



New Zealand Wool Services
INTERNATIONAL LIMITED

Interim report 2010/11

Directors' report

Your company is pleased to report a tax paid profit for the six months to 31 December 2010 of \$3.058 million. This compares favourably to both the \$680,173 loss recorded for the corresponding period of the previous year, and to the total normalised profit for the full 2009/10 financial year of \$2.229 million.

As indicated at our annual meeting in December, where we advised that the company was on track to improve on recent results, this six monthly profit represents a major turnaround in the company's performance.

Given the lack of clarity on the future structure of the wool industry and the recent increase in wool prices, this result is a positive one, which has been sustained into the second half of the 2010/11 financial year. In the first weeks of 2011 the company continues to perform strongly, with both scouring plants working to capacity, which augers well for the rest of the year, even though uncertainties around wool supply and the international situation remain areas of concern.

Despite comments by some that the current market rise may be temporary, in our view the wool market has staged an excellent recovery, in line with many other commodities, and this will be sustained.

As noted in the past, WSI sees the promotion of wool as a key element in maintaining increased prices. While promotion of individual brands has its place, the revival of consumer awareness of wool is more important. Good progress has been achieved on this in recent months, best exemplified by HRH the Prince of Wales, whose 'Campaign for Wool' was launched late in 2010. Additionally, IWTO initiatives have been supported heavily by New Zealand wool exporters, of which WSI is a major contributor. Although all promotion has its place, wool needs to be the focus of promotion, rather than specific brands. We believe this focus is the appropriate one to lift the profile of wool worldwide.

As we have also observed previously, through our integrated method of production, where we control the critical components of procurement, processing and export, from farm gate to final stage manufacturer, your company has the right business model to ensure sustainable profitability in the New Zealand wool industry.

In recent years the dynamics of wool trading have undergone change, as a consequence of which WSI's model and the operations of the company are ideally placed to gain advantage. We concentrate on doing what we do best, which includes regularly reviewing all aspects of our operations, and improving these where possible.

While we do not promise impossible premiums to woolgrowers, we will pay the best market price on the day and move wool from farm gate to our scours in the most economic and efficient manner, at minimal cost to our grower clients and ourselves. Providing a seamless line from producer to manufacturer is the cornerstone of our distribution and marketing strategy. The performance and quality control of our two wool scours sets an international benchmark, which has enabled us to increase market share and earned us the status of preferred supplier for many of our customers.

We will continue to play a strategic role in helping reposition New Zealand wool, ensuring this is done in the most economic and pragmatic way. To achieve this, co-operation from all sectors of the wool industry is required. Despite some continuing issues to achieving this objective, we believe this co-operation is taking place. Prices have risen to such an extent that most growers of meat and wool will be encouraged. WSI is very optimistic about the future of wool and the wool industry in New Zealand. We believe our industry is on course to regain some of the market aura it enjoyed in the past.

We have held discussions with the receiver of the company's major shareholders, Plum Duff Limited and Woolpak Holdings Limited, and your board is confident that the process they are undertaking will have a satisfactory outcome for all shareholders.

In recognising this very good result, your board resolved to pay shareholders a special one off fully imputed dividend of two cents per share. This dividend will be paid on Friday 6 May 2011, based on the record date of Friday 29 April 2011.

Condensed consolidated balance sheet

as at 31 December 2010 (unaudited)

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	31 December 2010 \$000	30 June 2010 \$000	31 December 2009 \$000
Assets			
Property, plant and equipment	16,137	16,598	17,441
Intangibles	6,145	6,145	6,145
Investments in equity accounted investees	205	205	109
Deferred tax assets	154	305	1,330
Total non current assets	22,641	23,253	25,025
Cash and cash equivalents	2,177	2,218	2,312
Inventories	32,003	32,628	21,986
Derivatives	687	450	1,380
Current tax assets	32	1,284	1,299
Trade and other receivables	28,210	22,928	27,953
Total current assets	63,109	59,508	54,930
Total assets	85,750	82,761	79,955
Equity			
Share capital	28,804	28,804	28,804
Reserves	2,472	2,491	2,700
Retained earnings (deficits)	2,391	(2)	(1,833)
Total equity attributable to equity holders of the company	33,667	31,293	29,671
Total equity	33,667	31,293	29,671
Liabilities			
Deferred tax liabilities	1,512	1,595	432
Loans and borrowings	9,667	10,247	-
Total non current liabilities	11,179	11,842	432
Cash and cash equivalents	9,500	10,500	18,800
Loans and borrowings	19,994	18,168	24,096
Trade and other payables	11,410	10,958	6,956
Total current liabilities	40,904	39,626	49,852
Total liabilities	52,083	51,468	50,284
Total equity and liabilities	85,750	82,761	79,955

Income statement

for the six months ended 31 December 2010 (unaudited)

	31 December 2010 \$000	31 December 2009 \$000
Continuing operations		
Revenue	84,801	65,244
Cost of sales	(76,270)	(61,317)
Gross profit	8,531	3,927
Other income	269	(5)
Marketing expenses	(320)	(246)
Administrative expenses	(2,384)	(2,580)
Depreciation	(1,125)	(998)
Share of profit (loss) of associate	-	-
Finance costs	(599)	(1,049)
Profit (loss) from continuing operations before income tax	4,372	(951)
Income tax expense (benefit)	1,314	(271)
Profit (loss) from continuing operations after income tax	3,058	(680)
Net profit (loss) for the period	3,058	(680)
Profit (loss) for the period is attributable to:		
Equity holders of the company	3,058	(680)
	3,058	(680)
Earnings per share		
Basic earnings per share (New Zealand Dollars)	0.044	(0.010)

Statement of comprehensive income

for the six months ended 31 December 2010 (unaudited)

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	6 months ended 31 December	
	2010	2009
	\$000	\$000
Net profit (loss) for the period	3,058	(680)
Other comprehensive income		
Cash flow hedges		
Gain (loss) taken to reserves	8	-
Foreign currency translation gain (loss)	(2)	(4)
	6	(4)
Total comprehensive income for the period	3,064	(684)
Total comprehensive income for the period is attributable to:		
Equity holders of the company	3,064	(684)
	3,064	(684)

Statement of changes in equity

for the six months ended 31 December 2010 (unaudited)

	Share capital	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
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 2010	<u>28,804</u>	<u>10</u>	<u>2,332</u>	<u>358</u>	<u>(1,833)</u>	<u>29,671</u>
Balance 30 June 2010	28,804	6	2,381	104	(2)	31,293
Profit for the period	-	-	-	-	3,058	3,058
Other comprehensive income	-	(2)	-	(17)	25	6
Total comprehensive income for the period	<u>28,804</u>	<u>4</u>	<u>2,381</u>	<u>87</u>	<u>3,081</u>	<u>34,357</u>
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	(690)	(690)
At 31 December 2010	<u>28,804</u>	<u>4</u>	<u>2,381</u>	<u>87</u>	<u>2,391</u>	<u>33,667</u>

Condensed consolidated statement of cash flows

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for the six months ended 31 December 2010 (unaudited)

	Note	6 months ended 31 December	
		2010 \$000	2009 \$000
Cash flows from operating activities			
Cash receipts from customers		82,223	67,110
Cash paid to suppliers and employees		(78,645)	(60,231)
Interest received		1	-
Interest paid		(550)	(1,049)
Income tax paid		-	-
Net cash from (used in) operating activities	5	3,029	5,830
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		45	-
Acquisition of property, plant and equipment		(694)	(476)
Net cash from (used in) investing activities		(649)	(476)
Cash flows from financing activities			
Repayment of borrowings		(582)	(469)
Dividends paid		(690)	-
Advances to subsidiaries		(200)	-
Loans to employees		51	-
Net cash used in financing activities		(1,421)	(469)
Net (decrease) increase in cash and cash equivalents		959	4,885
Cash and cash equivalents at 01 July (net overdraft)		(8,282)	(21,369)
Effect of exchange rate fluctuations on cash held		-	(4)
Cash and cash equivalents at 31 December (net overdraft)		(7,323)	(16,488)
Represented by:			
Cash and bank balances		2,177	2,312
Bank borrowings at call		(9,500)	(18,800)
		(7,323)	(16,488)

Notes to the financial statements

for the six months ended 31 December 2010 (unaudited)

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 2010 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-orientated 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 2010.

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 2010. 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 1 February 2011.

Note 3 Reconciliation of net surplus after tax with the net cash flow from operating activities

	6 months ended 31 December	
	2010	2009
	\$000	\$000
Net surplus (deficit) after tax	3,058	(680)
Non cash items		
Depreciation	1,125	998
Gain on sale of property, plant and equipment	(45)	5
Increase in future tax benefit taken to profit and loss	-	-
Change in fair value of derivatives	-	-
Movement in working capital		
Change in trade and other receivables	(5,281)	(1,359)
Change in inventories	625	8,218
Change in current tax assets	1,252	166
Change in trade and other payables	452	(2,895)
Adjustment for working capital items that do not relate to operating activities	1,843	1,377
Net cash used in operating activities	3,029	5,830

Note 4 Distribution to owners

	6 months ended 31 December	
	2010	2009
	\$000	\$000
Final dividend declared and paid	690	-
2010: 1 cent per share (2009: 0)		

Note 5 Operating segments

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 2010	Trading	Scouring	Eliminations	Total
Revenue				
Sales to external customers	80,957	3,844	-	84,801
Inter-segment sales	-	8,842	(8,842)	-
Total segment revenue	80,957	12,686	(8,842)	84,801
Segment operating profit before tax and subvention payment	1,474	2,898	-	4,372
Segment assets	72,714	20,311	(7,275)	85,750
Investment in associate	13,624	-	(13,419)	205
Capital expenditure	316	378	-	694
Segment liabilities	46,892	5,191	-	52,083
Cash flow information				
Net cashflow from operating activities	(713)	3,742	-	3,029
Net cashflow from investing activities	(281)	(368)	-	(649)
Net cashflow from financing activities	1,971	(3,392)	-	(1,421)

Notes to the financial statements

For the six months ended 31 December 2010 (unaudited)

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)

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 2010 \$000	30 June 2010 \$000	31 December 2009 \$000
Total inventories at cost	32,048	32,875	24,337
Adjustment to fair value			
Stock	250	366	(2,536)
Forward sales	(295)	(613)	185
Total inventories	32,003	32,628	21,986

Note 7 Related party transactions

Loans to key management personnel, which relate to shares purchased in the group, have a current interest rate of 4.50 per cent and are secured by mortgage over the shares. All loans are made on an on call basis. As at 31 December 2010 the balance outstanding was 351,000 (30 June 2010 478,000).

The group is a shareholder supplier of Lanolin Trading Company Limited. Sales income received for wool grease in the six months ended 31 December 2010 was \$2,205,000 (six months ended 31 December 2009: \$1,668,000).

Note 8 Seasonality

There are no major seasonal trends within the business.



Directory

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Directory

Board of Directors

Chairman: DM Kirke

Managing Director: MBF Dwyer

Directors:

HLJ Govan

DMJ Houldsworth

PAH Jackson

Registered Office

First Floor

30 Sir William Pickering Drive

PO Box 29 383

Christchurch

Share Register

Link Market Services Ltd

138 Tancred Street

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Ashburton

Phone: 03 308 8887

Fax: 03 308 1311

Email: info@linkmarketservices.co.nz

Auditors

Ernst & Young

Bankers

Bank of New Zealand Limited

