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# Highlights 2020

Revenue

**\$251.4m**

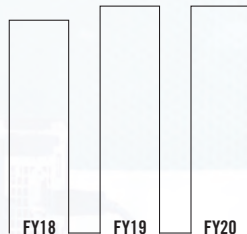


 **2%**

Increased by \$5.6m

NPAT

**\$29.1m**

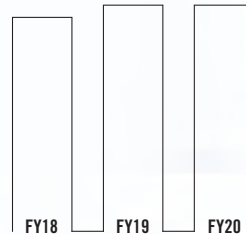




In line with PCP

Earnings per share

**14.9c**

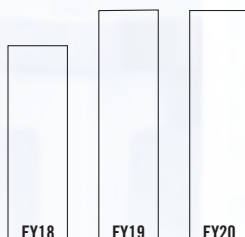


 **1%**

Decreased by \$0.1c

Dividend

**\$13.0cps**





No change

Operating cash flow

**\$48.0m**

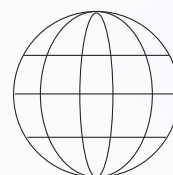


 **66%**

Increased by \$19.1m

Global team

**798**



 **0.3%**

Increased by 2

# Chair's Review

FY20 has seen the resilience of our business model and strategy tested. Unprecedented events like COVID-19 provide a real-time stress test.

The durability of our business supplying many essential products for customers across the world, resulted in an audited net profit after tax (NPAT) of \$29.1 million, in line with the record result achieved in the prior year. Operating cash flow of \$48.0 million was a record, 66 per cent above the prior year. This cash flow has funded shareholder dividends, capital expenditure, the acquisition of Silclear (in November 2019) and a reduction in net debt to \$28.5 million at the end of FY20. With net debt just 10 per cent of our total assets, our balance sheet is in a very strong position to support continued prudent growth in the business.

Reflecting on the recent disruption we have all faced and the impact this may continue to have, it is the strength of our business, and the adaptability and commitment of our leaders, that has allowed us to continue to meet the needs of customers and deliver a very good result for our shareholders.

Shareholders will understand that with the advent of COVID-19 a safe working environment for our staff across the world was our immediate priority. Our businesses in China and Italy were the first to be impacted. Our teams were quick to learn from each other and adapt to new ways of working. This collaboration and agility ensured we could continue to operate effectively, minimise the disruption to our customers and minimise the impact for shareholders.

The quality of our customer base, combined with the essential nature of many of our products for the food, water, infrastructure and healthcare sectors, enabled us to sustain activities and provide continuity for our team across the world. We continued to work throughout the lockdown periods of many geographies to ensure global markets could obtain the essential goods and services our products underpin, including water, milk and milk products, critical medical devices and safety equipment.

We maintain a disciplined focus on capital allocation to ensure we fund future growth projects with excellent commercial prospects. We were pleased to acquire the Silclear business in November 2019 and will continue to look for acquisition opportunities that open new markets or products with the potential to deliver profitable growth. We take a prudent approach and carefully assess acquisitions to ensure they fit with our organic growth strategy and then work quickly to acquire and realise the opportunities they present.

Our Board have continued to stay close to our team, business partners and customers, working relentlessly to ensure thorough oversight, visibility and strong governance. The skills, experience and commitment of our Board have enabled us to respond decisively to the market disruption and volatility that all businesses have faced within the current environment. Our Directors have a wealth of commercial and governance experience well matched to our business needs across the diverse geographic and market segments in which we operate. During FY20, we appointed an external adviser to assist with the identification of a potential additional director



to provide Board succession and continuity. The process was then delayed due to potential appointees being unable to undertake due diligence due to COVID-19 restrictions, but the process has now resumed.

Board meetings took on a new virtual approach that allowed us to connect frequently and align with the rapidly evolving changes happening around the globe. In recent years our Board members visited many of our sites, both in New Zealand and abroad. We gained a good understanding of the local environments we are operating in as we made changes to protect our people, partners and customers. It is our intention to continue these visits, once it becomes safe to undertake travel again.

As a result of Skellerup's resilience, robust earnings, excellent cash flow and low debt, the Directors are pleased to announce a final dividend imputed to 50 per cent of 7.5 cents per share (cps), bringing the total FY20 dividend payout to 13.0 cps. The final dividend, imputation rate and total pay-out are unchanged on the prior year. The final dividend will be paid on 16 October 2020 with a record date of 2 October 2020.

I am proud of our team's achievements around the world and on behalf of the Board thank them for their contribution to delivering another successful result. We have uncertain global conditions ahead however Skellerup is in robust shape and well placed to invest and grow sustainable earnings and shareholder returns.



**Elizabeth (Liz) Coutts**  
Chair and Director



It is the strength of our business, and the adaptability and commitment of our leaders, that has allowed us to continue to meet the needs of customers and deliver a very good result for our shareholders.



# CEO's Review

In a challenging environment, Skellerup has continued to perform well and has delivered a strong result.

Prior to the COVID-19 outbreak, Skellerup was on track to achieve another record result. Our FY20 net profit after tax (NPAT) of \$29.1 million is in line with last year's record result. This outcome proves the strength of our strategy and business plans.

Our people were able to respond quickly to the shocks and issues that impacted our supply chains and customers. This has meant we have minimised the impact of the ongoing disruption on our business.

## **Our team – fast and decisive action in a rapidly changing environment**

As an international business, Skellerup's response to the COVID-19 pandemic began first in China in January 2020 and quickly reached all operations. Our leaders and teams were fast to react, implementing new ways of working including maintaining safe physical distancing. We prioritised the health and safety of our people while changing our operational layouts and shift patterns. While this impacted capacity and increased costs initially, we are now close to previous productivity levels. Many of the changes implemented remain as the new norm for how we work going forward.

Most of our operations were able to continue functioning during the lockdown periods, as we supplied essential components and products and supported customers who were also deemed essential. While we experienced varying degrees of disruption depending on the product and location, our team were able to overcome these challenges. Our leaders across the business are used to responding to market issues and shocks. They identified the supply chain risks early and acted swiftly. I thank all of our team for their resilience, adaptability and commitment during this difficult period.

## **Technical customer solutions**

Skellerup is a technical solutions company. Our focus is on staying close to our customers. This means understanding their challenges so that we can respond with new approaches and innovative products that make a difference. A large part of our customer base is Original Equipment Manufacturers (OEM). We design and develop essential components and products that form part of a customer's final product. Our components may only comprise one part of the final product, but they are usually critical to its overall function and performance. We have remained close to our customers throughout the global disruptions, implementing new processes to ensure we continue to meet changing needs.

We succeed when our customers succeed. We work with customers to identify their underlying requirements for new products. We then rapidly develop and deliver prototype samples. Providing these prototypes within a very short timeframe enables quick modifications and confirmation of 'proof of concept'. Our solutions must not only meet the requirements of our customers but also often comply with food and water safety regulations, which differ in each market. We are known for our in-depth knowledge of materials and tooling. Our customers commit by funding part of the development costs and we commit to delivering the final product quickly. This customer-centric approach, together with our world-leading expertise, lowers the risks associated with new product development and ensures our research and development costs are well controlled.

### Agri Division

The strength and resilience of our Agri business is seen in the record result, delivering Earnings Before Interest and Tax (EBIT) of \$25.4 million. Growth in sales of essential dairy rubberware products into the USA and a strong contribution from Silclear, our silicone rubber products business acquired on 1 November 2019 were the key contributors to the excellent FY20 result.

Skellerup is the second-largest manufacturer of dairy rubberware in the world. While our biggest growth opportunities come from international markets, New Zealand remains a key market. Our products are essential to the continued global supply of milk and milk products, playing a vital role in protecting milk quality and animal health. This was and is evident throughout the unfolding COVID-19 disruption.

Demand remained strong throughout the various lockdown periods, and our facilities in New Zealand and the United Kingdom have continued to deliver food-grade consumable products to our customers globally. At our largest facility, in Christchurch, New Zealand, we overcame the equivalent of at least two weeks' lost production as well as facing additional operating and staffing costs. We have now implemented a number of important changes and have improved productivity, now operating at about 90 per cent of our previous maximum capacity. We are very pleased with the agility and resilience of our team.



We have remained close to our customers throughout the global disruption, implementing new processes to ensure we continue to connect and understand their changing needs.



## Industrial Division

Results from our Industrial business varied as a result of the diverse range of customers and applications served and how they were impacted by COVID-19. EBIT of \$20.9 million was delivered for FY20. With minor exceptions, our businesses have continued to operate throughout the varying COVID-19 lockdowns across the world, reflecting the essential nature of many of our products. However, demand for infrastructure and oil and gas applications did reduce pushing EBIT below the record result of the prior year. Despite this, we are in a secure position for continued growth.

Our result was impacted by the gradual implementation and continuation of lockdowns in some countries. This caused a reduction in demand in late March and April, particularly for products we sell into applications such as water and wastewater infrastructure and for the vacuum pump systems associated with oil and gas exploration and production. In New Zealand, the lockdown conditions meant that some of our businesses could only operate at a limited level, supplying just those products deemed essential.

Partially countering this, international demand for our high-performance marine foam continued to grow and demand for our roofing and mining products particularly in Australia was solid. As the year closed, we have seen a rebound in overall demand levels as restrictions have eased and activity has increased across the world.

## Measuring our impact on the environment

Skellerup is committed to operating as effectively as possible, ensuring we use our resources wisely. Looking after the environment in which we operate is inextricably linked to generating sustainable earnings growth for shareholders and opportunities for our people. Over the past few years, we have highlighted some of our achievements in our annual reports and we share some more of these with you this year on page 29. We have also invested time to better measure our carbon emissions for each of our facilities. With this baseline in place we will establish programmes and measures to drive improvements over the coming years. We look forward to reporting on these measures in the future.



## People and outlook

Finally, I would like to thank the Board of Directors and the whole Skellerup team for their resilience, dedication and hard work in what has undoubtedly been a challenging year for all. Your contribution has been invaluable. It has been a year where the strength of our strategy has been confirmed. We are pleased with the path the Skellerup business is on and will continue to deliver sustainable returns now and in the years ahead.

*David W. Mair*

**David Mair**  
Chief Executive Officer  
and Director



I thank our team for their resilience, adaptability and commitment to maintaining safe operations while also meeting rapidly changing customer demands.



# Financial Commentary

We are committed to delivering sustainable financial returns for our shareholders, providing opportunities and growth for our employees, and assurance for our customers that we will continue to provide them with the essential engineered solutions they need now and in the future.

## FY20 Group Earnings & Dividends

For the year ended 30 June 2020 (FY20), Skellerup recorded net profit after tax (NPAT) of \$29.1 million, achieved a record operating cash flow of \$48.0 million, and declared a gross dividend pay-out of 13 cents per share.

The NPAT achieved is in line with the record result achieved in the prior comparative period (pcp). Operating cash flow improved by 66 per cent on pcp due to working capital gains. The gross dividend pay-out declared is unchanged on pcp and represents a gross yield<sup>1</sup> of 6.1 per cent for shareholders.

Skellerup adopted IFRS-16: Leases in FY20. This required Skellerup to recognise right of use assets and an associated lease liability for certain operating leases. These are predominantly for properties that Skellerup's businesses occupy and operate from around the world.

The initial right of use asset and associated liability recognised on 1 July 2019 was \$18.5 million. In FY20 amortisation and impairment of these right of use assets was \$5.2 million and financing costs associated with the lease payments were \$0.9 million. Actual lease payments were \$5.6 million. The net impact of IFRS-16 was to reduce FY20 NPAT by \$0.4 million on a comparable basis with pcp.

## Measuring Performance

To enable directors and management to lead and measure performance, we segment our financial results into two divisions – Agri and Industrial.

## Agri Division

The record Agri Division result was the highlight of FY20. Growth in sales of essential dairy consumables to customers in international markets, particularly the United States of America (USA) and the contribution of our newly acquired silicone rubber business (Silclear) boosted Agri Division revenue by 5 per cent. Despite incurring additional costs to manage activities in response to COVID-19, gross margin as a percentage of sales was up slightly and indirect costs were well contained (up 7 per cent on pcp and on a like with like basis excluding Silclear up 2 per cent). As a result, earnings before interest and tax (EBIT) increased by 11 per cent to a record \$25.4 million.

The USA has been our fastest growing market in recent years, and this continued in FY20, with increased sales of dairy

<sup>1</sup> Gross yield is determined by comparing the FY20 dividends paid and declared totalling 13 cents per share to the closing share price on 30 June 2020.

consumables and specialist rubber footwear boosting its share of Agri Division revenue to 30 per cent. New Zealand remains the largest market generating 41 per cent of Agri Division revenue from sales of dairy consumables and rubber footwear and despite the disruption of COVID-19, sales were flat compared to the pcip.

The overall Agri Division result demonstrates the importance of Skellerup products to the global dairy industry and the dairy products the industry delivers to the world.

## Industrial Division

The Industrial Division supplies a range of often critical components for predominantly Original Equipment Manufacturers (OEMs) for diverse uses including potable water, health, medical, sporting and roofing applications. The Industrial Division is focused on international markets. The USA is the largest market providing 33 per cent of FY20 Industrial Division revenue, closely followed by Australia with 28 per cent. The NZ market generated 12 per cent of Industrial Division revenue in FY20.

The largest application for the Industrial Division continues to be potable and waste water. Our products must meet demanding performance and material certification requirements to ensure the safe transportation of fresh and waste water. Revenue was steady until COVID-19 lockdowns unsurprisingly slowed demand in the final quarter of FY20. Sales growth was achieved in sporting and leisure,

health/medical, electrical and roof sealing applications. Robust demand for U-Dek marine decking, a high specification closed-cell foam used on the floors of leisure boats was a key driver as were product extensions in our DEKS range of roof sealing solutions and a full year contribution from Nexus (acquired in April 2019). Sales of our products used in automotive applications and the oil and gas industry were down in FY20 with COVID-19 exacerbating a slowdown we were already experiencing.

The overall impact on the Industrial Division was neutral, with revenue flat to pcip despite the full year contribution of Nexus. Gross margin as a percentage of sales was flat. Indirect costs were up 9 per cent due to the Nexus acquisition but on a like with like basis excluding Nexus, they were down 1 per cent on pcip. Additional costs of \$0.8 million were incurred to increase provisioning for doubtful debts and for a vacated lease. Wage subsidy and job keeper payments related to COVID-19 were \$0.9 million. The net effect delivered an Industrial Division EBIT of \$20.9 million, down 9 per cent on the record result achieved in the pcip.



## Five Year Financial Review

The table below shows the financial results and position of the Skellerup Group for each of the last five years. Over this five-year period, revenue has grown by 19 per cent and NPAT by 42 per cent. The sustained earnings growth has enabled an increase in the gross dividend pay-out over the same period of 44 per cent. Skellerup's strong operating cash flow means despite the growth in dividends and acquiring Silclear, Nexus and taking a stake in Sim Lim, net debt of \$28.5 million is just 10 per cent of our total assets compared with 12 per cent at the end of FY16.

| Period Ending                     | 30/06/2020 | 30/06/2019 | 30/06/2018 | 29/06/2017 | 29/06/2016 |
|-----------------------------------|------------|------------|------------|------------|------------|
| Total Revenue                     | 251,389    | 245,792    | 240,408    | 210,322    | 211,415    |
| EBIT                              | 42,486     | 41,798     | 39,781     | 32,824     | 29,365     |
| Finance Costs                     | 2,582      | 1,785      | 1,863      | 1,414      | 411        |
| Share of net profit of associates | (73)       | 23         | -          | -          | -          |
| Profit before Tax                 | 39,831     | 40,036     | 37,918     | 31,410     | 28,954     |
| Tax                               | 10,767     | 10,973     | 10,641     | 9,300      | 8,429      |
| Net Profit After Tax              | 29,064     | 29,063     | 27,277     | 22,110     | 20,525     |
| EPS (c)                           | 14.9       | 15.0       | 14.1       | 11.5       | 10.7       |
| Dividend (c)                      | 13.0       | 13.0       | 11.0       | 9.5        | 9.0        |
| Operating Cash Flow               | 48,006     | 28,920     | 28,345     | 21,229     | 30,939     |
| Cash Reserves (Net Debt)          | (28,513)   | (36,576)   | (30,719)   | (35,755)   | (26,903)   |
| Total Assets                      | 283,642    | 257,059    | 252,025    | 237,932    | 228,004    |
| Total Liabilities                 | 99,079     | 78,667     | 79,739     | 78,685     | 72,149     |
| Net Assets                        | 184,563    | 178,392    | 172,286    | 159,247    | 155,855    |









# Our Business Strengths



## 1. We build strong and deep customer relationships

We work closely with customers, particularly with OEMs, to be part of their product innovation teams.



## 2. We focus on critical components that are an essential part of a more complex system

Our products are usually only a small part of the total solution, but they are critical. OEM customers prefer the trusted Skellerup brand.



## 3. We apply our intellectual know-how to new applications

Using relevant material expertise and design methodologies, we rapidly innovate, creating prototypes that enable quick customer decision-making while ensuring scalable production.



## 4. We have a diverse and highly experienced technical team

We are proud to have a diverse, experienced, vibrant and international team delivering product solutions for customers in over 80 countries.



## 5. We have delivered strong economic performance year on year

We have a strong balance sheet, low debt and a very good dividend yield. We can maintain and grow the business with relatively low levels of capital expenditure.



## 6. We are utilising our natural resources efficiently and effectively

We are focused on reducing our impact on the environment through optimising our resources and reducing waste.



## 7. We have world-class manufacturing and distribution

We are renowned for our world-class manufacturing and distribution facilities and partners in New Zealand, Australia, China, Vietnam, UK, Italy and the US.

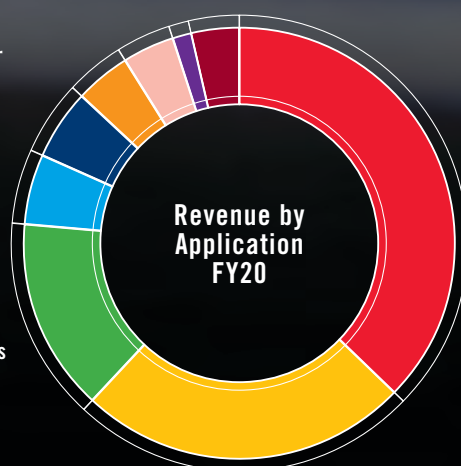




## Specialised

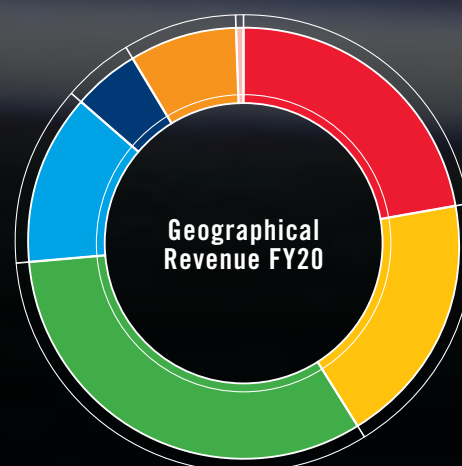
Solutions across Agri & Industrial applications

- Agriculture
- Potable & Waste Water (incl Plumbing)
- Roofing & Construction
- Automotive & Machinery
- Exploration & Mining
- Sport & Leisure
- Electrical & Appliances
- Health & Medical
- Other



## Strong

Global Delivery



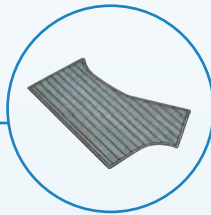
- New Zealand
- Australia
- US
- Europe
- UK & Ireland
- Asia
- Other



# What we do Industrial

We deliver critical components and products used in a broad range of systems.

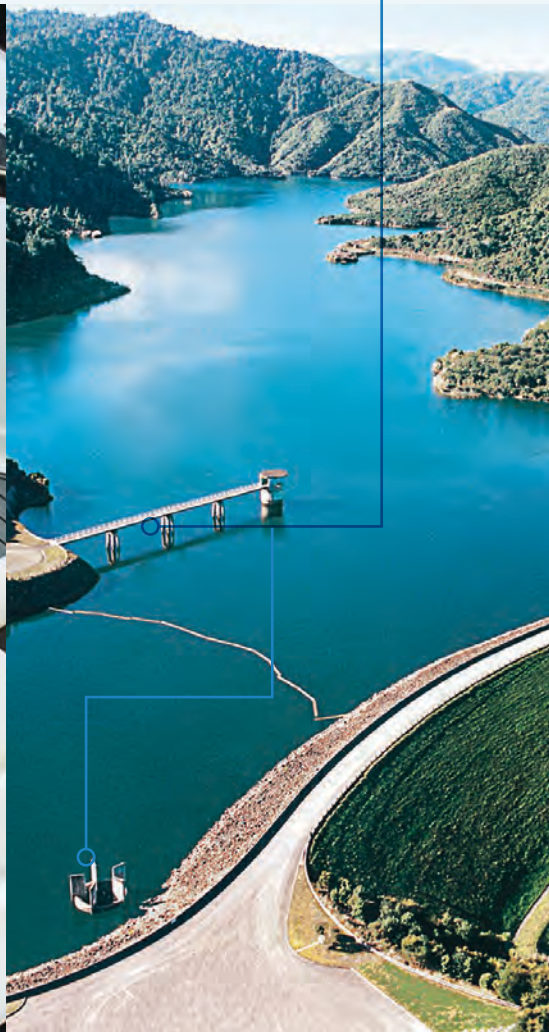
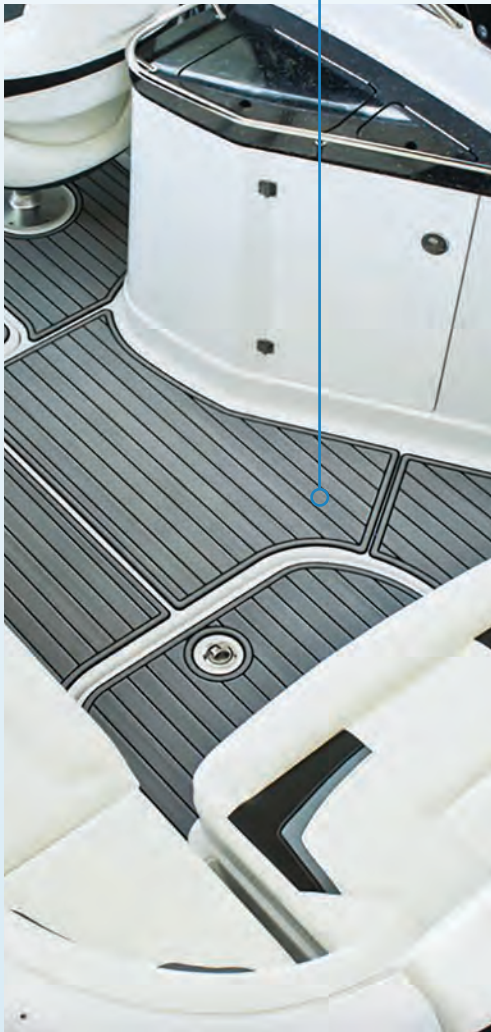
U-Dek Foam



Pipe-sealing  
Gasket



Shower  
Valve Seal





**Orthotic  
Ski-boot Liner**



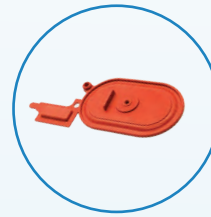
**Ice Maker Seat**



**Tap (Faucet)  
Base Seal**



**Gas-valve  
Diaphragm**



**Water Level  
Sensor**





# What we do Agri

We produce essential dairy consumables and rubber footwear.

Milking  
Liner



Silicone  
Tubing



The Red Band  
Gumboot





**Fire Fighter  
Extreme Gumboot**



**Ambic JetStream  
Teat Spray System**



**Master Blaster  
Nozzle**



# Our Brands

## Industrial Division

Keeping potable water separate from grey water for industrial applications. Leveraging our innovative intellectual property across adjacent sectors.



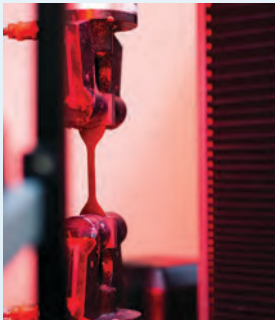
Quality industrial co-moulded rubber products for a broad range of markets from major automotive to end-user industrial customers.



Engineered plastics and rubber rings, joiners and mouldings for the automotive, industrial, water pipe, valve and medical industries.



Developing highly specialised liquid silicone rubber (LSR) componentry for high-precision medical and consumer products.



High-precision rubber and plastic components for the automotive, flow control, appliance and industrial markets.



Vacuum pump systems and components used in truck systems to extract liquid waste and to transport water for the oil and gas extraction industry.



Sealing and waterproofing products for roofing, plumbing and civil/underground applications.



Cross-linked foam for a range of applications including marine, footwear and leisure products.



High-performance foam and soft materials for healthcare, electronics, construction and comfort applications.



Live Wall System for installation in new and existing chutes to enhance mine productivity.



## Agri Division

World-leading essential dairy consumables, safeguarding milk quality, animal health and welfare. Delivering specialist footwear for the farming, fire, forestry and electricity markets.



Design and manufacture of food-grade dairy rubberware including liners and tubing.



Premium food-grade square liners for maximum milking efficiency.



Food-grade dairy liners and tubing.



Silicone tubing and fittings, primarily for the dairy and medical industry.



Specialist in the development, production and distribution of dairy hygiene and livestock health management products.



Distributor of premium milk liners, tubing and accessories.



Manufacture of on-farm, in-line milk filters.



A true New Zealand icon tried and tested for over 60 years.



Specialist footwear for the farming, fire, forestry and electricity markets.

# Sustainable earnings growth through strategic acquisitions

Expanding our solutions for the global dairy industry.

Business acquisitions are an important part of our strategy, complementing our organic growth plans. A successful acquisition provides a fast and reliable path for delivering new or improved solutions for customers as well as new opportunities for our employees, and ultimately contributes to higher shareholder returns.

## A considered approach to acquisitions

Achieving a successful acquisition is not straightforward, and something we do not leave to chance. We take a prudent approach, applying a robust process focused on three core considerations:

- Will the acquisition target strengthen the quality of solutions we can offer to our customers and in our target markets?
- Does the acquisition target have robust technology and skilled people?
- Can we acquire the acquisition target at a value we believe to be fair, and are we confident we can make the necessary changes to deliver the improvements and growth required?

## Silclear – a market leader with strong growth opportunities

On 1 November 2019, we were delighted to acquire Silclear Limited, strengthening our range of essential consumable products for the global dairy industry.



The quality of Silclear's product, performance and team of 16 employees based in Hampshire in the UK was demonstrated in April 2020 when they were awarded the Queen's Award for Enterprise – International Trade, the UK's highest accolade for business success.

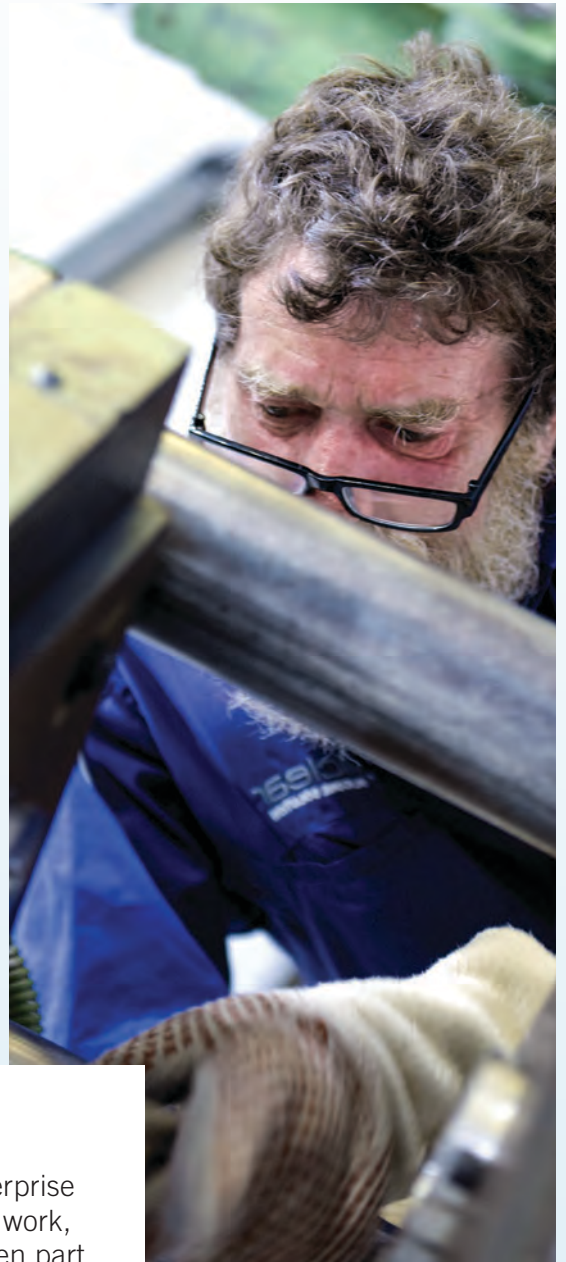
Silclear designs and manufactures innovative silicone rubber products and is well known for its food-grade tubing, diaphragms, valves and liners. We see the strong growth opportunity for silicone tubing in the dairy market due to the superior durability, stability and performance the material offers compared other tubing alternatives available in the market.

Our analysis of a number of international silicone tubing suppliers identified Silclear as the leader, providing us with opportunities to strengthen our customer offering in the global dairy market.

### Delivering ahead of expectations

Silclear has been part of the Skellerup group for only eight months yet is performing ahead of expectations. We have product trials in progress with Skellerup Agri OEM customers that we expect will deliver growth for FY21 and beyond.

We are confident we have an excellent team and, like many others across the Skellerup Group their resilience and performance proved this in dealing with the impacts of COVID-19.

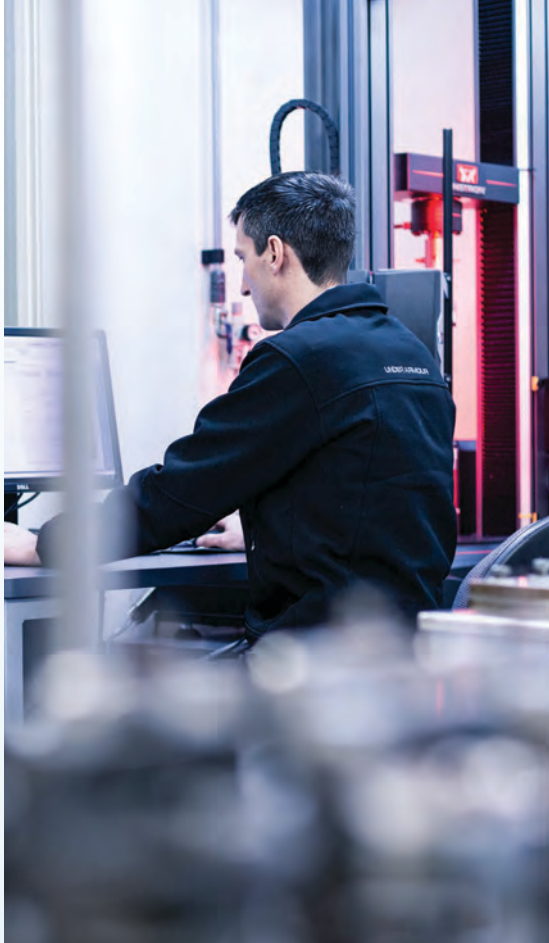


In April, we were awarded the Queen's Award for Enterprise – International Trade. The award recognises the hard work, commitment and contribution of everyone who has been part of our team, particularly over recent years. In the current environment, it is also a reminder of the progress we have made and the opportunity we have to continue to develop and deliver outstanding products to our customers, to ensure their businesses continue to thrive.

Silclear Limited, Managing Director, Ian Bradbury







# Customer-driven product development

A key part of our business is providing customers with essential engineered products. Our focus is to work with our customers, and often their customers as well, to understand specific problems and issues they face.

This approach means our product development is grounded in a customer need in an established market. With a clear definition of the issue we are working to solve, we can pull together a development team which spans the specific skill sets and experience required.

## Proven expertise across four essential elements:

1. A deep understanding of material science, including polymers (rubber and plastics) and metals
2. Knowledge and experience to turn those materials into a specific product
3. Meeting exacting independent standards, such as food safety and potable water standards across multiple jurisdictions
4. Product design that can be scaled for manufacturing and assembly in a cost effective way.

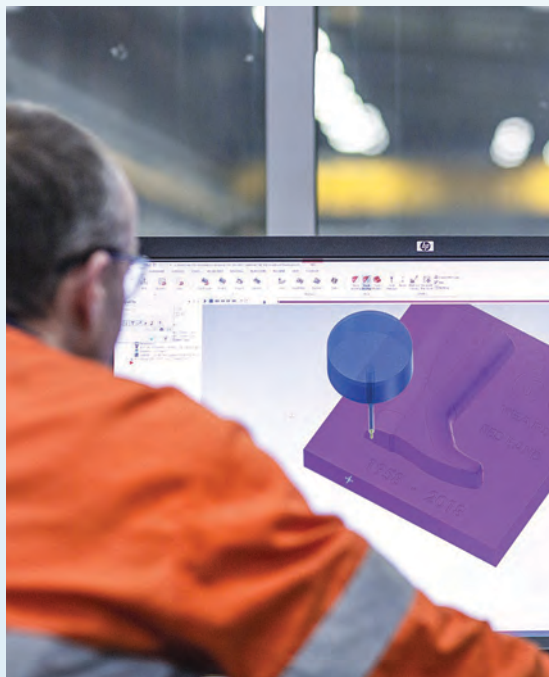
## Turning our expertise into a competitive advantage

These projects are technically challenging and require specialist expertise across a range of skill sets. Skellerup is renowned for the quality and expertise of our team across each stage of the process. This provides us with our first competitive advantage.

The second comes from our speed and precision.

We rapidly create product prototypes, working closely with our customers to ensure decisions are made quickly at each stage. Our prototypes meet the required internal and external standards the first time around. Our intellectual property is focused more on clever solutions across each stage of the process rather than on securing patents and trademarks.

This customer-driven product development approach is used for both the creation of our own branded products and those for our Original Equipment Manufacturer (OEM) partners.



## Customer commitment to our R&D

Critical to our process is strong customer commitment. Before we allocate our valuable resources we know we have an established customer and market. Our customers provide a financial contribution to the development and also ensure they have an internal champion who can make decisions throughout the process. This removes much of our research and development risk.

## Measuring success

The success of our approach is measured in three ways:

- Retention of existing customers with new products. At the end of FY20, 17 of our top 20 customers when measured by revenue were also in our top 20 in FY16. This demonstrates the enduring relationships we have and our track record of delivering excellent products which meet customer need.
- Winning new customers. To balance our strong customer retention we also look to win new relationships. Three of our top 20 customers have been won in the last four years. Our reputation is strong and many of our current opportunities have come through recommendations from personnel who have moved from existing customers.
- Sustainable growth in revenue and earnings. Over the past three years, Skellerup has delivered average revenue growth on over 6 per cent per annum and average earnings growth of more than 10 per cent per annum.

## Our approach in action

A global leader in the supply of skin health and hygiene solutions approached us to solve a problem they had with failing rubber diaphragms in a pump system. They came to us as one of the customer's engineers who had worked successfully alongside Skellerup at a previous company.

Our team were able to diagnose the failure of several rubber parts, resolving a long-standing issue for the customer, designing and delivering a prototype solution that proved successful. In a period of 45 days we completed the compound development and the customer tested and validated the samples we delivered.

This success resulted in an expanded project to address issues the customer was having with other components in the pump. We have now designed and manufactured a fully assembled pump incorporating seven separate engineered rubber and plastic components. Our solution has both resolved a problem with a failing part and removed complexity for the customer by delivering a total solution. Within the next two years we expect this customer will become one of our largest customers.



Our product development is grounded in a customer need in an established market



# Experienced, talented and resilient global team

A strength of Skellerup is the diverse experience and talent across our global operations. We are a team of 800 technicians, chemists, engineers, marketers, process workers, and other support staff on the ground in the UK, Europe, the Americas, Asia, Australia and New Zealand.

## **Responding to COVID-19 with global collaboration**

Our response to COVID-19 demonstrated the commitment of our people, their ability to collaborate effectively, and to leverage our international presence. We were able to quickly adopt and adapt proven practices around the world. Our China and Italian businesses were the first to face the effects of COVID-19 and were fast to establish new operational processes to ensure the safety of our people, partners and customers. The learnings and decisions made in these jurisdictions helped shape the subsequent approach in our other locations.

## **Experience, education and new energy**

Our leaders and teams' industry experience is invaluable to both Skellerup and our customers. This deep knowledge ensures we understand our customers problems and can design and manufacture solutions that work. Sustaining and enhancing this capability is critical to our future success. Continuous education and the injection of new people into our teams brings new thinking and innovative solutions.

In FY20, as in past years, we supported a number of our people with further learning and development. The programmes provide them with skills and knowledge to become better leaders and contributors to our business now and in the future.

We ensure our team are supported to have rewarding careers at Skellerup. We value a mix of long serving and new talent to ensure diversity of experience and thought. This year we farewelled to some long serving team members, with John Craig and Cushla Smith retiring after more than 40 years with us. We want to thank them for their hard work and dedication over such a significant period.



We have welcomed some notable new leaders in FY20. In September 2019, Hayley Gourley joined Skellerup to head our Agri Division, bringing substantial practical and economic industry experience to the Group. In November 2019, Ian Bradbury and his team of 16 joined the Group when we acquired Silclear. We are delighted to have a well-lead team with proven capability to supply innovative silicone rubber products to key customers in the Agri industry.

### **Committed to health and safety**

We are committed to providing a healthy and safe environment for our people. Our leaders continue to embrace this commitment and lead by example. Our ultimate target will always be zero harm. FY20 provided some additional challenges as a result of COVID-19 that demanded significant changes in operational layout and shift patterns particularly for our manufacturing sites.

We were quick to implement these changes to ensure our teams and our service providers could operate safely as we continued to manufacture products for the essential service industries we supply. Our success in executing these changes while improving our health and safety performance is testament to our leaders and teams.

For FY20 we did not suffer any serious harm injuries and our TIR<sup>1</sup> of 1.33 was a significant improvement on the 1.47 we recorded in FY19. In June 2020 our largest facility at Wigram, Christchurch was assessed by a routine WorkSafe inspection. WorkSafe reported that they considered the site to be exemplary and no corrective actions or improvement suggestions were issues. This is the standard we have and will continue to set at Skellerup.



<sup>1</sup> The TIR (Total Injury Rate) is the total number of Serious Harm Injuries, Lost Time Injuries and Medically Treated Injuries multiplied by 2,000 (the estimated annual hours worked by an individual), divided by the actual hours worked and expressed as a percentage. The TIR represents the percentage likelihood of being injured. Zero TIR is the benchmark that we are striving to achieve.





The culture of sustained innovation to drive growth continues in Skellerup today all over the world.



# Environment

Skellerup's origins date back to 1910 when George Skellerup opened his first retail store in Christchurch from which he sold products including rubber goods for the dairy industry in New Zealand.

The culture of sustained innovation to drive growth continues in Skellerup today all over the world. As highlighted throughout this report our future success will come from innovative solutions that solve customer problems. Innovation and improvement are also key to how we operate our facilities across the world. Part of this is a focus on using resources as efficiently as possible and minimising waste. By implementing actions and changes to improve efficiency, use and consume only the resources necessary, and reduce waste, we will continue to create a platform where Skellerup can to succeed, generate opportunities for our people, and benefits for our shareholders.

Over the past few years, we have made a number of substantial improvements to not only reduce our environmental impact and improve Health & Safety concerns, but also reduce costs including:

- Process improvements at our manufacturing facilities across the world resulting in a substantial reduction in rejected product and waste. At our largest and newest facility in Wigram, Christchurch we have delivered consecutive improvements since its opening in November 2016 to deliver a cumulative gain of more than 60 per cent.
- Product tooling improvements to reduce material waste and reduce energy used (relative to each product produced). At our engineering plastic development and manufacturing facility in Auckland,

we reduced waste by 90 per cent on an engineered plastic seal used by one of the world-leading tap hardware companies.

- Packaging improvements to eliminate the use of single-use plastic material. At our Wigram facility, we have eliminated the use of over 300,000 plastic bags per year.
- Investing in a reticulation system at our largest site Wigram to recycle water used in the manufacturing process reducing consumption by over 90 per cent.
- Replacing our coal-fired boiler with a natural gas boiler at our facility in Jiangsu, China, generating a reduction in annual CO2 emissions of greater than 35 per cent and reducing sulphur dioxide and nitrogen oxide emissions.

Over the past six months, we have invested time measuring our scope 1 and 2 greenhouse gas (GHG) emissions generated from the consumption of electricity, natural gas and diesel.

- 40 per cent of our GHG emissions are generated from our Wigram facility, so our priorities are primarily focused on this site. We have several initiatives underway including reducing the nominated maximum electrical capacity of the facility, changes in settings to our water reticulation system, replacing lighting with more energy efficient LED systems (providing better lighting for our workers) and reviewing the efficiency of key items of plant and equipment. We are targeting a reduction of 5 per cent over the next 12 months.
- Around 10 per cent of our GHG emissions across our global facilities are generated from the use of diesel. We are reviewing the options to convert the plant and vehicles reliant on this fuel to natural gas or electricity.



# Board of Directors



**Elizabeth (Liz) Coutts** (ONZM, BMS, FCA, CF10D)  
Independent Chair



Elizabeth was appointed Chair in January 2017. Liz has held an extensive range of governance roles in both the private and public sector for more than 20 years, including being a past President of the Institute of Directors, member of the Monetary Policy Committee of the Reserve Bank of New Zealand and the Financial Reporting Standards Board of the Institute of Chartered Accountants in New Zealand. Her contribution to governance was acknowledged with her appointment to the New Zealand Order of Merit (ONZM) in 2016. She is the Chair of Ports of Auckland, Oceania Healthcare Limited and EBOS Group Limited and member of the Marsh New Zealand Advisory Board. Liz joined the Board in May 2002 and is a member of the Audit and Risk Management, Remuneration and Nomination Committees. [www.lizcouths.co.nz](http://www.lizcouths.co.nz)



**David Cushing** (BCOM, ACA)  
Independent Director



David was appointed to the Skellerup Holdings Board in August 2017. David Cushing is a former investment banker with over 20 years' experience as a director of listed companies. David has expertise across a broad range of industries having previously been a director of horticultural business Fruited Supplies Limited, Williams & Kettle Limited, Tourism Holdings Limited, Acuity Health Group Limited and property company NPT Limited. David is currently Executive Chairman of Rural Equities Limited and Managing Director of private investment company H&G Limited. He is also a director of Red Steel Limited and a director of PGG Wrightson Limited. David is a member of the Audit & Risk Management and Remuneration Committees, Nomination Committee.



**Alan Isaac** (CNZM, BCA, FCA)  
Independent Director



Alan was appointed to the Skellerup Holdings Board in August 2016. Alan has considerable experience governing and leading businesses and sporting organisations. Notably, Alan was Chairman of KPMG NZ for 10 years until 2006, is a past Chairman of Cricket NZ and past President of the International Cricket Council. Alan is currently Chairman of the New Zealand Community Trust. He is also a director of Oceania Healthcare Limited and Scales Corporation Limited. In June 2019, Alan was appointed as President of Institute of Directors. Alan is Chair of the Audit and Risk Management Committee and also a member of the Remuneration Committee, and Nomination Committee.



**John Strowger** LLB (HONS)  
Independent Director



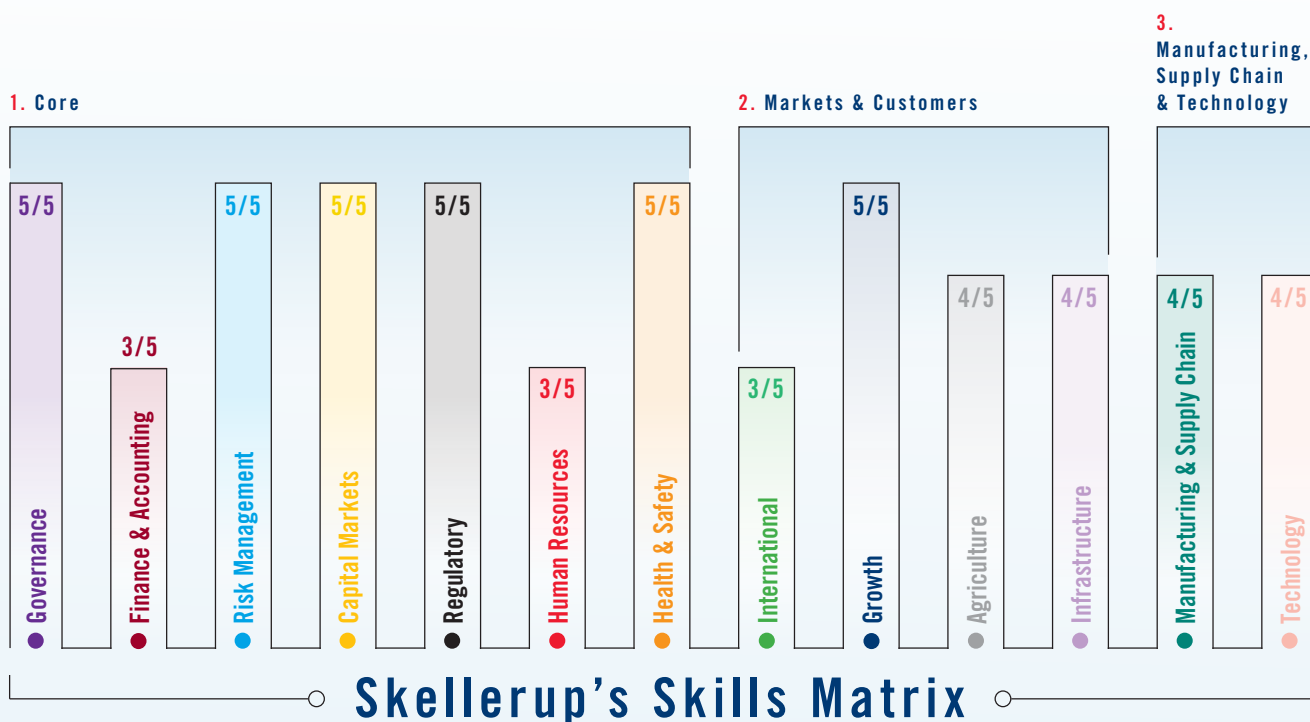
John was appointed to the Skellerup Holdings Board in March 2015. John is a leading commercial lawyer who specialises in corporate, contract and securities law and mergers & acquisitions. He was named NZ Deal Maker of the Year at the 2019, 2017 and 2015 Australasian Law Awards. A partner at Chapman Tripp, John co-heads that firm's China desk, which coordinates the work it does pertaining to investment and trade between China and New Zealand. John is Chair of the Health and Safety Committee and a member of the Audit and Risk Management Committee.



**David Mair** (BE, MBA)  
Executive Director



David was appointed to the Board in November 2006, and as CEO in August 2011. David's background in new product development and new market development provides an excellent fit with the growth plans for Skellerup. David also has wide-ranging international operational experience proving invaluable to the Company's global manufacturing and distribution base. David has previously been an Executive Director of Interlock Group; Vice President of Asia Pacific Operations and an Operations Council Member of ASSA ABLOY (Sweden). He is currently a Director of Forte Funds Management Limited.



### 1. Core

- **Governance**
  - i. Commitment to the highest standard of governance
  - ii. Prior Board experience (ideally NZX50 or equivalent) or experience as Executive or advisor to Board for at least 5 years
  - iii. Ability to assess effectiveness of senior management
- **Finance & Accounting**
  - i. Senior Executive or Board experience in international finance, accounting, reporting, controls and taxation
- **Risk Management**
  - i. Experience in developing or overseeing an appropriate risk framework and culture
  - ii. Experience in evaluating and managing financial and non-financial risks
- **Capital Markets**
  - i. Experience with equity and debt markets and capital structuring
  - ii. Experience with mergers, acquisitions and dispositions and investment analysis
  - iii. Experience and understanding of dealing with investors and the investment community
- **Regulatory**
  - i. Understanding of the regulatory environment of Skellerup's business
- **Human Resources**
  - i. Experience in leading teams and with best-practice development, performance and remuneration structures for international business
- **Health & Safety**
  - i. Understanding of health and safety requirements and management for a global business

### 2. Markets & Customers

- **International**
  - i. Experience as a leader or advisor for a business with a substantial presence in global markets including understanding commodity and financial markets
  - ii. Experience as a leader or advisor for a business with a substantial OEM customer base
  - iii. Experience as a leader or advisor for a business with a strong range of branded products
- **Growth**
  - i. A track record of developing and implementing a successful and sustainable strategy of growth in business
- **Agriculture**
  - i. Experience and understanding of the dynamics of the international and domestic agriculture (in particular dairy) market
- **Infrastructure**
  - i. Experience and understanding of customers, products and risks associated with infrastructure for potable water, construction, automotive and general applications

### 3. Manufacturing, Supply Chain & Technology

- **Manufacturing & Supply Chain**
  - i. Experience as a leader or advisor for a business with substantial manufacturing capability
  - ii. Experience as a leader or advisor dealing with international contract manufacturers and contracts
  - iii. Experience as a leader in international logistics and supply chain
- **Technology**
  - i. Understanding of the opportunity and risks provided by technological development and disruption, and development and protection of IP
  - iv. Understanding of contractual arrangements with large OEM customers (protection of IP, counterparty style and approach, risk)

# Corporate Governance

This section of the Annual Report outlines our corporate governance structures and processes, and how they have been applied during the year.

Skellerup's Board and management are committed to achieving high standards of corporate governance. We believe this is central to the effective management of the business and to maintaining the confidence of our shareholders. The Board and management are focused on ensuring the long-term success of the Company and are committed to building long-term shareholder value.

The Board regularly reviews and assesses Skellerup's governance policies, procedures and practices to ensure they are appropriate and effective. Skellerup reports against the recommendations of the NZX Corporate Governance Code (NZX Code) as required by the NZX Listing Rules.

Our approach for the financial year ended 30 June 2020 is detailed below.

## Principle 1 – Code of Ethical Behaviour

Skellerup complies with the recommendations of Principle 1.

Skellerup Directors set high standards of ethical behaviour and require members of the management team to conduct themselves similarly; they hold management accountable for delivering these standards throughout the organisation.

Skellerup's Code of Ethics provides a framework of minimum standards of ethical behaviour according to which Directors, management and all employees of the Company are expected to conduct themselves. The Code of Ethics outlines the Company's expectations for all Company personnel and includes consideration of conflicts of interest, conduct, legislative compliance, confidentiality and the use of the Company's assets and information.

Skellerup communicates its Code of Ethics to Directors and employees, explaining the Code's purpose and the mechanism for reporting any unethical behaviour. The CEO reviews this Code with all Group and Business Managers annually. The Managers in turn are required to review with staff and confirm that they have done so to the Chief Executive Officer (CEO). Skellerup has not received any reports of serious instances of unethical behaviour during the year.

Skellerup is committed to ensuring its Directors and employees understand its policy on and rules for dealing in Skellerup ordinary shares or any other derivatives thereof. Skellerup's Financial Products Trading Policy notes that insider trading is always prohibited and provides examples of material information to assist Directors and employees with compliance. It imposes further restrictions on Directors and senior management and permits trading only in prescribed trading windows or with consent.



## Principle 2 – Board Composition and Performance

Skellerup complies with the recommendations of Principle 2.

The members of Skellerup's Board collectively provide the broad range of strategic, business, commercial and financial skills and knowledge, and the independence and experience required to lead and govern the Company effectively.

The Board regularly reviews its performance and composition to ensure it has the range of capabilities required. During FY20 Skellerup's Board appointed an external adviser to assist with the identification of a potential additional director to provide succession and continuity for the Group. A shortlist of candidates was presented to Skellerup's Board; however, progress was delayed for some time due to potential appointees being unable to undertake due diligence due to COVID-19 restrictions. The process has now resumed.

Currently, the Board comprises four non-executive, independent Directors and one executive Director. The independence of Directors is reconsidered at least annually. Skellerup's Board most recently reviewed each director's independence status at its Board Meeting on 24 June 2020. Having regard to the NZX Listing Rules and the NZX Code, all four non-executive directors have been determined to be independent. See pages 30 and 31 for more information on the tenure, skills and experience of Skellerup's current Board. The independent status of each Director is noted also on page 30.

Board procedures ensure that all Directors have the information needed to contribute to informed discussion and decisions on a consistent basis and to carry out their duties effectively. Senior managers make direct presentations to the Board as required to give the Directors an understanding of management strategies, priorities, style and capabilities. Directors also visit Skellerup's facilities throughout the world as part of their ongoing engagement to ensure they are familiar with all aspects of the Company. Training is made available to Directors and in the last financial year Directors participated in training on a wide range of topics.

Skellerup has a written Diversity Policy in place. Diversity in Skellerup includes (but is not limited to) gender, race, ethnicity and cultural background, disability and physical capability, age, sexual orientation, and religious or political belief. A gender composition table of the Skellerup Directors, officers and management is included on page 81. Skellerup maintains a merit-based environment which provides equal opportunity for development and recognition based on performance and a flexible and inclusive work environment that values differences that create value. Skellerup remunerates equivalent roles in an equitable manner.

Skellerup's Diversity Policy requires measurable objectives to be set by the Board and reviewed annually. For FY20 Skellerup set measurable objectives and made progress against them as follows:

### 1. No discrimination

Skellerup aims to operate an inclusive workplace where employees are not discriminated against on the grounds of gender, gender identity, sexual orientation, colour, race/ethnicity/cultural background, disability, age, religious beliefs. In FY20 Skellerup adopted a target of zero complaints/findings of harassment, discrimination or victimisation. No such incidents were reported in FY20.

### 2. Flexible workplace environment

Skellerup aims to provide a workplace that accommodates flexible working arrangements as a means to encourage diversity of its workforce. In FY20 the Company undertook to review the flexible workplace environment arrangements currently provided and identify any improvements required. That review identified that current flexible workplace arrangements are working well and continue to be implemented throughout the Group where suitable to meet the needs of the business and the circumstances of employees. The review led to a formal Working from Home Policy being adopted in April 2020, coinciding with the period when restrictions on movement were imposed as a result of the COVID-19 pandemic.

### 3. Pay equity

Skellerup is committed to ensuring all of its employees are paid equitably. In August 2019 as part of Skellerup's annual salary review management undertook to ensure all roles are clearly defined, and based the review on relevant skills, experience, responsibility, effort and performance independent of the person in the role. No issues arose from this review.

## Principle 3 – Board Committees

Skellerup complies with the recommendations of Principle 3.

The Board has appointed four Board Committees to assist in carrying out its responsibilities effectively, each of which operates under a written charter. The Board regularly reviews the performance of each standing Committee against its specific written charter. The delegated responsibilities, powers and authorities of these Committees are described below.

### 1. Audit and Risk Management Committee

This Committee currently comprises four non-executive, independent Directors, one of whom is appointed as Chair. The CEO and the Chief Financial Officer (CFO) attend as ex-officio members at the invitation of the Committee; the external auditors attend by invitation of the Chair.

This Committee meets a minimum of four times each year. Its responsibilities are to:

- Ensure that the Company has adequate risk management controls in place
- Advise the Board on accounting policies, practices and disclosure
- Review the scope and outcome of the external audit
- Review the annual and half-yearly statements prior to approval by the Board.

The Audit and Risk Management Committee reports the proceedings of each of its meetings to the full Board.



The current composition of the Committee is Alan Isaac (Chair), Elizabeth Coutts, John Strowger and David Cushing.

## 2. Health and Safety Committee

This Committee comprises four non-executive, independent Directors, one of whom is appointed as Chair, plus the Executive Director. The CFO also attends meetings as an ex-officio member.

This Committee meets a minimum of three times each year. Its responsibilities are to:

- Provide leadership and policy for Health and Safety (H&S) management within the Skellerup Group
- Advise the Board on H&S strategy and policy and specify targets to track performance
- Review management systems to ensure that they are appropriate to manage hazards and risks of the business
- Monitor and review performance by specifying and receiving timely reports on incidents, investigations and resultant actions and with the assistance of internal and external audits.

The H&S Committee reports proceedings of each of its meetings to the full Board.

The current composition of the Committee is John Strowger (Chair), Elizabeth Coutts, Alan Isaac, David Cushing and David Mair.

## 3. Remuneration Committee

This Committee comprises three non-executive, independent Directors, one of whom is appointed as Chair. It meets as required to:

- Review the remuneration packages of the CEO and senior managers
- Make recommendations to shareholders in relation to non-executive Directors' fee pools.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages. Management only attend Remuneration Committee meetings at the invitation of the Committee.

The current composition of the Remuneration Committee is Elizabeth Coutts (Chair), Alan Isaac and David Cushing.

## 4. Board Nomination Committee

This Committee comprises three non-executive Directors, one of whom is appointed as Chair. It meets as required to recommend new appointments to the Board.

Board composition is regularly reviewed by the full Board and the Committee to ensure the collective skillset is appropriate for the Group and to provide continuity and succession.

The current composition of the Board Nomination Committee is Elizabeth Coutts (Chair), Alan Isaac and David Cushing.

### Board and Committee Attendance 1 July 2019 to 30 June 2020

| Director      | Board    | Audit & Risk | Health & Safety | Remuneration | Nomination |
|---------------|----------|--------------|-----------------|--------------|------------|
| Liz Coutts    | 11 of 11 | 5 of 5       | 3 of 3          | 2 of 2       | 2 of 2     |
| Alan Isaac    | 11 of 11 | 5 of 5       | 3 of 3          | 2 of 2       | 2 of 2     |
| John Strowger | 10 of 11 | 4 of 5       | 3 of 3          | N/A          | N/A        |
| David Cushing | 10 of 11 | 5 of 5       | 2 of 3          | 2 of 2       | 2 of 2     |
| David Mair    | 11 of 11 | 5 of 5*      | 3 of 3          | N/A          | N/A        |

\* David Mair attends Audit and Risk Management Committee meetings ex-officio at the invitation of the Committee.

Skellerup has a formal Takeover Response Policy in place. The purpose of the Policy is to ensure that Skellerup is well prepared for an approach and, therefore, it will be better able to control the takeover response process and respond to any approach in a professional, timely and coordinated manner and in the best interests of Skellerup and its shareholders.

### Principle 4 – Reporting and Disclosure

Skellerup complies with the recommendations of Principle 4.

The Board demands integrity in financial reporting and in the timeliness and balance of information disclosed.

The financial progress of Skellerup's two divisions is reported separately to the Board each month to enable divisional financial performance to be reviewed in the context of the Company's strategies and objectives. Monthly reporting also provides information on H&S, key opportunities, personnel, customers and risks facing the business, and the steps being taken to optimise outcomes.

The Audit and Risk Management Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness and timeliness of financial statements. The Company seeks to provide clear, concise financial statements and recognises the value of providing shareholders with financial and non-financial information including environmental, economic and social sustainability risk management as reported in this Annual Report. Management accountability for the integrity of the Company's financial reporting is reinforced in writing by certification of the CEO and CFO that the financial statements fairly present the financial results and position of the Company.

The Company has a written Continuous Disclosure Policy and clear processes in place to ensure compliance with the continuous disclosure requirements that come with being a listed company.

Skellerup's Code of Ethics, Board and Committee Charters, Continuous Disclosure Policy and other key governance documents are published on its website at [www.skellerupholdings.com](http://www.skellerupholdings.com).

### Principle 5 – Remuneration

Skellerup complies with the recommendations of Principle 5.

The remuneration of Directors and executives is transparent, fair and reasonable.

The Board's Remuneration Committee is responsible for reviewing remuneration packages of the CEO and senior managers and making recommendations to shareholders in relation to non-executive Directors' remuneration.

The current approved pool of remuneration available for the payment of non-executive Directors is \$550,000. This was approved by shareholders at the Annual Meeting on 26 October 2016. Non-executive Directors are paid a fixed cash fee. Non-executive Directors are not part of any share scheme. In the year ended 30 June 2020, total fees paid to non-executive Directors amounted to \$460,000. Details of Director remuneration are shown on page 79.

Senior executives' remuneration comprises a combination of fixed and at-risk components. Payment of the at-risk component is linked to exceeding previous best annual financial performance in the areas of the business for which each executive is responsible or, in some circumstances, the achievement of specific projects. Total remuneration paid to the CEO in the year ended 30 June 2020 and in the prior years, together with a description of the long-term share-based incentive scheme in place for the CEO, is detailed on page 80.

Skellerup has a written Remuneration Policy in place for the remuneration of Directors, officers and senior managers. This Policy outlines the remuneration principles that apply to Directors, officers and senior managers of Skellerup to ensure that remuneration practices are fair and appropriate for the organisation, and there is a clear link between remuneration and performance. The guiding principles of this Policy are that the remuneration of Directors, officers and managers will be transparent, fair and reasonable to meet the needs of the business and shareholders.

## **Principle 6 – Risk Management**

Skellerup complies with the recommendations of Principle 6.

Each Director has a sound understanding of the key risks faced by Skellerup.

The Board, advised by the Audit and Risk Management Committee, reviews the Company's Risk Management Report prepared by the CEO and management team on a semi-annual basis and specific items are monitored on a monthly basis. The Risk Management Report identifies key risks and strategies to manage these risks. The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Audit and Risk Management Committee monitors the Company's system of internal financial control with the aid of reviews and reports prepared by external providers and periodic certification by the CEO and CFO. This system includes clearly defined policies controlling treasury operations and capital expenditure authorisation. The CFO is responsible for ensuring that all operations within the Company adhere to the Board-approved financial control policies.

The H&S Committee leads and monitors H&S management within the Skellerup Group. The Company operates a comprehensive H&S framework across all of its businesses to identify and address workplace hazards and to monitor and review compliance with H&S policies and procedures. Board review of H&S is a priority and is facilitated by both the activities of the H&S Committee and the receipt and review of H&S reports at each Board meeting. Details of Skellerup's key H&S risks and its performance for the year ended 30 June 2020 are included on page 27.



## Principle 7 – Auditors

Skellerup complies with the recommendations of Principle 7.

The Board ensures the quality and independence of the external audit process, which culminates in the audit report issued in relation to the annual financial statements.

The Board has an established framework for Skellerup's relationship with its auditors and to ensure independence of the Company's external auditor is maintained, a written Audit Independence Policy has been implemented. The Policy sets out guidelines to be followed to ensure that related assurance and other services provided by Skellerup's auditors are not perceived as conflicting with the independent role of the auditor. The Audit and Risk Management Committee approves any non-audit services that are provided by the external auditor. The Audit and Risk Management Committee meets regularly with the external auditors and management.

Skellerup's external auditor is Ernst & Young (EY) and was reappointed by shareholders at the 2019 Annual Meeting in accordance with the Companies Act 1993. The audit partner responsible for the Skellerup audit was appointed during the year ended 30 June 2018.

Skellerup maintains an internal audit function with the assistance of PwC. Skellerup reviews the residual risks from its semi-annual Risk Management Report to determine priorities for consideration for internal audit review with the assistance of PwC.

The significant issues and judgements considered by the Audit and Risk Management Committee are disclosed in Note f on page 50 of the financial statements.

## Principle 8 – Shareholder Rights & Relations

Skellerup complies with the recommendations of Principle 8.

The Board aims to ensure that shareholders are kept informed of developments affecting the Company and encourages shareholders to engage with the Company. Information is communicated to shareholders through the annual and interim reports, and periodic and continuous disclosure to the NZX, and at Annual Meetings.

The Board encourages shareholders to attend and participate fully at Annual Meetings to ensure they exercise the opportunity to ask questions about the Company and its performance.

The Company also maintains information for shareholders on its website ([www.skellerupholdings.com](http://www.skellerupholdings.com)). This includes a description of Skellerup's business and structure, copies of key corporate governance documents and all information released to the NZX.

The Board respects the interests of all stakeholders in the Company. Skellerup strives to manage its business in a manner that delivers long-term shareholder value by delivering consistent quality solutions for customers, a work environment that is safe and delivers development opportunities for its employees and meets or exceeds the compliance requirements in the environments in which the Company operates.

# Consolidated Financial Statements

for the year ended 30 June 2020



## Independent auditor's report to the Shareholders of Skellerup Holdings Limited Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Skellerup Holdings Limited ("the company") and its subsidiaries (together "the group") on pages 44 to 78, which comprise the consolidated balance sheet of the group as at 30 June 2020, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended of the group, and the consolidated notes to the financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 44 to 78 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2020 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the group.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, 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, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material



misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Scoping of the audit

| Why significant                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| <p>Skellerup is a global business with over 75% of the group's revenue generated in countries other than New Zealand.</p> <p>A significant area of focus when conducting the audit was assessing that sufficient audit evidence was obtained in differing geographic locations and businesses to enable us to reach our opinion on the consolidated financial statements as a whole. This was both with respect to the determination and allocation of materiality as well as the determination of the nature and extent of procedures to be performed at each location.</p> <p>The global economy and thus Skellerup have been impacted by the COVID-19 global pandemic. We requested audit teams in all significant locations ("the component teams") to consider impacts on financial reporting associated with the COVID-19 outbreak and report their findings to us.</p> | <p>As the coordinating primary team ("group audit team"), EY New Zealand assigned a scope to each component team in all significant locations. Consideration was given to the nature, size and risks associated with each of the group's significant businesses.</p> <p>As a result of this assessment, each business was allocated a scope and materiality reflecting the business profile.</p> <p>The group audit team communicated to the component audit teams the significant risk areas to be considered and the information to be reported back to the group audit team. The component and group teams then determined the extent and nature of audit procedures to be performed in accordance with International Standards on Auditing (New Zealand).</p> <p>In order to obtain sufficient coverage of group balances, a number of smaller business units were subjected to analytical procedures by the Group audit team.</p> <p>All component teams were required to provide written confirmation to the group audit team explaining the work performed, the results of that work as well as key documents supporting any significant findings or observations.</p> <p>The group audit team held several discussions with Skellerup management and component teams in all locations (New Zealand, Australia, Italy, USA, UK and China). During these discussions, the work performed by each team was assessed, and the key judgements were discussed, as were the findings relevant to the group audit.</p> <p>In addition, we made enquiries of component teams in respect to financial reporting matters that may have been affected by COVID-19. These included the adequacy of the provision for expected credit losses, government subsidies as well as any additional financial reporting risks identified because of the pandemic and the audit procedures performed to address these.</p> <p>We reported to the Audit Committee:</p> <ul style="list-style-type: none"> <li>i) The results of audit procedures and testing performed by both the group and components teams; and</li> <li>ii) Any misstatements identified that warrant reporting based on quantitative or qualitative grounds.</li> </ul> |

### **Information other than the financial statements and auditor's report**

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

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

In connection with our audit of the 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 during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, 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.

### **Directors' responsibilities for the financial statements**

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

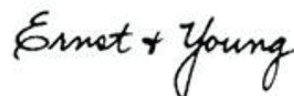
In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors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

### **Auditor's responsibilities for the audit of the 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 International Standards on Auditing (New Zealand) 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 the auditor's responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Simon O'Connor.



Chartered Accountants  
Auckland  
21 August 2020

# Directors' Responsibility Statement

for the year ended 30 June 2020

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements, which give a true and fair view of the financial position of the Skellerup Holdings Limited Group as at 30 June 2020, and the results of their operations and cash flows for the year ended 30 June 2020.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied and supported by reasonable judgements and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the Group financial statements of Skellerup Holdings Limited for the year ended 30 June 2020.

The Group financial statements are dated 21 August 2020 and are signed in accordance with a resolution of the Directors made pursuant to section 211 of the Companies Act 1993.

## For and on behalf of the Directors



A handwritten signature in black ink.

**EM Coutts**  
Independent Chair



A handwritten signature in black ink.

**AR Isaac**  
Independent Director



## Income Statement

for the year ended 30 June 2020

|                                                                                        | Note | 2020<br>\$000 | 2019<br>\$000 |
|----------------------------------------------------------------------------------------|------|---------------|---------------|
| <b>Revenue</b>                                                                         | 2    | 251,389       | 245,792       |
| Cost of sales                                                                          |      | (155,115)     | (152,917)     |
| <b>Gross profit</b>                                                                    |      | 96,274        | 92,875        |
| Other income                                                                           | 4    | 2,491         | 381           |
| Distribution expenses                                                                  |      | (14,038)      | (12,862)      |
| Marketing expenses                                                                     |      | (20,622)      | (21,073)      |
| Administration expenses                                                                |      | (21,619)      | (17,523)      |
| <b>Profit for the year before tax, finance costs and share of profit of associates</b> |      | 42,486        | 41,798        |
| Finance costs                                                                          | 16   | (2,582)       | (1,785)       |
| Share of net profit of associates accounted for using the equity method                |      | (73)          | 23            |
| <b>Profit for the year before tax</b>                                                  |      | 39,831        | 40,036        |
| Income tax expense                                                                     | 5    | (10,767)      | (10,973)      |
| <b>Net after-tax profit for the year, attributable to owners of the Parent</b>         |      | 29,064        | 29,063        |
| <b>Earnings per share</b>                                                              |      |               |               |
| Basic earnings per share (cents)                                                       | 19   | 14.92         | 14.96         |
| Diluted earnings per share (cents)                                                     | 19   | 14.80         | 14.80         |

The above Income Statement should be read in conjunction with the accompanying notes.

# Statement of Comprehensive Income

for the year ended 30 June 2020

|                                                                                                        | Note | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------------------------------------------------------|------|---------------|---------------|
| <b>Net profit after tax for the year</b>                                                               |      | <b>29,064</b> | 29,063        |
| <b>Other comprehensive income</b>                                                                      |      |               |               |
| <b>Items that may be reclassified subsequently to profit or loss</b>                                   |      |               |               |
| Net gains/(losses) on cash flow hedges                                                                 | 17   | 61            | 735           |
| Income tax related to gains/(losses) on cash flow hedges                                               | 5    | (17)          | (206)         |
| Foreign exchange movements on translation of overseas subsidiaries                                     | 17   | 2,265         | (1,749)       |
| Income tax related to gains/(losses) on foreign exchange movements of loans with overseas subsidiaries | 5    | (109)         | 37            |
| <b>Other comprehensive income net of tax</b>                                                           |      | <b>2,200</b>  | (1,183)       |
| <b>Total comprehensive income for the year attributable to equity holders of the Parent</b>            |      | <b>31,264</b> | 27,880        |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Balance Sheet

as at 30 June 2020

|                                                            | Note | 2020<br>\$000  | 2019<br>\$000  |
|------------------------------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                                      |      |                |                |
| Cash and cash equivalents                                  | 6    | 13,617         | 9,639          |
| Trade and other receivables and prepayments                | 7    | 46,405         | 50,759         |
| Inventories                                                | 8    | 52,098         | 48,339         |
| Income tax receivable                                      |      | 74             | 1,465          |
| Derivative financial assets                                | 22   | 378            | 310            |
| <b>Total current assets</b>                                |      | <b>112,572</b> | <b>110,512</b> |
| <b>Non-current assets</b>                                  |      |                |                |
| Property, plant and equipment                              | 9    | 87,846         | 91,296         |
| Right-of-use assets                                        | 9    | 21,811         | -              |
| Deferred tax assets                                        | 5    | 3,125          | 2,822          |
| Goodwill                                                   | 10   | 54,908         | 49,476         |
| Intangible assets                                          | 10   | 1,217          | 1,057          |
| Investment in associate                                    |      | 1,725          | 1,723          |
| Derivative financial assets                                | 22   | 438            | 173            |
| <b>Total non-current assets</b>                            |      | <b>171,070</b> | <b>146,547</b> |
| <b>Total assets</b>                                        |      | <b>283,642</b> | <b>257,059</b> |
| <b>Current liabilities</b>                                 |      |                |                |
| Trade and other payables                                   | 11   | 24,806         | 22,995         |
| Provisions                                                 | 12   | 4,811          | 4,840          |
| Income tax payable                                         |      | 1,119          | 960            |
| Interest-bearing loans and borrowings                      | 13   | 830            | -              |
| Lease liabilities - short term                             | 14   | 4,544          | -              |
| Derivative financial liabilities                           | 22   | 440            | 118            |
| <b>Total current liabilities</b>                           |      | <b>36,550</b>  | <b>28,913</b>  |
| <b>Non-current liabilities</b>                             |      |                |                |
| Provisions                                                 | 12   | 1,283          | 1,406          |
| Interest-bearing loans and borrowings                      | 13   | 41,300         | 46,215         |
| Deferred tax liabilities                                   | 5    | 2,042          | 1,950          |
| Lease liabilities - long term                              | 14   | 17,772         | -              |
| Derivative financial liabilities                           | 22   | 132            | 183            |
| <b>Total non-current liabilities</b>                       |      | <b>62,529</b>  | <b>49,754</b>  |
| <b>Total liabilities</b>                                   |      | <b>99,079</b>  | <b>78,667</b>  |
| <b>Net assets</b>                                          |      | <b>184,563</b> | <b>178,392</b> |
| <b>Equity</b>                                              |      |                |                |
| <b>Equity attributable to equity holders of the Parent</b> |      |                |                |
| Share capital                                              | 15   | 72,173         | 72,173         |
| Reserves                                                   | 17   | (7,065)        | (9,490)        |
| Retained earnings                                          | 20   | 119,455        | 115,709        |
| <b>Total equity</b>                                        |      | <b>184,563</b> | <b>178,392</b> |

The above Balance Sheet should be read in conjunction with the accompanying notes.



## Statement of Changes in Equity

for the year ended 30 June 2020

|                                                       |      | Fully Paid<br>Ordinary<br>Shares | Cash Flow<br>Hedge<br>Reserve | Foreign<br>Currency<br>Translation<br>Reserve | Employee<br>Share Plan<br>Reserve | Retained<br>Earnings | Total           |
|-------------------------------------------------------|------|----------------------------------|-------------------------------|-----------------------------------------------|-----------------------------------|----------------------|-----------------|
|                                                       | Note | \$000                            | \$000                         | \$000                                         | \$000                             | \$000                | \$000           |
| <b>Balance 1 July 2018</b>                            |      | 69,732                           | (397)                         | (8,059)                                       | 471                               | 110,539              | 172,286         |
| Net profit after tax for the year ending 30 June 2019 |      | -                                | -                             | -                                             | -                                 | 29,063               | 29,063          |
| Other comprehensive income                            |      | -                                | 529                           | (1,712)                                       | -                                 | -                    | (1,183)         |
| <b>Total comprehensive income for the year</b>        |      | -                                | 529                           | (1,712)                                       | -                                 | 29,063               | 27,880          |
| Share incentive scheme                                |      | 2,441                            | -                             | -                                             | (322)                             | 451                  | 2,570           |
| Dividends                                             |      | -                                | -                             | -                                             | -                                 | (24,344)             | (24,344)        |
| <b>Balance 30 June 2019</b>                           |      | 72,173                           | 132                           | (9,771)                                       | 149                               | 115,709              | 178,392         |
| Net profit after tax for the year ending 30 June 2020 |      | -                                | -                             | -                                             | -                                 | 29,064               | <b>29,064</b>   |
| Other comprehensive income                            | 17   | -                                | 44                            | 2,156                                         | -                                 | -                    | <b>2,200</b>    |
| <b>Total comprehensive income for the year</b>        |      | -                                | <b>44</b>                     | <b>2,156</b>                                  | -                                 | <b>29,064</b>        | <b>31,264</b>   |
| Share incentive scheme                                | 18   | -                                | -                             | -                                             | 225                               | -                    | <b>225</b>      |
| Dividends                                             | 20   | -                                | -                             | -                                             | -                                 | (25,318)             | <b>(25,318)</b> |
| <b>Balance 30 June 2020</b>                           |      | <b>72,173</b>                    | <b>176</b>                    | <b>(7,615)</b>                                | <b>374</b>                        | <b>119,455</b>       | <b>184,563</b>  |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Cash Flow Statement

for the year ended 30 June 2020

|                                                           | Note | 2020<br>\$000   | 2019<br>\$000   |
|-----------------------------------------------------------|------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>               |      |                 |                 |
| Receipts from customers                                   |      | 258,378         | 244,265         |
| Interest received                                         |      | 26              | 14              |
| Dividends received                                        |      | 2               | 1               |
| Payments to suppliers and employees                       |      | (198,310)       | (203,880)       |
| Income tax refund/(paid)                                  |      | (9,508)         | (9,695)         |
| Interest and bank fees paid                               |      | (1,644)         | (1,785)         |
| Interest on right-of-use asset leases                     |      | (938)           | -               |
| <b>Net cash flows from/(used in) operating activities</b> |      | <b>48,006</b>   | <b>28,920</b>   |
| <b>Cash flows from investing activities</b>               |      |                 |                 |
| Proceeds from sale of property, plant and equipment       |      | 441             | 184             |
| Payments for property, plant and equipment                |      | (3,944)         | (4,450)         |
| Payments for intangible assets                            |      | (439)           | (143)           |
| Acquisition of a business, net of cash acquired           |      | (6,204)         | (6,663)         |
| Payment for investment in associates                      |      | -               | (1,674)         |
| <b>Net cash flows from/(used in) investing activities</b> |      | <b>(10,146)</b> | <b>(12,746)</b> |
| <b>Cash flows from financing activities</b>               |      |                 |                 |
| Proceeds from/(repayments for) loans and advances         |      | (4,082)         | 5,823           |
| Proceeds from issue of shares                             |      | -               | 2,422           |
| Repayments of lease liabilities                           |      | (4,671)         | -               |
| Dividends paid to equity holders of Parent                |      | (25,318)        | (24,344)        |
| <b>Net cash flows from/(used in) financing activities</b> |      | <b>(34,071)</b> | <b>(16,099)</b> |
| Net increase/(decrease) in cash and cash equivalents      |      | 3,789           | 75              |
| Cash and cash equivalents at the beginning of the year    |      | 9,639           | 9,681           |
| Effect of exchange rate fluctuations                      |      | 189             | (117)           |
| <b>Cash and cash equivalents at the end of the year</b>   | 6    | <b>13,617</b>   | <b>9,639</b>    |

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

### Reconciliation of net profit after tax to net cash flow from operations

|                                                                          | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------------------------|---------------|---------------|
| Net profit after tax                                                     | 29,064        | 29,063        |
| Adjustments for:                                                         |               |               |
| Depreciation - property, plant and equipment                             | 7,272         | 6,961         |
| Depreciation and impairment - right-of-use assets                        | 5,228         | -             |
| Amortisation                                                             | 267           | 171           |
| Loss on sale of property, plant and equipment                            | 22            | 16            |
| Impairment of property, plant and equipment                              | 67            | -             |
| Foreign currency movements on translating foreign assets and liabilities | 508           | 546           |
| Bad debts written off                                                    | 283           | 51            |
| Increase in doubtful debts provided for                                  | 195           | -             |
| Share of profit in associates                                            | (73)          | 23            |
| Net movement in working capital                                          | 5,173         | (7,911)       |
| <b>Net cash inflow from operating activities</b>                         | <b>48,006</b> | <b>28,920</b> |

# Notes to the Financial Statements

## Reporting Entity

Skellerup Holdings Limited ('the Company') is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at Level 3, 205 Great South Road, Greenlane, Auckland. The Company is a Reporting Entity in terms of the Financial Markets Conduct Act 2013 and is listed on the New Zealand Exchange (NZX Main Board) with the ticker SKL. These financial statements were authorised for issue in accordance with a resolution of the directors on 21 August 2020.

## (a) Nature of operations

The Skellerup Group of companies is a global solutions provider of technical polymer and elastomer products for a variety of specialist industrial and agricultural applications. Skellerup's operations are split into two units: the Agri Division, a world leading provider of food grade dairy rubberware, filters, and animal health products to the global dairy industry; and the Industrial Division, a global specialist for technically demanding products used in water, roofing, automotive, extraction, appliance and health applications.

## (b) Basis of preparation

These financial statements of the Group, a profit-oriented business, are for the year ended 30 June 2020.

## (c) Statement of compliance

The consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with New Zealand Generally Accepted Accounting Practices (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013. For the purpose of complying with NZ GAAP, the Group is a for-profit entity. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements also comply with International Financial Reporting Standards ('IFRS'). The financial statements are presented in New Zealand dollars (NZD) and all values are rounded to the nearest thousand dollars (\$000).

The accounting principles recognised as appropriate for the measuring and reporting of profit and loss and financial position on a historical-cost basis have been applied, except for derivative financial instruments, which have been measured at fair value.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Critical accounting judgements, estimates and assumptions are detailed in Note (f).

## (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. Fair value is calculated as the sum of: the acquisition-date fair values of the assets transferred by the Group; the liabilities incurred by the Group to former owners; the equity issued by the Group; and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

In preparing the consolidated financial statements, all inter-company balances, income and expense transactions, and profit and losses resulting from intra-Group activities, have been eliminated.

## (e) Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars (the 'presentation currency'), which is the functional currency of the Parent.



## Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when deferred in OCI as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

## Group companies

The assets and liabilities of all Group companies that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve. On any disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the foreign exchange rates ruling at the balance sheet date.

## (f) Significant accounting judgements and assumptions

In the process of applying the Group's accounting policies, a number of judgements have been made and estimates of future events applied. Judgements and estimates which are material to the financial statements are found in the following notes.

|           |                                      |         |
|-----------|--------------------------------------|---------|
| • Note 10 | Impairment of goodwill               | page 61 |
| • Note 9  | Estimation of useful lives of assets | page 59 |
| • Note 8  | Inventory obsolescence               | page 58 |
| • Note 5  | Recovery of deferred tax asset       | page 55 |

## (g) COVID-19 Pandemic

On 11 March 2020 the World Health Organisation (WHO) declared a global pandemic as a result of the outbreak and spread of COVID-19. The Group has business operations located across the world. Our operations faced varying levels of disruption before and following the WHO declaration. Most of the Group's businesses produce products deemed essential so continued to operate under adjusted protocols. Additional costs were incurred in making these adjustments and ensuring the safety of our employees. The impact of these costs is included within the financial results reported. The Group claimed wage and job retention subsidies where eligible for schemes offered in the countries where the Group operates. Details of these subsidy payments are disclosed in note 4 of these financial statements. COVID-19 has not had any material impact on the measurement of Group assets including goodwill and provisions including expected credit losses.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 1. Segment Information

An operating segment is a distinguishable component of the entity which is reported as an organisational unit, engages in business activities, earns revenue and incurs expenses, and whose operating results are reviewed regularly by the chief operating decision-maker to allocate resources and assess performance.

The Group's operating segments are Agri, Industrial and Corporate, being the divisions reported to the executive management and Board of Directors to assess performance of the Group and allocate resources. The principal measure of performance for each segment is EBIT (earnings before interest and tax). As a result, finance costs and taxation have not been allocated to each segment.

### Agri Division

The Agri Division manufactures and distributes dairy rubberware which includes milking liners, tubing, filters and feeding teats, together with other related agricultural products and dairy vacuum pumps to global agricultural markets.

### Industrial Division

The Industrial Division manufactures and distributes technical polymer products across a number of industrial markets, including construction, infrastructure, automotive, mining and general industrial, together with industrial vacuum pump systems for a variety of industrial applications worldwide.

### Corporate Division

The Corporate Division includes the Parent company and other central administration expenses that have not been allocated to the Agri and Industrial Divisions.

#### (a) Business segment analysis

| For the year ended 30 June 2020                                   | Agri<br>\$000  | Industrial<br>\$000 | Corporate<br>\$000 | Eliminations<br>\$000 | Total<br>\$000 |
|-------------------------------------------------------------------|----------------|---------------------|--------------------|-----------------------|----------------|
| <b>Revenue</b>                                                    | 93,609         | 157,932             | -                  | (152)                 | 251,389        |
| <b>Segment EBIT</b>                                               | 25,405         | 20,862              | (3,783)            | 2                     | 42,486         |
| Profit before tax, finance costs and share of profit of associate |                |                     |                    |                       | 42,486         |
| Finance costs                                                     |                |                     |                    |                       | (2,582)        |
| Share of net profit of associates                                 |                |                     |                    |                       | (73)           |
| Profit for the year before tax                                    |                |                     |                    |                       | 39,831         |
| Income tax expense                                                |                |                     |                    |                       | (10,767)       |
| <b>Net after-tax profit</b>                                       |                |                     |                    |                       | <b>29,064</b>  |
| <b>Assets and liabilities</b>                                     |                |                     |                    |                       |                |
| Segment assets                                                    | 127,056        | 136,231             | 20,355             | -                     | 283,642        |
| Segment liabilities                                               | 16,069         | 35,990              | 47,020             | -                     | 99,079         |
| <b>Net assets</b>                                                 | <b>110,987</b> | <b>100,241</b>      | <b>(26,665)</b>    | <b>-</b>              | <b>184,563</b> |
| <b>Other segment information</b>                                  |                |                     |                    |                       |                |
| Capital expenditure                                               | 6,707          | 2,740               | 12                 | -                     | 9,459          |
| <b>Cash flow</b>                                                  |                |                     |                    |                       |                |
| Segment EBIT                                                      | 25,405         | 20,862              | (3,783)            | 2                     | 42,486         |
| Adjustments for:                                                  |                |                     |                    |                       |                |
| - Depreciation and amortisation                                   | 4,953          | 7,703               | 111                | -                     | 12,767         |
| - Non-cash items                                                  | -              | -                   | 1,002              | -                     | 1,002          |
| Movement in working capital                                       | (884)          | 4,437               | 1,622              | (2)                   | 5,173          |
| <b>Segment cash flow</b>                                          | <b>29,474</b>  | <b>33,002</b>       | <b>(1,048)</b>     | <b>-</b>              | <b>61,428</b>  |
| Finance and tax cash expense                                      |                |                     |                    |                       | (11,152)       |
| Movement in finance and tax accrual                               |                |                     |                    |                       | (2,270)        |
| <b>Net cash flow from operating activities</b>                    |                |                     |                    |                       | <b>48,006</b>  |

## 1. Segment Information (continued)

| For the year ended 30 June 2019                | Agri<br>\$000  | Industrial<br>\$000 | Corporate<br>\$000 | Eliminations<br>\$000 | Total<br>\$000 |
|------------------------------------------------|----------------|---------------------|--------------------|-----------------------|----------------|
| <b>Revenue</b>                                 | 88,750         | 157,188             | -                  | (146)                 | 245,792        |
| <b>Segment EBIT</b>                            | 22,792         | 22,876              | (3,870)            | -                     | 41,798         |
| Profit before tax and finance costs            |                |                     |                    |                       | 41,798         |
| Finance costs                                  |                |                     |                    |                       | (1,785)        |
| Share of net profit of associates              |                |                     |                    |                       | 23             |
| Profit for the year before tax                 |                |                     |                    |                       | 40,036         |
| Income tax expense                             |                |                     |                    |                       | (10,973)       |
| <b>Net after-tax profit</b>                    |                |                     |                    |                       | <b>29,063</b>  |
| <b>Assets and liabilities</b>                  |                |                     |                    |                       |                |
| Segment assets                                 | 112,784        | 122,930             | 21,345             | -                     | 257,059        |
| Segment liabilities                            | 9,631          | 18,694              | 50,342             | -                     | 78,667         |
| <b>Net assets</b>                              | <b>103,153</b> | <b>104,236</b>      | <b>(28,997)</b>    | <b>-</b>              | <b>178,392</b> |
| <b>Other segment information</b>               |                |                     |                    |                       |                |
| Capital expenditure                            | 1,926          | 8,336               | 64                 | -                     | 10,326         |
| <b>Cash flow</b>                               |                |                     |                    |                       |                |
| Segment EBIT                                   | 22,792         | 22,876              | (3,870)            | -                     | 41,798         |
| Adjustments for:                               |                |                     |                    |                       |                |
| - Depreciation and amortisation                | 4,119          | 2,947               | 66                 | -                     | 7,132          |
| - Non-cash items                               | -              | -                   | 636                | -                     | 636            |
| Movement in working capital                    | 104            | (7,959)             | (56)               | -                     | (7,911)        |
| <b>Segment cash flow</b>                       | <b>27,015</b>  | <b>17,864</b>       | <b>(3,224)</b>     | <b>-</b>              | <b>41,655</b>  |
| Finance and tax cash expense                   |                |                     |                    |                       | (11,480)       |
| Movement in finance and tax accrual            |                |                     |                    |                       | (1,255)        |
| <b>Net cash flow from operating activities</b> |                |                     |                    |                       | <b>28,920</b>  |

### Major customers

The Agri and Industrial Divisions generate revenue from a large number of customers.

For the Agri Division, the three largest customers account for 36.6% (2019: 36.0%) of the Agri Division revenue.

For the Industrial Division, the three largest customers account for 9.9% (2019: 9.3%) of the Industrial Division revenue.



## 1. Segment Information (continued)

### (b) Geographical revenue

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to each geographical location based on the location of the customers. Differences in foreign currency translation rates can impact comparisons between years.

|                            | 2020<br>\$000  | 2019<br>\$000  |
|----------------------------|----------------|----------------|
| New Zealand                | 55,980         | 50,776         |
| Australia                  | 48,054         | 49,151         |
| North America              | 81,111         | 78,278         |
| Europe                     | 32,320         | 33,994         |
| United Kingdom and Ireland | 12,691         | 13,917         |
| Asia                       | 20,341         | 16,614         |
| Other                      | 892            | 3,062          |
| <b>Total revenue</b>       | <b>251,389</b> | <b>245,792</b> |

### (c) Assets by geographical location

The non-current segment assets are scheduled by the geographical location in which the asset is held. The non-current assets, which include property, plant and equipment, right of use assets, goodwill and intangible assets for each geographical location, are as follows:

|                                                    | 2020<br>\$000  | 2019<br>\$000  |
|----------------------------------------------------|----------------|----------------|
| New Zealand                                        | 110,658        | 105,535        |
| Australia                                          | 11,802         | 8,504          |
| Europe                                             | 13,926         | 10,123         |
| United Kingdom and Ireland                         | 17,787         | 8,489          |
| Asia                                               | 7,023          | 7,635          |
| North America                                      | 4,586          | 1,543          |
| <b>Non-current assets by geographical location</b> | <b>165,782</b> | <b>141,829</b> |

## 2. Operating Revenue

The Group is in the business of providing technical polymer and elastomer products. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The Group has concluded that it is the principal in its revenue arrangements, because it controls the goods and services before transferring them to the customer.

### NZ IFRS 15 – Revenue from contracts with customers

Skellerup implemented NZ IFRS 15 for the first time in 2018 using the full retrospective method of adoption.

The Agri and Industrial segments have similar performance obligations. The performance obligation is satisfied upon delivery of product and payment is generally due within 30 to 120 days of delivery. Some contracts provide customers with volume rebates which give rise to variable consideration and are accounted for accordingly. There are no maintenance or service contracts with customers.

### 3. Expenditure included in Net Profit for the Year

Net profit for the year has been arrived at after charging the items noted below. Where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, the GST/VAT is recognised as part of the expense item as applicable.

|                                                                                                  | Note | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------------------------------------------------|------|---------------|---------------|
| <b>Employee benefits expense</b>                                                                 |      |               |               |
| Wages and salaries (including annual leave, long-service leave, CEO share scheme and sick leave) |      | 52,104        | 47,743        |
| Termination benefits                                                                             |      | 31            | 96            |
| Defined contribution expense                                                                     |      | 2,466         | 2,725         |
| <b>Total employee benefit expense</b>                                                            |      | <b>54,601</b> | <b>50,564</b> |
| <b>Depreciation, amortisation and impairment expense</b>                                         |      |               |               |
| Depreciation of property, plant and equipment                                                    | 9    | 7,272         | 6,961         |
| Depreciation and impairment of right of use assets                                               | 9    | 5,228         | -             |
| Amortisation of intangible assets                                                                | 10   | 267           | 171           |
| <b>Total depreciation and amortisation expense</b>                                               |      | <b>12,767</b> | <b>7,132</b>  |
| <b>Total (gain)/loss on disposal of property, plant and equipment</b>                            |      | <b>22</b>     | <b>16</b>     |
| <b>Total product development costs</b>                                                           |      | <b>3,863</b>  | <b>3,986</b>  |
| <b>Operating lease and rental costs</b>                                                          |      | <b>463</b>    | <b>4,884</b>  |
| <b>Remuneration of auditors</b>                                                                  |      |               |               |
| Audit of the financial statements by Parent company auditors                                     |      | 499           | 461           |
| Other auditors' fees for the audit of the financial statements in foreign jurisdictions          |      | 93            | 83            |
| Taxation services provided by Parent company auditors                                            |      | -             | 13            |
| <b>Total remuneration of auditors</b>                                                            |      | <b>592</b>    | <b>557</b>    |

### 4. Other income

|                                                         | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------------------------|---------------|---------------|
| Interest income                                         | 26            | 14            |
| Government grants received                              | 874           | 32            |
| Realised and unrealised foreign currency gains/(losses) | 685           | (170)         |
| Other sundry income                                     | 906           | 505           |
| <b>Total other income</b>                               | <b>2,491</b>  | <b>381</b>    |

Government grants have been received by some entities in the Group under wage subsidy and job retention support schemes offered by some countries in response to COVID-19.

## 5. Taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- For a deferred income tax liability arising from the initial recognition of goodwill; or
- Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

### (a) Income statement

|                                                   | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------------------|---------------|---------------|
| <b>Current income tax</b>                         |               |               |
| Current income tax charge/(credit)                | 10,948        | 10,450        |
| Prior-year adjustments                            | 8             | (74)          |
| <b>Deferred income tax</b>                        |               |               |
| Temporary difference reversal/(origination)       | (147)         | 468           |
| Prior-year adjustments                            | (32)          | 127           |
| Effect of movements in tax rates                  | (10)          | 2             |
| <b>Income tax expense as per income statement</b> | <b>10,767</b> | <b>10,973</b> |

### (b) Amounts charged/(credited) to other comprehensive income

|                                                                                 | Note | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------------------------------------------------|------|---------------|---------------|
| <b>Current income tax</b>                                                       |      |               |               |
| Fair value of derivative financial instruments                                  | 17   | 17            | 206           |
| Translation of foreign operations                                               | 17   | 109           | (37)          |
| <b>Total income tax expense/(credit) relating to other comprehensive income</b> |      | <b>126</b>    | <b>169</b>    |

## 5. Taxation (continued)

### (c) Reconciliation

|                                                 | 2020<br>\$000 | 2019<br>\$000 |
|-------------------------------------------------|---------------|---------------|
| <b>Total profit before tax as reported</b>      | <b>39,831</b> | <b>40,036</b> |
| Tax percentage at Parent company rate           | 28%           | 28%           |
| Tax at Parent company rate                      | 11,153        | 11,210        |
| Non-deductible expenses/(non-assessable income) | 273           | 77            |
| Tax effects of non-New Zealand profits          | (625)         | (369)         |
| Adjustments for prior years                     | (24)          | 53            |
| Effect of movements in tax rates                | (10)          | 2             |
| <b>Income tax as per income statement</b>       | <b>10,767</b> | <b>10,973</b> |

### (d) Deferred tax assets and liabilities

|                        | 2020<br>\$000 | 2019<br>\$000 |
|------------------------|---------------|---------------|
| Deferred tax asset     | 3,125         | 2,822         |
| Deferred tax liability | (2,042)       | (1,950)       |
| <b>Net tax asset</b>   | <b>1,083</b>  | <b>872</b>    |

The movement in the net deferred tax assets and liabilities is provided below:

| 2020                          | Opening<br>Balance<br>\$000 | Charged to<br>Income<br>\$000 | Charged to Other<br>Comprehensive<br>Income<br>\$000 | Foreign<br>Currency<br>Movements<br>\$000 | Closing<br>Balance<br>\$000 |
|-------------------------------|-----------------------------|-------------------------------|------------------------------------------------------|-------------------------------------------|-----------------------------|
| Property, plant and equipment | (2,044)                     | (212)                         | -                                                    | (26)                                      | (2,282)                     |
| Provisions and accruals       | 2,926                       | 475                           | -                                                    | 33                                        | 3,434                       |
| Financial derivatives         | (52)                        | -                             | (17)                                                 | -                                         | (69)                        |
| Other                         | 42                          | (44)                          | -                                                    | 2                                         | -                           |
| <b>Net tax asset</b>          | <b>872</b>                  | <b>219</b>                    | <b>(17)</b>                                          | <b>9</b>                                  | <b>1,083</b>                |

| 2019                          | Opening<br>Balance<br>\$000 | Charged to<br>Income<br>\$000 | Charged to Other<br>Comprehensive<br>Income<br>\$000 | Foreign<br>Currency<br>Movements<br>\$000 | Closing<br>Balance<br>\$000 |
|-------------------------------|-----------------------------|-------------------------------|------------------------------------------------------|-------------------------------------------|-----------------------------|
| Property, plant and equipment | (1,588)                     | (441)                         | -                                                    | (15)                                      | (2,044)                     |
| Provisions and accruals       | 3,161                       | (198)                         | -                                                    | (37)                                      | 2,926                       |
| Financial derivatives         | 154                         | -                             | (206)                                                | -                                         | (52)                        |
| Other                         | -                           | 42                            | -                                                    | -                                         | 42                          |
| <b>Net tax asset</b>          | <b>1,727</b>                | <b>(597)</b>                  | <b>(206)</b>                                         | <b>(52)</b>                               | <b>872</b>                  |

### (e) Imputation credit account

|                                             | Note | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------------|------|---------------|---------------|
| <b>Balance at the beginning of the year</b> |      | <b>41</b>     | <b>12</b>     |
| Attached to dividends paid                  | 20   | (4,795)       | (4,773)       |
| Income tax paid in New Zealand              |      | 4,901         | 4,802         |
| <b>Total imputation credits</b>             |      | <b>147</b>    | <b>41</b>     |



## 6. Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash flows are included in the cash flow statement on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

In New Zealand, some Group companies operate bank accounts in overdraft. Under the Group, bank facility overdrafts have a legal right of set-off against bank accounts in funds. Therefore, only the net in funds position has been disclosed.

Cash and cash equivalents at the end of the year as shown in the cash flow statement can be reconciled to the related items in the balance sheet.

All cash is available and under the control of the Group and there are no restrictions relating to the use of the cash balances disclosed.

## 7. Trade and Other Receivables and Prepayments

Trade receivables represent the Group's right to an amount of consideration that is unconditional. Trade receivables are recognised and measured at the transaction price determined under NZ IFRS 15. The Group recognises an allowance for expected credit losses where there is an increase in credit risk subsequent to initial recognition.

|                                                          | 2020<br>\$000 | 2019<br>\$000 |
|----------------------------------------------------------|---------------|---------------|
| <b>Trade receivables</b>                                 | <b>42,510</b> | 46,872        |
| Less allowance for expected credit losses                | (725)         | (548)         |
|                                                          | <b>41,785</b> | 46,324        |
| GST/VAT receivable                                       | 311           | 285           |
| Other                                                    | 4,309         | 4,150         |
| <b>Total trade and other receivables and prepayments</b> | <b>46,405</b> | 50,759        |

The average credit period for the sale of goods is 56 days (2019: 63 days). The Group offers credit terms ranging from 30 to 120 days to those customers for whom the Group has been able to validate acceptable credit quality. The credit terms and limits are reviewed monthly. No interest is charged on the trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The matrix uses a probability weighted outcome that takes into account the age of receivables, past events and current conditions. Trade receivables are written off if considered uncollectable.

Of the trade receivables balance at the end of the year, \$9.82 million (2019: \$7.99 million) representing 23.5% (2019: 17.2%) of the trade receivables are due from the Group's three largest customers. The balances due from these customers are current and are considered to be a low credit risk to the Group.

| <b>Ageing of past due but not impaired trade receivables</b> | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------------|---------------|---------------|
| One to 30 days                                               | 9,257         | 11,447        |
| 31 to 60 days                                                | 187           | 782           |
| 61 days plus                                                 | 925           | 1,828         |
| <b>Total past due trade receivables</b>                      | <b>10,369</b> | 14,057        |
| <b>Movement in the allowance for doubtful debts:</b>         |               |               |
| Balance at the beginning of the year                         | 548           | 347           |
| Impaired losses recognised                                   | 258           | 229           |
| Amounts written off as uncollectable                         | (92)          | (5)           |
| Impairment losses reversed                                   | -             | (15)          |
| Net foreign currency exchange differences                    | 11            | (8)           |
| <b>Balance at the end of the year</b>                        | <b>725</b>    | 548           |

## 8. Inventories

The Group applies an inventory valuation policy of valuing at the lower of original cost or net realisable value. Where inventory is written down below cost, estimates are made of the realisable value less cost to sell to determine the net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials as the purchase cost on a first-in, first-out basis;
- Finished goods and work-in-progress as the cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

|                          | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------|---------------|---------------|
| Raw materials            | 10,643        | 8,909         |
| Work-in-progress         | 2,852         | 2,642         |
| Finished goods           | 38,603        | 36,788        |
| <b>Total inventories</b> | <b>52,098</b> | <b>48,339</b> |

The value of inventories is net of \$2,695,266 (2019: \$2,540,737) in respect of write-downs across all categories of inventory to net realisable value. All inventory write-down movements are included in the cost of sales.

## 9. Property, Plant and Equipment

All classes of property, plant and equipment are recorded initially at cost, including costs directly attributable to bringing the asset to working condition and ready for its intended use. Subsequently, property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment. Depreciation of property, plant and equipment, other than freehold land, which is carried at cost, is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                                |                  |
|--------------------------------|------------------|
| Buildings:                     | 40 years         |
| Plant and equipment:           | Two to 30 years  |
| Furniture, fittings and other: | Five to 10 years |
| Right of use assets:           | One to 11 years  |

The estimation of the useful lives of assets has been based on historical experience, manufacturers' warranties and management's judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary. The depreciation charges are disclosed below. At each reporting date, the Group assesses whether or not there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Right-of-use assets comprise property, motor vehicles & plant and represents the Group's right to use those underlying assets as a lessee under lease agreements.

|                                                | Note | Freehold<br>Land<br>\$000 | Freehold<br>Buildings<br>\$000 | Plant and<br>Equipment<br>\$000 | Furniture,<br>Fittings<br>and Other<br>\$000 | Right of<br>use assets<br>\$000 | Total<br>\$000 |
|------------------------------------------------|------|---------------------------|--------------------------------|---------------------------------|----------------------------------------------|---------------------------------|----------------|
| <b>Cost</b>                                    |      |                           |                                |                                 |                                              |                                 |                |
| Balance 1 July 2018                            |      | 7,084                     | 34,523                         | 108,191                         | 7,636                                        | -                               | 157,434        |
| Additions                                      |      | -                         | (40)                           | 4,618                           | 746                                          | -                               | 5,324          |
| Disposals                                      |      | -                         | -                              | (950)                           | (290)                                        | -                               | (1,240)        |
| Net foreign currency exchange differences      |      | -                         | -                              | (1,128)                         | (77)                                         | -                               | (1,205)        |
| <b>Balance 30 June 2019</b>                    |      | <b>7,084</b>              | <b>34,483</b>                  | <b>110,731</b>                  | <b>8,015</b>                                 | <b>-</b>                        | <b>160,313</b> |
| Initial recognition                            |      | -                         | -                              | -                               | -                                            | 18,491                          | 18,491         |
| Additions                                      |      | -                         | -                              | 3,333                           | 727                                          | 8,608                           | 12,668         |
| Disposals                                      |      | -                         | -                              | (1,599)                         | (383)                                        | -                               | (1,982)        |
| Net foreign currency exchange differences      |      | -                         | -                              | 1,055                           | 111                                          | (61)                            | 1,105          |
| <b>Balance 30 June 2020</b>                    |      | <b>7,084</b>              | <b>34,483</b>                  | <b>113,520</b>                  | <b>8,470</b>                                 | <b>27,038</b>                   | <b>190,595</b> |
| <b>Accumulated depreciation and impairment</b> |      |                           |                                |                                 |                                              |                                 |                |
| Balance 1 July 2018                            |      | -                         | 1,517                          | 56,892                          | 5,659                                        | -                               | 64,068         |
| Depreciation expense                           | 3    | -                         | 911                            | 5,452                           | 598                                          | -                               | 6,961          |
| Disposals                                      |      | -                         | -                              | (757)                           | (283)                                        | -                               | (1,040)        |
| Net foreign currency exchange differences      |      | -                         | -                              | (899)                           | (73)                                         | -                               | (972)          |
| <b>Balance 30 June 2019</b>                    |      | <b>-</b>                  | <b>2,428</b>                   | <b>60,688</b>                   | <b>5,901</b>                                 | <b>-</b>                        | <b>69,017</b>  |
| Depreciation expense                           | 3    | -                         | 911                            | 5,635                           | 727                                          | 4,972                           | 12,245         |
| Disposals                                      |      | -                         | -                              | (1,168)                         | (351)                                        | -                               | (1,519)        |
| Impairment                                     |      | -                         | -                              | 67                              | -                                            | 255                             | 322            |
| Net foreign currency exchange differences      |      | -                         | -                              | 790                             | 83                                           | -                               | 873            |
| <b>Balance 30 June 2020</b>                    |      | <b>-</b>                  | <b>3,339</b>                   | <b>66,012</b>                   | <b>6,360</b>                                 | <b>5,227</b>                    | <b>80,938</b>  |
| <b>Carrying value</b>                          |      |                           |                                |                                 |                                              |                                 |                |
| As at 30 June 2019                             |      | 7,084                     | 32,055                         | 50,043                          | 2,114                                        | -                               | 91,296         |
| <b>As at 30 June 2020</b>                      |      | <b>7,084</b>              | <b>31,144</b>                  | <b>47,508</b>                   | <b>2,110</b>                                 | <b>21,811</b>                   | <b>109,657</b> |

Plant and equipment and freehold buildings include work in progress of \$1,069,000 (2019: \$1,389,000).

Capital expenditure commitments are \$767,000 (2019: \$830,000).

## 10. Intangible Assets

The Group's intangible assets consist mainly of goodwill, software costs and customer relationships.

|                                                         | Note | Goodwill<br>\$000 | Software<br>\$000 | Customer<br>Relationships<br>\$000 | Total<br>\$000 |
|---------------------------------------------------------|------|-------------------|-------------------|------------------------------------|----------------|
| <b>Cost</b>                                             |      |                   |                   |                                    |                |
| <b>Balance 1 July 2018</b>                              |      | 45,966            | 9,225             | -                                  | 55,191         |
| Additions                                               |      | 4,194             | 143               | 632                                | 4,969          |
| Disposals                                               |      | -                 | (20)              | -                                  | (20)           |
| Net foreign currency exchange differences               |      | (684)             | (29)              | -                                  | (713)          |
| <b>Balance 30 June 2019</b>                             |      | 49,476            | 9,319             | 632                                | 59,427         |
| Additions                                               |      | 4,907             | 493               | -                                  | 5,400          |
| Disposals                                               |      | -                 | (26)              | -                                  | (26)           |
| Net foreign currency exchange differences               |      | 525               | (329)             | -                                  | 196            |
| <b>Balance 30 June 2020</b>                             |      | 54,908            | 9,457             | 632                                | 64,997         |
| <b>Accumulated amortisation</b>                         |      |                   |                   |                                    |                |
| <b>Balance 1 July 2018</b>                              |      | -                 | 8,769             | -                                  | 8,769          |
| Disposals                                               |      | -                 | (20)              | -                                  | (20)           |
| Amortisation expense                                    | 3    | -                 | 171               | -                                  | 171            |
| Net foreign currency exchange differences               |      | -                 | (26)              | -                                  | (26)           |
| <b>Balance 30 June 2019</b>                             |      | -                 | 8,894             | -                                  | 8,894          |
| Disposals                                               |      | -                 | (328)             | -                                  | (328)          |
| Amortisation expense                                    | 3    | -                 | 177               | 90                                 | 267            |
| Net foreign currency exchange differences               |      | -                 | 39                | -                                  | 39             |
| <b>Balance 30 June 2020</b>                             |      | -                 | 8,782             | 90                                 | 8,872          |
| <b>Carrying value of goodwill and intangible assets</b> |      |                   |                   |                                    |                |
| As at 30 June 2019                                      |      | 49,476            | 425               | 632                                | 50,533         |
| <b>As at 30 June 2020</b>                               |      | 54,908            | 675               | 542                                | 56,125         |

### Goodwill

Goodwill acquired in a business combination is measured initially at cost, being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the income statement. Separately recognised goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed.

The Group determines whether or not goodwill associated with items with indefinite useful lives is impaired at least on an annual basis. This requires certain assumptions being made in determining the recoverable amount of the cash-generating units, using a value-in-use discounted cash flow methodology, to which the goodwill has been allocated. The assumptions used in determining the recoverable amount and the carrying amount of goodwill are detailed below.



## 10. Intangible Assets (continued)

### Software

Identifiable intangible assets, which are acquired separately or in a business combination, are capitalised at cost at the date of acquisition and stated at cost less any accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Software costs are recorded as intangible assets and amortised over a period of 10 years.

### Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can be regarded reasonably as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project. The amortisation period and amortisation method for development costs are reviewed at each financial year-end. If the useful life or method of consumption is different from that of the previous assessment, changes are made accordingly.

### Impairment tests for goodwill

#### (i) Description of cash-generating units

Goodwill acquired through business combinations has been allocated to the business units acquired, with the exception of the purchase of Silclear Limited and Nexus Performance Foams Limited, which have their own cash generating units (CGUs). In some circumstances business units are combined into a larger CGU for the purposes of testing to determine fairly the recoverable amount against the value in use.

The goodwill allocated to each cash-generating unit is shown in the table below. The changes in goodwill recorded are attributable to exchange rate movements on the translation of the goodwill balances denominated in foreign currencies and the acquisition of Silclear Limited. The net present value of future estimated cash flows exceeds the recoverable amount of goodwill allocated to each cash-generating unit based on a value-in-use calculation. A pre-tax discount rate of 11.35% (2019: 11.12%) has been applied to discount future estimated cash flows to their present value.

| Cash-generating unit  | 2020<br>\$000 | 2019<br>\$000 |
|-----------------------|---------------|---------------|
| Gulf                  | 33,931        | 33,600        |
| Ambic                 | 7,645         | 7,530         |
| Deks                  | 3,801         | 3,721         |
| Stevens               | 431           | 431           |
| Nexus                 | 4,163         | 4,194         |
| Silclear              | 4,937         | -             |
| <b>Total goodwill</b> | <b>54,908</b> | <b>49,476</b> |

#### (ii) Assumptions used to determine the recoverable amount

The estimated future cash flows generated have been determined from the business plans and detailed budgets prepared by management as part of the annual business planning that is reviewed and approved by the Board of Directors. Such forecasts analyse and quantify a range of growth objectives which form the basis for determining the business growth and direction over the next three years.

For periods beyond 2020, the Group anticipates that business results will continue to improve due to new product developments, the benefits of established customer relationships and expansion into new and existing niche markets. The estimated cash flow in perpetuity is based upon the forecast year five cash flows and then an estimate of sustainable growth beyond this time period of 1.5% per annum.

## 10. Intangible Assets (continued)

Key assumptions used in the value-in-use calculations are as follows:

### Revenue assumptions

Revenue has been forecast to increase in a range of 0% to 17% per annum on a weighted average basis over the following five-year period in line with the Group's strategic business plans to develop and introduce new products, in addition to continuing to support and grow the Group's existing global customer relationships.

### Discount rate assumptions

The discount rate is intended to reflect the time value of money and the risks specific to each cash-generating unit achieving its forecast cash flows. In determining the appropriate discount rate, regard has been given to the weighted average cost of capital of the Group, which has been updated as at 30 June 2020, to reflect the current market interest rates and the additional cost of capital applicable in the current risk environment.

### Commodity cost pricing assumptions

With the base raw material component being synthetic and natural rubbers sourced from Asia, the pricing of these raw materials can fluctuate: many of the synthetics are by-products of the petrochemical industry, and natural rubbers are influenced by global supply and demand influences. Pricing assumptions have been made in the Group forecasts that any cost increases driven by commodity price changes will be passed through to customers.

### Market share assumptions

In preparing forecasts, the Group's business plans show no loss of market share. The Group's strategy is to continue to expand in global markets, especially in North America and Europe. This is the case particularly for the Gulf cash-generating unit, which has dedicated manufacturing and distribution capabilities established in these markets.

### Growth rate assumptions

The growth rates have been based on business plan assumptions applied in the preparation of the annual budgets for the new financial year and the following two years, with assumed lower growth rates in years four and five and in perpetuity. This process is based on key strategies that have been quantified at a product and customer level, reviewed by senior management and signed off by the Board of Directors.

#### (iii) Sensitivity to assumption changes

Estimates made of future cash flows are based on current market conditions. With trading across a number of different products covering a wide industry base, and through a number of international markets, the risk of significant change to cash flow projections is mitigated. Any change in future cash flow projections, which is influenced by price changes, foreign currency movements and competitor activities, is expected to have only minimal impact and is unlikely to cause an impairment risk to the goodwill allocated to the various cash-generating units, particularly with the estimated net present value of each cash-generating unit tested well above the carrying value of assets, including goodwill.

## 11. Trade and Other Payables

Trade and other payables are carried at amortised cost and, due to their short-term nature, are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid, and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and paid usually within 30 to 60 days of recognition.

|                                       | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------|---------------|---------------|
| Trade payables                        | 12,635        | 13,256        |
| Employee entitlements                 | 2,715         | 2,124         |
| Sundry payables and accruals          | 8,045         | 6,651         |
| GST payable                           | 1,411         | 964           |
| <b>Total trade and other payables</b> | <b>24,806</b> | <b>22,995</b> |

The average credit period on purchases of all goods and services represents an average of 31 days credit (2019: 34 days credit). The Group has financial risk management policies in place to ensure that all payables are met within acceptable terms and conditions of purchase.

## 12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the balance date.

If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

|                                                                  | 2020<br>\$000         | 2019<br>\$000         |
|------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Provisions</b>                                                |                       |                       |
| Employee entitlements                                            | 5,759                 | 5,538                 |
| Warranties                                                       | 335                   | 708                   |
| <b>Total provisions</b>                                          | <b>6,094</b>          | <b>6,246</b>          |
| Current                                                          | 4,811                 | 4,840                 |
| Non-current                                                      | 1,283                 | 1,406                 |
| <b>Total provisions</b>                                          | <b>6,094</b>          | <b>6,246</b>          |
| <b>Warranties</b>                                                | <b>2020<br/>\$000</b> | <b>2019<br/>\$000</b> |
| Balance at the beginning of the year                             | 708                   | 1,346                 |
| Additional provisions recognised                                 | 143                   | 298                   |
| Reductions arising from payments/sacrifices of economic benefits | (454)                 | (656)                 |
| Reductions arising from remeasurement or settlement without cost | (66)                  | (259)                 |
| Net foreign currency exchange differences                        | 4                     | (21)                  |
| <b>Balance at the end of the year</b>                            | <b>335</b>            | <b>708</b>            |

### Employee entitlements

#### (i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### (ii) Long-service leave

The liability for long-service leave is recognised and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using a probability calculation of the employee reaching the future service milestones. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## 12. Provisions (continued)

### (iii) Defined contribution scheme

The Group contributes to post-employment schemes for its employees. Under these schemes, the benefits received by the employee are determined by the amount of the contribution paid by the Group, together with any investment returns and, hence, the actuarial and investment risk is borne entirely by the employee. Therefore, because the Group's obligations are determined by the amount paid during each period, no actuarial assumptions are required to measure the obligation or the expense.

### Warranties

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the costs of rectifying any products that do not meet the customers' quality standards. The provision for warranty claims represents the present value of the Directors' best judgement or estimate of the future outflow of economic benefits that will be required under the Group's various product warranty programmes.

The estimate has been made on the basis of the expected performance of products, historical warranty trends, the costs of rectifying any products that do not meet the customers' quality standards and insurance arrangements the Group has in place. The actual cost may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

## 13. Interest-bearing Loans and Borrowings

All loans and borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured subsequently at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

|                                           | 2020<br>\$000 | 2019<br>\$000 |
|-------------------------------------------|---------------|---------------|
| <b>Secured at amortised cost</b>          |               |               |
| Balance at the beginning of the year      | 46,215        | 40,400        |
| Drawdowns                                 | 36,051        | 32,450        |
| Repayments                                | (40,133)      | (26,627)      |
| Net foreign currency exchange differences | (3)           | (8)           |
| <b>Balance at the end of the year</b>     | <b>42,130</b> | <b>46,215</b> |
| Effective interest rate                   | 2.14%         | 3.43%         |

The carrying amounts disclosed above approximate fair value. Bank loans are provided under a \$70 million multi-currency facility agreement with ANZ Bank New Zealand Limited (ANZ Bank) which has an expiry date of 31 August 2023.

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates. The carrying amount of tangible assets of the Charging Group (which excludes Skellerup Rubber Products Jiangsu Limited and other smaller entities in the Group) totalling \$189 million is pledged as security to ANZ Bank to secure the above term loans.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset which necessarily takes a substantial period of time to prepare for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.



## 14. Lease Liabilities

The Group adopted NZ IFRS 16 for the reporting period ended 30 June 2020.

The adoption of IFRS 16 results in leases being recognised on the balance sheet. Lease payments are now recorded as a repayment of the lease obligation and interest expense instead of as an operating expense in the income statement. Lease assets are depreciated on a straight-line basis over the current lease term. The Group has recognised lease assets and lease liabilities at the present value of future lease payments for existing lease terms and all lease renewal options that are reasonably certain to be exercised. Certain low value assets were excluded. The costs of these low value leases continue to be recognised as an expense in the Income Statement. The lease liabilities disclosed do not include future cash flows for leases where the Group does not intend to exercise its rights to extend existing leases nor the future cash flows following the dates at which Skellerup intends to exercise termination options. The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on transition at 1 July 2019 was 4.44%.

IFRS 16 have been applied retrospectively with the cumulative effect of applying the Standard recognised at initial application on 1 July 2019. Prior year comparative figures have not been restated.

|                                           | 2020<br>\$000 | 2019<br>\$000 |
|-------------------------------------------|---------------|---------------|
| As at 1 July 2019                         | -             | -             |
| Initial recognition                       | 18,491        | -             |
| Additions/Terminations                    | 8,551         | -             |
| Accretion of interest                     | 938           | -             |
| Payments                                  | (5,609)       | -             |
| Net foreign currency exchange differences | (55)          | -             |
| <b>As at 30 June 2020</b>                 | <b>22,316</b> | <b>-</b>      |

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as shown in the table below.

|                                                                                        | \$000  |
|----------------------------------------------------------------------------------------|--------|
| Operating lease commitments as at 30 June 2019                                         | 20,928 |
| Weighted average incremental borrowing rate as at 1 July 2019                          | 4.44%  |
| Discounted operating lease commitments recorded as lease liabilities as at 1 July 2019 | 18,491 |

## 15. Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

|                             | Number<br>of shares | Value<br>\$000 |
|-----------------------------|---------------------|----------------|
| Balance 1 July 2018         | 192,805,807         | 69,732         |
| Balance 30 June 2019        | 194,753,340         | 72,173         |
| <b>Balance 30 June 2020</b> | <b>194,753,340</b>  | <b>72,173</b>  |

All shares are fully paid and have no par value. Each ordinary share confers on the holder one vote at any shareholder meeting of the Company and carries the right to dividends.

The Directors' objective is to ensure the entity continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Directors aim to provide a capital structure which:

- Provides an efficient and cost-effective source of funds;
- Is balanced with external debt to provide a secure structure to support the short and long-term funding of the Group; and
- Ensures that the ratio of funds sourced from shareholders and external debt is maintained proportionately at a level which does not create a credit and liquidity risk to the Group.

The Company is listed on the New Zealand Exchange and is, therefore, subject to continuous disclosure obligations to inform shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matter which affects the creditworthiness or liquidity of the Group.

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

## 16. Finance Costs

|                                                | 2020<br>\$000 | 2019<br>\$000 |
|------------------------------------------------|---------------|---------------|
| Interest on bank overdrafts and borrowings     | 1,200         | 1,352         |
| Bank facility fees                             | 444           | 433           |
| Interest on capitalised leases                 | 938           | -             |
| <b>Total finance costs in Income Statement</b> | <b>2,582</b>  | <b>1,785</b>  |

## 17. Reserves

|                                      | 2020<br>\$000  | 2019<br>\$000  |
|--------------------------------------|----------------|----------------|
| <b>Reserve balances</b>              |                |                |
| Cash flow hedge reserve              | 176            | 132            |
| Foreign currency translation reserve | (7,615)        | (9,771)        |
| Employee share plan reserve          | 374            | 149            |
| <b>Total reserves</b>                | <b>(7,065)</b> | <b>(9,490)</b> |

The cash flow hedge reserve is intended to recognise the fair value movements of the effective derivatives held to hedge interest rate and foreign currency risk. A summary of movements is shown in the table below.

|                                                                                   | Note | 2020<br>\$000 | 2019<br>\$000 |
|-----------------------------------------------------------------------------------|------|---------------|---------------|
| <b>Cash flow hedge reserve</b>                                                    |      |               |               |
| Balance at the beginning of the year                                              |      | 132           | (397)         |
| Gain/(loss) recognised on cash flow hedges:                                       |      |               |               |
| - Foreign exchange contracts                                                      |      | 130           | 813           |
| - Interest rate swaps                                                             |      | (69)          | (78)          |
| - Income tax related to gains / (losses) recognised in other comprehensive income | 5    | (17)          | (206)         |
| Movement for the year                                                             |      | 44            | 529           |
| <b>Balance at the end of the year</b>                                             |      | <b>176</b>    | <b>132</b>    |

Exchange differences relating to the translation of values from the functional currencies of the Group's foreign subsidiaries into New Zealand dollars are brought to account by entries made directly to the foreign currency translation reserve.

A summary of movements is shown in the table below.

|                                                                                 | Note | 2020<br>\$000  | 2019<br>\$000  |
|---------------------------------------------------------------------------------|------|----------------|----------------|
| <b>Foreign currency translation reserve</b>                                     |      |                |                |
| Balance at the beginning of the year                                            |      | (9,771)        | (8,059)        |
| Gain/(loss) recognition:                                                        |      |                |                |
| - Foreign exchange movements on translation of foreign operations               |      | 2,265          | (1,749)        |
| - Income tax related to gains/(losses) recognised in other comprehensive income | 5    | (109)          | 37             |
| Movement for the year                                                           |      | 2,156          | (1,712)        |
| <b>Balance at the end of the year</b>                                           |      | <b>(7,615)</b> | <b>(9,771)</b> |

The employee share plan reserve is used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration. A summary of movements is shown in the table below.

|                                                          | Note | 2020<br>\$000 | 2019<br>\$000 |
|----------------------------------------------------------|------|---------------|---------------|
| <b>Employee share plan reserve</b>                       |      |               |               |
| Balance at the beginning of the year                     |      | 149           | 471           |
| Shares redeemed during the year                          |      | -             | (471)         |
| Expense recognised/(redeemable shares paid) for the year | 18   | 225           | 149           |
| <b>Balance at the end of the year</b>                    |      | <b>374</b>    | <b>149</b>    |

## 18. Share-based Incentive Scheme

Skellerup Group operates a long-term incentive scheme for the benefit of senior executives. The scheme permits the Board to grant options to acquire fully paid shares in the Company. The options are able to be exercised by the recipients subject to their continued employment in a future period as determined by the Board of Skellerup.

On 26 October 2018 the Board awarded 1,600,000 options, issued at an exercise price of NZ\$2.12, being the weighted average price of Skellerup's shares in the prior twenty-day trading period. Option holders will be able to exercise the options in the period beginning on 1 September 2020 and ending on 1 November 2020. Upon exercise, option holders will be issued one ordinary share in Skellerup per option exercised or alternatively the option holder may elect to be issued the number of shares as is equal to the difference between the market value of Skellerup's ordinary shares and the exercise price. The options have been fair valued using the Black-Scholes formula. The fair value has been determined as NZ\$411,000. The expense recognised in the current period for the Chief Executive Officer and Chief Financial Officer's Incentive Scheme is NZ\$225,000.

## 19. Earnings per Share

Earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

|                            | 2020<br>Cents<br>per share | 2019<br>Cents<br>per share |
|----------------------------|----------------------------|----------------------------|
| Basic earnings per share   | 14.92                      | 14.96                      |
| Diluted earnings per share | 14.80                      | 14.80                      |

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

|                                                        | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------|---------------|---------------|
| Earnings used in the calculation of earnings per share | 29,064        | 29,063        |
| Weighted average number of ordinary shares for         |               |               |
| - Basic earnings per share                             | 194,753,340   | 194,289,134   |
| - Diluted earnings per share                           | 196,353,340   | 196,353,340   |

## 20. Retained Earnings

|                                       | 2020<br>\$000  | 2019<br>\$000  |
|---------------------------------------|----------------|----------------|
| Balance at the beginning of the year  | 115,709        | 110,539        |
| Net profit for the year               | 29,064         | 29,063         |
| Share incentive scheme                | -              | 451            |
| Payment of dividends                  | (25,318)       | (24,344)       |
| <b>Balance at the end of the year</b> | <b>119,455</b> | <b>115,709</b> |

During the reporting period a dividend of 7.5 cents per share (imputed 50%) was paid on 17 October 2019 and 5.5 cents per share (imputed 50%) on 19 March 2020. The imputation tax credits totalled \$4,794,626 (2019: \$4,772,620).

## 21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, cash and derivatives. Because of these financial instruments, the principal financial risks to the Group are movements in foreign currency and interest rates. Credit risk and liquidity risk are considered also to be risk areas and are, therefore, closely managed.

The Board reviews and agrees upon policies for managing financial risk. The Group enters into derivative transactions, principally forward foreign currency contracts and interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

Credit risk is managed through regular review of aged analysis of receivable ledgers. The credit risk exposures are the receivables recorded in Note 7. Liquidity risk is monitored through the review of future rolling cash flow forecasts. These cash flow forecasts are updated on a weekly basis with particular emphasis placed on the prospective four-week period. These forecasts are monitored constantly against limitations of the entire debt facility.

### Risk exposures and responses

#### (i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations.

The Group's policy is to monitor its interest rate exposure and to hedge the volatility arising from interest rate changes by entering into interest rate swap contracts that cover a minimum of 25% and a maximum of 75% of the core debt. Core debt is defined as debt in excess of \$15 million that is not expected to be repaid from available cash flows within an 18-month time horizon.

The level of debt is disclosed in Note 13. A reasonably expected movement in the interest rate would not have a material impact on profit or equity. At balance date, the Group had the following mix of financial assets and liabilities exposed to interest rate risk. Details of financial instruments in place to manage this risk are disclosed in Note 21.

|                              | 2020<br>\$000   | 2019<br>\$000   |
|------------------------------|-----------------|-----------------|
| <b>Financial assets</b>      |                 |                 |
| Cash and cash equivalents    | 13,617          | 9,639           |
| <b>Financial liabilities</b> |                 |                 |
| Bank loans                   | 42,130          | 46,215          |
| <b>Net exposure</b>          | <b>(28,513)</b> | <b>(36,576)</b> |



## 21. Financial Risk Management Objectives and Policies (continued)

### (ii) Foreign currency risk

The Group imports raw materials and finished goods and exports finished goods to a number of foreign customers. The main foreign currencies traded are US dollars (USD), Australian dollars (AUD), British pounds (GBP) and Euro (EUR).

The Group seeks to cover up to 100% of the net foreign currency cash flow forecast, for the next 12-month period, with foreign currency contracts. Where the foreign currency cash flows can be forecasted reliably beyond the future 12-month period, such cash flows may also be covered by foreign currency contracts of up to 50% of the forecast cash flows.

The Group also has translational currency exposures. Such exposures arise from subsidiary operating entities that transact in currencies other than the Group's functional currency. Currently, the Group does not hedge these exposures.

### Foreign currency net monetary assets

The Group has the following net monetary assets in foreign currency values which are in different currencies from the subsidiary's base currency and will revalue either through the income statement or the statement of comprehensive income:

|                     | Cash and Cash<br>Equivalents<br>\$000 | Receivables<br>\$000 | Payables<br>\$000 | Net Monetary<br>Assets<br>\$000 |
|---------------------|---------------------------------------|----------------------|-------------------|---------------------------------|
| <b>30 June 2020</b> |                                       |                      |                   |                                 |
| USD                 | 1,420                                 | 4,802                | 2,072             | 4,150                           |
| AUD                 | 393                                   | 1,376                | 260               | 1,509                           |
| GBP                 | 97                                    | 473                  | 2                 | 568                             |
| EUR                 | 467                                   | 1,716                | 406               | 1,777                           |
| <b>30 June 2019</b> |                                       |                      |                   |                                 |
| USD                 | 1,289                                 | 4,455                | 1,852             | 3,892                           |
| AUD                 | 113                                   | 2,143                | 63                | 2,193                           |
| GBP                 | 150                                   | 512                  | -                 | 662                             |
| EUR                 | 363                                   | 1,363                | 253               | 1,473                           |

The foreign currency denominated values as shown in the table above converted to New Zealand dollars as follows:

|                              | 2020<br>\$000 | 2019<br>\$000 |
|------------------------------|---------------|---------------|
| <b>Financial assets</b>      |               |               |
| Cash and cash equivalents    | 3,611         | 3,405         |
| Trade and other receivables  | 14,778        | 12,645        |
|                              | 18,389        | 16,050        |
| <b>Financial liabilities</b> |               |               |
| Trade and other payables     | 5,236         | 3,382         |
| <b>Net exposure</b>          | 13,153        | 12,668        |

## 21. Financial Risk Management Objectives and Policies (continued)

### Foreign currency sensitivity

| Higher/(Lower)                | Net Profit after Tax |               | Net Equity    |               |
|-------------------------------|----------------------|---------------|---------------|---------------|
|                               | 2020<br>\$000        | 2019<br>\$000 | 2020<br>\$000 | 2019<br>\$000 |
| <b>Foreign currency rates</b> |                      |               |               |               |
| Increase +10%                 | (872)                | (836)         | (9,483)       | (8,994)       |
| Decrease -5%                  | 505                  | 484           | 5,490         | 5,207         |

Significant assumptions used in the foreign currency exposure sensitivity analysis are as follows:

- The range of possible foreign exchange rate movements was determined by a review of the last two years' historical movements and economists' views of future movements.
- The Group's trend of trading in foreign currency values is not expected to change materially over future periods.
- The Group's net exposure to foreign currency at balance date is representative of past periods and is expected to remain relatively consistent for the future 12-month period.
- The price sensitivity of derivatives has been based on a reasonably possible movement of the spot rate applied at balance date.
- The effect on other comprehensive income results from foreign currency revaluations through the cash flow hedge reserve and the foreign currency translation reserve.
- The sensitivity analysis does not include financial instruments that are non-monetary items as these are not considered to give rise to a currency risk.

#### (iii) Credit risk

All customers who trade with any Group subsidiary on credit terms are subject to credit verification procedures including an assessment of their independent credit rating and financial position. Risk limits are set for individual customers according to the risk profile of each and, where it is considered appropriate, registrations are made to record a secured interest in the products supplied. Receivable balances are monitored on an ongoing basis with appropriate provisions held for doubtful debts.

#### (iv) Liquidity risk

The Group monitors its future cash inflows and outflows through rolling cash flow forecasts. At balance date, the liquidity risk is considered to be low with the bank facility not fully drawn, compliance with bank covenants, and forecast cash flows reporting positive operating cash generation for the Group over the next financial year. The following maturity analysis shows the profile of future payment commitments of the Group. With the available bank facility and the ability for the business to generate future positive operating cash inflows, the obligation to meet the forward commitments is considered to be a low risk.

## 21. Financial Risk Management Objectives and Policies (continued)

### Maturity analysis of financial assets and liabilities

The following table represents both the expected and contractual maturity and cash flows of receipts and payments.

| Balance 30 June 2020                        | Zero to Six<br>Months<br>\$000 | Seven to 12<br>Months<br>\$000 | One to Five<br>Years<br>\$000 | More than<br>Five Years<br>\$000 | Total<br>\$000  |
|---------------------------------------------|--------------------------------|--------------------------------|-------------------------------|----------------------------------|-----------------|
| <b>Financial assets</b>                     |                                |                                |                               |                                  |                 |
| Cash and cash equivalents                   | 13,617                         | -                              | -                             | -                                | 13,617          |
| Trade and other receivables and prepayments | 44,962                         | 483                            | 950                           | 10                               | 46,405          |
| Derivatives                                 | 378                            | -                              | 438                           | -                                | 816             |
|                                             | 58,957                         | 483                            | 1,388                         | 10                               | 60,838          |
| <b>Financial liabilities</b>                |                                |                                |                               |                                  |                 |
| Trade and other payables                    | 24,637                         | 68                             | 101                           | -                                | 24,806          |
| Lease liabilities                           | 2,168                          | 2,376                          | 12,792                        | 4,980                            | 22,316          |
| Interest-bearing loans                      | 830                            | -                              | 41,300                        | -                                | 42,130          |
| Derivatives                                 | 440                            | -                              | 132                           | -                                | 572             |
|                                             | 28,075                         | 2,444                          | 54,325                        | 4,980                            | 89,824          |
| <b>Net total</b>                            | <b>30,882</b>                  | <b>(1,961)</b>                 | <b>(52,937)</b>               | <b>(4,970)</b>                   | <b>(28,986)</b> |

| Balance 30 June 2019                        | Zero to Six<br>Months<br>\$000 | Seven to 12<br>Months<br>\$000 | One to Five<br>Years<br>\$000 | More than<br>Five Years<br>\$000 | Total<br>\$000 |
|---------------------------------------------|--------------------------------|--------------------------------|-------------------------------|----------------------------------|----------------|
| <b>Financial assets</b>                     |                                |                                |                               |                                  |                |
| Cash and cash equivalents                   | 9,639                          | -                              | -                             | -                                | 9,639          |
| Trade and other receivables and prepayments | 50,081                         | 504                            | 164                           | 10                               | 50,759         |
| Derivatives                                 | 310                            | -                              | 173                           | -                                | 483            |
|                                             | 60,030                         | 504                            | 337                           | 10                               | 60,881         |
| <b>Financial liabilities</b>                |                                |                                |                               |                                  |                |
| Trade and other payables                    | 22,828                         | 96                             | 71                            | -                                | 22,995         |
| Interest-bearing loans                      | -                              | -                              | 46,215                        | -                                | 46,215         |
| Derivatives                                 | 118                            | -                              | 183                           | -                                | 301            |
|                                             | 22,946                         | 96                             | 46,469                        | -                                | 69,511         |
| <b>Net total</b>                            | <b>37,084</b>                  | <b>408</b>                     | <b>(46,132)</b>               | <b>10</b>                        | <b>(8,630)</b> |

### Fair value

The financial instruments that have been fair valued by the Group are detailed in Note 21 and have a fair value of \$244,000 (2019: \$182,000).

Under NZ IFRS, there are three methods available for estimating the fair value of financial instruments. These are:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

In determining the fair value of all derivatives, the Group has applied the Level 2 method of calculating fair value by using estimated inputs, other than quoted prices, that are observable for assets and liabilities, either directly (as prices) or indirectly (derived from prices).

## 22. Financial Instruments

Financial assets and liabilities in the scope of NZ IFRS 9 Financial Instruments are classified as either financial assets and liabilities at fair value through profit or loss, debt instruments at amortised cost, derivatives designated as hedging instruments, or interest bearing loans. When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets and liabilities after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

### Recognition and derecognition

All regular purchases and sales of financial assets are recognised on the trade date: i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. Gains and losses on financial assets are exclusive of interest and dividends, which are recognised separately.

#### (i) Financial assets and liabilities at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit and loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are classified also as held for trading unless they are designated as effective hedging instruments.

Detail of the Group's financial assets and liabilities are shown below. Significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis in which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the preceding notes.

|                                               | Cash and Bank<br>Balances<br>\$000 | Trade and Other<br>Receivables<br>\$000 | Derivatives<br>\$000 | Total Financial<br>Assets<br>\$000 |
|-----------------------------------------------|------------------------------------|-----------------------------------------|----------------------|------------------------------------|
| <b>Financial Assets</b>                       |                                    |                                         |                      |                                    |
| <b>Balance 30 June 2020</b>                   |                                    |                                         |                      |                                    |
| Fair value through profit and loss            | 13,617                             | -                                       | -                    | 13,617                             |
| Debt instruments at amortised cost            | -                                  | 46,405                                  | -                    | 46,405                             |
| Derivatives designated as hedging instruments | -                                  | -                                       | 816                  | 816                                |
| <b>Total financial assets</b>                 | <b>13,617</b>                      | <b>46,405</b>                           | <b>816</b>           | <b>60,838</b>                      |
| <b>Balance 30 June 2019</b>                   |                                    |                                         |                      |                                    |
| Fair value through profit and loss            | 9,639                              | -                                       | -                    | 9,639                              |
| Debt instruments at amortised cost            | -                                  | 50,759                                  | -                    | 50,759                             |
| Derivatives designated as hedging instruments | -                                  | -                                       | 483                  | 483                                |
| <b>Total financial assets</b>                 | <b>9,639</b>                       | <b>50,759</b>                           | <b>483</b>           | <b>60,881</b>                      |



## 22. Financial Instruments (continued)

| Financial Liabilities                            | Trade and<br>Other Payables<br>\$000 | Derivatives<br>\$000 | Lease Liabilities<br>\$000 | Borrowings<br>\$000 | Total Financial<br>Liabilities<br>\$000 |
|--------------------------------------------------|--------------------------------------|----------------------|----------------------------|---------------------|-----------------------------------------|
| <b>Balance 30 June 2020</b>                      |                                      |                      |                            |                     |                                         |
| Derivatives designated<br>as hedging instruments | -                                    | 572                  | -                          | -                   | 572                                     |
| Other financial liabilities<br>at amortised cost | 24,806                               | -                    | 22,316                     | -                   | 47,122                                  |
| Interest bearing loans                           | -                                    | -                    | -                          | 42,130              | 42,130                                  |
| <b>Total financial liabilities</b>               | <b>24,806</b>                        | <b>572</b>           | <b>22,316</b>              | <b>42,130</b>       | <b>89,824</b>                           |
| <b>Balance 30 June 2019</b>                      |                                      |                      |                            |                     |                                         |
| Derivatives designated<br>as hedging instruments | -                                    | 301                  | -                          | -                   | 301                                     |
| Other financial liabilities<br>at amortised cost | 22,995                               | -                    | -                          | -                   | 22,995                                  |
| Interest bearing loans                           | -                                    | -                    | -                          | 46,215              | 46,215                                  |
| <b>Total financial liabilities</b>               | <b>22,995</b>                        | <b>301</b>           | <b>-</b>                   | <b>46,215</b>       | <b>69,511</b>                           |

Where the financial assets and financial liabilities are shown at amortised cost, their cost approximates fair value. The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into and are remeasured subsequently to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year. The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 22. Financial Instruments (continued)

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

### (ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows, which is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in the statement of comprehensive income, while the ineffective portion is recognised in the income statement.

Amounts taken to the statement of comprehensive income are transferred out of the statement of comprehensive income and included in the measurement of the hedged transaction (sales or inventory purchases) when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or, if its designation as a hedge is revoked, amounts previously recognised in the statement of comprehensive income remain in the statement of comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is recognised in the income statement.

### Derivative financial instruments

Details of the derivatives held and their fair values at balance date were as follows:

|                                              | 2020<br>\$000 | 2019<br>\$000 |
|----------------------------------------------|---------------|---------------|
| <b>Current assets</b>                        |               |               |
| Forward currency contracts - cash flow hedge | 378           | 310           |
| <b>Current assets</b>                        | <b>378</b>    | <b>310</b>    |
| <b>Non-current assets</b>                    |               |               |
| Forward currency contracts - cash flow hedge | 438           | 173           |
| <b>Non-current assets</b>                    | <b>438</b>    | <b>173</b>    |
| <b>Total assets</b>                          | <b>816</b>    | <b>483</b>    |
| <b>Current liabilities</b>                   |               |               |
| Forward currency contracts - cash flow hedge | 263           | 67            |
| Interest rate swaps - cash flow hedge        | 177           | 51            |
| <b>Current liabilities</b>                   | <b>440</b>    | <b>118</b>    |
| <b>Non-current liabilities</b>               |               |               |
| Forward currency contracts - cash flow hedge | 19            | 13            |
| Interest rate swaps - cash flow hedge        | 113           | 170           |
| <b>Non-current liabilities</b>               | <b>132</b>    | <b>183</b>    |
| <b>Total liabilities</b>                     | <b>572</b>    | <b>301</b>    |
| <b>Net assets/(liabilities)</b>              | <b>244</b>    | <b>182</b>    |

## 22. Financial Instruments (continued)

### Foreign exchange contracts

The Group imports a large proportion of its raw materials and finished goods, and has export sales to a number of customers. As a result, the Group has both inward and outward foreign currency cash flows. Both the inward cash flows and the outward cash flows are tested and hedged against highly probable forecasted sales and purchases. The main currency exposures are in US dollars, Euro dollars, Australian dollars and British pounds. At balance date, details of outstanding foreign currency contracts are as follows:

|                                                               | Notional Amount |               | Average Exchange Rates |        |
|---------------------------------------------------------------|-----------------|---------------|------------------------|--------|
|                                                               | 2020<br>\$000   | 2019<br>\$000 | 2020                   | 2019   |
| <b>Buy NZD/Sell EUR</b>                                       |                 |               |                        |        |
| Maturing 2020: two to 27 months (2019: two to 22 months)      | 9,184           | 6,826         | 0.5553                 | 0.5603 |
| <b>Buy NZD/Sell GBP</b>                                       |                 |               |                        |        |
| Maturing 2020: one to 21 months (2019: one to 22 months)      | 6,415           | 4,928         | 0.4988                 | 0.5073 |
| <b>Buy NZD/Sell USD</b>                                       |                 |               |                        |        |
| Maturing 2020: one to 27 months (2019: one to 19 months)      | 10,931          | 5,310         | 0.6312                 | 0.6780 |
| <b>Buy NZD/Sell AUD</b>                                       |                 |               |                        |        |
| Maturing 2020: one to 12 months (2019: three to seven months) | 7,484           | 978           | 0.9354                 | 0.9200 |
| <b>Buy CNY/Sell AUD</b>                                       |                 |               |                        |        |
| Maturing 2020: one to 12 months (2019: three to seven months) | 5,606           | 768           | 0.2079                 | 0.2072 |

The forward currency contracts are considered to be highly effective hedges as they are matched against forecast inventory purchases and export sales, and any gain or loss on the contracts attributable to the hedge risk is taken directly to other comprehensive income.

Amounts are transferred out of other comprehensive income and included in the measurement of the hedged transaction (sales or purchases) when the forecast transaction occurs. Movements in the cash flow hedge reserve are recorded in the Statement of Comprehensive Income.

### Interest rate swap agreements

The Group seeks to fix a minimum of 25% and a maximum of 75% of its interest rate risk where debt exceeds \$15 million. At 30 June 2020 the Group had \$5 million fixed at a rate of 2.68% plus bank margin expiring 21 February 2021, \$5 million fixed at a rate of 1.99% plus bank margin expiring 21 April 2021 and \$5 million fixed at a rate of 1.34% plus bank margin expiring 26 June 2022.

The interest swap agreements are considered to be highly effective hedges as they are matched against forecast interest payments and any gain or loss on the contracts attributable to the hedge risk is taken directly to other comprehensive income. Amounts are transferred out of other comprehensive income and included in the measurement of the hedged transaction when the forecast interest payment is made. Movements in the cash flow hedge reserve are recorded in the Statement of Comprehensive Income.

### Credit risk

Credit risk arises from potential failure of counterparties to meet their obligations at the maturity dates of contracts. Because the counterparty of the above financial derivatives is the ANZ Bank New Zealand Ltd, there is minimal credit risk.

## 23. Business Acquisition

On 1 November 2019, Skellerup acquired all of shares in UK based Silclear Limited ("Silclear") for cash consideration of \$6,423,000. Silclear designs and manufactures silicone products for international customers in the dairy and medical industries using food grade materials for maximum strength, tear resistance and optical clarity. The fair values of the identifiable assets and liabilities as at the date of acquisition were:

|                                               | 2020<br>\$000 |
|-----------------------------------------------|---------------|
| <b>Assets</b>                                 |               |
| Cash and cash equivalents                     | 219           |
| Trade and other receivables and prepayments   | 892           |
| Inventories                                   | 1,145         |
| Property, plant and equipment                 | 116           |
| <b>Total assets</b>                           | <b>2,372</b>  |
| <b>Liabilities</b>                            |               |
| Trade and other payables                      | 442           |
| Provisions                                    | 30            |
| Income tax payable                            | 317           |
| Deferred tax liability                        | 10            |
| <b>Total liabilities</b>                      | <b>799</b>    |
| <b>Total identifiable net assets at value</b> | <b>1,573</b>  |
| Goodwill arising on acquisition (note 10)     | 4,850         |
| <b>Purchase consideration transferred</b>     | <b>6,423</b>  |

The fair value of trade receivables is equivalent to the gross amount and it is expected that the full contractual amount will be collected.

The goodwill of \$4,850,000 comprises the value of expected synergies and benefits arising from the acquisition.

From the date of acquisition Silclear has contributed \$3,411,655 of revenue and \$922,194 of profit before tax to the Group.



## 24. Related Parties

The consolidated financial statements incorporate the following significant companies:

### (a) Subsidiary companies

| Name of Entity                            | Principal Activities    | Country of Incorporation | Holding |      | Balance Date |
|-------------------------------------------|-------------------------|--------------------------|---------|------|--------------|
|                                           |                         |                          | 2020    | 2019 |              |
| Skellerup Industries Limited              | Manufacturing and Sales | New Zealand              | 100%    | 100% | 30 June      |
| Skellerup Growth Limited                  | Property                | New Zealand              | 100%    | 100% | 30 June      |
| Ambic Equipment Limited                   | Manufacturing and Sales | UK                       | 100%    | 100% | 30 June      |
| Conewango Products Corporation            | Distribution            | USA                      | 100%    | 100% | 30 June      |
| Deks Industries Pty Limited               | Manufacturing and Sales | Australia                | 100%    | 100% | 30 June      |
| Deks North America Limited                | Distribution            | USA                      | 100%    | 100% | 30 June      |
| Gulf Rubber Australia Pty Limited         | Manufacturing and Sales | Australia                | 100%    | 100% | 30 June      |
| Gulf US Incorporated                      | Distribution            | USA                      | 100%    | 100% | 30 June      |
| Masport Incorporated                      | Manufacturing and Sales | USA                      | 100%    | 100% | 30 June      |
| Nexus Performance Foams Limited           | Manufacturing and Sales | New Zealand              | 100%    | 100% | 30 June      |
| Silclear Limited                          | Manufacturing and Sales | UK                       | 100%    | -    | 30 June      |
| Skellerup Rubber Products Jiangsu Limited | Manufacturing and Sales | China                    | 100%    | 100% | 31 December  |
| Skellerup Rubber Services Limited         | Manufacturing and Sales | New Zealand              | 100%    | 100% | 30 June      |
| Tumedei SpA                               | Manufacturing and Sales | Italy                    | 100%    | 100% | 30 June      |
| Ultralon Foam International Limited       | Manufacturing and Sales | New Zealand              | 100%    | 100% | 30 June      |

### (b) Associate Investment

As these are consolidated financial statements, transactions between related parties within the Group have been eliminated. Consequently, only those transactions between the Skellerup Group and Sim Lim Technic LLC (Sim Lim) have been disclosed below. Skellerup holds a 35% interest in Sim Lim. Skellerup's interest is accounted for using the equity method in the consolidated financial statements.

|              | Sales to related party<br>\$000 | Purchases from related Party<br>\$000 | Amounts owed by related party<br>\$000 | Amounts owed to related party<br>\$000 |
|--------------|---------------------------------|---------------------------------------|----------------------------------------|----------------------------------------|
| Sim Lim 2020 | 331                             | 65                                    | 36                                     | 7                                      |
| Sim Lim 2019 | 256                             | 493                                   | 256                                    | 17                                     |

### (c) Compensation of Directors and key management

The remuneration of Directors and senior management personnel during the year was as follows:

|                                                                                | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------------------------------------------------------------|---------------|---------------|
| <b>Short-term benefits</b>                                                     |               |               |
| Directors' fees                                                                | 460           | 453           |
| Senior management's salaries and incentives                                    | 1,654         | 2,362         |
| Contribution to defined contribution scheme for senior management personnel    | 19            | 56            |
| <b>Long-term benefits</b>                                                      |               |               |
| Share-based incentive scheme expensed/(redeemable shares paid) during the year | 225           | 149           |

Mr John Strowger is a Director of Skellerup and a partner of Chapman Tripp, the Group's legal advisors. Chapman Tripp has charged fees during the year amounting to \$170,971 (2019: \$207,100). The fees were charged on normal terms and conditions and exclude GST. There was \$6,532 (2019: \$8,955) outstanding (excluding GST) at balance date relating to these transactions.

## 25. Contingent Liabilities

|                                                     | 2020<br>\$000 | 2019<br>\$000 |
|-----------------------------------------------------|---------------|---------------|
| Bank guarantee provided to the New Zealand Exchange | 75            | 75            |

The Group receives claims from time to time in relation to products supplied. Where the Group expects to incur a cost to replace or repair the product supplied and can reliably measure that cost, that cost is recognised. The Group has general liability and professional indemnity insurance in the event that there are warranty claims.

## 26. Significant Events after Balance Date

The Directors agreed to pay a final dividend, imputed to 50%, of 7.5 cents per share on 16 October 2020, to shareholders on the register at 5.00pm on 2 October 2020. This dividend is not recorded in the financial statements.

There are no other events subsequent to balance date that require additional disclosure.

## 27. New Accounting Standards, Amendments, Interpretations and IFRIC Interpretations

Other than as disclosed in notes 9 and 14, there is no new Accounting standard, amendment or interpretation, which has been issued and is effective, that has a significant impact on the Group.

## Directors' Disclosures, Remuneration and Shareholding

### Directors holding office during the year and their shareholdings

Directors held interests in the following shares in the Company as at 30 June 2020.

|               |                   | Held with Non-beneficial Interest | Held by Associated Persons |
|---------------|-------------------|-----------------------------------|----------------------------|
| Liz Coutts    | (Independent)     | -                                 | 920,000                    |
| David Cushing | (Independent)     | -                                 | 9,866,169                  |
| Alan Isaac    | (Independent)     | -                                 | 50,000                     |
| David Mair    | (Chief Executive) | -                                 | 5,475,039                  |
| John Strowger | (Independent)     | -                                 | 118,320                    |

### Directors' Interests

Pursuant to section 140(2) of the Companies Act 1993 and section 299 of the Financial Markets Conduct Act 2013, the Directors named below have made a general disclosure of interest during the period 01 July 2019 to 09 August 2020 by a general notice disclosed to the Board and entered in the Company's Interest Register.

#### Liz Coutts

- Appointed Chair of EBOS Limited 15 October 2019.

#### David Cushing

- Resigned as Director of Webster Limited 13 February 2020.

#### Alan Isaac

- Interest in 50,000 shares held by Alan Isaac, Andrew Dinsdale and Alasdair McBeth following the purchase of 10,000 shares on 18 October 2019.

### Director, CEO and Employee Remuneration

#### Director Remuneration

The total remuneration to non-executive Directors is \$550,000 as approved by the shareholders at the Annual Meeting on 25 October 2017. Director remuneration for FY20 is shown in the table below.

|               | Note | Board Chair   | Board Director | Audit & Risk Chair | Total          |
|---------------|------|---------------|----------------|--------------------|----------------|
| Liz Coutts    |      | 87,000        | 87,000         |                    | 174,000        |
| David Cushing |      |               | 87,000         |                    | 87,000         |
| Alan Isaac    |      |               | 87,000         | 25,000             | 112,000        |
| John Strowger |      |               | 87,000         |                    | 87,000         |
| David Mair    | 1    | -             | -              | -                  | -              |
| <b>Total</b>  |      | <b>87,000</b> | <b>348,000</b> | <b>25,000</b>      | <b>460,000</b> |

#### Note:

1. David Mair is an Executive Director. He is remunerated for his role as CEO and does not receive any director remuneration.

## CEO Remuneration

CEO remuneration is made of three components: Fixed remuneration, short-term performance incentive (STI) and long-term performance incentive (LTI). The STI and LTI are at risk because the outcome is determined by performance against financial objectives. The table below shows CEO remuneration in FY20 and FY19.

| \$000           | Fixed Remuneration |           |           | Performance Based Remuneration |     |          | Total |
|-----------------|--------------------|-----------|-----------|--------------------------------|-----|----------|-------|
|                 | Salary             | Kiwisaver | Kiwisaver | STI                            | LTI | Subtotal |       |
| David Mair FY20 | 690                | -         | 690       | -                              | 141 | 141      | 831   |
| David Mair FY19 | 650                | 20        | 670       | 101                            | 93  | 194      | 864   |

The STI is an at-risk payment designed to motivate and reward for financial performance that exceeds the previous best achieved by Skellerup under the incumbent CEO management. The financial measure used for determining this performance is earnings before interest and tax (EBIT). The STI is set so that the CEO receives 5% of EBIT in excess of the previous best EBIT achieved by Skellerup under his management. No STI was payable for FY20.

The LTI is a share option scheme. Under the scheme David Mair was granted 1,000,000 options on 26 October 2018, at an exercise price of \$2.12 per share. The exercise price was the weighted average share price on the 20 day trading period preceding issuance. The options are able to be exercised in the period 1 September 2020 to 1 November 2020. The options have been valued using the Black Scholes formula.

## CEO Remuneration: Five Year Summary

| \$000           | Salary | Kiwisaver | STI | Total | LTI Vesting | LTI Span  |
|-----------------|--------|-----------|-----|-------|-------------|-----------|
| David Mair FY20 | 690    | -         | -   | 690   | -           | 2018-2020 |
| David Mair FY19 | 650    | 20        | 101 | 801   | -           | 2018-2020 |
| David Mair FY18 | 600    | 18        | 347 | 965   | -           | 2011-2018 |
| David Mair FY17 | 600    | 18        | 31  | 649   | -           | 2011-2018 |
| David Mair FY16 | 600    | 18        | -   | 618   | 50%         | 2011-2016 |

### Employee Remuneration

The Group paid remuneration in excess of \$100,000 including benefits to 128 employees (not including non-executive directors) during the FY20 year in the following bands.

| Remuneration range \$000 | Number of employees | Remuneration range \$000 | Number of employees |
|--------------------------|---------------------|--------------------------|---------------------|
| 100-110                  | 19                  | 250-260                  | 2                   |
| 110-120                  | 16                  | 260-270                  | 2                   |
| 120-130                  | 9                   | 270-280                  | 2                   |
| 130-140                  | 11                  | 280-290                  | 3                   |
| 140-150                  | 12                  | 290-300                  | 2                   |
| 150-160                  | 10                  | 300-310                  | 1                   |
| 160-170                  | 4                   | 310-320                  | 2                   |
| 170-180                  | 2                   | 320-330                  | 1                   |
| 180-190                  | 5                   | 360-370                  | 1                   |
| 190-200                  | 4                   | 370-380                  | 1                   |
| 200-210                  | 5                   | 460-470                  | 1                   |
| 210-220                  | 3                   | 500-510                  | 1                   |
| 220-230                  | 3                   | 640-650                  | 1                   |
| 230-240                  | 3                   | 790-800                  | 1                   |
| 240-250                  | 1                   |                          |                     |

### Gender and Diversity as at 30 June 2020

|              | Directors |          | Officers |          | Management |           |
|--------------|-----------|----------|----------|----------|------------|-----------|
|              | 2020      | 2019     | 2020     | 2019     | 2020       | 2019      |
| Male         | 4         | 4        | 2        | 2        | 29         | 24        |
| Female       | 1         | 1        | 0        | 0        | 8          | 9         |
| <b>Total</b> | <b>5</b>  | <b>5</b> | <b>2</b> | <b>2</b> | <b>37</b>  | <b>33</b> |

### Distribution of Ordinary Shares and Shareholders as at 10 August 2020

| Size of shareholding | % of shareholders | Number of shares   | % of shares    |
|----------------------|-------------------|--------------------|----------------|
| 1 - 999              | 285               | 142,381            | 0.07           |
| 1,000 - 9,999        | 3,135             | 13,889,175         | 7.13           |
| 10,000 - 49,999      | 1,987             | 38,895,859         | 19.97          |
| 50,000 - 99,999      | 230               | 15,060,679         | 7.73           |
| 100,000 - 499,999    | 146               | 23,971,054         | 12.31          |
| 500,000 - 999,999    | 14                | 8,861,451          | 4.55           |
| 1,000,000 Over       | 25                | 93,932,741         | 48.23          |
| <b>Rounding</b>      |                   |                    | <b>0.01%</b>   |
| <b>Total</b>         | <b>5,822</b>      | <b>194,753,340</b> | <b>100.00%</b> |



### Substantial Product Holders

Pursuant to the Financial Markets Conduct Act 2013, the following parties had given notice as at 10 August 2020 that they were substantial product holders in the Company and held a relevant interest in the number of ordinary shares shown below:

|                                                   | Number of shares | %    |
|---------------------------------------------------|------------------|------|
| Sir Selwyn Cushing (21 August 2018)               | 12,523,826       | 6.50 |
| H&G Limited (21 August 2018)                      | 10,866,169       | 5.64 |
| Forsyth Barr Investment Management (26 June 2020) | 9,785,782        | 5.03 |

### Twenty Largest Shareholders as at 10 August 2020

|    |                                                           | Number of shares | %    |
|----|-----------------------------------------------------------|------------------|------|
| 1  | Forsyth Barr Custodians Limited                           | 16,034,014       | 8.23 |
| 2  | H & G Limited                                             | 9,866,169        | 5.07 |
| 3  | Accident Compensation Corporation                         | 9,789,882        | 5.03 |
| 4  | FNZ Custodians Limited                                    | 7,866,739        | 4.04 |
| 5  | Citibank Nominees (New Zealand) Limited                   | 6,128,134        | 3.15 |
| 6  | David William Mair + John Gordon Phipps                   | 5,475,039        | 2.81 |
| 7  | Custodial Services Limited                                | 3,874,951        | 1.99 |
| 8  | BNP Paribas Nominees (NZ) Limited                         | 3,855,189        | 1.98 |
| 9  | Custodial Services Limited                                | 3,469,822        | 1.78 |
| 10 | Investment Custodial Services Limited                     | 2,988,802        | 1.53 |
| 11 | HSBC Nominees A/C NZ Superannuation Fund Nominees Limited | 2,765,106        | 1.42 |
| 12 | New Zealand Depository Nominee Limited                    | 2,663,395        | 1.37 |
| 13 | Public Trust Forte Nominees Limited                       | 2,522,328        | 1.30 |
| 14 | HSBC Nominees (New Zealand) Limited                       | 1,887,587        | 0.97 |
| 15 | Leveraged Equities Finance Limited                        | 1,764,515        | 0.91 |
| 16 | Custodial Services Limited                                | 1,643,717        | 0.84 |
| 17 | Seajay Securities Limited                                 | 1,457,642        | 0.75 |
| 18 | Custodial Services Limited                                | 1,453,365        | 0.75 |
| 19 | PT (Booster Investments) Nominees Limited                 | 1,439,783        | 0.74 |
| 20 | FNZ Custodians Limited                                    | 1,349,587        | 0.69 |

# Corporate Directory

## Directors

EM Coutts, ONZM, BMS, FCA, CFloD  
Chair

BD Cushing, BCom, ACA

AR Isaac, CNZM, BCA, FCA

DW Mair, BE, MBA

WJ Strowger, LLB (Hons)

## Officers

DW Mair, BE, MBA  
Chief Executive Officer

GR Leaming, BCom, CA  
Chief Financial Officer

## Registered Office

L3, 205 Great South Road  
Greenlane  
Auckland 1051  
New Zealand

PO Box 74526  
Greenlane  
Auckland 1546  
New Zealand

Email: [ea@skellerupgroup.com](mailto:ea@skellerupgroup.com)  
Telephone: +64 9 523 8240  
Website: [www.skellerupholdings.com](http://www.skellerupholdings.com)

## Legal Advisors

Chapman Tripp  
23 – 29 Albert Street  
Auckland 1010  
New Zealand

## Bankers

ANZ Bank New Zealand Limited  
23 – 29 Albert Street  
Auckland 1010  
New Zealand

## Auditors

Ernst & Young  
2 Takutai Square  
Britomart  
Auckland 1010  
New Zealand

## Share Registrar

Computershare Investor Services Limited  
Private Bag 92119  
Auckland 1142  
New Zealand

159 Hurstmere Road  
Takapuna  
Auckland 0622  
New Zealand

## Managing your shareholding

### Online

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:  
[www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre)

### General enquiries

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)  
Telephone: +64 9 488 8777  
Facsimile: +64 9 488 8787

Please assist our registrar by quoting your Common Shareholder Number (CSN).



**Skellerup Holdings Limited**

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