



Interim Report 2009/10

Directors' Report

Your company reports a loss for the six months to 31 December 2009 of \$680,173. This compares to a profit of \$1.036 million for the equivalent period in 2008.

This poor result is a consequence of the global economic downturn, the residual effects of which flowed into the period under review. While disappointing, the loss is less severe than was anticipated at the time of the company's Annual General Meeting in December 2009.

As was advised at that meeting, your directors believe the company's performance during the second six months, in both trading and scouring activity, will improve significantly, which is already in process to the extent that by 31 January the company was back in profit. Prices for coarse crossbred wool have also lifted significantly, partly influenced by WSI's strong participation in the market, providing further positive news for woolgrowers.

Assuming the current high level of activity continues, your directors have reasonable confidence of reporting an acceptable profit by the end of our financial year.

Positive signs are emerging for a solid recovery in prices for most wool types. An empty pipeline, reduced stocks, reduced production and improving demand are all assisting this.

To sustain demand however, coarse wool needs to be promoted more strongly, emphasising its natural merits and its credentials as an environmentally sustainable product. Much, much more needs to be done to promote New Zealand coarse wool as a natural, healthy product that can breathe, is comfortable and is not derived from oil. Our Purelana brand would fit ideally within such a wider initiative, promoting New Zealand coarse wool

To ensure the profitability of wool production, achieve higher sustainable prices and return these to the grower, the industry must restructure sales and marketing activities. Currently numerous exporters all ply their matching wool types in the same markets, competing for the lowest price in an effort to exclude the competition. Clients involved in manufacturing take the opportunity to play one against the other. As we have seen recently, in a weak market this results in ridiculously low prices.

Your company will work with any like-minded organisation to redress the serious shortcomings of the marketing and supply structure.

WSI has been involved in the rationalisation of the wool scouring industry. However, we have yet to see tangible consequences of this.

Your directors believe WSI is the ideal model for the future of the New Zealand wool industry. It has the most efficient, cost effective means to supply wool to the consumer: direct from farm to WSI's scours, to manufacturers.

A review of all WSI's functions is in process, particularly in the procurement area where we lack resources and require additional alliances, but are in a positive and flexible position to consider all other options. Additionally, co-operation in the markets of the world can significantly increase company profits and grower returns. With regards to scouring, it is generally recognised that we have the best scours in the world. We lead the New Zealand wool sector in marketing and distribution, accounting for more than 40 per cent of all coarse wool that is exported in the scoured state.

Condensed Consolidated Balance Sheet

as at 31 December 2009 (unaudited)

2

	31 December 2009 \$000	30 June 2009 \$000	31 December 2008 \$000
Assets			
Property, plant and equipment	17,441	17,969	18,378
Intangibles	6,145	6,145	6,145
Investments in equity accounted investees	109	109	153
Deferred tax assets	1,330	1,389	-
Total non current assets	25,025	25,612	24,676
Cash and cash equivalents	2,312	1,431	847
Inventories	21,986	30,204	42,808
Derivatives	1,380	1,969	-
Current tax assets	1,299	1,465	3,053
Trade and other receivables	27,953	26,594	39,373
Total current assets	54,930	61,663	86,081
Total assets	79,955	87,275	110,757
Equity			
Share capital	28,804	28,804	28,804
Reserves	2,700	2,704	2,324
Retained Earnings/(deficits)	(1,833)	(1,153)	4,270
Total equity attributable to equity holders of the company	29,671	30,355	35,398
Total equity	29,671	30,355	35,398
Liabilities			
Deferred tax liabilities	432	859	1,041
Total non current liabilities	432	859	1,041
Cash and cash equivalents	18,800	22,800	28,606
Loans and borrowings	24,096	23,410	36,873
Derivatives	-	-	771
Trade and other payables	6,956	9,851	8,068
Total current liabilities	49,852	56,061	74,318
Total liabilities	50,284	56,920	75,359
Total equity and liabilities	79,955	87,275	110,757

Statement of Comprehensive Income

For the Six Months Ended 31 December 2009 (unaudited)

	6 months ended 31 December	
	2009 \$000	2008 \$000
Continuing Operations		
Sales Revenue	65,244	76,095
Revenue	65,244	76,095
Cost of sales	(61,317)	(67,943)
Gross profit	3,927	8,152
Other Income	(5)	11
Marketing Expenses	(246)	(291)
Administrative expenses	(2,580)	(2,795)
Depreciation	(998)	(1,186)
Finance costs	(1,049)	(2,414)
Profit/(loss) from continuing operations before income tax	(951)	1,477
Income tax expense(benefit)	(271)	441
Profit/(loss) from continuing operations after income tax	(680)	1,036
Net profit(loss) for the period	(680)	1,036
Other comprehensive income		
Cash flow hedges		
Gain(loss) taken to reserves	-	(62)
Foreign currency translation gain/(loss)	(4)	7
Total comprehensive income for the period	(4)	(55)
Profit/(loss) for the period is attributable to:		
Equity holders of the company	(680)	1,036
	(680)	1,036
Total comprehensive income for the period is attributable to:		
Equity holders of the company	(684)	981
	(684)	981
Earnings Per Share	(0.010)	0.015

Statement of changes in equity

For the Six Months Ended 31 December 2009 (unaudited)

4

	Share capital	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance 30 June 2008	28,804	9	2,316	62	3,916	35,107
Profit for the period	-	-	-	-	1,044	1,044
Other comprehensive income	-	(1)	-	(62)	-	(63)
Total comprehensive income for the period	<u>28,804</u>	<u>8</u>	<u>2,316</u>	<u>-</u>	<u>4,960</u>	<u>36,088</u>
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	(690)	(690)
At 31 December 2008	<u>28,804</u>	<u>8</u>	<u>2,316</u>	<u>-</u>	<u>4,270</u>	<u>35,398</u>
Balance 30 June 2009	28,804	14	2,332	358	(1,153)	30,355
Profit for the period	-	-	-	-	(680)	(680)
Other comprehensive income	-	(4)	-	-	-	(4)
Total comprehensive income for the period	<u>28,804</u>	<u>10</u>	<u>2,332</u>	<u>358</u>	<u>(1,833)</u>	<u>29,671</u>
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	-	-
At 31 December 2009	<u>28,804</u>	<u>10</u>	<u>2,332</u>	<u>358</u>	<u>(1,833)</u>	<u>29,671</u>

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 31 December 2009 (unaudited)

	Note	6 months ended 31 December	
		2009 \$000	2008 \$000
Cash flows from operating activities			
Cash receipts from customers		67,110	89,687
Cash paid to suppliers and employees		(60,231)	(80,747)
Interest received		-	9
Interest paid		(1,049)	(2,423)
Income tax paid		-	(1)
Net cash from/(used in) operating activities	5	5,830	6,525
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	3
Acquisition of property, plant and equipment		(476)	(730)
Loans to employees		-	-
Net cash from/(used in) investing activities		(476)	(727)
Cash flows from financing activities			
Repayment of borrowings		(469)	(469)
Dividends paid		-	(690)
Net cash used in financing activities		(469)	(1,159)
Net (decrease)/increase in cash and cash equivalents		4,885	4,639
Cash and cash equivalents at 01 July (net overdraft)		(21,369)	(32,398)
Effect of exchange rate fluctuations on cash held		(4)	-
Cash and cash equivalents at 31 December (net overdraft)		(16,488)	(27,759)
Represented by:			
Cash and bank balances		2,312	847
Bank borrowings at call		(18,800)	(28,606)
		(16,488)	(27,759)

Notes to the Financial Statements

For the Six Months Ended 31 December 2009 (unaudited)

6

NOTE 1 REPORTING ENTITY

New Zealand Wool Services International Limited (the "company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the alternative market ("NZAX") operated by the New Zealand Stock Exchange. The company is an issuer in terms of the Financial Reporting Act 1993.

The condensed consolidated interim financial statements of the company as at and for the six months ended 31 December 2009 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

New Zealand Wool Services International Limited is primarily involved in the marketing, processing and selling of New Zealand wool.

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34: Interim Financial Reporting as appropriate for profit-oriented entities. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group as at and for the year ended 30 June 2009.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 30 June 2009. The interim financial statements have adopted NZ IFRS: Operating Segments and disclosures have been made consistent with those required by NZ IAS 34.

The financial statements were approved by the board of directors on 22 February 2009.

NOTE 3 RECONCILIATION OF NET SURPLUS AFTER TAX WITH THE NET CASH FLOW FROM OPERATING ACTIVITIES

	6 months ended 31 December	
	2009	2008
	\$000	\$000
Net surplus/(deficit) after tax	(680)	1,036
Non cash items		
Depreciation	998	1,186
Loss on sale of property, plant and equipment	5	-
increase in future tax benefit taken to profit and loss	-	583
Change in fair value derivatives	-	(186)
Movement in working capital		
Change in trade and other receivables	(1,359)	4,189
Change in inventories	8,218	10,866
Change in current tax assets	166	(143)
Change in trade and other payables	(2,895)	(6,878)
Adjustment for working capital items which do not relate to operating activities	1,377	(4,128)
Net cash used in operating activities	5,830	6,525

NOTE 4 OPERATING SEGMENT

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team and board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which wool is sold (Trading) and the nature of services provided (Scouring). Discrete financial information about each of these operating businesses is reported to the executive management team and board on a monthly basis.

6 months ended 31 December 2009	Trading	Scouring	Eliminations	Total
Revenue				
Sales to external customers	62,455	2,789	-	65,244
Inter-segment sales	-	8,188	(8,188)	-
Total segment revenue	62,455	10,977	(8,188)	65,244
Segment operating profit before tax and subvention payment	(2,830)	1,879	-	(951)
Segment assets	65,875	21,320	(7,240)	79,955
Investment in associate	13,624	-	(13,515)	109
Capital expenditure	137	334	-	471
Segment liabilities	45,041	5,243	-	50,284
Cash flow information				
Net cashflow from operating activities	6,781	(951)	-	5,830
Net cashflow from investing activities	(137)	(339)	-	(476)
Net cashflow from financing activities	(1,725)	1,256	-	(469)
6 months ended 31 December 2008				
Revenue				
Sales to external customers	74,234	1,861	-	76,095
Inter-segment sales	-	7,494	(7,494)	-
Total segment revenue	74,234	9,355	(7,494)	76,095
Segment operating profit before tax and subvention payment	(62)	1,539	-	1,477
Segment assets	97,036	21,484	(7,763)	110,757
Investment in associate	13,624	-	(13,471)	153
Capital expenditure	105	625	-	730
Segment liabilities	69,042	6,317	-	75,359
Cash flow information				
Net cashflow from operating activities	8,210	(1,685)	-	6,525
Net cashflow from investing activities	(102)	(625)	-	(727)
Net cashflow from financing activities	(3,435)	2,276	-	(1,159)

Notes to the Financial Statements

For the Six Months Ended 31 December 2009 (unaudited)

8

NOTE 5 DISTRIBUTION TO OWNERS

6 months ended 31 December

	2009 \$000	2008 \$000
Final dividend declared and paid	-	690

2009: 0 (2008: 1 cent per share)

NOTE 6 INVENTORIES

Commodity trader inventories and forward sales contracts are measured at fair value less costs to sell.

The fair value is determined based on the groups' assessment of the quality of inventory and current market conditions. Current wool auction prices at the balance sheet date are used to assist the group in this process.

	31 December 2009 \$000	30 June 2009 \$000	31 December 2008 \$000
Total inventories at cost	24,337	31,362	41,384
Adjustment to fair value			
Stock	(2,536)	(1,457)	612
Forward sales	185	299	812
Total inventories	21,986	30,204	42,808

NOTE 7 SEASONALITY

There are no major seasonal trends within the business.

Directory

Directory

Board of Directors
Chairman: PG Morrison
Managing Director: MBF Dwyer
Directors: DM Kirke
PAH Jackson
DMJ Houldsworth
SJ Natrass

Registered Office

First Floor
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PO Box 29 383
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Share Register

Link Market Services Ltd
138 Tancred Street
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Phone: 03 308 8887
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Email: info@linkmarketservices.co.nz

Auditors

Ernst & Young

Bankers

ANZ National Bank of New Zealand Limited

