

Brennworth



**SUSTAINED
PROGRESS**

ANNUAL REPORT 2022

Let's Go Good Together

JOURNEY

Bremworth




**OUR
TRANSFORMATION
TO A SUSTAINABLE
BUSINESS
CONTINUES**

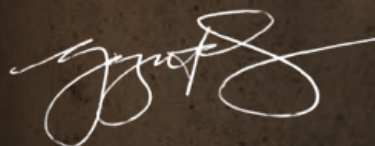
**WE'VE STRENGTHENED THE BREMWORTH BRAND,
SHIFTED OUR FOCUS TO PREMIUM RESIDENTIAL
CONSUMERS AND SIGNIFICANTLY IMPROVED
MARGINS. THE GOOD NEWS IS,
WE'RE JUST GETTING STARTED.**

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On behalf of the Board and management of Bremworth Ltd, we are pleased to present the Annual Report for the year ended 30 June 2022.



George Adams
Chairman



Greg Smith
Chief Executive Officer
29 September 2022



**"GUIDED BY OUR PURPOSE TO FIND A
MORE SUSTAINABLE WAY, WE'RE MAKING
POSITIVE CHANGES AND DOING MORE
OF WHAT REALLY MATTERS."**

GREG SMITH CEO

Brenworth

**"WE'VE BUILT A STRONG
FINANCIAL PLATFORM BY
RESTORING OUR MARGINS,
SIMPLIFYING OUR OPERATIONS
AND FOCUSING ON
CONSUMER INSIGHTS."**

GREG SMITH CEO

Despite a challenging operating environment, we're ahead of our transformation plan with a 44% increase in normalised EBITDA. Our shift in focus to premium residential consumers has driven significant improvement in gross margin. Our all-natural strategy delivered strong 15% revenue growth in woollen carpet and rugs in NZ and 25% growth in our rest of world business. We intentionally moved away from the low margin high volume commercial business in Australia meaning revenue contracted 12%.

Elco Direct, our wool buying business grew revenue by 20%. This is a pleasing result which reflects our deep relationships with our New Zealand growers.

Our fledgling digital direct-to-consumer rug business is growing rapidly with increased revenue and gross profit.

FY22 presented a unique set of challenges for our entire organisation. Our sales, administration and leadership teams spent up to 8 months working from home. We took the decision to protect our manufacturing teams and ensure continuity of supply for our customers. Throughout this period our manufacturing team did not skip a beat.

I'm incredibly proud of the courage, teamwork and resilience that was shown to ensure we delivered against our ambitious strategic plans. These qualities give me great confidence in FY23 and beyond.



Greg Smith
Chief Executive Officer

LAST YEAR WE SET FOUR KEY PRIORITIES

THIS IS HOW WE HAVE PERFORMED

PRIORITY ONE

CREATING DEMAND FOR BREMWORTH BRANDED PRODUCT

Bremworth has the highest unprompted brand awareness in NZ when compared to all competitor carpet manufacturers*

Bremworth is the most preferred brand in NZ when compared to key competitors*

Preference for Bremworth carpet in NZ has increased from 27% in 2020 to 35% in 2022*

We've been awarded the Most Trusted Carpet Brand for the 9th year in a row**

We're seeing others pay for "Bremworth" as a keyword in their Google AdWords spend

PRIORITY TWO

OPTIMISING OPERATIONAL EFFICIENCY AND COMMERCIAL EXCELLENCE

Improved gross profit margin from 28.1% to 31.1%

Capex investment to increase manufacturing capacity

Reduced SKU's by 30% to simplify product offer

Improved delivery times and inventory quality and profile to support sales growth in FY23

Exited high volume, low margin commercial business in Australia

Introduced Te Ara Rangatira, Bremworth's leadership development programme

Implementing Industry 4.0 principles and technology to improve capability, efficiency and capacity

Introduced flexible hybrid working

Bremworth

PRIORITY THREE

SUPERCHARGING THE DIGITAL BUSINESS

Growing demand online for our rugs

60% growth in website traffic vs FY21

Double digit growth in social media followers vs FY21

Consumer insights informing product development

PRIORITY FOUR

PRIORITISING INNOVATION, SUSTAINABILITY AND PARTNERSHIPS

Won the Primary Industries Innovation and Collaboration Project Award in recognition of our science-based and research-led sustainability programme and the partnerships we have formed with organisations like the University of Auckland, NZ Product Accelerator, AgResearch and the Ministry for Primary Industries' Sustainable Food and Fibre Futures fund

Embarked on \$2.9m decarbonisation initiatives to reduce manufacturing carbon emissions in partnership with the Energy Efficiency Conservation Authority, while continuing with \$4.9m research-based sustainability programme

Reduced total manufacturing carbon emissions by 5% vs FY21

Developed prototype fully compostable rugs that can be safely returned to the earth

Developed virtual manufacturing model as a "digital twin" of our operations to map sustainability indicators such as carbon and energy use and aid in the development of future product

* TRA Consumer Insights Research

** Reader's Digest Most Trusted Brand

Bremworth

SUSTAINABILITY IS A TEAM EFFORT

Sustainability is not just a division at Bremworth, it's a way of making products, treating people and doing business.

To support our evolution, we're working with Government agencies, research partners, and industry thought leaders to improve our products' circularity and reduce our environmental impact at all stages of production. With each new initiative we're getting one step closer to achieving our sustainability aspirations.

Proudly partnering with





OUR THREE PRIORITIES ARE:
1. TO MAKE MORE COMPOSTABLE SOLUTIONS
2. REDUCE CARBON
3. MINIMISE WASTE





BREMWORTH'S INTEGRATED SUSTAINABILITY FRAMEWORK EMBRACING PEOPLE, PLANET AND PROSPERITY

PEOPLE	Safety & Wellbeing	<ul style="list-style-type: none"> • We support our team to be their best selves and take a proactive approach to risk management. • Our critical risk framework and controls are key enablers and challenge us to design out risk where possible. • To enable our people to thrive, we design a holistic approach to the safety and wellbeing of our people.
	Diversity, Inclusion & Capability	<ul style="list-style-type: none"> • Diversity in our workforce is what makes Bremworth special. • We are committed to diverse perspectives as well as collaborative and transformational leadership in line with a high-performance culture. • We foster an environment of exploration, adaptation and growth.
PLANET	Circularity	<ul style="list-style-type: none"> • We are committed to a circular economy and to product longevity by design, with materials kept in use and waste and pollution minimised. • Designing for the future requires us to consider the whole of product life cycle including use and end of life. We will innovate to reduce environmental impacts.
	Climate Change	<ul style="list-style-type: none"> • We commit to reducing our greenhouse gas emissions in line with scientific consensus to restrict global warming. • We will communicate the impact of our products on the climate to consumers so that they can make informed choices.
PROSPERITY	Consumer Wellbeing	<ul style="list-style-type: none"> • We make beautifully designed, high performing interior products which aspire to add to consumer health and wellbeing. Wool and other natural fibres have multiple inherent benefits including indoor air quality, sound, moisture control and fire safety. • We work closely with our customers and suppliers to ensure our products and services incorporate beautiful design, meet performance requirements and provide sustainable and safe options for our consumers.
	Communities	<ul style="list-style-type: none"> • We support the New Zealand wool industry and wool-growing community to positively steward the land. At the sites of our operations, we aspire to be an active member of a thriving local community by creating meaningful employment opportunities. • We increase shareholder value by building our reputation as a leading employer, while continuing to reinvest in the future growth of Bremworth and our people. • We will introduce long-term contracts to enable our wool growers and Bremworth to improve supply, quality and margins – in the process creating a sustainable future.

Bremworth's Integrated Sustainability Framework embracing People, Planet and Prosperity considers the United Nations Sustainable Development Goal 3 (Good Health and Well-being), Goal 8 (Decent Work and Economic Growth), Goal 10

(Reduced Inequalities), Goal 12 (Responsible Consumption and Production) and Goal 13 (Climate Action) as it seeks to make a positive difference in the journey towards a more sustainable future for all.

Bremworth

COMPOSTABLE RUG PROTOTYPES

At Bremworth we've developed two fully compostable rug prototypes to help us rapid test ideas that will deliver consumers more compostable carpet and rugs over time. This project was part of our \$4.9m research-led sustainability programme supported by the Ministry for Primary Industries' Sustainable Food and Fibre Futures fund.

Most wool carpets use a synthetic backing and latex which contain materials that hinder composting. Our goal is to address these barriers and move towards circular product ranges with genuine end of life options like upcycling, recycling or even returning to the earth, ultimately being better for people and the planet.

Dr Kirstine Hulse, GM of Sustainability at Bremworth, challenged our designers to make a highly desirable, functional rug using only biodegradable natural fibres and almost nothing else.

The prototype rugs are hand woven and knotted from natural materials including New Zealand wool and alpaca fibres.

These experimental rugs allow us to push towards product circularity, bringing us one step closer to deliver fully compostable products in the future.



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DECARBONISATION

FY22 marked the beginning of our journey to reduce carbon impacts from our manufacturing plants.

Our first project is a \$2.5 million initiative to transition our Napier wool yarn spinning plant from natural gas to electricity for specified process heat streams and incorporating high temperature heat pump technology.

This project is 38% co-funded under various funding programmes, including \$798,000 from the GIDI (Government Investment in Decarbonising Industry)

Fund administered by the Energy Efficiency and Conservation Authority (EECA), with the project expected to save up to 1,500 tonnes of CO₂e per annum.

A second EECA co-funded initiative will see a gas fired dryer at our Whanganui plant replaced with an alternative that uses radio waves to dry felted yarn during our production process. The reduction in greenhouse gases from this initiative is estimated to be almost 200 tonnes of CO₂e annually.



Let's Go Good Together

Brenworth

INNOVATION & COLLABORATION

As we make progress on our journey to go good together we were proud to receive the Innovation and Collaboration Project Award at the Primary Industries New Zealand (PINZ) Awards 2022.

This award recognises our science-based and research-led sustainability programme in partnership with AgResearch, the University of Auckland and NZ Product Accelerator and with the underlying projects co-funded by the Ministry for Primary Industries' Sustainable Food and Fibre Futures fund.



"THE BREMWORTH STORY BLEW ME AWAY AND IT IS TO THE COMPANY'S CREDIT IT IS MAINTAINING PRODUCTION IN NEW ZEALAND DESPITE IT BEING CHEAPER TO DO SO OFFSHORE. WATCH THIS SPACE."

ALAN EMMERSON PINZ JUDGE



Bremworth

**OUR BRAND IS
STRATEGICALLY
POSITIONED
TO APPEAL TO
PREMIUM
RESIDENTIAL
CONSUMERS**

**BREMWORTH HAS THE HIGHEST
UNPROMPTED BRAND AWARENESS IN
NZ COMPARED TO ALL COMPETITOR
CARPET MANUFACTURERS*.**

Bremworth's investment in the greater New Zealand wool story is elevating our brand preference and awareness.

Being awarded the Most Trusted Carpet Brand for the 9th year in a row also underscores our strong position in the market**.

* TRA Consumer Insights Research

** Reader's Digest Most Trusted Brand

Bremworth

INTERIOR INFLUENCER

NATALIE TURNBULL

Melbourne based art director and style influencer, Natalie Turnbull helped us demonstrate how Bremworth customised rugs define spaces and bring natural beauty to any interior.

“I was looking for a soft, neutral tone and wanted to bring multiple textures into the space without affecting the overall calm palette. As this is a smaller open plan home, I used rugs in different shapes and sizes to create different zones.”



Let's Go Good Together



ONE OF NEW YORK'S TALLEST SKYSCRAPERS WILL SOON BE HOME TO BREMWORTH WOOL FLOORING. THE \$1.1 BILLION BROOKLYN TOWER WILL STAND AT 327 METRES TALL AND REQUIRE OVER 3,000SQM OF CARPET.

Bremworth

BROOKLYN TOWER

Opening later this year, Brooklyn Tower will be one of the world's tallest residential buildings and home to hundreds of the city's elite.

The Brooklyn Tower project is our highest profile commercial contract in North America since Bremworth wool carpets were used to refurbish dozens of showrooms owned by luxury French jewellery maker, Cartier.

As a natural fibre manufacturer from a country renowned for its environmental positioning and high standard of farming practices, this high profile project will help to raise the profile of both the Bremworth brand and New Zealand wool in the US market.

Bremworth

INVESTING IN OUR PEOPLE'S FUTURE

***DEVELOPING OUR PEOPLE'S CAPABILITY HELPS
WITH ENGAGEMENT AND RETENTION, AND BUILDS
THE SKILLS NEEDED FOR A SUSTAINABLE FUTURE.
THAT'S WHY WE'RE INVESTING IN OUR EMPLOYEES
VIA TWO CAPABILITY-BASED PROGRAMMES.***

Te Ara Rangatira – Leadership Development Programme

Te Ara Rangatira means to rise up and awaken to a high standing. The main purpose of this two year-long programme is to support leaders and teams with the tools and knowledge they need to create and nurture high performance culture.

Poutama – Technical Development Programme

Poutama symbolises the various levels of learning and intellectual achievement. This programme supports the ongoing development of key technical and operational functions to heighten industry expertise within Bremworth and facilitate cross-functional knowledge and experiences. We also leverage technology and systems training to embed knowledge transfer.



Fogalele Pritchard-Apulu, Manufacturing Training Manager

"WE ARE PROUDLY ENCOURAGING SUSTAINABLE STRATEGIES THROUGHOUT OUR BUSINESS AND STAFF HAVE ADOPTED THE SUSTAINABLE WAY IN THEIR EVERYDAY LIFE AS WELL. FROM TAKING THEIR OWN CONTAINER FOR TAKEAWAYS TO STARTING VEGETABLE PATCHES, OUR PEOPLE ARE LOOKING FOR BETTER WAYS."

Bremworth



FIFTY YEARS AT THE FOREFRONT

DIRECTOR EMERITUS - GRANT BIEL

In 1964, a young man by the name of Grant Biel was hired by a local carpet company, Bremworth, to make sense of newly imported broadloom carpet tufting and finishing plant from the US. Grant, who was finishing his final year at the School of Engineering, was a mechanical whizz and soon things were humming.

After a few years, Grant left Bremworth to pursue his aeronautical passions overseas, but returned not long after, convincing the company to sponsor him as a New Zealand entrant in the 1969 London to Sydney Commemorative Air Race.

Grant and Tony Timpson met when they were both working for Bremworth, and in 1972, they decided to open their own carpet business. And so Cavalier Carpets was conceived. Grant was the mechanical and engineering brains while Tony was marketing, sales and accounting. Import licenses for equipment were extremely difficult to obtain in those days, so incredibly all Cavalier's carpet making machinery was designed and built in-house.

The first Cavalier workshop was established in the basement of Leon O'Shea's home in Howick and it was there that the prototype carpet tufter was built. The story goes that Grant was so excited at assembling the first tufting machine that he unravelled yarn from the sleeve of his red jersey to thread the machine and tuft a very small piece of carpet, and in doing so, created a piece of our history! With the knowledge that the equipment worked, a new factory (or 'tin shed' as they called it) was built in the middle of a big green paddock at Orb Avenue, Wiri in South Auckland... very close to where our offices are today.

The first 'Cavalier' carpet came through the purpose-built finishing line a few months later in May 1973, a 52oz shaggy cut pile that came in 9 colours ... eight more colours than Henry Ford offered when he started! Cavalier went from strength to strength, as it learned, refined and focused on crafting and delivering high quality New Zealand wool carpets.

The next fifty years would see Grant and Tony setting up new plants, establishing offices overseas, listing on the stock exchange and acquiring and investing in related businesses. One of their biggest moments was in 1988, when the pair acquired the original Bremworth business and brought it into the Cavalier fold. Grant and Tony were a dream team, leading the way in the carpet sector, continually innovating and creating an iconic New Zealand business where the core values were founded on culture, ethics and people being just as important as profit and sales.

Now, five decades after that friendship formed, we have relaunched the Bremworth name and brand and are building our future around the deep expertise and heritage created by Grant and Tony.

To acknowledge Grant's contribution to the creation and ongoing support of our business Grant is Bremworth's first ever Director Emeritus, a position he will hold for life. This honorary appointment is in recognition of the pivotal role Grant has played in our history.

Bremworth

LEADING THE CHARGE

A STRONG AND STABLE BOARD PROVIDES ROBUST STRATEGIC AND GOVERNANCE OVERSIGHT. WE'VE SET A CLEAR GROWTH STRATEGY AND HAVE FUNDING OPTIONS TO EXECUTE THE PLAN, WITH AMPLE CAPACITY TO RAMP UP MANUFACTURING.



George Adams
Independent Chairman

George Adams is an independent Director and was appointed to the Board on 1 June 2018. He was appointed Chair of the Board in July 2020, having served as Deputy Chair of the Board since April 2019. George was also appointed Chair of the Board's Nomination Committee in July 2020 and is a member of the Board's Audit and Remuneration Committees. George brings outstanding commercial and governance experience from more than 30 years of international business experience in the fast-moving consumer goods and telecommunications industries, as well as a strong background in occupational health and safety.

Let's Go Good Together



Dianne Williams
Independent Director

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



Paul Izzard
Independent Director

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



Katherine Turner
Independent Director

Katherine Turner is an independent director and is the newest member of the Board joining in February 2022. She was appointed Chair of the Board's Audit Committee at the same time and is a member of the Board's Remuneration and Nomination Committee. Katherine is a highly regarded and respected leader and qualified Chartered Accountant. She has a depth of financial, commercial and sustainability expertise across manufacturing and primary sectors and a wealth of experience taking New Zealand products to the world.



John Rae
Independent Director

John is an independent director and joined the board in July 2015. Since then, he has at various times been Deputy Chair of the Company and also Chair of both the Audit and Risk and Remuneration committees. John has degrees in both law and commerce and had a successful international career as a CEO in the finance sector, which has evolved into becoming an experienced chair and director across a range of industries in over the past 30 years. His specialization is in governance of entities facing challenging situations and transformations, and shareholder transition and succession.

Bremworth

FY22 PERFORMANCE REVIEW

GEORGE ADAMS

A STRONG RESULT IN FY22

FY22 was a transformative year for our company. We completed the first 12 months as a natural fibre and wool only business. The move away from synthetic carpet in July 2020 was a bold one, given synthetic carpet revenue for FY20 was \$36 million. Now, our five-year journey to profitable growth has truly started.

Bremworth's financial and strategic progress is tracking ahead of plan. While FY22 carpet revenue was down \$19 million, it was as we expected, with that reduction coming from our exit from the synthetic carpet market. Despite that, we delivered

a 44% uplift in normalised earnings (EBITDA) and a 29% increase in net profit after tax to \$2.2m for FY22. This is a strong result in light of COVID-19 and economic headwinds.

The Board is committed to delivering shareholder value long term. In line with this, and after much deliberation, the Board declared no dividend for FY22 as we continue to invest for the future. Profitable growth and a return to dividends are expected from FY24 onwards.



***"A TRANSFORMATIONAL YEAR.
GROWING DEMAND, A STRONGER
OPERATING PLATFORM, AND
IMPROVING PROFITABILITY."***

SUSTAINABILITY FOUNDATIONS

We have committed over \$7 million to our sustainability initiatives and received Government co-funding to support these projects. We're decarbonising manufacturing plants and investing in research-led programmes to identify innovative, sustainable opportunities. Because meaningful change doesn't happen without commitment and investment.

BOARD UPDATE

Bremworth has a board of directors that provide diversity of thought and varied commercial skills. We were pleased to welcome Katherine Turner as a director in February 2022. Katherine is a qualified Chartered Accountant, a respected leader, and a highly experienced finance executive. On appointment, Katherine also took up the role of Chair of the Audit Committee.

A POSITIVE OUTLOOK FOR CONTINUED GROWTH

The structural transformation undertaken in the last year has set the platform to grow our business with a stronger operating platform, enhanced consumer demand, and a focus on a high value audience.

The Board remains committed to Bremworth's growth aspirations and generating value for our shareholders. Thank you to our team, our suppliers and all our customers for their support.



George Adams, Chairman

OUR TRANSFORMATION PLAN ANNOUNCED IN 2020

FY20 - FY21	FY22 - FY23	FY24	FY25 ONWARDS
TRANSFORMATION INVESTMENT	RE-BUILD INVESTMENT	FUTURE FOCUSED PROFITABLE GROWTH	FULL BENEFITS OF TRANSFORMATION STRATEGY
Strong capital base to fund transformation	Appointment of new CEO	Partnerships and product adjacencies	
Relaunch of Bremworth brand and marketing	Clear, purpose led strategy	Return to dividends	
Right-sized organisation	Capitalise on consumer and macro trends		
Set forth on our sustainability journey	Build the brand		
Exited synthetics	Optimise the retailer network		
Redefined as a premium design and natural fibre company	Measure and drive sustainability goals		
	Return to profitable growth in FY23		



Let's Go Good Together



Brenworth

**WE REMAIN
COMMITTED
TO OUR
GROWTH
STRATEGY**

- 1. GROW THE NEW ZEALAND WOOL FLOORING MARKET**
- 2. GROW OUR SHARE OF THE MARKET**
- 3. EXPAND OUR PRESENCE**
- 4. DESIGN-LED INNOVATION**

Brenworth

CONTINUING PROFIT
IMPROVEMENT

UPLIFT IN EARNINGS

EBITDA \$4.9M, UP 4%
NORMALISED EBITDA, UP 44%¹

PROFIT IMPROVEMENT

NET PROFIT AFTER TAX (NPAT) \$2.2M, UP 29%
NORMALISED NPAT \$1.7M, UP 325%¹

REDUCTION IN COST

**FOCUS ON STRUCTURAL IMPROVEMENTS DRIVING
OPERATIONAL EFFICIENCIES AND BENEFITS**

GROSS MARGIN IMPROVEMENT

**UPLIFT IN GROSS MARGIN TO 31.1%,
UP FROM 28.1%**

ROBUST BALANCE SHEET

**PROVIDING A STRONG PLATFORM
TO CONTINUE EXECUTING THE STRATEGY**

¹ EBITDA is earning before interest, tax, depreciation and amortisation. Normalised results exclude the impact of non-trading adjustments and are non-GAAP measures. FY21 normalised EBITDA and normalised NPAT excluded net gain on sale and leaseback of property of \$2.6m and restructuring costs of \$(1.3)m, whereas FY22 normalised NPAT includes a normalised tax charge of \$0.5m.

FY22 FINANCIAL REVIEW



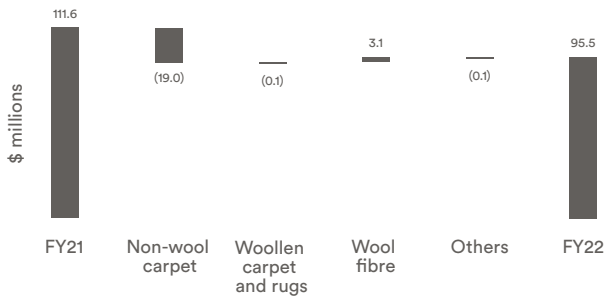


**WE ARE MAKING STRONG PROGRESS,
WITH FY22 FINANCIAL AND STRATEGIC OUTCOMES
AHEAD OF EXPECTATIONS.**

REVENUE - GROUP

We had always expected that FY22 revenue would drop, with revenue of \$95.5 million down 14% on \$111.6 million in FY21 as follows:

**GROUP REVENUE BRIDGE
FY21 TO FY22**



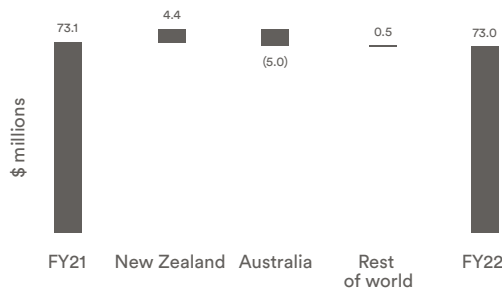
- non-wool carpet revenue down \$19.0 million as a result of the decision made at the start of FY21 to exit the non-wool segment of the carpet market;
- woollen carpet and rugs revenue in line with FY21 despite COVID-19 impact, economic headwinds and disruptions to the residential building pipeline;
- Elco Direct wool procurement revenue up \$3.1 million/20% on FY21.

**REVENUE - WOOLLEN
CARPET AND RUGS**

Our all-natural strategy delivered a strong \$4.4 million/15% revenue growth in New Zealand and \$0.5 million/25% growth in our rest of world business.

While revenue was down \$5.0 million/12% in Australia, that was the result of the intentional move away from low-margin high-volume commercial business in that market to focus on premium residential consumers.

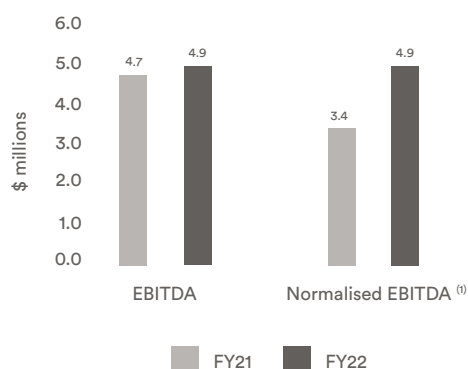
**WOOLLEN CARPET AND RUGS REVENUE
FY21 TO FY22**



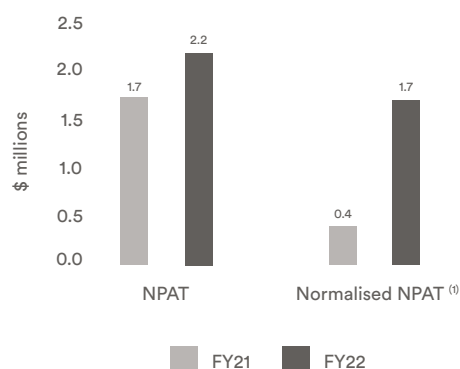


EARNINGS AND PROFIT

EBITDA



NPAT



On a normalised basis (that is, after adjusting for the impact of non-trading adjustments), EBITDA was up 44% from \$3.4 million to \$4.9 million and NPAT was up 325% from \$0.4 million to \$1.7 million, with the Group benefitting from:

- the structural improvements during the year, driving improved sales mix, uplift in gross profit from 28.1% to 31.1% and operational efficiencies and benefits and a reduction in operating costs;
- ongoing investment in the Bremworth brand and our focus on the premium residential consumers;
- good demand for our rugs; and
- another solid performance by Elco Direct.

CASH FLOWS

Cash position remains strong, with \$14.9 million at balance date.

Operating cashflow of \$(2.9) million reflects a significant investment in woollen carpet inventory to support FY23 sales growth.

Capital expenditure totalled \$2.9 million in FY22, with almost 55% of that invested in plant improvements to enable higher output and drive manufacturing efficiencies.

⁽¹⁾ EBITDA is earnings before interest, tax, depreciation and amortisation and NPAT is net profit after tax. Normalised results exclude the impact of non-trading adjustments and are non-GAAP measures. FY21 normalised EBITDA and normalised NPAT excluded net gain on sale and leaseback of property of \$2.6m and restructuring costs of \$(1.3)m, whereas FY22 normalised NPAT includes a normalised tax charge of \$0.5m.



STRONG BALANCE SHEET

Our balance sheet remains strong providing us with a solid platform to continue to execute on our transformation strategy.

OUTLOOK

We remain optimistic about the future - having reset the business, validated our progress against the original transformation plans and successfully navigated the challenges of COVID-19.

In particularly, we:

- see enormous opportunity to continue to rebuild wool's 15% share of the Australasian carpet market;
- expect ongoing strong residential renovation activity to continue to support the demand for carpet;
- have significantly improved our inventory position while also increasing our manufacturing capability to support growth;
- are forecasting woollen carpet revenues to increase as our transformation gathers momentum and sales of higher-value higher-margin woollen carpet increase.

Bremworth

July 2021

New CEO welcomed

We were pleased to welcome Greg Smith as the new Chief Executive Officer for Bremworth.

September 2021

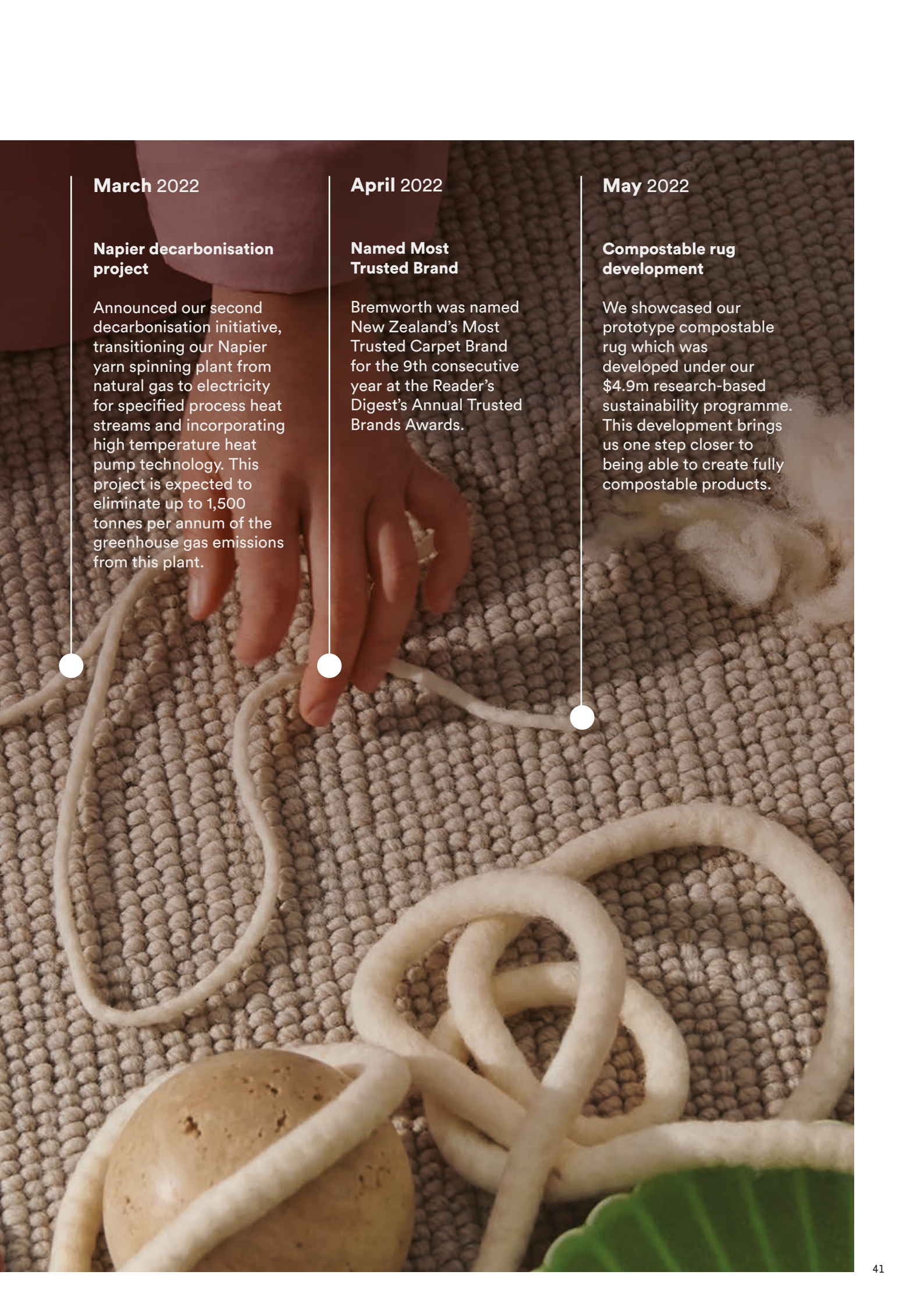
Premium product focus shift

Rationalised our product offer and shifted focus to Bremworth branded collections for premium residential consumers, to optimise margin potential and improve service level.

January 2022

Whanganui decarbonisation project

Commenced our first decarbonisation initiative at the Whanganui yarn spinning plant to replace gas fired dryer with a radio frequency dryer. The reduction in greenhouse gases from this project is estimated to be almost 200 tonnes per annum.



March 2022

Napier decarbonisation project

Announced our second decarbonisation initiative, transitioning our Napier yarn spinning plant from natural gas to electricity for specified process heat streams and incorporating high temperature heat pump technology. This project is expected to eliminate up to 1,500 tonnes per annum of the greenhouse gas emissions from this plant.

April 2022

Named Most Trusted Brand

Bremworth was named New Zealand's Most Trusted Carpet Brand for the 9th consecutive year at the Reader's Digest's Annual Trusted Brands Awards.

May 2022

Compostable rug development

We showcased our prototype compostable rug which was developed under our \$4.9m research-based sustainability programme. This development brings us one step closer to being able to create fully compostable products.

Brenworth

FY23 LET'S KEEP GOING GOOD

**FUTURE FOCUS FROM
GREG SMITH CEO**

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

- **Grow revenue**

- Create demand
- Increase branded presence
- Increase product penetration
- Improve our supply consistency

- **Make winning products**

- Supercharge product development
- Use consumer insights
- Leverage our sustainability aspirations

- **Improve efficiency safely**

- Embed high performance culture
- Invest in technology to reduce waste
- Use data to drive decisions
- Continue training and risk minimisation programmes



**"WE'VE LAID THE FOUNDATIONS
FOR SUSTAINABLE GROWTH IN THE
YEAR AHEAD AND BEYOND."**

GREG SMITH CEO

Let's Go Good Together

A photograph of a dark, textured ball on a light-colored carpet in a room with large windows overlooking a body of water and trees. The text "TREND STATEMENT" is overlaid in the center.

**TREND
STATEMENT**



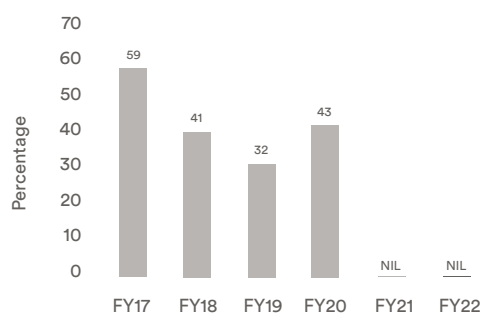
Let's Go Good Together

TREND STATEMENT

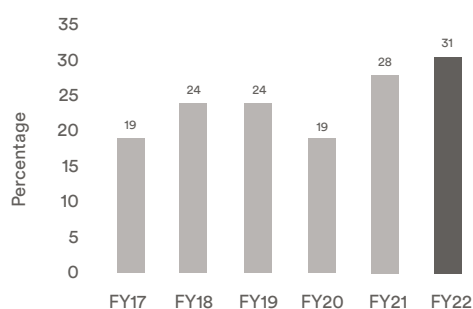
SIX YEAR PERFORMANCE GRAPHS

Unaudited

GEARING %



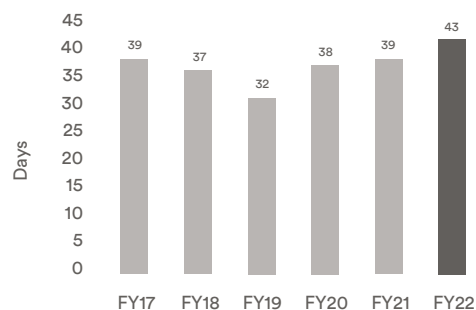
GROSS PROFIT %



RETURN (NORMALISED NPAT) ON ASSETS %



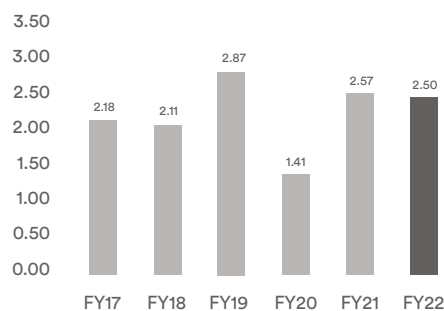
DAYS SALES IN RECEIVABLES



INVENTORY TURNOVER IN DAYS



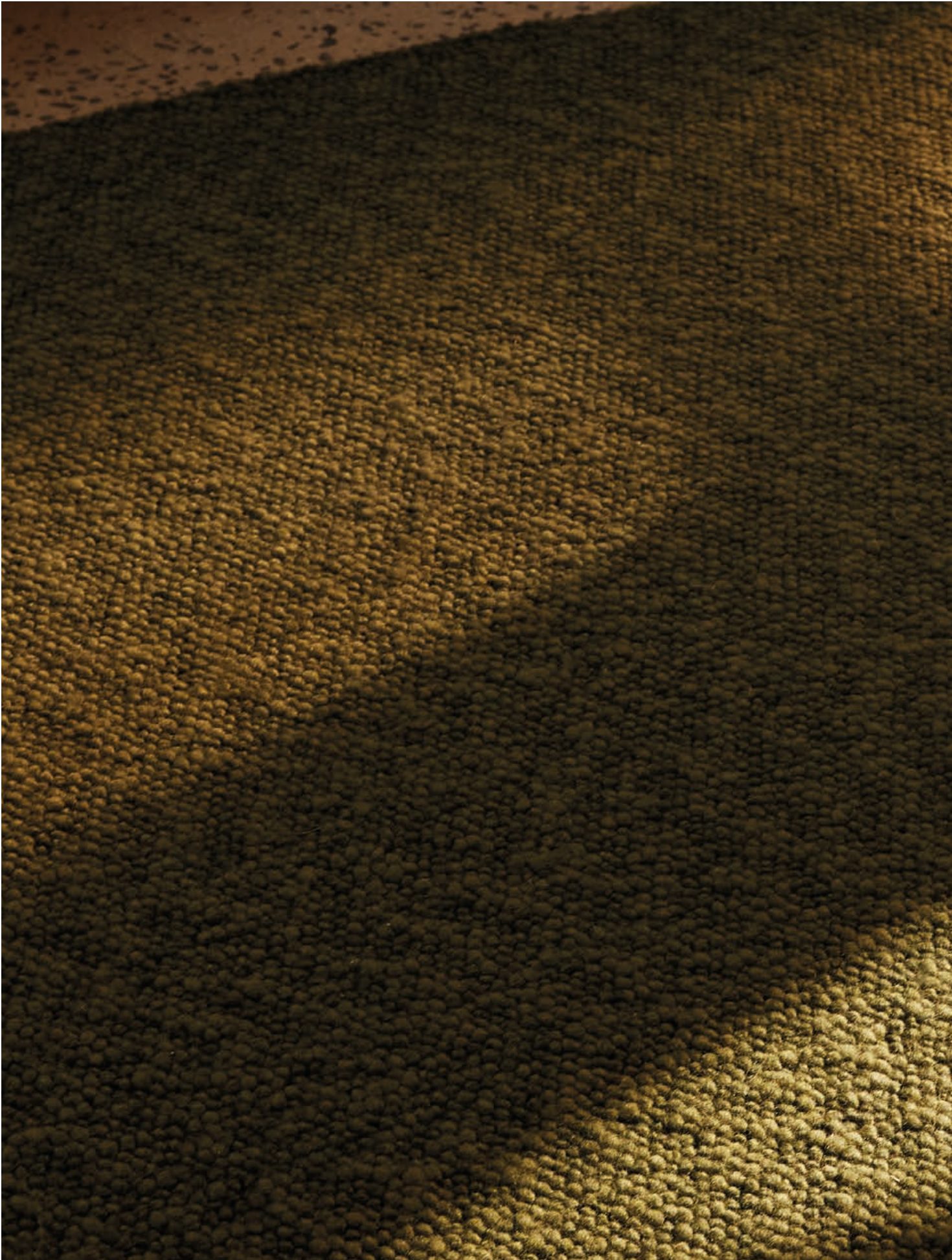
CURRENT RATIO



Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 143 and 144.

TREND STATEMENT

Unaudited	2022 \$000	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
Operating revenue	\$95,485	\$111,577	\$117,981	\$135,234	\$148,120	\$156,120
EBITDA (normalised)	4,918	3,385	2,300	7,076	9,998	2,572
EBIT (normalised)	3,475	1,708	(2,162)	3,597	6,437	(679)
Profit/(Loss) before income tax (normalised)	2,605	652	(4,697)	2,451	5,058	(2,818)
Profit/(Loss) after income tax (normalised)	1,735	376	(3,457)	1,879	3,974	(1,856)
Abnormal costs (after tax)	505	1,353	(17,994)	(18,659)	107	(268)
Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)	2,240	1,729	(21,451)	(16,780)	4,081	(2,124)
Financial Position						
Shareholders' equity	37,771	35,592	33,637	54,989	72,222	67,890
Loans and borrowings	–	–	15,800	20,500	31,500	41,500
Fixed assets	14,306	12,094	22,725	30,164	35,142	37,123
Right-of-use assets	9,280	9,968	430	–	–	–
Goodwill and other intangibles	–	–	–	–	2,362	2,362
Cash and bank	14,874	22,508	1,276	2,724	2,111	1,255
Return on average shareholders' equity (normalised)	4.7%	1.1%	(7.8%)	3.0%	5.7%	(2.7%)
Basic earnings per ordinary share (normalised) – cents	2.51	0.55	(5.03)	2.74	5.79	(2.70)
Diluted earnings per ordinary share (normalised) – cents	2.46	0.54	(5.03)	2.74	5.79	(2.70)
Net tangible asset backing per ordinary share	\$0.40	\$0.36	\$0.47	\$0.72	\$0.94	\$0.87





***CONSOLIDATED
FINANCIAL
STATEMENTS***

FOR THE YEAR ENDED 30 JUNE 2022

Let's Go Good Together



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CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the consolidated financial statements of Bremworth Limited (formerly known as Cavalier Corporation Limited) and subsidiaries ("the Group"). The Directors discharge this responsibility by ensuring that the consolidated financial statements comply with Generally Accepted Accounting Practice and fairly present the financial position of the Group as at balance date and of its operations and cash flows for the year ended on that date.

ACCOUNTING POLICIES

The Directors consider that the accounting policies used in the preparation of the consolidated financial statements are appropriate, consistently applied, and supported by reasonable judgements and estimates. All relevant financial reporting and accounting standards have also been followed.

ACCOUNTING RECORDS

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

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

The Directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

The Directors present, on pages 57 to 109, the consolidated financial statements for the year ended 30 June 2022.

These audited consolidated financial statements were authorised for issue by the Directors on 29 August 2022 and, as required by section 461(1)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Bremworth Limited



T H G Adams
Chairman of the Board of Directors



K M Turner
Chairman of the Audit Committee

CONSOLIDATED FINANCIAL STATEMENTS INDEPENDENT AUDITOR'S REPORT



To the shareholders of Bremworth Limited

OUR OPINION

In our opinion, the accompanying consolidated financial statements of Bremworth Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

Independence

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

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

KEY AUDIT MATTERS

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

DESCRIPTION OF THE KEY AUDIT MATTER

Forecast liquidity and cash flows

The Group prepares its consolidated financial statements on a going concern basis and expects to be able to realise its assets and meet its financial obligations in the normal course of business for the foreseeable future.

During the year the Group has continued to progress its previously announced strategic transformation, having ceased production and sales of synthetic carpets to focus solely on its all-wool carpet business. Consistent with management's forecasts, cash has reduced from \$22.5 million in 2021 to \$14.9 million at year end.

As this represents a material change in direction of the business there is inherently a level of estimation uncertainty and execution risk associated with the Group's ability to maintain sufficient liquidity to meet its financial commitments as they fall due in the normal course of business, until the full benefits of the strategy eventuate, which management expect to occur from FY25 onwards. Consequently it is an area of focus for the audit and a key audit matter.

To assess the ongoing liquidity of the Group and its ability to meet its other financial commitments as they fall due in the normal course of business, management has forecast the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations through to 30 June 2024.

In preparing these forecasts, assumptions included the Group's strategic transformation plans, future economic and market conditions, such as forecast sales volumes, expected NZD/AUD exchange rate movements (after considering the Group's hedged positions) and forecast wool prices.

In forming its going concern conclusion, the Board has also taken into consideration a number of factors including the cash surplus, the improvement in manufacturing efficiencies, margins and profile of its inventory during the year, the Group's potential ability to obtain other sources of funding (including the sale of other properties) and the option to reduce discretionary spending, if required.

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

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

To audit the Group's cash flow forecasts for the period to 30 June 2024, which are used to support the going concern assumption for the preparation of the consolidated financial statements, our audit procedures included the following:

- gaining an understanding of management's process and controls to prepare cash flow forecasts;
- gaining an understanding of key assumptions used in the cash flow forecasts through discussions with management;
- evaluating the accuracy of the Group's previous forecasts by comparing the actual performance against forecasts in prior periods;
- checking these key assumptions are consistent with the Board approved forecasts;
- assessing and challenging key assumptions such as sales volumes, wool price and exchange rates with reference to independent data sources and contracts, where possible, and to recent actual sales and performance;
- performing sensitivity testing on the key sales assumptions used in the forecast cash flows to assess the level of forecasting risk;
- assessing the Group's ongoing ability to obtain funding from other sources such as the sale of other properties and to reduce discretionary spending, if required; and
- performing subsequent events procedures to identify events that may affect the Group's cash flow forecasts.

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

DESCRIPTION OF THE KEY AUDIT MATTER

Valuation of inventory

The carrying value of the Group's inventory at 30 June 2022 was \$27.26 million (30 June 2021 \$20.03 million) net of inventory provisions of \$1.35 million (30 June 2021 \$1.98 million).

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

The Group has recorded inventory provisions, which represent a deduction from the cost of inventory, for obsolete, aged and discontinued inventory and carpet oddments to reflect management's best estimate of their net realisable value.

Determining these provisions involves significant judgement considering a range of factors such as inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margins data.

Valuation of inventory is an area of focus and key audit matter for the audit due to the significance of the inventory balance, the complexity of inventory costing, and the judgements involved in estimating the inventory provisions.

Note 6c of the consolidated financial statements describes the accounting policy on inventories and the judgements and estimates applied by management to determine the inventory provision.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

To audit the cost of inventory, our procedures included:

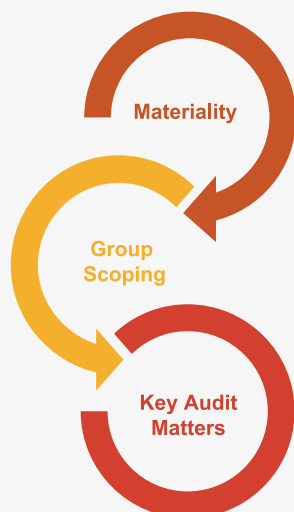
- gaining an understanding of the inventory costing process and controls;
- testing the accuracy of the application of inventory costing by reperforming the calculation;
- verifying inputs, on a sample basis, of the finished goods, work in progress and yarn inventory cost by agreeing them to supporting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

To audit the inventory provisions, our procedures included:

- gaining an understanding of and assessing the Group's methodology for inventory provision process and controls, taking into consideration key attributes used such as piece sizes, low grade quality, discontinued products and recent sale prices;
- observing management's stocktake process by attending selected locations to confirm the existence and condition of the inventory;
- assessing the accuracy of management's estimate of provisioning by comparing actual utilisation of provision with the corresponding prior year provisions; and
- testing the net realisable value of finished goods, on a sample basis, by comparing the cost with recent sales prices and margins.

OUR AUDIT APPROACH

Overview



Overall group materiality: \$478,000, which represents approximately 0.5% of revenue.

We chose revenue as the benchmark because, in our view, it is the stable benchmark against which the performance of the Group is most commonly measured by users and is an accepted benchmark.

We selected transactions and balances to audit based on the Group's materiality. By using this approach, we audited all the material classes of transactions and balances in the consolidated financial statements of the Group.

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

- Liquidity and cash flow forecasts
- Valuation of inventory

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

Materiality

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

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

How we tailored our group audit scope

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

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



OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditor's report thereon. The other information we obtained prior to the date of this auditor's report comprised the Directors' Responsibility Statement, Trend Statement and Disclosure of Non-GAAP Financial Information. The remaining other information is expected to be made available to us after that date. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Philippa (Pip) Cameron.

For and on behalf of

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
29 August 2022

Auckland

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2022

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

This Consolidated Statement of Profit or Loss is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

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

This Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

Audited	Note	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share-based Payment Reserve \$000	Retained Earnings \$000	Total Equity \$000
Total equity at 1 July 2021		21,846	55	(1,420)	51	15,060	35,592
Total comprehensive income for the year							
Profit after tax		–	–	–	–	2,240	2,240
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of income tax)		–	(631)	–	–	–	(631)
Total comprehensive income for the year		–	(631)	–	–	2,240	1,609
Transaction with owners in their capacity as owners							
Share-based payments – value of employee services	8b	–	–	–	362	–	362
Issue of shares pursuant to the Bremworth Equity Plan	4b, 8b	208	–	–	–	–	208
Total transaction with owners for the year		208	–	–	362	–	570
Total equity at 30 June 2022		\$22,054	(\$576)	(\$1,420)	\$413	\$17,300	\$37,771

This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

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

This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

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

This Consolidated Statement of Financial Position is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

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

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 64 to 109.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES

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

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 64 to 109.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

1. COMPANY INFORMATION

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

Bremworth Limited ("Bremworth" or "the Company") is a limited liability company that is domiciled and incorporated in New Zealand.

The consolidated financial statements presented are for Bremworth and its subsidiaries ("the Group") as at, and for the year ended, 30 June 2022.

The Company is registered under the Companies Act 1993 and is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The consolidated financial statements have been prepared in accordance with these Acts.

The principal activities of the Group comprise wool acquisition, and carpet and rug manufacturing and sales.

All Group subsidiaries are wholly-owned.

2. GENERAL INFORMATION RELATING TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

2a. STATEMENT OF COMPLIANCE

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other applicable New Zealand accounting standards and authoritative notices as appropriate for Tier 1 For-Profit entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

2b. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for Tier 1 For-Profit entities.

They have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value as disclosed at note 7 (Risks and financial instruments) to the consolidated financial statements.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is Bremworth Limited's functional and presentation currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

The Consolidated Statements of Profit or Loss, Comprehensive Income, Changes in Equity and Cash Flows are stated exclusive of GST. All items in the Consolidated Statement of Financial Position are stated exclusive of GST, except for trade receivables and trade payables, which include GST invoiced.

2c. GOING CONCERN

Assessment of going concern

The Group prepares its consolidated financial statements on a going concern basis and expects to be able to realise its assets and meet its financial obligations in the normal course of business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

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

2c. GOING CONCERN (CONT'D)

Assessment of going concern (cont'd)

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

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

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

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

To assess the ongoing liquidity of the Group and its ability to meet its other financial commitments as they fall due in the normal course of business, management has forecast the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations through to 30 June 2024.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

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

2d. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with NZ IFRS requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about estimates and judgements that have a significant effect on the amounts recognised in the consolidated financial statements are disclosed in the following notes:

Note 2c – going concern

Note 3i – measurement and recoverability of tax losses

Note 5a – recoverability of property, plant and equipment

Note 6c – inventory provisioning

Note 8a – determination of lease term

Note 8c – measurement of provisions

Note 8d – measurement of employee benefits

Significant accounting policies and critical estimates, judgements and assumptions are also disclosed in the relevant notes to the consolidated financial statements and identified using the following coloured boxes:

Accounting policies

Estimates, judgements and assumptions

2e. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2022 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the underlying intra-group transaction provides evidence that the asset transferred is impaired.

2f. CHANGES IN ACCOUNTING POLICIES

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

2g. RESTATEMENT OF PRIOR YEAR BALANCES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE

This section deals with the financial performance of the Group and addresses, among other things, the financial performance of the Group's reportable segments and the key areas that impact on the Group's profitability, including operating revenue, other income, gains/losses on sale of property, plant and equipment, expenses and taxation.

3a. SEGMENT PERFORMANCE

Reportable segments

The Group's reportable and operating segments are:

- Carpet, with this segment involved in the manufacturing and sales of carpet in New Zealand, Australia and rest of the world; and
- Wool, with this segment involved in the acquisition of wool for the carpet segment and for sales to external customers in New Zealand.

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
- whose operating results are regularly reviewed by the Group's chief operating decision maker - in this case, the Chief Executive Officer - to make decisions about the resources to be allocated to the segment and to assess its performance; and
- for which discrete financial information is available.

The Chief Executive Officer uses total revenue, segment result before depreciation, restructuring and impairment and segment result after depreciation but before restructuring and impairment to assess the performance of the operating segments. Total assets and total liabilities are also reviewed for the operating segments.

Inter-segment transactions

All inter-segmental transactions included in revenue and operating expenses for each segment are on an arm's-length basis. Inter-segmental sales during the year and intercompany profits on stocks at balance date are eliminated on consolidation.

Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and non-current assets are based on the geographical location of those assets.

Revenue	2022 \$000	2021 \$000
New Zealand	54,595	63,901
Australia	37,797	45,067
Canada	1,460	1,070
USA	1,331	1,139
Rest of the world	302	400
	\$95,485	\$111,577

Non-current assets	As at 30 June 2022 \$000	As at 30 June 2021 \$000
New Zealand	23,084	22,154
Australia	1,034	640
	\$24,118	\$22,794

Major customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3a. SEGMENT PERFORMANCE (CONT'D)

	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
External revenue	76,307	95,548	19,178	16,029	95,485	111,577
Inter-segment revenue	-	-	2,401	2,313	2,401	2,313
Total revenue	76,307	95,548	21,579	18,342	97,886	113,890
Elimination of inter-segment revenue					(2,401)	(2,313)
Consolidated revenue					\$95,485	\$111,577
Segment result before depreciation, restructuring related expenses and impairment	4,880	6,784	949	784	5,829	7,568
Depreciation – owned assets	(515)	(236)	(168)	(143)	(683)	(379)
Depreciation – right-of-use assets	(822)	(411)	(132)	(123)	(954)	(534)
Depreciation – recycled through inventory	194	(764)	-	-	194	(764)
Segment result before restructuring and impairment	3,737	5,373	649	518	4,386	5,891
Restructuring costs	-	(1,271)	-	-	-	(1,271)
Segment result after restructuring and impairment	3,737	4,102	649	518	4,386	4,620
Elimination of inter-segment profits					52	(49)
Unallocated corporate costs					(963)	(1,510)
Results from operating activities					3,475	3,061
Finance costs					(1,029)	(1,124)
Finance income					159	68
Profit before income tax					2,605	2,005
Income tax expense					(365)	(276)
Profit after tax for the year					\$2,240	\$1,729
	Carpet and rugs sales and manufacturing		Wool acquisition		Total	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Reportable segment assets	59,122	50,987	4,906	4,528	64,028	55,515
Unallocated assets - Cash and bank					14,874	22,508
Total assets					\$78,902	\$78,023
Capital expenditure	2,621	2,481	277	-	\$2,898	\$2,481
Reportable segment liabilities	20,229	18,920	1,144	1,978	21,373	20,898
Unallocated liabilities - Lease liabilities					19,758	21,533
Total liabilities					\$41,131	\$42,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3b. EARNINGS PER SHARE

Basic earnings per share (Basic EPS)

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

Diluted earnings per share (Diluted EPS)

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

In calculating the diluted earnings per share, the Company has taken into account the maximum number of shares that could be issued under the Company's LTI Scheme and the Bremworth Option Scheme as further discussed at note 8b (Share-based payment) to the consolidated financial statements.

3c. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

Credit terms for carpet and rug sales within New Zealand and Australia are generally no later than 30 days after the month in which invoices are raised and, in the case of wool sold in New Zealand, within 14 days of invoice date or on despatch whichever is the earlier. Credit terms for sales of carpet overseas are generally 60 to 90 days from date of invoice and for sales of carpet yarn overseas 120 days from date of invoice.

Rugs sold direct are for cash, with payment at the time orders are placed. All amounts received are accounted for as customer deposits in the first instance, with \$203,000 of customers deposits booked as at balance date (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

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

Accounting policies

Sale of goods

Revenue is recognised when or as performance obligations are satisfied by transferring control of the products sold to the customer at the transaction price specified in the contract. Control transfers to the customers for carpet, rug and carpet yarn sales on delivery of the goods to the customer. For wool sales, control passes on payment, prior to delivery. The transaction price includes all amounts which the Group expects to be entitled to, net of goods and services tax and other indirect taxes, expected rebates and discounts.

Apart from warranties, there are no contractual rights of return and there are therefore no provisions for returns. In specific circumstances, the Group may choose to accept returns, in which case the returns are recognised at that time.

Provision of installation services

Revenue from installation services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date as the customer receives and uses the benefit simultaneous to installation. The stage of completion of installation services rendered is determined by having regard to the quantity in lineal metres of carpet installed at balance date relative to the total quantity in lineal metres of carpet required for each contract.

3d. OTHER INCOME AND GAINS

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

3e. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3f. PERSONNEL EXPENSES

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

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

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

3g. GOVERNMENT GRANTS

COVID-19 subsidies

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

The Group applied for and received \$1,676,000 pursuant to various COVID-19 subsidy schemes from the New Zealand Government and \$100,000 from the New South Wales Government during the year (2021: Nil).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3g. GOVERNMENT GRANTS (CONT'D)

International Growth Fund and Sustainable Food and Fibre Futures Fund

Grants totalling \$242,000 (2021: \$88,000) from the Government's International Growth Fund (IG Fund) and \$339,000 (2021: \$78,000) from the Sustainable Food and Fibre Futures Fund (SFFF Fund) are included in other income in the Consolidated Statement of Profit or Loss, with the IG Fund covering pre-approved activities over the period from May 2019 to January 2023 and the SFFF Fund over the period from December 2020 through to December 2023.

There are no unfulfilled conditions or other contingencies attaching to the grants recognised in other income during the year.

Government grants that have been deferred, either because they relate to future costs to be incurred or assets, totalled \$418,000 at balance date (2021: \$351,000).

Others

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

Notes 3d (Other income and gains) and 3g (Government grants) to the consolidated financial statements provide further information on how the Group accounts for government grants.

Accounting policies

Grants from the government are recognised at their fair value where there is a reasonable assurance that the Group will comply with all attached conditions and the grants will be received.

Government grants relating to costs that have been incurred are credited to profit or loss while grants relating to future costs are included in current liabilities as deferred income and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3h. FINANCE COSTS

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

Accounting policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3i. INCOME TAX

	2022 \$000	2021 \$000
INCOME TAX EXPENSE IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS		
Current tax expense		
Current year	66	408
Adjustment for prior years	99	–
	165	408
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	695	196
Adjustment for prior years	10	(230)
Unrecognised deferred tax liabilities	(505)	(98)
	200	(132)
Income tax expense	\$365	\$276
	2022 \$000	2021 \$000
RECONCILIATION OF EFFECTIVE TAX RATE		
Profit after tax for the year	2,240	1,729
Income tax expense	365	276
Profit excluding income tax	\$2,605	\$2,005
Income tax using the Company's domestic tax rate of 28% (2021: 28%)	729	561
Non-deductible expenses	15	11
Effect of tax rate difference in foreign jurisdiction	17	34
Adjustment for prior years	109	(232)
Unrecognised deferred tax liabilities	(505)	(98)
Income tax expense	\$365	\$276
	2022 \$000	2021 \$000
INCOME TAX RECOGNISED DIRECTLY IN EQUITY		
Derivative financial instruments	–	47
Income tax on income and expense recognised directly in equity	–	\$47
IMPUTATION CREDITS		
Imputation credits available to shareholders of the Company	\$9,233	\$9,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3i. INCOME TAX (CONT'D)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

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

Deferred tax assets relating to the Group's New Zealand operations were written off in FY20. Deferred tax assets not recognised in respect of temporary differences and tax loss carry-forwards totalled \$16,601,000 at balance date (2021: \$16,389,000).

While the Board has confidence in the prospects of the business as discussed at note 2c (Going concern) to the consolidated financial statements, it has taken the same approach with respect to the recognition of deferred tax assets as it has with the reversal of the FY20 impairment of assets as discussed at note 5a (Property, plant and equipment) to the consolidated financial statements and has concluded that the execution of the Group's strategy to focus on wool carpets, while progressing to plan, is still in its early stages and therefore does not warrant the re-recognition of deferred tax assets.

Deferred tax assets have also not been recognised in respect of temporary differences and tax loss carry-forwards totalling \$24,150,000 (2021: \$24,150,000) relating to an Australian subsidiary that currently does not have trading activity on the basis that it is also not probable that future taxable profit will be available against which the Group can use the benefits therefrom, taking the total deferred tax assets unrecognised to \$40,751,000 (2021: \$40,539,000).

Notwithstanding the derecognition of deferred tax assets for accounting purposes, these deferred tax assets remain available to the Group for income tax purposes.

Movement in temporary differences during the year:

	Balance 30 June 2021 \$000	Recognised in consolidated statement of profit or loss \$000	Balance 30 June 2022 \$000
Property, plant and equipment	378	(76)	302
Employee benefits	156	(55)	101
Lease liabilities	80	(59)	21
Provisions	118	(10)	108
Total	\$732	(\$200)	\$532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL PERFORMANCE (CONT'D)

3i. INCOME TAX (CONT'D)

Deferred tax assets and liabilities (cont'd)

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

Accounting policies

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

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

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

Estimates, judgements and assumptions

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each balance date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

4. CAPITAL AND FUNDING

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

4a. CAPITAL MANAGEMENT

The Group's capital includes share capital, reserves and retained earnings.

The Group's capital management policy is aimed at maintaining a strong capital base so as to maintain investor, creditor and market confidence in the Group and to enable it to continue to fund the ongoing needs of the business and to sustain its future development.

The impact of the level of capital on shareholders' return is also recognised, as is the return to shareholders in the form of dividends paid and growth in share price, and the Group works to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital base.

The Group is not subject to any externally imposed capital requirements.

The allocation of capital between the Group's specific business segment operations and activities is, to a large extent, driven by the opportunities that exist within each of these segments and the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is determined by the Chief Executive Officer in consultation with the Board and is therefore undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board.

There have been no material changes in the Group's management of capital during the year.

Consistent with best practice, the Group monitors capital on the basis of the leverage ratio. Leverage ratio is calculated as net debt divided by total capital employed. Net debt is determined as total loans and borrowings (including both non-current and current as shown in the Consolidated Statement of Financial Position) plus bank overdraft less cash and bank. Total capital employed is calculated as equity as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.

4b. SHARE CAPITAL, DIVIDENDS AND RESERVES

Share capital

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

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

The Company issued 500,000 fully paid up ordinary shares on 10 September 2021 to the Chief Executive Officer pursuant to the Bremworth Equity Plan, with more information to be found in note 8b (Share-based payment) to the consolidated financial statements.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

4. CAPITAL AND FUNDING (CONT'D)

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

Dividends

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

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

Cash flow hedging reserve

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs at which time the gain or loss is transferred to profit or loss. When the hedge item is a non-financial asset, the amount recognised in the cash flow hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in the cash flow hedging reserve is transferred to profit or loss in the same year that the hedged item affects profit or loss.

The cash flow hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Foreign currency translation reserve

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

The foreign currency translation reserve comprises all exchange rate differences arising from the translation of the financial statements of foreign operations and the translation of liabilities designated as hedges against the Company's net investment in a foreign operation.

There is no movement in the foreign currency translation reserve balance for the year ended 30 June 2022 (2021: Nil) as the reserve relates to dormant foreign entities of the Group.

Share-based payment reserve

The share-based payment reserve is used to recognise the grant date assessed fair value of the performance rights issued to executive employees under the Company's long-term incentive scheme as further discussed at note 8b (Share-based payment) to the consolidated financial statements.

The assessed fair value of the performance rights at grant date are recognised as an expense in profit or loss over the period from grant date to condition date, adjusted to reflect only those rights where the service condition will be met, with corresponding entries to the share-based payment reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

4. CAPITAL AND FUNDING (CONT'D)

4c. BANKING FACILITIES AND LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's banking facilities. For more information about the Group's exposure to interest rate risks, see note 7 (Risks and financial instruments) to the consolidated financial statements.

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

The Group has no funding facilities at balance date (2021: Nil).

The Group fully repaid its Bank loans and borrowings, while also putting itself in a surplus cash position, during FY21 with the cash coming from the Group's sell-down of non-wool inventory as it exited the non-wool carpet market and from the sale and leaseback of the Auckland property.

Following the full repayment of the Group's Bank loans and borrowings in December 2020, the Bank and the Company agreed to the withdrawal of all committed credit lines while continuing to retain transactional banking facilities, foreign exchange transaction facilities and a guarantee facility.

The Group continues to maintain ongoing relationships with the Bank, with the view that committed credit lines could be reinstated in the future to fund working capital requirements as the Group progresses through its transformation journey. As a consequence, the Group has retained the security arrangements that were previously put in place to secure obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank.

These security arrangements include the granting in favour of Bank of New Zealand, as security agent for the Bank, a first-ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank by certain companies in the Group. The property-owning companies in the Group have also continued to grant in favour of Bank of New Zealand first-ranking mortgages in respect of land and buildings as security for all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank (see note 5a (Property, plant and equipment) to the consolidated financial statements).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

5. ASSETS EMPLOYED

This section covers non-current assets, being property, plant and equipment and other assets that the Group employs in the production and sale of carpet, and the acquisition and sale of wool fibre, to generate revenues and profits.

5a. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$000	Plant and equipment \$000	Other assets \$000	Under construction \$000	Total \$000
COST					
Balance at 1 July 2021	10,427	64,793	11,448	1,322	87,990
Additions	543	83	379	1,893	2,898
Disposals	–	(528)	(274)	–	(802)
Transfers	–	1,315	1,231	(2,546)	–
Balance at 30 June 2022	\$10,970	\$65,663	\$12,784	\$669	\$90,086
Balance at 1 July 2020	24,828	68,098	14,505	655	108,086
Additions	–	38	204	2,239	2,481
Disposals	(14,401)	(4,427)	(3,541)	(208)	(22,577)
Transfers	–	1,084	280	(1,364)	–
Balance at 30 June 2021	\$10,427	\$64,793	\$11,448	\$1,322	\$87,990
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2021	1,544	63,848	10,459	45	75,896
Depreciation for the year	128	232	323	–	683
Disposals	–	(562)	(237)	–	(799)
Balance at 30 June 2022	\$1,672	\$63,518	\$10,545	\$45	\$75,780
Balance at 1 July 2020	2,989	68,065	13,652	655	85,361
Depreciation for the year	224	17	138	–	379
Disposals	(1,669)	(4,423)	(3,544)	(208)	(9,844)
Transfers	–	189	213	(402)	–
Balance at 30 June 2021	\$1,544	\$63,848	\$10,459	\$45	\$75,896
CARRYING AMOUNTS					
At 30 June 2022	\$9,298	\$2,145	\$2,239	\$624	\$14,306
At 30 June 2021	\$8,883	\$945	\$989	\$1,277	\$12,094
At 1 July 2020	\$21,839	\$33	\$853	–	\$22,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

5. ASSETS EMPLOYED (CONT'D)

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

Other assets

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

Impairment

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

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

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

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

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

The Group has also concluded that no reversal of the previous impairment of assets should be made following an assessment that the execution of the Group's strategy to focus on wool carpets which, while progressing to plan, is in its early stages.

Security

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

Accounting policies

Recognition and measurement

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

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

Under construction

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

5. ASSETS EMPLOYED (CONT'D)

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

Accounting policies (cont'd)

Depreciation

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

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

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

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

Impairment

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

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

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

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

Estimates, judgements and assumptions

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

For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU), which as at 30 June 2022 were identified as being the Carpets and Wool Acquisition CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

5. ASSETS EMPLOYED (CONT'D)

5b. CAPITAL COMMITMENTS

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

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

The first initiative is a \$2,500,000 project at the Group's Napier carpet yarn spinning plant to reduce its reliance on natural gas process heat through process heat optimisation and transitioning to electric heat pump technology. This project is being 38% co-funded (\$958,000) under various funding programmes, including the GIDI (Government Investment in Decarbonising Industry) Fund administered by the Energy Efficiency and Conservation Authority (EECA). This initiative is expected to continue into FY23 and FY24.

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

6. WORKING CAPITAL

This section reviews the level of working capital the Group generates and utilises in its normal day-to-day operating activities. The Group's working capital includes current assets (cash and bank, trade receivables, other receivables and prepayments and inventories) and current liabilities (trade payables and accruals and employee entitlements).

6a. CASH AND BANK

Cash and bank at balance date comprise the following:

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

Accounting policies

Cash is cash on hand and demand deposits and includes bank overdrafts used for cash management purposes where formal arrangements for set off has been agreed with the Bank. Under these set off arrangements, the Group is able to set off overdrawn balances up to a maximum of \$1,000,000 against credit balances in selected accounts as long as the net balance of all these accounts (including overdrawn accounts) as a whole remain in credit. At balance date, there were no overdrawn amounts subject to set off (2021: \$130,000). Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash (that is, there is insignificant risk of changes in value) with maturity no more than three months from balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

6. WORKING CAPITAL (CONT'D)

6b. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

The Group's approach and policy with respect to, and quantitative disclosure of, credit risk are discussed at note 7 (Risks and financial instruments) to the consolidated financial statements.

Impairment losses on trade receivables and other receivables are assessed collectively and on a portfolio basis based on the number of days overdue using the expected loss model, taking into account the historical loss experienced in portfolios with a similar number of days overdue as well as current conditions and forecast of future economic conditions.

Accounting policies

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

6c. INVENTORIES

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

6. WORKING CAPITAL (CONT'D)

6c. INVENTORIES (CONT'D)

Accounting policies

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Estimates, judgements and assumptions

Inventory provisions are recognised for oddments and obsolete, aged and discontinued inventories to arrive at their likely net realisable value.

Judgement and estimates are applied in identifying and categorising - to the extent applicable - obsolete, aged and discontinued inventory and determining the level of provisioning that is required - with a range of factors including inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margin data considered.

6d. TRADE PAYABLES AND ACCRUALS

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

Accounting policies

Trade payables are unsecured - except to the extent to which they have retention of titles clauses within their supply arrangements with the Group - and are usually paid within the agreed payment terms.

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

6. WORKING CAPITAL (CONT'D)

6e. EMPLOYEE ENTITLEMENTS

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

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

Accounting policies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS

This section identifies the risks faced by the Group, explains the impact of these risks on its financial position, performance and cash flows, outlines the Group's approach to financial risk management and highlights the financial instruments used to manage risks.

MANAGEMENT COMMENTARY

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Group's businesses.

The Group enters into derivative financial instruments in the ordinary course of business to manage foreign currency and interest rate risks in accordance with the treasury policy approved by the Board. A financial risk management committee, composed of senior management and operating under the Board-approved treasury policy, ensures that procedures for derivative instrument utilisation, control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting are adhered to.

The Group manages commodity price risks through negotiated supply contracts and forward physical contracts. However, because these contracts are, generally, in respect of raw material and utility purchases for own use, they are not accounted for as financial instruments.

Credit risk

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and delivery terms and conditions are offered. Because of the Group's customer base, there is no need for the Group to rely on external ratings. In most cases, bankers' references, trade credit insurance approvals and/or credit references from other suppliers are considered adequate. Purchase limits are reviewed on a regular basis.

In order to determine which customers are classified as having payment difficulties, the Group applies a mix of duration and frequency of default. The Group does not generally require collateral in respect of trade and other receivables.

The Group's exposure to credit risk is mainly influenced by its customer base. As such, it is concentrated to the default risk of its industry. However, geographically, there is no credit risk concentration, with the Group's customers spread throughout New Zealand, Australia and other overseas markets. Credit risk exposure with respect to trade receivables is limited by stringent credit controls, by the utilisation of irrevocable letters of credit and trade credit insurances wherever required, and by the large number of customers within the Group's customer base.

The amount and timing of collection of trade receivables and estimate of expected credit losses under NZ IFRS 9 *Financial Instruments* have been considered and included in the consolidated financial statements. There has been no indication of a significant change in amounts or timing of receipts from trade receivables as at 30 June 2022 due to the impact of COVID-19 (2021: Nil).

The Group does not invest in securities, but accepts that surplus cash and cash equivalents may arise from time to time during the course of its management of cash. In these instances, it requires these surplus cash and cash equivalents to be deposited on call and only with counterparties approved by the Board as having the required credit ratings.

Foreign currency forward exchange contracts and interest rate swaps have been entered into with counterparties approved by the Board as having the required credit ratings. The Group's exposure to credit risk from these financial instruments is limited because it does not expect the non-performances of the obligations contained therein due to the high credit ratings of the financial institutions concerned. The Group does not require any collateral or security to support these financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

MANAGEMENT COMMENTARY (CONT'D)

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

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

The funds generated enabled the Group to not only repay all of the Group's bank debt outstanding as at that date but also put it into a significant cash surplus position at balance date to enable it to fund its transformation and provide it with sufficient liquidity to settle its ongoing financial obligations for at least 12 months after the date of issuing these consolidated financial statements.

As discussed at note 4c (Banking facilities and loans and borrowings) to the consolidated financial statements, the Group continues to maintain, among other things, transactional banking facilities with its Bank and will look to raise for discussions with the Bank the reinstatement of committed credit lines to cover working capital requirements as the Group progresses through its transformation journey.

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 90.

Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and payables are denominated. All entities in the Group have New Zealand dollars (\$) as their functional currency.

The Group enters into foreign currency contracts within policy parameters to manage the risk associated with forecast sales and purchases. The Group's policy allows management to hedge up to 12 months forecast sales and purchases without prior approval of the Board having first been obtained.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes and requires that exposures to foreign currency risks, and details of all outstanding derivative instruments, are reported to and reviewed by the Board on a monthly basis.

The Group applies a hedge ratio of 1:1. The method used to assess hedge effectiveness is Critical Match Terms whereby the hedging instrument and the hedged item are matched to the key terms. In the hedge relationship, the main cause of ineffectiveness includes a change in the critical terms, for example, the timing of the transaction.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

MANAGEMENT COMMENTARY (CONT'D)

Interest rate risk

Prior to the repayment of bank debt in December 2020, interest rate swaps were entered into to hedge a proportion of the Group's exposure to interest rate fluctuations by ensuring that there was an appropriate mix, after having regard to the circumstances prevailing at the time, of fixed and floating rate exposure within the Group's total loans and borrowings.

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

The Group's policy allows management to hedge up to between 25% and 75% of the Group's core loans and borrowings without the prior approval of the Board having first been obtained.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.

QUANTITATIVE DISCLOSURES

Credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographic regions is as follows:

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

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

	Current	0 – 30 days past due	31 – 120 days past due	More than 120 days past due	Total
2022					
Expected loss rate	0%	0%	0%	7%	
Gross carrying amount – trade and other receivables	9,885	930	291	84	11,190
Loss allowance	–	–	–	(6)	(6)
2021					
Expected loss rate	0%	0%	0%	18%	
Gross carrying amount – trade and other receivables	10,379	1,149	293	73	11,894
Loss allowance	–	–	–	(13)	(13)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

QUANTITATIVE DISCLOSURES (CONT'D)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

QUANTITATIVE DISCLOSURES (CONT'D)

Liquidity risk

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

	Statement of consolidated financial position \$000	Total contractual cash flows \$000	Timing of contractual cash flows				
			6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	Greater than 5 years \$000
2022							
Trade payables	10,766	10,766	10,766	–	–	–	–
Lease liabilities	19,758	26,537	1,427	1,408	2,735	5,726	15,241
Total non-derivative liabilities	\$30,524	\$37,303	\$12,193	\$1,408	\$2,735	\$5,726	\$15,241
Forward exchange contracts							
Inflow		(41,693)	(13,534)	(12,147)	(16,012)	–	–
Outflow		42,240	13,914	12,251	16,075	–	–
	686	547	380	104	63	–	–
Net derivative liabilities/(assets)	\$686						
Disclosed in consolidated statement of financial position							
Current assets	(8)						
Current liabilities	694						
Net derivative liabilities/(assets)	\$686						
2021							
Trade payables	11,658	11,658	11,658	–	–	–	–
Lease liabilities	21,533	28,429	1,522	1,458	2,766	5,607	17,076
Total non-derivative liabilities	\$33,191	\$40,087	\$13,180	\$1,458	\$2,766	\$5,607	\$17,076
Forward exchange contracts							
Inflow		(22,762)	(14,113)	(8,649)	–	–	–
Outflow		22,666	14,062	8,604	–	–	–
	(75)	(96)	(51)	(45)	–	–	–
Net derivative (assets)/liabilities	(\$75)						
Disclosed in consolidated statement of financial position							
Current assets	(109)						
Current liabilities	34						
Net derivative (assets)/liabilities	(\$75)						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

QUANTITATIVE DISCLOSURES (CONT'D)

Foreign currency risk

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

NZD equivalent of these currencies	AUD \$000	USD \$000	EUR \$000	Others \$000
2022				
Trade receivables	4,715	300	–	–
Trade payables	(1,596)	(1,001)	(94)	(13)
Net consolidated statement of financial position exposure before hedging activity	3,119	(701)	(94)	(13)
Estimated forecast sales for which hedging is in place	38,574	–	–	–
Net cash flow exposure before hedging activity	41,693	(701)	(94)	(13)
Forward exchange contracts				
Notional amounts	(41,693)	–	–	–
Net unhedged exposure	–	(\$701)	(\$94)	(\$13)
2021				
Trade receivables	5,997	431	6	–
Trade payables	(2,146)	(274)	–	(9)
Net consolidated statement of financial position exposure before hedging activity	3,851	157	6	(9)
Estimated forecast sales for which hedging is in place	18,911	–	–	–
Net cash flow exposure before hedging activity	22,762	157	6	(9)
Forward exchange contracts				
Notional amounts	(22,762)	–	–	–
Net unhedged exposure	–	\$157	\$6	(\$9)

Interest rate risk – re-pricing analysis

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

	Total \$000	6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	Greater than 5 years \$000
2022						
Financial assets and liabilities						
Cash and bank	14,874	14,874	–	–	–	–
2021						
Financial assets and liabilities						
Cash and bank	22,508	19,508	3,000	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

SENSITIVITY ANALYSIS

In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, changes in foreign exchange and interest rates will have an impact on profit.

For foreign exchange contracts that continue to meet the hedge accounting criteria at the balance sheet date to hedge foreign exchange exposures, it is estimated that a general change in the value of the New Zealand dollar against other foreign currencies as set out below would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2022 and 2021. The impact on equity, net of tax, for these foreign exchange contracts, is disclosed in the table below:

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

There were no foreign exchange contracts that do not meet the hedge accounting criteria at the balance sheet date.

The impact of a change in interest rates by one percentage point on the Group's profit or loss and OCI is set out as follows:

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

HEDGING

Interest rate hedges

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

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

Forecast transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

HEDGING (CONT'D)

The following relates to items designated as hedging instruments:

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

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

² Hedge ratio 1:1

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

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

² Hedge ratio 1:1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

CLASSIFICATION AND FAIR VALUES

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

	Hedging instruments \$000	Amortised cost \$000	Total carrying amount \$000	Fair value hierarchy Level 2 \$000
2022				
Assets				
Derivative financial instruments	8	–	8	8
Cash and bank	–	14,874	14,874	
Trade and other receivables	–	11,184	11,184	
Advances to employees	–	160	160	
Total assets	\$8	\$26,218	\$26,226	
Liabilities				
Lease liabilities	–	17,820	17,820	
Employee benefits	–	720	720	
Total non-current liabilities	–	18,540	18,540	
Derivative financial instruments	694	–	694	694
Trade payables and accruals	–	12,210	12,210	
Employee benefits and entitlements	–	5,429	5,429	
Lease liabilities	–	1,938	1,938	
Total current liabilities	694	19,577	20,271	
Total liabilities	\$694	\$38,117	\$38,811	
	Hedging instruments \$000	Amortised cost \$000	Total carrying amount \$000	Fair value hierarchy Level 2 \$000
2021				
Assets				
Derivative financial instruments	109	–	109	109
Trade and other receivables	–	11,881	11,881	
Cash and bank	–	22,508	22,508	
Total assets	\$109	\$34,389	\$34,498	
Liabilities				
Lease liabilities	–	19,530	19,530	
Employee benefits	–	776	776	
Total non-current liabilities	–	20,306	20,306	
Derivative financial instruments	34	–	34	34
Trade payables and accruals	–	13,064	13,064	
Employee benefits and entitlements	–	5,339	5,339	
Lease liabilities	–	2,003	2,003	
Total current liabilities	34	20,406	20,440	
Total liabilities	\$34	\$40,712	\$40,746	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

CLASSIFICATION AND FAIR VALUES (CONT'D)

There were no financial assets or liabilities with fair values classified as Level 1 or Level 3 in the fair value hierarchy.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

Non-derivative financial instruments comprise trade and other receivables, cash and bank and trade and other payables. Non-derivative financial instruments are recognised initially at fair value, inclusive of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

DETERMINATION OF FAIR VALUES

The fair value of an asset or a liability is measured on a recurring basis. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

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

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

7. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

MASTER NETTING OR SIMILAR AGREEMENTS

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Consolidated Statement of Financial Position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrences of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised derivatives that are subject to master netting agreements:

	2022		2021	
	Derivative assets \$000	Derivative liabilities \$000	Derivative assets \$000	Derivative liabilities \$000
Gross amounts in the consolidated statement of financial position	8	(694)	109	(34)
Amounts offset	–	–	–	–
Net amounts in the consolidated statement of financial position	8	(694)	109	(34)
Related amounts that are not offset based on ISDA	(8)	8	(34)	34
Net amounts	–	(\$686)	\$75	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS

This section includes the remaining information relating to the consolidated financial statements which is required to be disclosed to comply with financial reporting standards.

8a. LEASES

This note provides information for leases where the Group is a lessee.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Right-of-use assets

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

Lease liabilities

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

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

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

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

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Depreciation charge in respect of right-of-use assets

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

Interest expense (included in finance costs)	\$990	\$675
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Expense relating to short-term leases (included in cost of goods sold and administration expenses)	\$594	\$459
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Expense relating to leases of low-value assets that are not disclosed above as short-term leases (included in administrative expenses)	\$71	\$28
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AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

Total cash outflow for leases	\$3,031	\$2,419
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8a. LEASES (CONT'D)

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

Accounting policies

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

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

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

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- make good costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of plant and equipment and motor vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8a. LEASES (CONT'D)

EXTENSION OPTIONS

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

Estimates, judgements and assumptions

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

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

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

As at balance date, potential future cash outflows of \$19,803,000 (undiscounted) in respect of leases of buildings have not been included in the determination of lease liability because it is not reasonably certain that these leases will be extended (2021: \$19,803,000).

The lease term is reassessed if an extension option is actually exercised. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. The Group did not revise its assessment of reasonable certainty with respect to extension options during the year (2021: Nil).

8b. SHARE-BASED PAYMENT

DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENT

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

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

The Bremworth Equity Plan provides for eligible employees to be issued shares in the Company on terms determined by the Board and as set out in the rules of the Bremworth Equity Plan and includes the provision of a full recourse loan by the Company to those eligible employees to fund the amount payable for the shares issued to them.

The Bremworth Option Scheme provides for selected employees to be awarded options to acquire ordinary shares at a fixed price, with the options becoming exercisable over time in accordance with a vesting schedule or on certain liquidity events as defined in the rules of the Bremworth Option Scheme.

The Company issued two tranches of options under the Bremworth Option Scheme to the Chief Executive Officer during the year ended 30 June 2022, with 480,000 options on 10 September 2021 and a further 520,000 options on 8 April 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

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

DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENT (CONT'D)

The Company also issued 500,000 fully paid up ordinary shares pursuant to the terms of the Bremworth Equity Plan to the Chief Executive Officer on 10 September 2021, with the consideration for the shares of \$208,050 funded by way of an interest-free, full-recourse, loan provided by the Company to the Chief Executive Officer.

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

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

The Company has determined that the shares issued under the Bremworth Equity Plan, the options issued under the Bremworth Option Scheme and the Rights issued under the LTI Scheme to be equity-settled share-based payment arrangements pursuant to NZ IFRS 2 Share-based Payment, with the participants not able to request payment in cash.

MEASUREMENT OF FAIR VALUE OF OPTIONS GRANTED UNDER THE BREMWORTH OPTION SCHEME

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

Specifically, the Monte Carlo simulation is used as follows:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

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

OUTSTANDING OPTIONS UNDER THE BREMWORTH OPTION SCHEME

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

The maximum number of shares that will be issued in respect of these 1,000,000 options is 1,000,000 shares, with the options becoming exercisable over time in accordance with a vesting schedule or on certain liquidity events as defined in the rules of the Bremworth Option Scheme.

OUTSTANDING RIGHTS UNDER THE LTI SCHEME

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

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

The number of shares to be issued is dependent on the extent to which TSR exceeds 14% per annum compounding over the performance period and the share price at condition date, except that the number of shares issued to all participants will not, together with shares issued under NZX Listing Rule 4.6.1 over the previous 12 months, exceed 3% of the total number of shares on issue at condition date.

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

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

MAXIMUM NUMBER OF SHARES THAT COULD BE ISSUED UNDER THE BREMWORTH OPTION SCHEME AND THE LTI SCHEME

The following table summarises the maximum number of shares that could be issued under the Bremworth Option Scheme and the LTI Scheme as at balance date:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

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

IMPACT OF SHARE-BASED PAYMENT ARRANGEMENTS ON THE FINANCIAL STATEMENTS

The assessed fair value of the options and Rights at grant date are recognised as an expense in profit or loss over the period from date on which the participant started rendering service or the grant date (whichever is the earlier), adjusted to reflect only those options and Rights where the service condition will be met, with corresponding entries to the share-based-payment reserve within equity.

The following were recognised in administration expenses in the Consolidated Statement of Profit or Loss for the year ended 30 June 2022:

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

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

INTEREST-FREE FULL-RECOURSE LOAN

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

8c. PROVISIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8c. PROVISIONS (CONT'D)

WORKPLACE ACCIDENTS

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

MAKE GOOD

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

WARRANTIES

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2022 and 2021. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group.

The Group has no history of material warranty claims in respect of non-carpet products sold. As a consequence, no provision for warranties is required in respect of these other products.

The amount of warranty costs recognised as an expense directly to the Consolidated Statement of Profit or Loss during the year totalled \$1,024,000 (2021: \$852,000).

Warranties relating to the sale of carpet are standard warranties. The Group does not offer extended warranties that would be subject to a separate performance obligation.

CLAIMS

The provision for claims relates to the estimated cost to settle claims received during the year ended 30 June 2022 for products supplied by a previously-owned business unit, with these claims yet to be resolved at balance date (2021: Nil).

Accounting policies

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Estimates, judgements and assumptions

Provision for warranties requires judgement to be applied by considering a range of factors including the nature and extent of historical claims data associated with similar products sold by the Group, the terms of the warranties built into supply contracts, consumer protection laws in key markets and the corrective actions being taken to address quality issues at production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8d. EMPLOYEE BENEFITS

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

Accounting policies

Short-term employee benefits are expensed as the related services are provided.

Long-term employee benefits relate to long service leave that is not expected to be settled within 12 months after the end of the annual reporting period in which the employees render the service that gives rise to the benefit. The Group's net obligation is the amount of future benefit employees have earned in return for their service in the current and prior years. The complexity and length of the long service leave arrangement requires the use of actuarial assumptions, such as salary increases and inflation, in order to calculate the present value of the obligation. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting and discounted at the appropriate rate to determine its present value.

Estimates, judgements and assumptions

The Group appointed Deloitte to assist with the Group's assessment of its liability for long service leave as at 30 June 2022, with Deloitte using a Projected Unit Credit (PUC) method to value employees' entitlements to long service leave.

This method involves a monthly projection of the long service leave entitlement for each employee to retirement age. The expected entitlement payment at each point over the projection period is calculated using assumptions about likely resignation, retirement, mortality and disability for each employee. Using employee data provided by the Company, Deloitte were able to estimate the value of the long service leave liability as at balance date.

8e. CONTINGENCIES

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling \$2,248,000 (2021: \$2,418,000).

Some subsidiaries in the Group are parties to a cross guarantee in favour of the Bank securing each other's obligations, with the property-owning companies in the Group also granting in favour of the Bank first-ranking mortgages in respect of land and buildings as security for all obligations of the Group to the Bank.

The Group's indebtedness under the cross guarantee at balance date amounted to nil (2021: Nil).

The Group received claims during the year ended 30 June 2022 for products supplied by a previously-owned business unit, with the estimated cost to settle these claims provided for at balance date. It is not possible to estimate the financial impact of any further claims given there is insufficient history to inform the extent or the timing of any future claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8f. RELATED PARTIES

TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL

For the purposes of this note, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

As shareholders

One of the Directors is a shareholder in the Company. The Chief Executive Officer is also a shareholder in the Company by virtue of the fully paid up ordinary shares issued to, and held by, him pursuant to the Bremworth Equity Plan with more information found in note 8b (Share-based payment) to the consolidated financial statements.

Their shares rank pari passu with all the other ordinary shares in the capital of the Company and do not therefore confer additional rights to dividends paid or to attend or vote at any meetings of the shareholders of the Company.

As lenders or borrowers

There were no loans to, or from, the Directors and key management personnel during the year ended 30 June 2022 (2021: Nil), except as further disclosed below.

An interest-free, full-recourse, loan of \$208,050 was provided to the Chief Executive Officer during the year pursuant to the terms of the Bremworth Equity Plan, with the proceeds of that loan applied towards the amount payable for the 500,000 fully paid up ordinary shares issued to the Chief Executive Officer under the Bremworth Equity Plan. More information can be found in note 8b (Share-based payment) to the consolidated financial statements.

Directors' remuneration and benefits

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

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

The scale of fees payable to the Directors was last reviewed and approved by the Board in January 2019, with the current scale of fees applying with effect from 1 January 2019 set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	\$128,100	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive directors	\$61,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	\$10,000	In recognition of additional time and responsibilities as Chairman of Audit Committee
Chairman of the Remuneration Committee	\$5,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8f. RELATED PARTIES (CONT'D)

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

Directors' remuneration and benefits (cont'd)

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

G C W Biel, a long-serving Director, was paid a lump sum retiring allowance pursuant to an arrangement that was contained in the Company's constitution on his retirement from the Board on 25 November 2021. The amount of this retiring allowance, which was set in November 2007, is \$96,000. The Company decided at that time that retiring allowances would no longer be offered in respect of new Directors appointed to the Board.

The Group notes that the Directors are precluded by the NZX Listing Rules from voting at general meetings of shareholders on certain matters prescribed by the New Zealand Exchange. These matters include, in the case of the Directors who are also shareholders, shareholders' approval of directors' fees.

Key management personnel's (including the Chief Executive Officer's) remuneration and benefits

In addition to salaries and performance-based payments, the Group also provides non-cash benefits to the Chief Executive Officer of the Company and key management personnel of the Group.

These non-cash benefits may include the provision of motor vehicles, income protection insurances, life insurances and medical insurances. In assessing the value of the non-cash benefit provided to the Chief Executive Officer and key management personnel, the Group has used the value of the benefit that is used for calculating fringe benefit tax plus the fringe benefit tax that is paid or payable.

The remuneration paid and payable, and the benefits provided, to the Chief Executive Officer and key management personnel (but excluding the Directors' remuneration and benefits) comprised:

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

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

Pursuant to the terms of employment of the Chief Executive Officer, the Company agreed to issue the Chief Executive Officer with 500,000 ordinary shares under the terms of the Bremworth Equity Plan (as discussed in detail at note 8b (Share-based payment) to the consolidated financial statements), with the issue of these shares to take place at the time of the appointment of the Chief Executive Officer.

However, because of a delay in the issue of those shares to the Chief Executive Officer and the increase in the Bremworth share price between the time of his appointment on 23 June 2021 and the time the shares were issued to him on 10 September 2021, the Chief Executive Officer was liable for the tax on the difference between the market price of Bremworth shares on issue date and the price those shares were issued to him at.

In keeping with the agreement that was reached with the Chief Executive Officer, the Board approved a one-off payment to the Chief Executive Officer in September 2021 of \$127,317 to keep the Chief Executive Officer neutral in respect of the tax that he had to pay as a consequence of the delay.

That amount of \$127,317 is recognised in administration expenses in the Consolidated Statement of Profit or Loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8f. RELATED PARTIES (CONT'D)

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

Other transactions

The Group deals with many entities and organisations in the normal course of business. The Group is not aware of any of the Directors, the Chief Executive Officer or key management personnel, or their related parties, holding positions in any of these entities or organisations that result in them having control or significant influence over the financial or operating policies of these entities or organisations.

The Group does not transact with the Directors, the Chief Executive Officer or key management personnel, and their related parties, other than in their capacity as directors and employees, except that they may purchase goods from the Group for their own domestic use. These purchases are on the same terms and conditions as those applying to all employees of the Group and are immaterial and personal in nature.

8g. GROUP ENTITIES

OPERATING SUBSIDIARIES OF THE GROUP

	Principal activity	Country of incorporation	Interest (%) 2022	Interest (%) 2021
Bremworth Carpets and Rugs Limited (previously Bremworth Limited)	Carpet sales and manufacturing	New Zealand	100	100
Bremworth Pty Limited (previously Cavalier Bremworth Pty Limited)	Carpet sales	Australia	100	100
Cavalier Bremworth (Australia) Limited	Carpet distribution	New Zealand	100	100
Bremworth Spinners Limited (previously Cavalier Spinners Limited)	Carpet yarn sales	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100

8h. EVENTS AFTER BALANCE DATE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8i. COVID-19

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

8. OTHERS (CONT'D)

8j. CLIMATE-RELATED DISCLOSURES

The Group has considered the impact of climate-related risks on the business and on its future financial performance, financial position and cash flows as part of the sustainability framework that has been adopted under the Group's transformation strategy to becoming an all-wool and natural materials organisation.

These risks are broadly as follows:

- the exposure to carbon pricing and its impact on the cost of natural gas, with the Group's reliance on natural gas at its carpet manufacturing plant in Auckland and its carpet yarn manufacturing plants in Napier and Whanganui;
- the exposure to the effects of climate change through adverse climatic conditions (for example, flooding) and, in time, rising sea levels, with both the Napier and Whanganui sites within close proximity of the coast.

In relation to the exposure to carbon pricing, the Group has in place decarbonisation projects that are aimed at directly reducing our reliance on natural gas in our manufacturing processes while also ensuring that its electricity provider is, by design, a fully renewable generator of electricity.

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


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

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

8k. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS

There are no new, or pending, standards or amendments to existing standards which have, or are expected to have, a material impact on the Group.



A photograph of a modern interior with a black chair, a rug, and a vase on a shelf.

GOVERNANCE & OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2022

Let's Go Good Together



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GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

A summary of Bremworth’s governance actions and performance against each of the principles in the NZX Corporate Governance Code and its compliance with the recommendations relating to each of these principles are set out on pages 113 to 130.

PRINCIPLE 1 — CODE OF ETHICAL BEHAVIOUR

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

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

Whistleblowing

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

Conflicts of interest

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

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

Bremworth does not donate to political parties.

The Directors’ interest disclosures can be found on pages 131 and 132.

Share trading policy

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

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

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE

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

Delegation

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

Board composition

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

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

Grant Biel, a long-standing Director and co-founder of the carpet business, retired from the Board at the conclusion of the 2021 Annual Meeting held on 25 November 2021. Grant was appointed the Company's first-ever Director Emeritus by the Board on his retirement and continues to make himself available to the Board and to the Company.

Katherine Turner was appointed as an independent Director on 24 February 2022 and will be putting herself forward for election as a Director at the November 2022 Annual Meeting. Katherine is a highly experienced finance executive and respected leader and a qualified Chartered Accountant. She is a member of the NZ Institute of Directors and is a Trustee for Lite-foot, a non-profit organisation combining sport and sustainability.

Katherine has held a variety of senior finance and commercial roles in medium and large multinational companies, including Fonterra and Danone. She is currently Vice President Finance for TOMRA Fresh Food and prior to this was Chief Financial Officer at Sanford Limited for three years.

As at 30 June 2022, the Board comprised five Directors – George Adams (Chairman), Paul Izzard, John Rae, Katherine Turner and Dianne Williams.

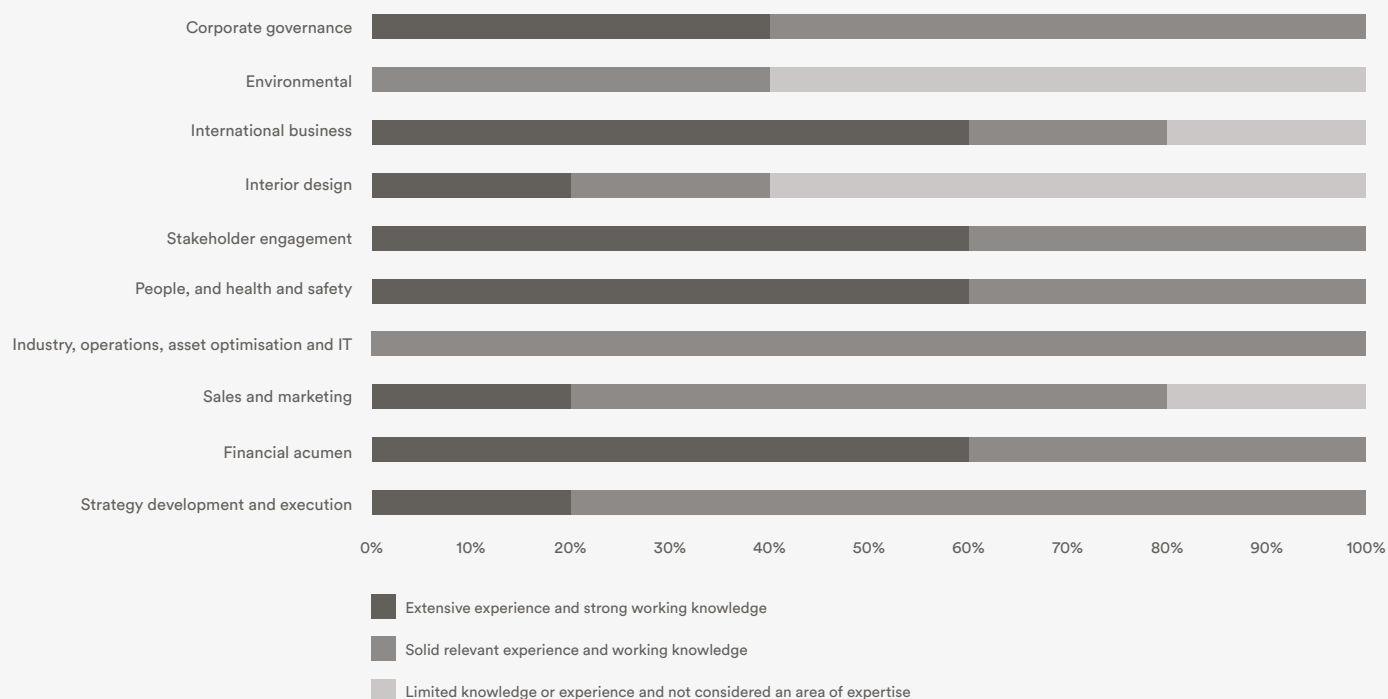
The profile of the Directors can be found on pages 26 and 27.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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

Directors' skills matrix as at 30 June 2022



Director independence

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

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

George Adams, Paul Izzard, John Rae, Katherine Turner and Dianne Williams have been determined to be independent Directors of the Company as at 30 June 2022.

Director appointment

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

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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

Director appointment (cont'd)

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

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

The Company has written agreements with all Directors establishing the terms of their appointment.

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

Director training, access to information and advice

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

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

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

Evaluation of Director, Board and committee performance

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

Attendance at meetings

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

The table below sets out Director attendances at Board, Board committee and shareholder meetings for the year ended 30 June 2022.

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Shareholder
Total held	12	6	1	5	1
Attendances:					
George Adams	12/12	6/6	1/1	5/5	1/1
Grant Biel ¹	6/6	3/3	Not applicable	Not applicable	1/1
Paul Izzard	12/12	5/6	Not applicable	4/5	1/1
John Rae	11/12	5/6	1/1	5/5	1/1
Katherine Turner ²	5/5	3/3	Not applicable	4/4	Not applicable
Dianne Williams	12/12	6/6	1/1	5/5	1/1

¹ Grant Biel retired as a Director on 25 November 2021

² Katherine Turner was appointed a Director on 24 February 2022

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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

Diversity and Inclusion Policy

Bremworth is committed to creating an inclusive and high performing culture to drive business engagement and success. Bremworth aims to reflect the communities we operate in. We embrace and capitalise on innovation which starts with listening and learning. Fundamental elements of our philosophy include:

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

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

The key areas of focus are:

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

Through our transformation initiatives, Bremworth has been growing its internal pipeline of talent and focusing on bringing women into supervisory and technical roles. This includes a number of women in engineering and science and/or research-based roles.

A number of initiatives are in place to support diversity and the Board believes the principles in the Policy were adhered to in the 2022 financial year.

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

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

	30 June 2022			30 June 2021		
	Male	Female	Total	Male	Female	Total
Directors	3/60%	2/40%	5/100%	4/80%	1/20%	5/100%
Officers ¹	8/80%	2/20%	10/100%	7/70%	3/30%	10/100%
Direct reports of officers	39/59%	27/41%	66/100%	39/57%	29/43%	68/100%
Rest of organisation	211/60%	143/40%	354/100%	227/62%	138/38%	365/100%
Total	261/60%	174/40%	435/100%	277/62%	171/38%	448/100%

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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

Diversity and inclusion policy (cont'd)

Age composition	30 June 2022		30 June 2021	
	Number	%	Number	%
Under 30 years of age	77	18	74	17
30 to 50 years of age	165	38	181	40
Over 50 years of age	193	44	193	43
Total	435	100	448	100

In 2022, two targeted development programmes were launched as part of implementing our people capability and development pillar. These are an anthropology-based culture and leadership development programme Te Ara Rangatira, and the technical development programme Poutama. A further cornerstone of our capability development focusses on providing opportunities to be part of cross-functional project teams.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 3 — BOARD COMMITTEES

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

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

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

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

Bremworth's Board committees as at 30 June 2022 were:

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

Independent Takeover Committee

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

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

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 4 — REPORTING AND DISCLOSURE

Continuous disclosure

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

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

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

Financial reporting

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

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

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

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

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

Non-financial reporting

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

Bremworth's vision is to become a global leader in designing and creating desirable, sustainable, safe and high performing natural interiors with its purpose to find a more sustainable way. This includes enhancing consumer wellbeing by producing innovative products in an economically inclusive, socially just and environmentally restorative way, while also being conscious to how its activities affect employees, contractors, communities and the environment in which it operates.

Insight into Bremworth's assessment of its business, strategy and performance as well as the progress of its transformational shift towards becoming a design-led wool-focused company can be found on pages 2 to 43.

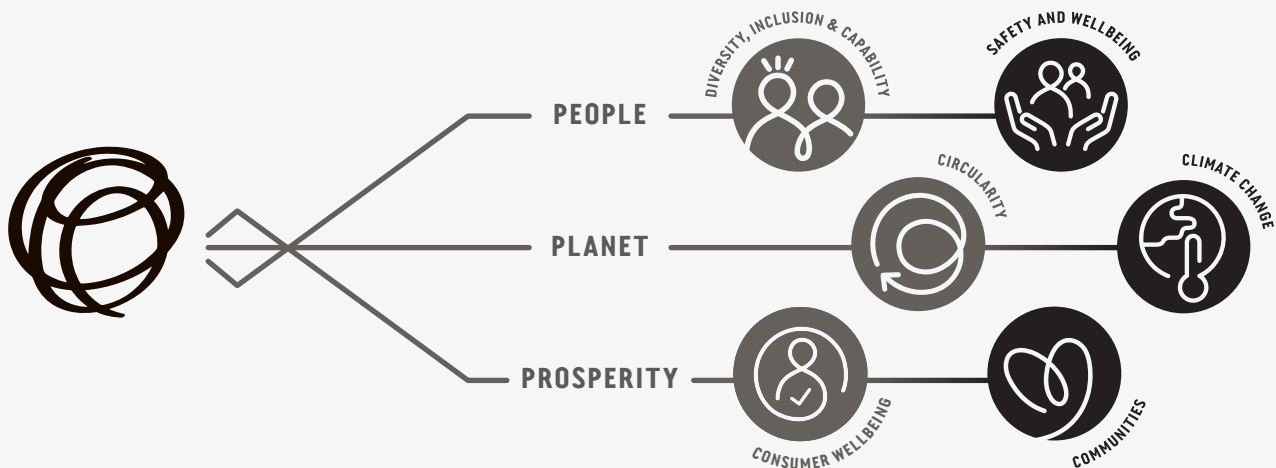
A detailed framework addressing the Company's environmental and social responsibilities was developed over the 2020 financial year, with a new Sustainability division established. The development of this division and addition of key technical specialists has continued over the 2022 financial year. The business follows the integrated People, Planet and Prosperity framework with key pillars detailed below.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 4 — REPORTING AND DISCLOSURE (CONT'D)

Non-financial reporting (cont'd)



The Board is pleased to be able to share with shareholders the progress for the 2022 financial year as the Company continues to build its programme of formal measuring and monitoring of these key areas within the context of our business.

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

This three-year programme is grounded on the sustainability principles of People, Planet and Prosperity and focuses on three main work streams:

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

Part of this work has included a detailed analysis of the supply chain with particular regard to the risk of modern slavery as well as minimising environmental impact through selection of raw materials. In accordance with the Australian Modern Slavery Act 2018, Bremworth voluntarily developed its first Modern Slavery Statement during the 2022 financial year.

Implementation of technology-based initiatives including the development of a manufacturing based digital twin model have enabled detailed mapping of key environmental measures such as carbon, waste and energy. A virtual tour of each of the yarn plants has also been developed to support our capability-based programmes.

Proof of progress in this programme is further illustrated through the innovative rug project where sustainability and design concepts are prototyped to explore opportunities to incorporate these concepts into commercial application. Our first rugs were produced and are showcased on pages 11 and 15 with further rugs currently under development.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 4 — REPORTING AND DISCLOSURE (CONT'D)

Non-financial reporting (cont'd)

After completing a decarbonisation opportunities assessment and pathway in 2021, the Company has committed to two decarbonisation projects during the year.

The first, a \$2.5 million project at the Napier carpet yarn spinning plant, seeks to reduce its reliance on natural gas process heat through process heat optimisation and transitioning to electric high temperature heat pump technology. This project is being 38% co-funded under various funding programmes, including \$798,000 from the GIDI (Government Investment in Decarbonising Industry) Fund administered by the Energy Efficiency and Conservation Authority (EECA). This initiative is expected to continue into the year ending 30 June 2024.

The second decarbonisation initiative at the Whanganui carpet yarn spinning plant, which is also being co-funded by EECA, will see a gas-fired dryer replaced with an alternative radio frequency dryer for use in felted yarn production. This project is expected to cost \$0.4 million, with the EECA co-funding agreed at 40%, and will run over the years ending 30 June 2023 and 30 June 2024.

The business will continue to advance its climate change response by assessing adaptation opportunities and requirements over the next financial year, as well as developing further projects on its decarbonisation pathway.

Bremworth recognises the role of farm standards, animal welfare, regenerative agriculture, and the value that long-term contracts provide to farming communities. All Bremworth wool is sourced from New Zealand farms. Bremworth continues to pursue appropriate certification of its wool supply to ensure traceability and transparency in the supply chain.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 5 — REMUNERATION

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

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

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

Directors' remuneration

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

The remuneration payable to the Directors was last reviewed and approved by the Board on 18 January 2019, with the current scale of Directors' remuneration applying from 1 January 2019 set out on page 105 (note 8f (Related parties) to the consolidated financial statements).

The total remuneration paid to the Directors for the year ended 30 June 2022 was \$371,940, with the details paid to each Director set out on page 133.

Remuneration Strategy

Bremworth's remuneration strategy is:

- aligned with its recruitment and leadership development philosophies and its approaches to performance management to ensure the attraction, development and retention of talented individuals; and
- underpinned by a pay-for-performance philosophy and utilises annual performance incentives to provide opportunities for individuals to achieve market competitive remuneration levels and in the case of superior performance, total remuneration above market.

CEO and executive remuneration

The CEO and executive remuneration packages are made up of three key components – being fixed remuneration (in the form of fixed base salary plus fringe benefits), variable short-term performance incentives and long-term performance incentives.

Fixed remuneration

Bremworth's philosophy with respect to fixed remuneration is to ensure that all employees are fairly and equitably remunerated relative to similar businesses and positions within the New Zealand market.

Fixed remuneration levels are reviewed annually for market competitiveness and alignment with strategic priorities and performance outcomes and to ensure:

- our employees are strongly motivated to deliver shareholder value;
- the Company is able to attract and retain high-performing employees who will ensure the achievement of business objectives; and
- the provision of benefits and allowances that contribute to the health and well-being of our employees.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 5 — REMUNERATION (CONT'D)

Short-term performance incentives

Short-term performance incentives are at-risk payments that are designed to motivate and reward performance during a financial year, with targets set by the Board having regard to strategic priorities and desired performance outcomes from time to time.

Short-term performance incentives include both Company targets and individual targets, with minimum thresholds in place for both of these. Eligibility to short-term performance incentives is conditional on these thresholds being achieved in the first instance, with pay outs dependent on the extent to which actual performance exceeds the targets determined by the Board.

The Company targets for the 2022 financial year and the 2023 financial year include both revenue and profitability, with each of these given equal weightings.

Individual targets (and the clear measures underlying these targets to determine achievement or non-achievement in any one year) are set having regard to the roles and responsibilities held by the CEO and each member of the senior leadership team and as agreed with the Board (in the case of the CEO) and with the CEO (in the case of the senior leadership team) at the start of the relevant financial year.

Short-term incentives entitlements for on-target performance and over-performance are set out in the table below:

	Entitlement for on-target performance	Maximum entitlement for over-performance
CEO	40% of base salary	60% of base salary
Member of the senior leadership team	20% of base salary	30% of base salary

Long-term performance incentives

Bremworth's long-term performance incentives are designed to align the interests of the CEO and members of the Bremworth senior leadership team with those of shareholders, and to incentivise them to enhance long-term shareholder value, through share-based payment arrangements.

These long-term incentives include:

- the issue of performance rights in December 2020 to selected senior executive employees (including the CEO at the time) under a long-term incentive scheme; and
- the issue of shares and options in September 2021 and April 2022 respectively to the incoming CEO pursuant to the Bremworth Equity Ownership Plan and the Bremworth Share Option Scheme respectively.

More information on these long-term incentives can be found on pages 99 to 102 (note 8b (Share-based payment) to the consolidated financial statements).

Plans to introduce the Bremworth 2022 Long Term incentive Scheme ("2022 LTI Scheme") are well advanced.

The 2022 LTI Scheme will provide for the allocation of shares, annually, to such selected members of the senior leadership team ("the Participants") as the Board shall determine as part of the Participants' total remuneration package, with:

- the market value of the shares to be allocated to the Participants equal to 20% of base salary of the Participants; and
- these shares to vest at the end of the three-year performance period subject to the fulfilment of the performance conditions set down by the Board.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 5 — REMUNERATION (CONT'D)

CEO's remuneration

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

The CEO's remuneration comprises a fixed base salary, a variable short-term incentive that is payable annually subject to attainment of targets, awards under the Bremworth Equity Ownership Plan (Bremworth Equity Plan) and the Bremworth Share Option Scheme (Bremworth Option Scheme) and other benefits (including fringe benefits and holiday pay entitlements).

The targets under the short-term incentive plan include growth in revenue and/or profitability as well as the delivery of strategy, health and safety, leadership and culture outcomes as agreed with the CEO at the commencement of the period, with 40% of fixed base salary payable for on-target performance under the plan.

The Company issued two tranches of options under the Bremworth Option Scheme to the CEO during the year ended 30 June 2022, with 480,000 options on 10 September 2021 and a further 520,000 options on 8 April 2022.

The Company also issued 500,000 fully paid up ordinary shares pursuant to the terms of the Bremworth Equity Plan to the CEO on 10 September 2021, with the consideration for the shares of \$208,050 funded by way of an interest-free, full-recourse, loan provided by the Company to the CEO.

The remuneration of the CEO can be analysed as follows:

Greg Smith ¹

	Fixed base salary received ²	Short term incentive receivable ^{2,3}	Share-based payments ⁴	Other benefits received or receivable ⁵	Total remuneration
Year ended 30 June 2022	\$530,020	\$130,332	\$265,232	\$201,748	\$1,127,332

¹ Commencement date of employment 26 July 2021

² Inclusive of 3.0% Employer KiwiSaver

³ 40% of fixed base salary payable for on-target performance, with CEO eligible for 24.59%

⁴ Inclusive of fair value of options issued under the Bremworth Option Scheme of \$73,282 and difference between issue price and market price of shares issued under the Bremworth Equity Plan of \$191,950

⁵ Inclusive of fringe benefits, holiday pay entitlement and a one-off payment of \$127,317 as further discussed below

Pursuant to the terms of employment of the CEO, the Company agreed to issue the CEO with 500,000 ordinary shares under the terms of the Bremworth Equity Plan (as discussed in detail at note 8b (Share-based payment) to the consolidated financial statements), with the issue of these shares to take place at the time of the appointment of the CEO.

However, because of a delay in the issue of those shares to the CEO and the increase in the Bremworth share price between the time of his appointment on 23 June 2021 and the time the shares were issued to him on 10 September 2021, the CEO was liable for the tax on the difference between the market price of Bremworth shares on issue date and the price those shares were issued to him at.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 5 — REMUNERATION (CONT'D)

CEO's remuneration (cont'd)

In keeping with the agreement that was reached with the CEO, the Board approved a one-off payment to the CEO in September 2021 of \$127,317 to keep the CEO neutral in respect of the tax that he had to pay as a consequence of the delay.

Paul Alston ⁶

	Fixed base salary received ⁷	Short term incentive receivable ^{7,8}	Termination payment receivable ^{7,9}	Share-based payments ¹⁰	Other benefits received or receivable ¹¹	Total remuneration
Year ended 30 June 2022	\$61,643	Not applicable	Not applicable	Not applicable	\$15,858	\$77,501
Year ended 30 June 2021	\$508,559	\$107,278	\$508,560	–	\$104,467	\$1,228,864
Year ended 30 June 2020	\$508,559	–	Not applicable	Not applicable	\$18,110	\$526,669
Year ended 30 June 2019	\$508,559	–	Not applicable	Not applicable	\$17,708	\$526,267

⁶ Cessation date of employment 13 August 2021

⁷ Inclusive of 3.0% Employer KiwiSaver

⁸ Maximum of 24% of fixed base salary subject to attainment of revenue growth target and delivery of other quantitative and qualitative measures covering the wider business, with CEO eligible for 21.09%

⁹ In lieu of notice and inclusive of an ex-gratia payment

¹⁰ Nil, with fair value of performance rights recognised to 22 April 2021 of \$23,438 reversed as a consequence of the forfeiture of the CEO's performance rights upon his resignation from the Company

¹¹ Inclusive of fringe benefits and holiday pay entitlement

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 6 — RISK MANAGEMENT

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

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

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

The material financial risks facing the business and the management of these risks are discussed at pages 86 to 96 (note 7 (Risks and financial instruments) to the consolidated financial statements) with management reporting on these financial risks to the Board at every scheduled Board meeting.

Health and safety

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

The Policy provides the context, direction and framework within which all other health and safety materials are developed. It is the foundation for managing health and safety risks whilst applying a learning and people-centric lens to our operations and risk management. We take a proactive approach to risk management. Our critical risk framework and controls are key enablers and challenge us to design out risk where possible. To enable our people to thrive, we designed a holistic approach to their safety and wellbeing so that we support our team to be their best selves. Our critical risks are shown below.



OPERATING PLANT/ EQUIPMENT
Fixed plant used in making carpet and yarn.



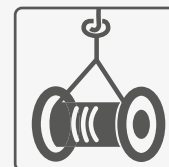
FALLING OBJECTS
Tools or equipment falling from height.



MOBILE PLANT
Powered mobile equipment including moving vehicles, forklifts and elevated work platforms.



WORKING AT HEIGHT
Person falling from one level to another.



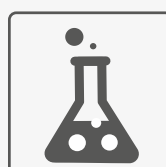
SUSPENDED LOADS
Loads suspended above ground such as hoists and slings.



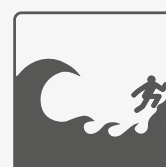
CONFINED SPACES
Areas with limited access and potential to contain a toxic or oxygen-deficient atmosphere.



HAZARDOUS ENERGY SOURCES
Electricity, fuel, pressure and hydraulics.



SUBSTANCES HAZARDOUS TO HEALTH
Substances known or suspected to cause harm to health.



ENVIRONMENT
Environmental conditions and natural disasters.

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 6 — RISK MANAGEMENT (CONT'D)

Health and safety (cont'd)

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

While the Board does not have a Health and Safety Committee, there is a Health and Safety forum which the Board Chairman, as the Board's representative, and the CEO are part of, along with employees from across the whole business. The quarterly Health and Safety forum involves employees from different backgrounds, experience, roles and levels of the organisation. The diversity of thought, demographics and perspectives brought by this group is an important contribution and helps shape the overall Health and Safety programme while also demonstrating our Diversity and Inclusion Policy in action. During lockdown and COVID-19 restrictions, this forum continued online as a valuable engagement and communication vehicle and had a particular emphasis on wellbeing and mental health by design.

This past year has seen several more COVID-19 management initiatives including the implementation of a digital contact-tracing system using individually issued proximity activated cards. This enabled accurate and timely mitigation to minimise exposure to our people.

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

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 7 — AUDITORS

External audit

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

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

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

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

No non-audit services have been provided by the external auditor since their appointment in May 2021.

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

The fees paid to the external auditor for audit work for the years ended 30 June 2021 and 2022 are set out on page 70 (note 3e (Administration expenses) to the consolidated financial statements).

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

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

Internal audit

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

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

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

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLE 8 — SHAREHOLDER RIGHTS AND RELATIONS

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

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

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

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

Shareholder meetings

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

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

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

VARIANCES TO NZX CORPORATE GOVERNANCE CODE

NZX Corporate Governance Code Principle	NZX Corporate Governance Code Recommendation	Key difference	Board's position
2. Board Composition and Performance	2.5: The Board should set measurable objectives for achieving diversity	The Board has not set measurable objectives under the Diversity and Inclusion Policy for achieving diversity	The Board considers diversity outcomes can be achieved without measurable objectives, with the increase in the number of women in middle management over the 2022 financial year demonstrating this approach

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993

FOR THE YEAR ENDED 30 JUNE 2022

DIRECTORS

The Directors of the Company as at 30 June 2022 were:

George Adams
Paul Izzard
John Rae
Katherine Turner
Dianne Williams

Katherine Turner was appointed a Director on 24 February 2022 and Grant Biel retired as a Director on 25 November 2021.

INTERESTS REGISTER

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

Use of company information

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

Remuneration

The scale of remuneration payable to the Directors with effect from 1 January 2019 was approved by the Board of Directors on 18 January 2019 and is set out on page 105 (note 8f (Related parties) to the consolidated financial statements).

Indemnity and insurance

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

The total cost of these policies for the year ended 30 August 2022 was \$125,387 which was considered fair to the Company.

Share dealing

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

Directors' relevant interests in shares in the Company as at 30 June 2022 were:

Dianne Williams

Beneficial	5,000
Other	–

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

INTERESTS REGISTER (CONT'D)

Specific disclosures of interest

No specific disclosures of interest were received during the year.

General disclosures of interest

General disclosures of interest that were current as at 30 June 2022 were:

George Adams	Apollo Foods Limited	Executive Chairman and shareholder
	Mars Manufacturing Limited	Director
	The Apple Press Limited	Director
	Apollo Brands Limited	Director
	Arborgen Holdings Limited	Director
	Hellers Group Holdings Limited	Director
	Insightful Mobility Limited	Chairman and shareholder
	Mix Global Holdings Limited	Chairman
	Essano Limited	Director
	Mix IP Limited	Director
	Netlogix Group Holdings Limited	Chairman
	New Zealand Frost Fans Limited	Chairman
	Business Leaders Health and Safety Forum	Chairman
Worksafe Partners Advisory Group	Member	
Paul Izzard	Paul Izzard Design Limited	Director and shareholder
	Windswept Trust	Trustee
John Rae	Abodo Limited	Chairman of Advisory Board
	Corson Grain Limited	Director
	F J Hawkes & Co. Limited	Director and shareholder
	Gobble Limited	Director and shareholder as nominee
	Jaffa Holdings Limited	Director and shareholder
	Kingyo Foods Limited	Director and shareholder as nominee
	Ngapuhi Asset Holding Company Limited	Chairman
	Thos Corson Holdings Limited	Chairman
	Wet Gisborne Limited	Chairman
	Te Rahui Herenga Waka Whakatane GP	Chairman
JR Family Trust	Trustee	
Katherine Turner	Compac International Limited	Director
	Compac Sorting Equipment Limited	Director
	Compac Technologies Limited	Director
	LENZ Equipment Limited	Director
	Taste Technologies Limited	Director
	Taste Technologies Installations Limited	Director
	Tastemark Limited	Director
	Cresta Properties Limited	Director and shareholder
	Project Litefoot Trust	Trustee
Dianne Williams	Coromandel Pure Honey 2020 Limited	Director and shareholder
	Darden Limited	Director and shareholder
	Darden Holdings Limited	Director and shareholder
	Stepchange Consulting Limited	Director and shareholder
	West Auckland Trust Services Limited	Director

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

DIRECTORS' REMUNERATION

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2022 were:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Other benefits	Total
George Adams	\$128,100	–	–	–	–	\$128,100
Grant Biel ¹	\$24,569	–	–	–	–	\$24,569
Paul Izzard	\$61,000	–	–	–	–	\$61,000
John Rae	\$61,000	\$6,548	–	–	–	\$67,548
Katherine Turner ²	\$21,241	\$3,482	–	–	–	\$24,723
Dianne Williams	\$61,000	–	\$5,000	–	–	\$66,000
Total	\$356,910	\$10,030	\$5,000	–	–	\$371,940

¹ Grant Biel retired as a Director on 25 November 2021

² Katherine Turner was appointed a Director on 24 February 2022

EMPLOYEES' REMUNERATION

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2022 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits (\$)	Number of employees – 2022	Number of employees – 2021
100,000 – 109,999	19	9
110,000 – 119,999	9	10
120,000 – 129,999	7	13
130,000 – 139,999	8	4
140,000 – 149,999	5	5
150,000 – 159,999	3	2
160,000 – 169,999	3	3
170,000 – 179,999	2	2
180,000 – 189,999	–	1
190,000 – 199,999	3	2
200,000 – 209,999	–	1
230,000 – 239,999	3	2
240,000 – 249,999	2	–
250,000 – 259,999	–	2
260,000 – 269,999	2	1
290,000 – 299,999	1	–
300,000 – 309,999	1	–
310,000 – 319,999	–	1
320,000 – 329,999	1	–
470,000 – 479,999	–	1
490,000 – 499,999	1	1
500,000 – 509,999	1	–
1,120,000 – 1,129,999	1	–
1,220,000 – 1,229,999	–	1
Total number of employees	72	61

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2022

DONATIONS

Refer to page 70 (note 3e (Administration expenses) to the consolidated financial statements).

AUDIT FEES

Refer to page 70 (note 3e (Administration expenses) to the consolidated financial statements).

SUBSIDIARY COMPANY DIRECTORS

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

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

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

There were no entries in the interests register in respect of any of the subsidiary company directors. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 133.

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE NZX LISTING RULES

AS AT 31 AUGUST 2022

ANALYSIS OF SHAREHOLDINGS

	Number of shareholders	%	Shares held	%
Size of shareholdings				
Up to 199	101	3.35	8,468	0.01
200 – 499	121	4.01	40,966	0.06
500 – 999	225	7.45	156,314	0.23
1,000 – 1,999	511	16.93	700,354	1.01
2,000 – 4,999	769	25.47	2,362,320	3.41
5,000 – 9,999	500	16.56	3,297,838	4.77
10,000 – 49,999	650	21.53	12,786,508	18.48
50,000 – 99,999	78	2.58	5,037,378	7.28
Over 99,999	64	2.12	44,788,952	64.74
	3,019	100.00	69,179,098	100.00

Location of shareholders

New Zealand	2,903	96.16	68,206,115	98.59
Overseas				
Australia	71	2.35	491,450	0.71
Others	45	1.49	481,533	0.70
	3,019	100.00	69,179,098	100.00

	Shares held	%
Top 20 shareholders		
Rural Aviation (1963) Limited	8,567,642	12.38
Brian Edward Woolf	3,600,000	5.20
FNZ Custodians Limited	2,932,417	4.24
Brigit Kirsten Timpson and Fairlie Ann Milne (Brigit Timpson Family Account)	2,402,680	3.47
Matthew Charles Timpson and Rennie Cox Trustees No 8 Limited (Matthew Timpson Family Account)	2,402,680	3.47
Anthony Talbot Timpson and David John Graeme Cox (Anthony Timpson Family Account)	2,402,679	3.47
Suzanne Rachel Timpson and Fairlie Ann Milne (Suzanne Timpson No 1 Family Account)	2,402,679	3.47
New Zealand Depository Nominee Limited (Account 1 Cash Account)	1,792,388	2.59
Custodial Services Limited (Account 4)	1,280,707	1.85
Gregory John Muir	1,225,000	1.77
Fergus David Elliott Brown	1,000,000	1.45
F B Trustee Limited (Fergus Brown Family Account)	1,000,000	1.45
Ian David McIlraith	940,000	1.36
Masfen Securities Limited	787,500	1.14
Maarten Arnold Janssen	747,516	1.08
Percy Keith McFadzean	715,000	1.03
BNP Paribas Nominees (NZ) Limited	692,652	1.00
Forsyth Barr Custodians Limited (1-Custody)	590,648	0.85
Graham James Munro and Zita Lillian Munro	588,000	0.85
Graeme Paul Spry	519,216	0.75
	36,589,404	52.89

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE NZX LISTING RULES (CONT'D)

AS AT 31 AUGUST 2022

NZX WAIVER LISTING RULE 4.6.1(c)

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

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

This waiver was released by NZ RegCo to the market on the NZX Market Announcement Platform on 8 September 2021 and is also available on the Company’s website www.bremworth.co.nz.

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURES UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013

AS AT 30 JUNE 2022

SUBSTANTIAL HOLDINGS

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

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

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2022 was 69,179,098.

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

GOVERNANCE AND OTHER DISCLOSURES

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Time and date	2 p.m., Monday, 28 November 2022
Venue	Auditorium Auckland War Memorial Museum Auckland Domain Parnell Auckland 1010

CORPORATE CALENDAR

28 November 2022	2022 Annual Meeting of shareholders
31 December 2022	End of 2023 half year
Mid-February 2023	Announcement of 2023 half year result and release of 2023 half year report
30 June 2023	End of 2023 financial year
Late August 2023	Announcement of 2023 annual result
September 2023	Period for director nominations
End of September 2023	Release of 2023 Annual Report

GOVERNANCE AND OTHER DISCLOSURES

TREND STATEMENT

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

GOVERNANCE AND OTHER DISCLOSURES

TREND STATEMENT (CONT'D)

	2022 \$000	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000	2016 \$000
Abnormal items (after tax)							
Impairment of plant and equipment	–	–	(5,095)	(4,413)	–	–	(1,573)
Impairment of right-of-use assets	–	–	(2,094)	–	–	–	–
Impairment of intangible assets	–	–	–	(2,362)	–	–	–
Impending change in legislation relating to tax depreciation on buildings	–	–	2,940	–	–	–	–
Derecognition of deferred tax assets	–	–	(12,891)	–	–	–	–
Restructuring costs ^{1,2}	–	(1,271)	(854)	–	136	(4,542)	(3,222)
Reversal of impairment of fixed assets	–	–	–	–	99	1,083	–
Gain on sale of property	–	2,624	–	–	–	–	2,035
Scour merger costs	–	–	–	–	(128)	(738)	(438)
Gain on merger and dilution of equity-accounted investee	–	–	–	–	–	3,929	–
Loss on sale of interest in, and property held by, equity-accounted investees	–	–	–	(11,884)	–	–	–
Reversal of normalised tax expense	505	–	–	–	–	–	–
Total	\$505	\$1,353	(\$17,994)	(\$18,659)	\$107	(\$268)	(\$3,198)

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

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

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

GOVERNANCE AND OTHER DISCLOSURES

TREND STATEMENT (CONT'D)

	2022	2021	2020	2019	2018	2017	2016
Financial Ratios and Summary							
Use of Funds and Return on Investment							
Return on average shareholders' equity (normalised) - %	4.7%	1.1%	(7.8%)	3.0%	5.7%	(2.7%)	9.3%
Basic earnings per ordinary share (normalised) - cents	2.51	0.55	(5.03)	2.74	5.79	(2.70)	9.19
Diluted earnings per ordinary share (normalised) - cents	2.46	0.54	(5.03)	2.74	5.79	(2.70)	9.19
Financial Structure							
Net tangible asset backing per ordinary share - \$	\$0.40	\$0.36	\$0.47	\$0.72	\$0.94	\$0.87	\$0.92
Equity ratio - %	47.9%	45.6%	48.1%	55.4%	54.3%	48.9%	47.1%
Return to Shareholders							
Dividends paid per ordinary share	-	-	-	-	-	-	-
Share Price							
30 June	\$0.465	\$0.490	\$0.220	\$0.320	\$0.620	\$0.350	\$0.760
52 week high	\$0.850	\$0.490	\$0.380	\$0.680	\$0.630	\$0.950	\$0.770
52 week low	\$0.445	\$0.205	\$0.160	\$0.310	\$0.270	\$0.330	\$0.350
Market Capitalisation (\$000)							
30 June	\$32,168	\$33,653	\$15,109	\$21,977	\$42,581	\$24,038	\$52,196
Capital Expenditure and Depreciation (\$000)							
Capital expenditure	\$2,898	\$2,481	\$2,119	\$4,705	\$1,622	\$2,123	\$2,076
Depreciation - owned assets	\$683	\$379	\$2,418	\$3,479	\$3,561	\$3,251	\$3,352
Depreciation - right-of-use assets	\$954	\$534	\$1,779	-	-	-	-

GOVERNANCE AND OTHER DISCLOSURES

TREND STATEMENT (CONT'D)

GLOSSARY OF FINANCIAL TERMS

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
EBITDA (normalised)	Earnings before abnormal costs, interest, tax, depreciation and amortisation
EBIT (normalised)	Earnings before abnormal costs, interest and tax
Net assets	Total assets less total liabilities

USE OF FUNDS AND RETURN ON INVESTMENT

Return on average shareholders' equity (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$
Basic earnings per ordinary share (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year}}$
Diluted earnings per ordinary share (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year (including the maximum number of shares that could be issued under the Company's LTI Scheme and the Bremworth Option Scheme)}}$

FINANCIAL STRUCTURE

Net tangible asset backing per ordinary share	$\frac{\text{Net assets less goodwill and other intangible assets}}{\text{Number of ordinary shares on issue at balance date}}$
Equity ratio	$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$

GOVERNANCE AND OTHER DISCLOSURES

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 139 to 142, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in July 2017.

The Trend Statement has been prepared using the audited GAAP-compliant financial statements of the Group.

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

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

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

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

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

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

GOVERNANCE AND OTHER DISCLOSURES

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

RECONCILIATION OF GAAP-COMPLIANT TO NON-GAAP-COMPLIANT MEASURES OF PROFIT AFTER TAX

	YEAR ENDED 30 JUNE 2022			YEAR ENDED 30 JUNE 2021		
	GAAP \$000	Adjustments \$000	Normalised \$000	GAAP \$000	Adjustments \$000	Normalised \$000
Revenue	\$95,485	–	\$95,485	\$111,577	–	\$111,577
EBITDA	4,918	–	4,918	4,738	(1,353)	3,385
Depreciation – owned assets	(683)	–	(683)	(379)	–	(379)
Depreciation – right-of-use assets	(954)	–	(954)	(534)	–	(534)
Depreciation – recycled through inventory	194	–	194	(764)	–	(764)
EBIT	3,475	–	3,475	3,061	(1,353)	1,708
Finance costs	(1,029)	–	(1,029)	(1,124)	–	(1,124)
Finance income	159	–	159	68	–	68
Profit before tax	2,605	–	2,605	2,005	(1,353)	652
Tax expense	(365)	(505)	(870)	(276)	–	(276)
Profit after tax	\$2,240	(505)	1,735	\$1,729	(1,353)	376
Abnormal gains after tax		505	505		1,353	1,353
Profit after tax (GAAP)		–	\$2,240		–	\$1,729

Analysis of abnormal items

	Profit before tax \$000	Tax effect \$000	Profit after tax \$000	Profit before tax \$000	Tax effect \$000	Profit after tax \$000
Reversal of normalised tax expense	–	505	505	–	–	–
Restructuring costs	–	–	–	(1,271)	–	(1,271)
Gain on sale and leaseback of property	–	–	–	2,624	–	2,624
	–	\$505	\$505	\$1,353	–	\$1,353

Calculation of basic and diluted earnings per share under GAAP and non-GAAP measures of profit after tax

Year ended 30 June 2022	GAAP-compliant reported profit after tax	Reverse abnormal items (net of tax) where applicable	Non-GAAP-compliant normalised profit after tax
Profit attributable to shareholders (\$000)	\$2,240	(\$505)	\$1,735
Weighted average number of ordinary shares (basic)	69,081,838		69,081,838
Earnings per share (basic) (cents)	3.24		2.51
Weighted average number of ordinary shares (diluted)	70,659,533		70,659,533
Earnings per share (diluted) (cents)	3.17		2.46
Year ended 30 June 2021			
Profit attributable to shareholders (\$000)	\$1,729	(\$1,353)	\$376
Weighted average number of ordinary shares (basic)	68,679,098		68,679,098
Earnings per share (basic) (cents)	2.52		0.55
Weighted average number of ordinary shares (diluted)	69,242,681		69,242,681
Earnings per share (diluted) (cents)	2.50		0.54

GOVERNANCE AND OTHER DISCLOSURES

CORPORATE DIRECTORY

BOARD OF DIRECTORS

George Adams DipFSA(Hons), FCA, CFInstD

Independent

Chairman of the Board of Directors

Chairman of Nomination Committee

Member of Audit and Remuneration Committees

Paul Izzard BA (Hons) Interior Design

Independent

Member of Audit and Remuneration Committees

John Rae B.Com., LLB, CMIInstD

Independent

Member of Audit, Remuneration and Nomination Committees

Katherine Turner B.Com., CA, CMIInstD

Independent

Chairman of Audit Committee

Member of Remuneration Committee

Dianne Williams B.Com., MBA, CMIInstD

Independent

Chairman of Remuneration Committee

Member of Audit and Nomination Committees

DIRECTOR EMERITUS

Grant Biel B.E. (Mech.)

CHIEF EXECUTIVE OFFICER

Greg Smith

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Victor Tan CA, FCIS

FOUNDING SHAREHOLDER

The late **Anthony Charles Timpson** ONZM

REGISTERED OFFICE

7 Grayson Avenue, Auckland 2104

P O Box 97040, Auckland 2241

Telephone: 0800 808 303

Facsimile: 64-9-279 4756

Website: bremworth.co.nz

SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Auckland 0622,
Private Bag 92119, Auckland 1142

Telephone: 64-9-488 8700

Facsimile: 64-9-488 8787

Investor Enquiries: 64-9-488 8777

AUDITORS

PwC

LEGAL ADVISORS

Russell McVeagh

BANKERS

Bank of New Zealand

National Australia Bank Limited

CORPORATE

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

Kirstine Hulse

Group Information Technology Manager

Trevor Jones

CARPET OPERATION

General Manager Sales New Zealand and Australia

Dean Chandler

**General Manager Logistics,
Procurement and International Operations**

Garth Clarke

**General Manager Global Marketing,
Product and Digital Business**

Rochelle Flint

General Manager Tufting Plant

Jason Howearth

General Manager Yarn Plants

Andrew Karl

WOOL OPERATION

General Manager Wool Procurement

Shane Eades

WEBSITES

Corporate

bremworth.co.nz/investor-centre

Carpet Operation

bremworth.co.nz

bremworth.com.au

Wool Operation

elcodirect.co.nz

Share Registrar

computershare.com/nz



Bremworth

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