 30 June 2021, the fair value of the debt component was \$454,873 (2020: \$454,873), with the equity component at \$2,208,366 (2020: \$2,208,366). The interest expense for the year was \$111,300 (2020: \$103,779), 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 2021. Interest for the full year on Classes A and B of Redeemable Preference Shares amounting to \$25,162 was waived by the holders in 2021 (2020: \$25,162). No interest on Classes H and I of Redeemable Preference Shares was waived by the holder in 2021 (2020: \$7,771). Therefore total interest of \$25,162 was waived (2020: \$32,993).

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (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 2021 (Continued)

	2021	2020
<b>10 Cash and Cash Equivalents</b>		
BNZ Cheque Account	27,612	29,490
BNZ Call Account	22,381	66,360
Total Cash and Cash Equivalents	<u>49,993</u>	<u>95,850</u>
<b>11 Other Receivables and Prepayments</b>		
Prepayments	6,612	6,355
GST receivable	4,088	1,094
Total Receivables and Prepayments	<u>10,700</u>	<u>7,449</u>

The Company's trade and other receivables have been reviewed for indicators of impairment.

	2021	2020
<b>12 Advances to Investee</b>		
Carrfields Primary Wool Limited - Advance Account	3,980,500	2,930,500
Add Additional Advances	-	1,050,000
Add Interest Outstanding on Loan	-	-
Total Advance	<u>3,980,500</u>	<u>3,980,500</u>
Accumulated equity accounted losses (applied to long-term interest)	-	-
Total Advance before Impairment	<u>3,980,500</u>	<u>3,980,500</u>
Impairment	-	-
Advance to investee	<u>3,980,500</u>	<u>3,980,500</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 2021 (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. Given that the loan was repaid on 1 August 2021 for the full carrying value, the Directors have concluded there is no impairment loss to recognise on the Advance.

### 13 Accounts Payable and Accruals

	2021	2020
Accounts Payable and Accruals	144,167	99,878
Unclaimed Dividends	25	25
Unclaimed Rebates	89	89
GST Payable	-	-
Total Accounts Payable and Accruals	<u>144,281</u>	<u>99,992</u>

### 14 Current Loans and Borrowings

Monument Premium Funding Limited	7,600	7,013
Shareholder Loan - H B de Lautour	<u>320,000</u>	<u>500,000</u>
Total Current Loans and Borrowings	<u>327,600</u>	<u>507,013</u>

Monument Premium Funding is for insurance premiums financed over 12 months with a flat interest rate of 8.43%. Monthly repayments are \$824.41 with the final instalment due April 2022.

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. Principal repayments of \$15,000 per month were paid during the year.

### 15 Non- Current Loans and Borrowings

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

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (Continued)

	2021	2020
<b>16 Reconciliation of Cash Flow</b>		
Reported profit (loss) after taxation	(335,520)	(396,173)
<b>Non-Cash and Non-Operating Items:</b>		
Share Loss (Profit) in Investee	-	-
<b>Working Capital Items Classified as Investment Activities:</b>		
Increase (Decrease) in Accounts Payable	41,295	7,432
Decrease (Increase) in Other Accrued Revenue	(257)	(1)
<u>Net Cash from (used in) Operating Activities</u>	<u>(294,482)</u>	<u>(388,742)</u>

## 17 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. (2020: 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 (2020: \$3,980,500) 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 2021 (Continued)

### 17 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 2021	0-6 Months	6-12 Months	1-2 years	2+ years	Total
<b>Liabilities</b>					
Accounts Payable & GST	144,167	-	-	-	144,167
Loan and Borrowings	97,600	230,000	-	-	327,600
Interest on Redeemable Preference Shares	68,230	68,230	136,460	136,460	409,380
	<u>309,997</u>	<u>298,230</u>	<u>136,460</u>	<u>136,460</u>	<u>881,147</u>

30 June 2020	0-6 Months	6-12 Months	1-2 years	2+ years	Total
<b>Liabilities</b>					
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
	<u>175,121</u>	<u>568,230</u>	<u>136,460</u>	<u>136,460</u>	<u>1,016,271</u>

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 (2020: 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 2021 (Continued)

### 17 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
<b>30 June 2021</b>			
<b>Assets</b>			
Cash and Cash Equivalents	-	49,993	49,993
Other Receivables and Prepayments	-	4,088	4,088
Loans	-	3,980,500	3,980,500
Total Assets	-	4,034,581	4,034,581
<b>Liabilities</b>			
Trade and Other Payables	-	144,281	144,281
Loans	454,873	327,600	782,473
Total Liabilities	454,873	471,881	926,754
<b>30 June 2020</b>			
<b>Assets</b>			
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
<b>Liabilities</b>			
Trade and Other Payables	-	99,992	99,992
Loans	454,873	507,013	961,886
Total Liabilities	454,873	607,005	1,061,878

#### 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 2021 (Continued)

### 18 Operating Commitments

At balance date, there were no operating commitments. (2020: Nil)

### 19 Capital Commitments

At balance date, there were no capital commitments. (2020: Nil)

### 20 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

	2021	2020
Joint Ventures		
Interest Received	-	-
Service Fees Received	40,000	42,000
Purchase of Woolpacks	-	-
Amounts Owed		
Advance to Carrfields Primary Wool Limited	3,980,500	3,980,500
Total advances to investee	<u>3,980,500</u>	<u>3,980,500</u>

Amounts owing to Carrfields Primary Wool Limited at 30 June 2021 were \$Nil (2020: \$Nil).

Apart from the transactions listed above, there were no other significant trading transactions with the Investee (2020: Nil).

#### *Transactions with Directors*

Directors fees of \$65,000 were paid during the period ended 30 June 2021 (2020: \$66,431).

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. (2020: Nil)

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

As disclosed in Note 14, H B de Lautour has advanced a loan to the Company of \$320,000 (2020: \$500,000). 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 2021 (Continued)

### 20 Related Party Disclosures (Continued)

	2021	2020
<b>Shareholdings of Related Parties</b>		
<i>Shares under the control of the Director</i>		
<b>M B de Lautour</b>		
Shares Held at 1 July 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>
Shares Issued		
Loans converted to Redeemable Preference Shares	-	-
Redeemable Preference Shares Issued for Cash	-	-
	<u>2,462,571</u>	<u>2,462,571</u>
Shares Held at 30 June 2021		
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 and Wool Marketing Enterprises Limited until 26 June 2019. He is a Shareholder of NZ Yarn Holdings Limited, which has a 2.82% shareholding in NZ Natural Fibres Limited.

#### **H B de Lautour**

Shares Held at 1 July 2020		
Redeemable Preference Shares	167,500	167,500
Ordinary Rebate Shares	22,677	22,677
	<u>190,177</u>	<u>190,177</u>
Shares Issued		
Rebates retained and converted to Ordinary Rebate Shares	-	-
Loans converted to Redeemable Preference Shares	-	-
Redeemable Preference Shares Issued for Cash	-	-
	<u>190,177</u>	<u>190,177</u>
Shares Held at 30 June 2021		
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 Natural Fibres Limited and a Director/Shareholder of NZ Yarn Holdings Limited, which has a 2.82% shareholding in NZ Natural Fibres Limited. He is also a Director and Shareholder of Tangihau Limited to whom \$35,464 shares were issued and paid up during the 2020 year.

# Primary Wool Co-operative Limited

## NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2021 (Continued)

### 20 Related Party Disclosures (Continued)

	2021	2020
<b>W J Oliver</b>		
Shares Held at 1 July 2020		
Ordinary Rebate Shares	13,438	6,376
	<u>13,438</u>	<u>6,376</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	-	7,062
	<u>13,438</u>	<u>7,062</u>
Shares Held at 30 June 2021		
Ordinary Rebate Shares	13,438	13,438
	<u>13,438</u>	<u>13,438</u>

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

<b>R G Young</b>		
Shares Held at 1 July 2020		
Ordinary Rebate Shares	5,963	2,222
	<u>5,963</u>	<u>2,222</u>
Shares Issued		
Ordinary Rebate Shares Issued for Cash	-	3,741
	<u>5,963</u>	<u>3,741</u>
Shares Held at 30 June 2021		
Ordinary Rebate Shares	5,963	5,963
	<u>5,963</u>	<u>5,963</u>

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

<b>Total Key Management Personnel Compensation</b>	<u>193,957</u>	<u>164,675</u>
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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 2021 (Continued)

### **21 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 \$336,270 for the year, the assets were greater than liabilities by \$3,113,689 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. The transactions that occurred post balance date further support this view as does the proposed merger between CP Wool Limited and Wools of New Zealand Limited that is expected to be finalised by 30 November 2021. The Directors believe the merger is a compelling proposition that shareholders will support. However there is risk as both Wools of New Zealand and Primary Wool Co-operative need to reach the major transaction threshold. However, the business of CP Wool will continue regardless of the vote outcome, with the operations of CP Wool continuing to be managed by Wools of New Zealand's CEO John McWhirter as the Company works closely with Wools of New Zealand to develop a long-term operations plan.

The business operations of the Company's subsidiary C P Wool Limited will inevitably be challenged by the many variables that COVID-19 presents. The learnings of the past 18 months have enabled CP Wool to be in a more nimble position to manage future challenges. An industry-wide solution that will enable the continuance of wool trading in elevated lockdown situations is an example of those contingencies in action. Management will continue to assess the Company's ability to continue as a going concern and consider all available information about the future.

### **22 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 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 2021 (2020: Nil).

### **23 Post Balance Date Events**

#### **2021**

On 1 August 2021, the Company ended its joint venture with Carrfields Limited in Carrfields Primary Wool Limited. The transaction saw Carrfields Limited purchasing Carrfields Primary Wool Limited's majority shareholding in NZ Natural Fibres Limited and the Company purchasing Carrfields Limited's 50% shareholding in Carrfields Primary Wool Limited, with Carrfields Primary Wool Limited becoming a wholly owned subsidiary of the Company. At the same time, Carrfields Primary Wool Limited fully repaid its \$3,980,500 shareholder loan to the Company which provided the Company with the funds to settle with Carrfields Limited for their former 50% shareholding in Carrfields Primary Wool Limited. A proposed merger between Carrfields Primary Wool Limited and Wools of New Zealand Limited is expected to be finalised by 30 November 2021.

#### **2020**

There are no material post balance date events