

New Zealand Wool Services
INTERNATIONAL LIMITED

Annual Report 2011

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Trend statement

	2011	2010	2009	2008	2007
Financial performance					
Operating revenue	200,113	151,034	150,561	179,215	144,599
Surplus before tax	9,112	3,240	(3,821)	3,580	1,948
Adjustment for change in depreciation rates	3	(1,082)	-	-	-
Income tax	(2,479)	(1,011)	(559)	(1,190)	920
Operating surplus after tax and minority interests	6,636	1,147	(4,380)	2,390	2,868
Financial position					
Total current assets	80,171	59,508	61,663	100,637	77,084
Total non current assets	22,647	23,253	25,612	25,142	26,506
Total assets	102,818	82,761	87,275	125,779	103,590
Total current liabilities	56,574	39,626	56,061	90,187	66,549
Total non current liabilities	10,636	11,842	859	485	4,336
Total Liabilities	67,210	51,468	56,920	90,672	70,885
Paid in capital	28,804	28,804	28,804	28,804	28,804
Other equity	6,804	2,489	1,551	6,303	3,901
Total equity	35,608	31,293	30,355	35,107	32,705
Dividend per share (cents)	5	1	-	1	-

Annual review

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Overview

WSI's 2010/11 financial performance was extremely positive, with the company recording a record tax paid profit. However, disruption following Christchurch's multiple earthquakes, and the receivership of the company's major shareholders in December 2010, marred what was otherwise a successful year.

Financial performance

Your company achieved a tax paid profit of \$6.636 million in 2010/11, compared to \$2.23 million in the previous financial year, and surpassing the \$3.29 million in 2004, WSI's previous record year. Our proven business model, based on seamless links from farm gate to end user; strong export demand from a rising wool market; and outstanding performance by management and staff provided the foundations of this record profitability.

A summary of the year's financial position can be found in the Trend Statement on page 4. Further detail about our trading operations can be found in the managing director's report.

WSI has received excellent support from our banker, the Bank of New Zealand.

Christchurch earthquakes

Although WSI head office and the Kaputone wool scour are both located in Christchurch, the company was fortunate to emerge from the year's unprecedented events largely unscathed.

Our head office premises twice sustained significant damage, requiring ceilings and partitions to be rebuilt on each occasion. Fortunately, within 24 hours of each event, staff managed to clean up the mess and resume normal business operations.

Fortuitously, Kaputone escaped the liquefaction and plant damage experienced by neighbouring businesses. While minor

damage did occur to our buildings and plant, engineering reports confirmed that scouring could continue without undue delay.

We commend staff for their loyalty and endurance during this profoundly difficult period.

Through our broker, WSI is currently negotiating the renewal of our insurance. While we are confident of achieving satisfactory cover, on renewal we will inevitably face both increased premiums and higher excess limits.

Shareholding

As reported, Plum Duff Limited and Woolpak Holdings Limited, which hold a controlling 64 per cent shareholding in the company, have been placed in receivership. This shareholding has been on the market since early this year. A number of parties have sought to take advantage, in some cases aiming to consolidate the industry, and in others to increase their own stake in it.

While this position has challenged the board, management, staff and remaining shareholders, we are deeply grateful for the continued loyalty of staff and customers throughout this period of instability.

Cavalier Wool Holdings Limited has expressed the most widely publicised interest in the company. To achieve its desired outcome, it applied to the Commerce Commission for authorisation to create a monopoly in the scouring industry. Although this authorisation was granted, it has been appealed in the High Court, causing the receiver to suspend the share sale process.

Once the High Court has determined this appeal, WSI will inform shareholders of the outcome, and similarly advise if the receivers complete a sale of the shares.

Allan Hubbard

With considerable sadness, while this report was in production we learnt of the death of Allan Hubbard.

Mr Hubbard contacted the company on the day before he lost his life. He expressed his continued support for WSI and his concern that, due to his situation, our successful business was in such a vulnerable position. He advised that he was optimistic the High Court would release him from statutory management, in which case he intended to repurchase his WSI shares from the receiver.

For obvious reasons, the board and company did not enter debate about the Hubbards' situation over the past 15 months. However, we wish to record that, during his years as a major shareholder in WSI, Allan Hubbard's support was constant and strong, and will be sorely missed.

We extend our deepest sympathy to Mrs Hubbard and to the Hubbard family.

Distribution to shareholders

On 2 September 2011 the board declared an imputed dividend of three cents per share. This dividend will be paid on 10 November 2011, with the record date for entitlements being 4 November 2011. This is in addition to the special dividend of two cents per share, paid on 6 May 2011.

Directorate and staff

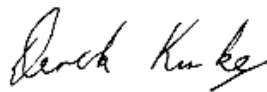
WSI acknowledges the input of our previous chairman, Pat Morrison, who retired during the year, and thanks him for his 14 years service to the company, including the 13 years he was chairman.

At the 2010 annual meeting of the company, after nine years as a director, Stuart Natrass resigned from the board. We also thank him for his service over that period. At that same meeting Bert Govan was elected as a director.

Your board's commitment over the last year has exceeded past demands. Due to the various complex issues and other external factors referred to, directors' service to WSI this year has required significantly more time than usual, and in fact the board met on 14 occasions, double its normal number of meetings.

Sincere thanks are due to our loyal and dedicated head office and Kaputone staff for their unwavering support and commitment to WSI during the recent earthquakes, which made working conditions difficult and stressful. In addition, thanks also to staff at our Whakatu plant, who have had to endure on-going publicity instigated by Cavalier Wool Holdings regarding that company's intention to close the plant if they were to acquire WSI's assets.

On behalf of the board, I would also like to congratulate Michael Dwyer and all our staff for an outstanding result produced under trying circumstances.



Derek Kirke
Chairman
NZ Wool Services International

Domotex Asia Chinafloor, Shanghai, March 2011



As noted by the Chairman in his annual review, WSI had a record year in 2010/11.

To follow, more detail on the group's activities.

Wool marketing and exporting

Our marketing operation and the export of wool essentially drive WSI. This function has been highly effective over a number of years, through pursuit of an excellent positioning strategy. Achieving such a successful performance this year was largely due to these activities, which were additionally influenced by a number of factors.

World stocks of wool, especially carpet wool, were never more than minimal as wool production reduced, both in New Zealand and world-wide. Despite a dwindling wool clip, WSI managed to maintain market volumes overall.

For most of the year the world economy improved, although more recently that has been in doubt. Therefore, while the supply chain was nearly empty, the international market was vigorous, particularly in China, also in India and Europe. This is a combination we have not seen for some time, leading to greatly enhanced stock turn and 'just in time' deliveries.

Wool prices in the United Kingdom rose rapidly, although this took some time to impact on New Zealand.

Between July 2010 and July 2011 the coarse wool indicator moved from 337NZc/kg to 648NZc/kg: an increase of 92 per cent.

Partially off-setting these favourable factors, currency exchange rates posed a problem, with the New Zealand dollar substantially appreciating in value. However, WSI treasury proficiently managed this aspect of our business.

Processing

Both our scouring factories, Whakatu Wool Scour at Hastings and Kaputone Wool Scour at Belfast, Christchurch, had good results, performing up to expectation. In common with most processing plants, however, there is always room for

improvement. Performance can be enhanced by focusing on throughput and wool grease recovery. Both plants are concentrating on improving grease extraction, water usage and effluent disposal. To this end we have a number of projects at the experimental stage that, if successful, will make a significant contribution to the bottom line.

Kaputone, under the able management of Don Caradus, has made major progress on effluent disposal and grease extraction.

Whakatu, which took a few years to bring to optimum operation, is excellently led by Adrian Donnelly. This plant is now performing much closer to expectation and is established as a reliable processor of New Zealand scoured wool.

Trade promotion

Hiring a full stand at the Domotex Asia Chinafloor trade fair in Shanghai in March 2011 was WSI's major marketing initiative during the year, and was the first ever exhibit at this event by a raw materials supplier.

Domotex was an outstanding success for us, reaching over 400 clients during the three-day event, and in the process lifting the profile of WSI and New Zealand wool to many more potential clients. Almost 40,000 trade visitors from all over the world attended the event. We intend repeating the exercise in the present financial year.

As well as displaying New Zealand scoured wool, we also profiled our Red Band, Glacial and Purelana brands, which are now well known throughout China.

WSI also promoted its worldwide image as the quality supplier of New Zealand scoured wool. We place great emphasis on our business model, where ownership of our processing plants guarantees quality and client satisfaction, as well as ensuring our commission clients can share in the same synergy, should they wish.

In order to raise the profile of wool among potential consumers, HRH the Prince of Wales, Prince Charles initiated the Campaign for Wool in the United Kingdom. This campaign

was launched internationally this year to Commonwealth countries, along with Norway, South Korea and the USA, using targeted promotion via retailers and manufacturers to stimulate renewed consumer interest in wool as a luxury, environmentally sustainable product. WSI has strongly supported the Campaign for Wool and we are delighted to be associated with the initiative. As a trade member, WSI is the largest single contributor to this campaign.

Brands

As a marketing vehicle, Purelana continues to expand its scope, becoming WSI's flagship promotional brand. As noted above, Purelana gained significant profile at the Domotex exhibition. Along with our Red Band brand, the Purelana strategy is working well to lift the company's product into the higher quality segment of the global market.

Purelana is an ideal vehicle to deliver research and development projects to the market, and we intend to exploit this link more proactively in the future. This will require funding and, after consultation, may become part of the Purelana direct supply initiative.

Rural operations

Operating out of Te Kuiti, Rural Wool Link, which is 50 per cent owned by WSI, is an important source of supply for our North Island procurement. It reported a satisfactory year to the end of June 2011.

As well as playing an integral part in our branded marketing approach, the Purelana direct supply initiative continues to contribute significantly as a source of wool for WSI's scouring and export activities. We are considering further developing and expanding this system in order to extract even greater advantage for WSI and our grower partners.

Canterbury Romney, which first became a partner of WSI ten years ago, and with which we have jointly operated a successful procurement scheme since, continues to provide significant value to our operations. WSI and principals from Canterbury Romney held a conference earlier this year to commemorate our first ten years of working together and consider how both companies will continue to build this mutually beneficial relationship.

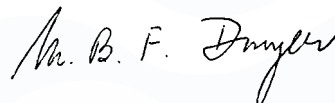
Both the Purelana direct supply initiative and WSI's partnership with Canterbury Romney foster closer links with farmer-suppliers and are integral to the company's branded marketing strategy.

Forecast

As noted above, this has been a year of extremes for your company. Great success has been tempered by disruption and disquiet, with the Canterbury earthquakes and the attempted acquisition of the company by Cavalier Wool Holdings in the latter category.

While WSI faces a number of challenges and uncertainty relating to our majority shareholding, your company's board is confident these will be resolved. A number of options are under consideration, including a possible capital raising exercise. Decisions will be made on this in the coming months. We are also active with a number of exciting new research projects, the success of which would significantly improve our bottom line.

Although our new financial year has started slowly, and at present it seems we will find it difficult to replicate the excellent year under review, we are confident this situation will improve, particularly in our prime markets in Asia. Additionally, with new strategic steps under way, and some structural changes to our business, we are confident of producing a satisfactory result in the coming year.



Michael Dwyer
Managing Director
NZ Wool Services International

Directors' declaration

In the opinion of the directors of New Zealand Wool Services International Limited, the financial statements and notes, on pages 13 to 51:

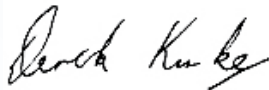
- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the company and the group as at 30 June 2011 and the results of their operations and cash flows for the year ended on that date;
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the company and the group, and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

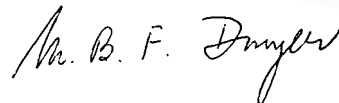
The directors consider that they have taken adequate steps to safeguard the assets of the company and the group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability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

The directors are pleased to present the financial statements of New Zealand Wool Services International Limited for the year ended 30 June 2011.

For and on behalf of the board of directors:



D M Kirke
Director
5 October 2011



M B F Dwyer
Director
5 October 2011



Financial Statements 2011

Audit report

Independent Auditor's Report

To the Shareholders of New Zealand Wool Services International Limited

Report on the Financial Statements

We have audited the financial statements of New Zealand Wool Services International Limited and its subsidiaries on pages 13 to 51, which comprise the balance sheet of New Zealand Wool Services International Limited and the group as at 30 June 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. 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.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst & Young provides taxation advice to the New Zealand Wool Services International Limited. We have no other relationship, or interest in New Zealand Wool Services International Limited or any of its subsidiaries.

Opinion

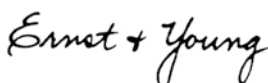
In our opinion, the financial statements on pages 13 to 51:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of New Zealand Wool Services International Limited and the group as at 30 June 2011 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by New Zealand Wool Services International Limited as far as appears from our examination of those records.



12 October 2011
Christchurch

Balance sheet

As at 30 June 2011

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In thousands of New Zealand dollars	Note	Group		Company	
		2011	2010	2011	2010
Assets					
Property, plant and equipment	12	15,602	16,598	710	526
Intangibles	13	6,145	6,145	-	-
Investments in equity accounted investees	14	262	205	150	150
Investments in subsidiaries		-	-	13,472	13,474
Deferred tax assets	15	638	305	470	147
Total non current assets		22,647	23,253	14,802	14,297
Cash and cash equivalents	18	1,805	2,218	1,783	2,162
Inventories	16	46,717	32,628	45,835	31,834
Derivatives		825	450	825	450
Current tax assets		-	1,284	-	120
Trade and other receivables	17	30,824	22,928	29,816	23,395
Total current assets		80,171	59,508	78,259	57,961
Total assets		102,818	82,761	93,061	72,258
Equity					
Share capital	19	28,804	28,804	28,804	28,804
Reserves		2,253	2,491	(143)	104
Retained earnings/(deficits)		4,551	(2)	(3,155)	(3,393)
Total equity attributable to equity holders of the company		35,608	31,293	25,506	25,515
Total equity		35,608	31,293	25,506	25,515
Liabilities					
Deferred tax liabilities	15	1,549	1,595	-	42
Loans and borrowings	21	9,087	10,247	6,737	7,597
Total non-current liabilities		10,636	11,842	6,737	7,639
Cash and cash equivalents	18	20,000	10,500	20,000	10,500
Loans and borrowings	21	21,178	18,168	20,878	17,868
Trade and other payables	22	13,951	10,958	18,878	10,736
Current tax liability		1,445	-	1,062	-
Total current liabilities		56,574	39,626	60,818	39,104
Total liabilities		67,210	51,468	67,555	46,743
Total equity and liabilities		102,818	82,761	93,061	72,258

The notes on pages 18 to 51 are an integral part of these financial statements.

Income statement

for the year ended 30 June 2011

In thousands of New Zealand dollars	Note	Group		Company	
		2011	2010	2011	2010
Continuing operations					
Revenue	6	200,113	151,034	192,319	144,193
Cost of sales	7	(181,359)	(138,213)	(183,193)	(142,489)
Gross profit		18,754	12,821	9,126	1,704
Other income		119	87	68	15
Marketing expenses		(683)	(534)	(683)	(534)
Administrative expenses	8,9	(5,920)	(5,393)	(4,269)	(3,688)
Depreciation	12	(1,840)	(1,924)	(144)	(159)
Share of profit/(loss) of associate	14	57	96	-	-
Finance costs	10	(1,375)	(1,913)	(1,210)	(1,739)
Profit/(loss) from continuing operations before income tax		9,112	3,240	2,888	(4,401)
Subvention income/(expense)		-	-	-	10,001
Adjustment for change in tax depreciation rates	11	3	(1,082)	-	-
Income tax (expense)/benefit	11	(2,479)	(1,011)	(579)	(1,697)
Profit/(loss) from continuing operations after income tax		6,636	1,147	2,309	3,903
Net profit/(loss) for the period		6,636	1,147	2,309	3,903
Profit/(loss) for the period is attributable to:					
Equity holders of the company		6,636	1,147	2,309	3,903
		6,636	1,147	2,309	3,903
Earnings per share					
Basic and diluted earnings per share					
(New Zealand dollars)	20	9.6 cps	1.7 cps	3.3 cps	5.7cps

Statement of comprehensive income

for the year ended 30 June 2011

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In thousands of New Zealand dollars	Note	Group		Company	
		2011	2010	2011	2010
Net profit/(loss) for the period		6,636	1,147	2,309	3,903
Other comprehensive income					
Cash flow hedges					
Gain/(loss) taken to reserves		(320)	(139)	(343)	(140)
Foreign currency translation gain/(loss)		(6)	(8)	-	-
Income tax on items of other comprehensive income	11	80	(66)	96	(115)
Other comprehensive income for the period, net of tax		(246)	(213)	(247)	(255)
Total comprehensive income for the period		<u>6,390</u>	<u>934</u>	<u>2,062</u>	<u>3,648</u>
Total comprehensive income for the period is attributable to:					
Equity holders of the company		<u>6,390</u>	<u>934</u>	<u>2,062</u>	<u>3,648</u>
		<u>6,390</u>	<u>934</u>	<u>2,062</u>	<u>3,648</u>

Statement of changes in equity

for the year ended 30 June 2011

Group In thousands of New Zealand dollars	Share capital	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance at 1 July 2009	28,804	14	2,332	358	(1,153)	30,355
Profit for the period	-	-	-	-	1,147	1,147
Other comprehensive income	-	(8)	49	(254)	-	(213)
Total comprehensive income for the period	-	(8)	49	(254)	1,147	934
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	-	-
Balance at 30 June 2010	28,804	6	2,381	104	(6)	31,289
Balance at 1 July 2010	28,804	6	2,381	104	(6)	31,289
Profit for the period	-	-	-	-	6,636	6,636
Other comprehensive income	-	(6)	15	(247)	(8)	(246)
Total comprehensive income for the period	-	(6)	15	(247)	6,628	6,390
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	(2,071)	(2,071)
Balance at 30 June 2011	28,804	-	2,396	(143)	4,551	35,608

Company In thousands of New Zealand dollars	Share capital	Hedging reserve	Retained earnings	Total
Balance at 1 July 2009	28,804	359	(7,296)	21,867
Profit for the period	-	-	3,903	3,903
Other comprehensive income	-	(255)	-	(255)
Total comprehensive income for the period	-	(255)	3,903	3,648
Transactions with owners in their capacity as owners				
Dividends paid	-	-	-	-
Balance at 30 June 2010	28,804	104	(3,393)	25,515
Balance at 1 July 2010	28,804	104	(3,393)	25,515
Profit for the period	-	-	2,309	2,309
Other comprehensive income	-	(247)	-	(247)
Total comprehensive income for the period	-	(247)	2,309	2,062
Transactions with owners in their capacity as owners				
Dividends paid	-	-	(2,071)	(2,071)
Balance at 30 June 2011	28,804	(143)	(3,155)	25,506

The notes on pages 18 to 51 are an integral part of these financial statements.

Statement of cash flows

for the year ended 30 June 2011

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In thousands of New Zealand dollars	Note	Group		Company	
		2011	2010	2011	2010
Cash flows from operating activities					
Cash receipts from customers		187,752	155,639	188,957	153,219
Cash paid to suppliers and employees		(193,003)	(147,275)	(202,843)	(145,957)
Interest received		56	-	55	-
Interest paid		(1,256)	(1,913)	(1,085)	(1,739)
Income tax paid		-	66	-	-
Subvention payment received		74	-	74	2,583
Net cash from/(used in) operating activities	27	(6,377)	6,517	(14,842)	8,106
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		108	207	80	206
Acquisition of subsidiary, net of cash acquired		-	-	-	-
Acquisition of property, plant and equipment		(972)	(751)	(423)	(228)
Repayment of loan by employees		177	76	177	76
Net cash from/(used in) investing activities		(687)	(468)	(166)	54
Cash flows from financing activities					
Advances from subsidiaries		-	-	7,793	1,729
Advances to subsidiaries		-	-	(115)	(4,156)
Receipt from term loan		-	11,407	-	8,457
Repayment of borrowings		(1,160)	(3,328)	(860)	-
Dividends paid		(2,070)	-	(2,070)	-
Net cash from/(used in) financing activities		(3,230)	8,079	4,748	6,030
Net (decrease)/increase in cash and cash equivalents		(10,294)	14,128	(10,260)	14,190
Cash and cash equivalents at 1 July (net overdraft)		(8,282)	(21,369)	(8,338)	(21,495)
Effect of exchange rate fluctuations on cash held		381	(1,041)	381	(1,033)
Cash and cash equivalents at 30 June (net overdraft)		(18,195)	(8,282)	(18,217)	(8,338)
Represented by:					
Cash and bank balances		1,805	2,218	1,783	2,162
Cash advance at call		(20,000)	(10,500)	(20,000)	(10,500)
	18	(18,195)	(8,282)	(18,217)	(8,338)

The notes on pages 18 to 51 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2011

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 financial statements of the company, as at and for the year ended 30 June 2011, 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.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These statements also comply with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- derivative financial instruments are measured at fair value
- commodity trader inventories and forward sales contracts are measured at fair value less costs to sell.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is the company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements, are described in the following notes:

Note 4 (b) - determination of the fair value of inventories

Note 13 - Intangible Assets: Goodwill Impairment Assessment.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Investments in subsidiaries in the parent company's accounts are recognised at cost less impairment.

(ii) Associates (equity accounted investees)

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the group's share of the net surplus of the associate. Investments in associates in the parent company's accounts are recognised at cost less impairment.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Step acquisitions when the group already has control

When the group acquires a further equity investment when control already exists, goodwill is determined by comparing the fair value of consideration paid and the fair value of the assets and liabilities acquired at the date that control is obtained.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if the group's contractual rights to the cash flows from the financial assets expire, or if the group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset.

Cash and cash equivalents comprise cash balances and call deposits. Bank borrowings that are "at call" seasonal funds, and form an integral part of the group's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are classified as loans and receivables for the purpose of allocation to a financial asset category.

Accounting for finance income and expense is discussed in note 3(l).

Trade and other receivables

Trade and other receivables are stated at their cost, less impairment losses. Trade and other receivables are classified as loans and receivables for the purpose of allocation to a financial asset category.

Interest-bearing borrowings

Interest-bearing borrowings are classified as other non-derivative financial instruments.

Trade and other payables

Trade and other payables are stated at cost.

(ii) Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity, to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised

in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

The group does not endeavour to meet the requirements of hedge accounting to foreign exchange contracts, because there is an offsetting effect within the income statement with the company's accounting policy to account for inventories and forward sale contracts at fair value, less costs to sell. See accounting policy (g).

(iii) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except those property items that are re-valued on a cyclical basis.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the group, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss, as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

- buildings and fit-out 2-30% per annum
- plant and equipment 3-23% per annum
- office equipment 7-80% per annum
- motor vehicles 8-25% per annum

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

(e) Intangible assets**(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries. The goodwill represents the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(f) Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(g) Inventories

The group is a wool commodity trader, as defined by NZ IAS 2 Inventories. All wool inventories are measured at fair value less costs to sell. In addition, the group enters into forward sales contracts for the sale of wool. These contracts are also measured at fair value less costs to sell.

Movements in the fair value less costs to sell of wool inventories and forward sales contracts are recognised in the income statement.

Other stocks, such as scour consumables, are valued at the lower of cost or net realisable value.

(h) Impairment

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

(i) Impairment of receivables

The recoverable amount of the group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest. Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an asset by asset basis. All individual receivables are subject to this approach.

(ii) Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amount of the other assets in the unit, or group of units, on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Other long-term employee benefits

The group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis, and are expensed as the related service is provided.

(j) Revenue

Revenue from the sale of goods and services provided is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods or services.

Transfers of risks and rewards occur when sales are invoiced on shipment.

(k) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(l) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses, and changes in the fair value of financial assets at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(m) Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted, or substantively enacted, by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(n) Earnings per share

The group presents a basic earnings per share (EPS) calculation for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. The company does not have any share options or convertible notes, therefore has not presented a diluted EPS.

(o) Accounting standards and interpretations issued but not yet effective

NZ IFRS Standards and interpretations that have been recently issued or amended, but are not yet effective, have not been adopted by the group for the current annual reporting period, but may have an impact on the group are disclosed below:

IFRS 9 Financial Instruments

The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial assets. The IASB's work on the other phases is on-going, and includes classification and measurement of financial liabilities, impairment of financial instruments, hedge accounting and de-recognition of financial instruments, with a view to replacing IAS 39 Financial Instruments: Recognition and Measurement in its entirety by early 2011. Phase 1 of IFRS 9 applies to all financial assets within

the scope of IAS 39. The key requirements of IFRS 9 are as follows.

At initial recognition, all financial assets are measured at fair value.

Debt instruments may, if the fair value option is not invoked, be subsequently measured at amortised cost if:

- The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal, and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value, either through OCI or profit or loss. Entities must make an irrevocable choice for each instrument, unless they are held for trading, in which case they must be measured at fair value through profit and loss. The amended standard will be effective for the 2014 group financial statements. The group has not yet considered the impact of the standard on its financial statements.

IFRS 10 Group Financial Statements

NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities.

The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This could lead to more entities being consolidated.

NZ IFRS 10 does not apply to public benefit entities. The amended standard will be effective for the 2014 Group financial statements. The Group has not yet considered the impact of the standard on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities

NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

NZ IFRS 12 does not apply to public benefit entities. The amended standard will be effective for the 2014 group financial statements. The group has not yet considered the impact of the standard on its financial statements.

IFRS 13 Fair Value Measurement

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets.

NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. NZ IFRS 13 does not apply to public benefit entities. The amended standard will be effective for the 2014 group financial statements. The group has not yet considered the impact of the standard on its financial statements.

IAS 12 Income Taxes (Revised)

IAS 12 introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted.

The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. The group has considered the impact of the standard on its financial statements, and has concluded that there is no material impact arising.

IAS 24 Related Party Disclosures (Revised)

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. Entities will need to consider the revised definition of related parties to ensure all the relevant information is still being captured. The amended standard will be effective for the 2012 group financial statements. The group has considered the impact of the standard on its financial statements, and has concluded that there is no material impact arising.

4. Determination of fair values

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of the acquisition of minority interest is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In March/April 2007, land acquired as part of the acquisition of minority interests was re-valued to \$2,490,000 and buildings were re-valued to \$7,010,000.

The land and buildings at Kaputone Wool Scour were valued in March 2007 by Mr C Stanley, a registered valuer with TelferYoung (Canterbury) Limited. Mr Stanley is a member of the New Zealand Institute of Valuers. The valuations were undertaken on a current market value basis.

The land and buildings at Whakatu Wool Scour were valued in April 2007 by Mr F Spencer, a registered valuer with Logan Stone Limited. Mr Spencer is a member of the New Zealand Institute of Valuers. The valuations were undertaken on a current market value basis.

(b) Inventory

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

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

The carrying amount of inventories recognised at fair value is disclosed in Note 16.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract, using a risk-free interest rate, based on government bonds.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract, and using market interest rates for a similar instrument at the measurement date.

All derivatives of the group are classed as level 2 derivatives, as defined by NZ IFRS 7, where the inputs are observable either directly or indirectly from market prices.

There are no financial instruments classed as level 1 or 3.

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, who are 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.

Types of products and services

Trading

The trading segment of the group deals with the purchase of greasy wool from growers and the sale of both scoured and greasy wool to customers locally and worldwide.

Scouring

Scouring is the process that converts greasy wool into a scoured "clean" state, suitable for customers' needs. The process must meet various requirements around colour and removal of foreign matter.

Notes to the financial statements *continued*

for the year ended 30 June 2011

Continuing operations

Accounting policies

The accounting policies used by the group in reporting segments internally are the same as those contained in note 3 to the accounts.

Year ended 30 June 2011

In thousands of New Zealand Dollars	Trading	Scouring	Consolidations	Total
Revenue				
Sales to external customers	192,319	7,794	-	200,113
Inter-segment sales	-	18,162	(18,162)	-
Total segment revenue	<u>192,319</u>	<u>25,956</u>	<u>(18,162)</u>	<u>200,113</u>
Share of profit in associate	-	-	57	57
Interest income	83	54	-	137
Interest expense	(1,293)	(219)	-	(1,512)
Depreciation	(144)	(1,696)	-	(1,840)
Adjustment for change in tax depreciation rates	-	3	-	3
Income tax expense	(542)	(1,920)	(17)	(2,479)
Segment operating profit after tax	<u>2,309</u>	<u>4,386</u>	<u>(59)</u>	<u>6,636</u>
Segment assets				
Investment in associate	150	-	112	262
Capital expenditure	423	549	-	972
Segment liabilities	<u>67,557</u>	<u>6,275</u>	<u>(6,622)</u>	<u>67,210</u>
Cash flow information				
Net cash flow from/(used in) operating activities	(14,842)	8,465	-	(6,377)
Net cash flow from/(used in) investing activities	(166)	(521)	-	(687)
Net cash flow from/(used in) financing activities	4,748	(7,978)	-	(3,230)

Year ended 30 June 2010

In thousands of New Zealand Dollars

	Trading	Scouring	Consolidations	Total
Revenue				
Sales to external customers	144,193	6,841	-	151,034
Inter-segment sales	-	17,998	(17,998)	-
Total segment revenue	144,193	24,839	(17,998)	151,034
Share of profit in associate	-	-	96	96
Interest income	-	-	-	-
Interest expense	(1,749)	(204)	40	(1,913)
Depreciation	(159)	(1,765)	-	(1,924)
Subvention payment	-	(11,270)	-	(11,270)
Subvention receipt	11,270	-	-	11,270
Adjustment for change in tax depreciation rates	-	(1,082)	-	(1,082)
Income tax expense	(2,080)	1,120	(51)	(1,011)
Segment operating profit/(loss) after tax	3,903	(2,756)	-	1,147
Segment assets	72,258	21,736	(11,233)	82,761
Investment in associate	150	-	55	205
Capital expenditure	228	527	-	755
Segment liabilities	46,767	8,666	(3,965)	51,468
Cash flow information				
Net cash flow from/(used in) operating activities	9,527	(3,010)	-	6,517
Net cash flow from/(used in) investing activities	54	(522)	-	(468)
Net cash flow from/(used in) financing activities	4,566	3,513	-	8,079

Notes to the financial statements *continued*

for the year ended 30 June 2011

Geographical segments

The group supplies wool to a number of customers. No one customer accounts for greater than ten per cent of the turnover of the group. Geographical segments that account for greater than ten per cent of turnover, and the group's country of domicile are presented in the table below.

In thousands of New Zealand dollars	Group	
	2011	2010
China	67,423	41,429
India	23,731	19,907
United Kingdom	24,911	21,111
New Zealand	21,001	9,665
Other	63,047	58,922
Total revenues	200,113	151,034

The total amount of non-current assets by geographical segment is presented in the table below.

In thousands of New Zealand dollars	Group	
	2011	2010
New Zealand	21,957	22,911
Other	52	37
Total non-current assets	22,009	22,948

The total non-current assets exclude deferred tax assets of \$638,000 (2010: \$305,000).

6. Revenue

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Sale of goods	192,319	144,193	192,319	144,193
Services Provided	7,794	6,841	-	-
Total revenues	200,113	151,034	192,319	144,193

7. Cost of sales

Costs of sales consist of the following items;

	Group		Company	
	2011	2010	2011	2010
In thousands of New Zealand dollars				
Sale of inventory	182,065	135,836	183,899	140,552
Operating leases	440	440	440	440
Change in fair value of inventory and forward sale contracts	(765)	904	(765)	904
Net foreign exchange/(gain) loss	(381)	1,033	(381)	1,033
	<u>181,359</u>	<u>138,213</u>	<u>183,193</u>	<u>142,489</u>

8. Administrative expenses

The following items of expenditure are included in administrative expenses:

	Group		Company	
	2011	2010	2011	2010
In thousands of New Zealand dollars				
Operating leases	132	132	132	132
Auditor's remuneration comprises:				
Audit of financial statements - Ernst & Young	50	48	40	38
Taxation services - Ernst & Young	34	55	34	55

9. Personnel expenses

Personnel expenses are as follows:

	Group		Company	
	2011	2010	2011	2010
In thousands of New Zealand dollars				
Included in cost of sales				
Wages and salaries	3,059	2,835	-	-
Included in administrative expenses				
Wages and salaries	3,117	2,779	2,310	1,960
Payments to defined contribution schemes	205	191	116	115
Personnel expenses	<u>6,381</u>	<u>5,805</u>	<u>2,426</u>	<u>2,075</u>

Notes to the financial statements *continued*

for the year ended 30 June 2011

10. Finance income and expense

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Interest income on cash balances	1	-	2	-
Use of money interest - IRD	136	-	81	-
Finance income	137	-	83	-
Interest expense on borrowings	(1,512)	(1,913)	(1,293)	(1,739)
Finance expense	(1,512)	(1,913)	(1,293)	(1,739)
Net finance costs	(1,375)	(1,913)	(1,210)	(1,739)

11. Income tax expense in the income statement

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Current tax expense				
Current period	3,076	113	1,185	773
Adjustment for prior periods	(335)	8	(337)	4
Deferred tax expense				
Origination and reversal of temporary differences	(302)	926	(299)	923
Adjustment for change in tax rates	40	(36)	30	(3)
Adjustment for change in depreciation rates	(3)	1,082	-	-
Total income tax expense/(benefit)	2,476	2,093	579	1,697

In May 2010 the government announced its 2010 budget, which effectively removed the depreciation deduction on buildings with expected lives of 50 years or more and that are intended to be held for use, either for own use or for use as an investment property. Repairs and maintenance, as well as deductions for "fit-out" items not considered to be part of building expenditure, will remain deductible for income tax purposes. Under NZ IAS 12 a taxable temporary difference arises when the carrying amount of an asset for accounting purposes exceeds its tax base. The removal of tax deductions for depreciation means that there will no longer be taxable deductions to claim against the taxable benefits generated through use of the asset.

Consequently, the company had to recognise a material step up in the amount of deferred tax liability in the 2010 year of \$1,082,046, with a correspondingly large tax expense of \$1,082,046. This is a one-time effect that will reverse over the remaining useful life of the buildings.

Reconciliation of effective tax rate

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Profit/(loss) from continuing operations before income tax	9,112	3,240	2,888	(4,401)
Subvention income/(expense)	-	-	-	10,001
Net surplus/(deficit)	9,112	3,240	2,888	5,600
Prima facie tax @ 30%	2,734	972	866	1,680
Permanent differences	24	18	20	16
Adjustment for prior periods	(335)	8	(337)	4
Impact of change in tax rates	40	(36)	30	(3)
Impact of change in depreciation rates	(3)	1,082	-	-
Movement to asset revaluation reserve	16	49	-	-
	2,476	2,093	579	1,697

Reconciliation of tax on other items of comprehensive income

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Cashflow hedge reserve	96	(115)	96	(115)
Asset revaluation reserve	(16)	49	-	-
	80	(66)	96	(115)

Imputation credits

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Imputation credits at 1 July	939	982	900	874
New Zealand tax payments, net of refunds	(49)	(43)	(26)	26
Imputation credits attached to dividends paid	(889)	-	(766)	-
Other credits/(debits)	-	-	(108)	-
Imputation credits at 30 June	1	939	-	900

Notes to the financial statements *continued*

for the year ended 30 June 2011

12. Property, plant and equipment

Group

In thousands of New Zealand dollars

	Land and buildings	Plant and equipment	Office equipment	Motor vehicles	Total
Cost					
Balance at 1 July 2009	11,428	24,403	941	520	37,292
Additions	132	403	61	159	755
Disposals	-	(198)	-	(41)	(239)
Balance at 30 June 2010	<u>11,560</u>	<u>24,608</u>	<u>1,002</u>	<u>638</u>	<u>37,808</u>
Balance at 1 July 2010	11,560	24,608	1,002	638	37,808
Additions	-	465	100	406	971
Disposals	-	(61)	-	(117)	(178)
Balance at 30 June 2011	<u>11,560</u>	<u>25,012</u>	<u>1,102</u>	<u>927</u>	<u>38,601</u>
Depreciation and impairment losses					
Balance at 1 July 2009	2,189	16,023	869	242	19,323
Depreciation for the year	318	1,401	78	127	1,924
Disposals	-	(2)	-	(35)	(37)
Balance at 30 June 2010	<u>2,507</u>	<u>17,422</u>	<u>947</u>	<u>334</u>	<u>21,210</u>
Balance at 1 July 2010	2,507	17,422	947	334	21,210
Depreciation for the year	318	1,347	86	89	1,840
Disposals	-	-	-	(51)	(51)
Balance at 30 June 2011	<u>2,825</u>	<u>18,769</u>	<u>1,033</u>	<u>372</u>	<u>22,999</u>
Carrying amounts					
At 1 July 2009	9,239	8,380	72	278	17,969
At 30 June 2010	9,053	7,186	55	304	16,598
At 1 July 2010	9,053	7,186	55	304	16,598
At 30 June 2011	8,735	6,243	69	555	15,602

Company

In thousands of New Zealand dollars

	Land and buildings	Plant and equipment	Office equipment	Motor vehicles	Total
Cost					
Balance at 1 July 2009	148	292	638	317	1,395
Additions	119	-	56	53	228
Disposals	-	(191)	-	-	(191)
Balance at 30 June 2010	267	101	694	370	1,432
Balance at 1 July 2010	267	101	694	370	1,432
Additions	-	-	95	328	423
Disposals	-	(61)	-	(80)	(141)
Balance at 30 June 2011	267	40	789	618	1,714

Depreciation and impairment losses

Balance at 1 July 2009	-	-	588	159	747
Depreciation for the year	20	-	53	86	159
Disposals	-	-	-	-	-
Balance at 30 June 2010	20	-	641	245	906
Balance at 1 July 2010	20	-	641	245	906
Depreciation for the year	20	-	69	55	144
Disposals	-	-	-	(46)	(46)
Balance at 30 June 2011	40	-	710	254	1,004

Carrying amounts

At 1 July 2009	148	292	50	158	648
At 30 June 2010	247	101	53	125	526
At 1 July 2010	247	101	53	125	526
At 30 June 2011	227	40	79	364	710

Security over property, plant and equipment is disclosed in Note 21.

Notes to the financial statements *continued*

for the year ended 30 June 2011

13. Intangible assets

Group

In thousands of New Zealand dollars Goodwill

Cost

Balance at 1 July 2009 6,145

Balance at 30 June 2010 and at 30 June 2011 6,145

Carrying amounts

At 1 July 2009 6,145

At 30 June 2010 and at 30 June 2011 6,145

Goodwill has been tested for impairment at 30 June 2011 and no impairment charge was deemed necessary.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

Group

In thousands of New Zealand dollars 2011 2010

New Zealand scouring operation	6,145	6,145
--------------------------------	-------	-------

The recoverable amount of the goodwill associated with the New Zealand scouring operation has been based on the value in use of the assets.

Cashflows have been projected for the first five years. The key assumptions in determining the value in use were as follows -

- Cashflows were based on the group's internal budgets, and represent the best estimates of cashflows based on reasonable and supportable assumptions
- Sales growth was assumed to be 2.5 per cent per annum over the period that the cashflows were reviewed.
- Expenses were expected to grow at between four per cent and five per cent.
- The pre-tax weighted average cost of capital is assumed to be ten per cent per annum.
- The current inter-company pricing structure is assumed to remain stable and is consistent with the price that would be received in an arm's length transaction.

14. Equity accounted investees

The group's share of profits in its equity accounted investees for the year was \$57,000 (2010: profit of \$96,000)

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the group:

In thousands of New Zealand dollar	Ownership	Total assets	Total liabilities	Revenues	Profit/(loss)
2010					
Rural Wool Link (associate)	50%	765	355	8,174	192
2011					
Rural Wool Link (associate)	50%	838	314	12,653	115

Movements in carrying value of equity accounted investees:

In thousands of New Zealand dollars	Group	
	2011	2010
Balance at 1 July	205	109
Share of profit/(loss)	57	96
Dividend payment	-	-
Balance at 30 June	262	205

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
In thousands of New Zealand dollars						
Property, plant and equipment	-	-	1,518	1,536	1,518	1,536
Derivatives	(54)	-	-	42	(54)	42
Inventories	(355)	(124)	-	-	(355)	(124)
Provisions	(229)	(181)	-	-	(229)	(181)
Group Losses	-	-	-	-	-	-
Other items	-	-	31	17	31	17
Net tax (assets)/liabilities	(638)	(305)	1,549	1,595	911	1,290

Notes to the financial statements *continued*

for the year ended 30 June 2011

Company	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
In thousands of New Zealand dollars						
Derivatives	(54)	-	-	42	(54)	42
Inventories	(308)	(60)	-	-	(308)	(60)
Provisions	(108)	(87)	-	-	(108)	(87)
Group losses	-	-	-	-	-	-
Net tax (assets)/liabilities	(470)	(147)	-	42	(470)	(105)

Movement in temporary differences during the year

Group

In thousands of New Zealand dollars	Balance	Recognised	Recognised	Balance	Recognised	Recognised	Balance
	1 Jul 09	in profit or loss	in equity	30 Jun 10	in profit or loss	in equity	30 Jun 11
Property, plant and equipment	503	1,082	(48)	1,537	-	(19)	1,518
Derivatives	154	-	(112)	42	-	(96)	(54)
Inventories	171	(295)	-	(124)	(231)	-	(355)
Provisions	(155)	(26)	-	(181)	(48)	-	(229)
Group losses	(1,190)	1,190	-	-	-	-	-
Other items	(13)	29	-	16	15	-	31
	(530)	1,980	(160)	1,290	(264)	(115)	911

Company

In thousands of New Zealand dollar	Balance	Recognised	Recognised	Balance	Recognised	Recognised	Balance
	1 Jul 09	in profit or loss	in equity	30 Jun 10	in profit or loss	in equity	30 Jun 11
Derivatives	154	-	(112)	42	-	(96)	(54)
Inventories	202	(262)	-	(60)	(248)	-	(308)
Provisions	(83)	(4)	-	(87)	(21)	-	(108)
Group losses	(1,190)	1,190	-	-	-	-	-
	(917)	924	(112)	(105)	(269)	(96)	(470)

16. Inventories

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Inventories				
Raw materials at cost	1,051	1,006	-	-
Commodity trader inventories				
Wool stock allocated to sales, but unshipped	28,145	17,482	28,314	17,694
Unallocated to sales	18,825	14,387	18,825	14,387
Total inventories at cost	48,021	32,875	47,139	32,081
Adjustment to fair value:				
Stock	(656)	366	(656)	366
Forward sales	(648)	(613)	(648)	(613)
Total inventories	46,717	32,628	45,835	31,834

The cost of sales shown in the income statement represents the amount of wool stock expensed during the period.

17. Trade and other receivables

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Trade and other receivables due from related parties	-	-	30	2,479
Trade receivables and discounted bills	30,599	22,516	29,561	20,504
Loans to managing director	129	238	129	238
Loans to other employees	96	174	96	174
Total	30,824	22,928	29,816	23,395

The loans to the managing director and employees, which relate to shares purchased in the company, have a current interest rate of 4.5 per cent, and are secured by a mortgage over shares. All loans are made on an on call basis.

Notes to the financial statements *continued*

for the year ended 30 June 2011

The profile of trade receivables of the group at 30 June is as follows:

In thousands of New Zealand dollars	Gross receivable 2011	Impairment 2011	Gross receivable 2010	Impairment 2010
Trade and other receivables				
Not past due	30,578	-	22,173	-
Past due 0-30 days	-	-	20	-
Past due 31-120 days	167	-	421	-
Past due 121-360 days	-	-	-	-
Past due more than 1 year	79	-	314	-
Total	30,824	-	22,928	-

The status of trade receivables of the company at 30 June is as follows:

In thousands of New Zealand dollars	Gross receivable 2011	Impairment 2011	Gross receivable 2010	Impairment 2010
Not past due	29,681	-	22,640	-
Past due 0-30 days	-	-	20	-
Past due 31-120 days	56	-	421	-
Past due 121-360 days	-	-	-	-
Past due more than 1 year	79	-	314	-
Total	29,816	-	23,395	-

18. Cash and cash equivalents

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Bank balances and cash	1,805	2,218	1,783	2,162
Cash advance used for cash management purposes	(20,000)	(10,500)	(20,000)	(10,500)
Cash and cash equivalents in the statement of cash flows	(18,195)	(8,282)	(18,217)	(8,338)

The effective interest rate on the cash advance in the year was 4.95 per cent (2010: 5.20 per cent)

19. Capital and reserves

Share capital

	Ordinary shares	
In thousands of shares	2011	2010
On issue at 1 July	69,500	68,988
Treasury stock	(512)	512
On issue at 30 June	<u>68,988</u>	<u>69,500</u>

The directors of the company resolved to cancel the shares held as treasury stock on Monday 14 February 2011. The reason for the cancellation is that the shares have been held since 2004, and it is no longer appropriate that such shares be held as treasury stock and be capable of being reissued. The total number of ordinary shares on issue after the cancellation of the shares held as treasury stock was 68,987,726 ordinary shares.

All issued shares are fully paid, have no par value, and have rights to dividends. Upon winding up, shareholders rank equally with regard to the company's assets.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

Hedging reserve

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

Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment as part of a step acquisition of entities that are already controlled.

Dividends

For the year ending 30 June 2010, a dividend of one cent per share was paid in November 2010. A special one off fully imputed dividend of two cents per share was paid in May 2011, with the record date being Friday 29 April 2011.

Notes to the financial statements *continued*

for the year ended 30 June 2011

20. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of \$6,636,000 (2010: profit \$1,147,000) and the number of ordinary shares outstanding of 68,988,000 (2010: 69,500,000), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of New Zealand dollars	Continuing operation 2011	Total 2011	Continuing operation 2010	Total 2010
Net profit/(loss) for the period (\$'000's)	6,636	6,636	1,147	1,147
Ordinary shares ('000's)	68,988	68,988	69,500	69,500
Net profit/(loss) attributable to ordinary shareholders (dollars per share)	0.096	0.096	0.017	0.017

21. Loans and borrowings

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings. For more information about the company's exposure to interest rate and foreign currency risk, see note 23.

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Non-current liabilities				
Secured bank loans	9,087	10,247	6,737	7,597
	9,087	10,247	6,737	7,597
Current liabilities				
Secured bank loans	1,160	1,160	860	860
Discounted bills	20,018	17,008	20,018	17,008
	21,178	18,168	20,878	17,868

The effective interest rates of the secured bank loans for the year ending 30 June 2011 was 5.77 per cent (2010: 5.76 per cent). The effective interest rates on the discounted bills for the year ending 30 June 2011 was between 2.44 per cent and 7.47 per cent (2010: 2.41 per cent and 7.48 per cent). A portion of this debt has been hedged by an interest rate swap, which has a fixed interest rate of 4.11 per cent. Please refer to Note 23 for further information.

Bank loans and overdrafts are secured by a composite debenture over the group assets and by mortgage over the land and buildings of subsidiary companies. A right of set off exists within each bank's facility.

The group meets its day-to-day working capital requirements through secured bank loans and discounted bills, which are due for review on 30 November 2011. In April 2010 the group changed its banking facilities to the Bank of New Zealand. There have been no breaches with the group's current banker in the year to 30 June 2011.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show the group should be able to operate within the level of its current facility. The group has held discussions with its bankers about its future borrowing needs, and no matters have been drawn to its attention to suggest that the current facility will not be renewed on acceptable terms.

22. Trade and other payables

	Group		Company	
In thousands of New Zealand dollars	2011	2010	2011	2010
Trade payables due to related parties	-	-	6,624	1,481
Other trade payables	13,224	10,159	11,824	8,700
Employee payables	507	749	210	505
Non-trade payables and accrued expenses	220	50	220	50
Total	13,951	10,958	18,878	10,736

23. Financial instruments

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

The group manages commodity price risks through negotiated supply contracts and forward physical contracts. However, these contracts are for the purpose of the receipt in accordance with the group's expected usage requirements only, and are not accounted for as financial instruments.

Credit risk

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and delivery terms and conditions are offered. Purchase limits are reviewed on a regular basis. Sales are usually made with the protection of a letter of credit, export insurance, or retained ownership. The group does not require any collateral as security to support financial instruments, due to the standing of the financial institutions with which it deals.

The group's exposure to credit risk is mainly influenced by its customer base. As such it is concentrated to the default risk of its industry. Geographically, credit risk is spread across a variety of regions. The group's maximum exposure to credit risk for invoiced sales outstanding is \$2,706,000 (2010: \$3,732,000) and can be summarised by geographic regions as follows:

Notes to the financial statements *continued*

for the year ended 30 June 2011

	Carrying amount	Insured debt	Net exposure	
			2011	2010
In thousands of New Zealand dollars				
New Zealand	11,037	10,085	727	1,607
Other Asia Pacific countries	7,754	6,979	775	532
United Kingdom	6,444	5,799	645	850
Other European countries	4,758	4,282	476	631
Other regions	831	748	83	112
Trade receivables and discounted bills	30,824	27,893	2,706	3,732

Interest rate and liquidity risk

The group funds its on-going activities with short-term and term borrowings funded at the buying rate for bank-accepted bills plus a margin of 1.45 per cent and 1.65 per cent respectively. All such borrowing is arranged within the terms of bank credit facilities, which stood at \$35,547,000 at balance date. Borrowings are drawn in New Zealand dollars. In addition, the group borrows against documents established by overseas customers when arranging payment for wool purchased from the group. The term of such borrowing is generally within 120 days. Interest rate swaps are used to hedge re-pricing risk on floating rate and fixed term borrowings.

Hedging

Interest rate swaps, denominated in New Zealand dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure, within the group's policy. The current swap matures in 2014 and has fixed swap rate of 4.11 per cent. At 30 June 2011, the group had an interest rate swap with a notional contract amount of \$12,500,000 (2010: \$12,500,000). The group classifies interest rate swaps as cash flow hedges.

The net fair value of swaps at 30 June 2011 was a liability of \$195,025 (2010: \$149,391). The amount reclassified to the profit and loss during the period was \$127,000 (2010: \$84,000)

The following table details the group's interest rate risk relating to financial instruments as at 30 June 2011, and the period in which the interest rate risk re-prices:

In thousands of New Zealand dollars	Note	Total	2011			2010			
			0-6 months	6-12 months	1-10 years	0-6 months	6-12 months	1-10 years	
Group									
Fixed rate instruments									
Discounted bills	21	20,018	20,018	-	-	17,008	17,008	-	-
		<u>20,018</u>	<u>20,018</u>	<u>-</u>	<u>-</u>	<u>17,008</u>	<u>17,008</u>	<u>-</u>	<u>-</u>
Variable rate instruments and related derivatives									
Cash and cash equivalents	18	1,805	1,805	-	-	2,218	2,218	-	-
Bank overdraft	18	20,000	20,000	-	-	10,500	10,500	-	-
Secured bank loans	21	10,247	580	580	9,087	11,407	580	580	10,247
Notional amount of interest rate swap		(12,500)	-	-	(12,500)	(12,500)	-	-	(12,500)
Company									
Fixed rate instruments									
Discounted bills	21	20,018	20,018	-	-	17,008	17,008	-	-
		<u>20,018</u>	<u>20,018</u>	<u>-</u>	<u>-</u>	<u>17,008</u>	<u>17,008</u>	<u>-</u>	<u>-</u>
Variable rate Instruments and related derivatives									
Cash and cash equivalents	18	1,783	1,783	-	-	2,162	2,162	-	-
Bank overdraft	18	20,000	20,000	-	-	10,500	10,500	-	-
Secured Bank Loans	21	7,597	430	430	6,737	8,457	430	430	7,597
Notional amount of interest rate swap		(12,500)	-	-	(12,500)	(12,500)	-	-	(12,500)

Liquidity risk represents the group's ability to meet its contractual obligations. The group evaluates its liquidity requirements on an on-going basis. In general, the group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities, and has credit lines in place to cover potential shortfalls. It is the group's policy to provide credit and liquidity enhancement only to wholly owned subsidiaries. The following table details the group's exposure to liquidity risk as at 30 June 2011. It shows the group's financial assets and liabilities and the period in which they contractually settle.

Notes to the financial statements *continued*

for the year ended 30 June 2011

In thousands of New Zealand dollars	Note	Balance sheet	Cash flows	0-6 months	6-12 months	1-2 years	3-5 years
2011							
Group							
Non derivative assets							
Cash and cash equivalents	18	1,805	1,805	1,805	-	-	-
Trade and other receivables	17	30,824	30,824	30,824	-	-	-
Non derivative liabilities							
Secured bank loans	21	10,247	11,375	821	1,090	9,464	-
Bank overdraft	18	20,000	20,000	20,000	-	-	-
Discounted bills	21	20,018	20,018	20,018	-	-	-
Trade and other payables	22	13,951	13,951	-	-	-	-
Company							
Non derivative assets							
Cash and cash equivalents	18	1,783	1,783	1,783	-	-	-
Trade and other receivables	17	29,816	29,816	29,816	-	-	-
Non derivative liabilities							
Bank overdraft	18	20,000	20,000	20,000	-	-	-
Secured bank loans	21	7,597	8,433	609	808	7,016	-
Discounted bills	21	20,018	20,018	20,018	-	-	-
Trade and other payables	22	18,878	18,878	18,878	-	-	-
2010							
Group							
Non derivative assets							
Cash and cash equivalents	18	2,218	2,218	2,218	-	-	-
Trade and other receivables	17	22,928	22,918	22,928	-	-	-
Non derivative liabilities							
Secured bank loans	21	11,407	13,018	914	892	1,737	9,475
Bank overdraft	18	10,500	10,500	10,500	-	-	-
Discounted bills	21	17,008	17,008	17,008	-	-	-
Trade and other payables	22	10,958	10,958	10,958	-	-	-
Company							
Non derivative assets							
Cash and cash equivalents	18	2,162	2,162	2,162	-	-	-
Trade and other receivables	17	23,395	23,395	23,395	-	-	-
Non derivative liabilities							
Bank overdraft	18	10,500	10,500	10,500	-	-	-
Secured bank loans	21	8,457	9,651	678	661	1,288	7,024
Discounted bills	21	17,008	17,008	17,008	-	-	-
Trade and other payables	22	10,736	10,736	10,736	-	-	-

Foreign currency risk

The group is exposed to foreign currency risk on sales that are denominated in a currency other than the company's functional currency, New Zealand dollars (\$), which is the presentation currency of the group. The currencies in which transactions are primarily denominated are United States dollars (USD), British pound (GBP), European euro (EUR) and Australian dollars (AUD). The group uses forward exchange contracts to hedge its foreign currency risk. All of the forward exchange contracts have maturities of less than one year at the balance sheet date. The group's exposure to foreign currency risk can be summarised as follows:

In thousands of New Zealand dollars

	Total	USD	GBP	EUR	AUD	Other
2011						
Group and company						
Foreign currency risk						
Forward sales	32,242	17,039	6,380	5,445	3,154	224
Foreign exchange contracts notional amount	(32,246)	(17,297)	(5,417)	(6,208)	(3,100)	(224)
Net un-hedged exposure	(4)	(258)	963	(763)	54	-
2010						
Group and company						
Foreign currency risk						
Forward sales	26,918	13,018	7,489	4,319	1,847	245
Foreign exchange contracts notional amount	(28,407)	(15,693)	(6,831)	(4,025)	(1,790)	(68)
Net un-hedged exposure	(1,489)	(2,675)	658	294	57	177

The company eliminates foreign exchange risk of sales by the time of shipment. The forward sales above have been converted to New Zealand dollars at the year-end spot rate.

Other market price risk

The entity is not exposed to substantial other market price risk arising from financial instruments.

Capital management

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

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised, and the group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The group is subject to banking covenants, which do place capital requirements on the group.

The group's policies in respect of capital management and allocation are reviewed regularly by the board of directors. There have been no material changes in the group's management of capital during the period.

Notes to the financial statements *continued*

for the year ended 30 June 2011

Sensitivity analysis

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

At 30 June 2011 it is estimated that a one-percentage point increase in interest rates would decrease the group's profit before tax by \$159,000 (2010: \$72,000). This figure has been determined by calculating one per cent of the group's financial liabilities that are subject to variable interest rates at 30 June 2011. The calculation includes the impact of interest rate swaps.

The following table summarises the sensitivity of the group's financial assets and financial liabilities to foreign exchange risk.

Foreign exchange risk		+5%		-5%	
In thousands of New Zealand dollars	Carrying amount	Profit	Equity	Profit	Equity
2011					
Net un-hedged exposure	(4)	-	-	-	-
2010					
Net un-hedged exposure	(1,489)	71	-	(78)	-

The calculation is performed by recalculating foreign exchange derivatives and foreign currency denominated forward sales at a spot rate that is five percentage points higher, and lower, than the actual spot rate at the balance date.

The above calculations exclude any interaction between exchange rates, interest rates and the wool commodity price. Because of the fluid nature of the group's exposure to the commodity and financial instruments, it is not practical to estimate the dollar value impact of all these changes.

Classification and fair values

There are no differences between the fair value and carrying value of financial instruments

24. Operating leases

Leases as lessee

Non-cancellable operating lease rentals include lease of premises, a vehicle and photocopier and are payable as follows:

In thousands of New Zealand dollars	Group		Company	
	2011	2010	2011	2010
Less than one year	572	606	132	168
Between one and five years	748	1,107	264	396
More than five years	-	-	-	-

25. Capital commitments

During the year ended 30 June 2011, the group entered into a contract to purchase scouring plant and equipment for \$23,000 (2010: \$45,000).

26. Contingencies

There are no contingencies to disclose for the group to June 2011 (2010: \$0).

27. Reconciliation of the profit for the period with the net cash from operating activities

In thousands of New Zealand dollars	Note	Group		Company	
		2011	2010	2011	2010
Profit for the period		6,636	1,147	2,309	3,903
Adjustments for:					
Depreciation	12	1,840	1,924	144	159
Increase in future tax benefit taken to profit and loss	15	(264)	898	(269)	924
Change in fair value of derivatives	7	(765)	904	(765)	904
Net gain on foreign exchange	7	(381)	1,033	(381)	1,033
Share of profit of equity accounted investees	14	(57)	(96)	-	-
Gain on sale of property, plant and equipment			-	-	-
		373	4,663	(1,271)	3,020
Movement in working capital					
Change in inventories		(14,089)	(2,424)	(14,001)	1,089
Change in trade and other receivables		(5,072)	592	(9,245)	(2,605)
Change in current tax assets		2,729	181	1,182	776
Change in trade and other payables		2,837	1,019	3,019	758
Change in provisions and employee benefits		(14)	88	(20)	(28)
Amounts due from group companies		-	-	5,143	(1,189)
Other accounts		223	1,251	(1,958)	2,382
		(13,386)	707	(15,880)	1,183
Net cash from/(used in) operating activities		(6,377)	6,517	(14,842)	8,106

Notes to the financial statements *continued*

for the year ended 30 June 2011

28. Related parties

The ultimate parent company of the group is New Zealand Wool Services International Limited

During the year, the company had material transactions with Kaputone Wool Scour (1994) Limited, Whakatu Wool Scour Limited and Rural Wool Link Limited.

Advances were received from and made to Kaputone Wool Scour (1994) Limited and Whakatu Wool Scour Limited, on which interest was received. At 30 June 2011 the amount payable to Kaputone Wool Scour Limited is \$3,750,252 (2010: receivable \$134,569), and to Whakatu Wool Scour Limited is \$1,613,788 (2010: receivable \$2,344,272). These balances are all repayable at call.

Kaputone Wool Scour (1994) Limited and Whakatu Wool Scour Limited processed wool for the company at market prices. Of all wool processed for the company, Kaputone Wool Scour (1994) Limited processed \$8,449,302 by value (2010: \$7,649,913) and Whakatu Wool Scour Limited processed \$9,713,160 by value (2010: \$8,348,787). The amount outstanding at 30 June 2011 is \$1,240,783 (2010: \$1,294,582), payable on normal monthly credit terms.

An accounting services fee of \$5,000 was charged to Kaputone Wool Scour (1994) Limited (2010: \$5,000) and an accounting services fee of \$5,000 was charged to Whakatu Wool Scour Limited (2010: \$5,000). The full amounts were paid on 20 July 2011.

The company purchased wool from Rural Wool Link Limited at market prices, to the value of \$12,006,410 (2010: \$6,904,105). The amount outstanding at 30 June 2011 is \$0. The company advanced \$200,000 to Rural Wool Link during the year (2010: \$0). This amount plus interest of \$12,312 (2010: \$0) was repaid on 30 June 2011. A dividend payment of \$67,000 (2010: \$67,000) is due but not yet paid from Rural Wool Link.

The company purchased wool from S J Nattrass, a director of the group, at market prices, to the value of \$22,654 (2010: \$29,819). The amount outstanding at 30 June 2011 is \$0.

Key management personnel include directors and executive management. Key management personnel remuneration is comprised of:

In thousands of New Zealand dollars	Group	
	2011	2010
Short term benefits	1,343	986

29. Group entities

Significant subsidiaries and equity accounted investees

	Note	Country of ownership incorporation	Interest (%)	
			2011	2010
Subsidiaries				
Kaputone Wool Scour (1994) Limited		New Zealand	100	100
Whakatu Wool Scour Limited		New Zealand	100	100
Raymond Dale Wool Marketing Limited		New Zealand	100	100
New Zealand Wool Services International (UK) Limited		United Kingdom	-	100
Equity accounted investees				
Rural Wool Link Limited	14	New Zealand	50	50

30. Subsequent event

Subsequent to balance date there have been no significant events materially affecting the group.

Corporate governance statement

The business and affairs of New Zealand Wool Services International Limited are managed under the direction of the board of directors. The board is elected by shareholders to oversee the management of the company. It is responsible for corporate governance matters and reporting to shareholders.

The board establishes the company's objectives, determines the strategies for achieving those objectives and monitors management performance. It also establishes delegated authority limits for capital expenditure, treasury and remuneration.

The board meets at least six times each year. Directors receive monthly reports, including statements of profit and loss and balance sheet.

At the date of signing the annual report, the board consisted of four non-executive directors, Messrs DM Kirke (Chairman), DMJ Houldsworth and PAH Jackson and HLJ Govan. Messrs PG Morrison and SJ Natrass resigned during the year. There is one executive director, Mr MBF Dwyer.

The constitution of the company requires at least one third of the directors, or if their number is not a multiple of three, then the number nearest to one third, excluding the managing director, to retire from office at the annual meeting each year. Those retiring may offer themselves for re-election. The directors who retire by rotation are those who have been longest in office since their last election. This year Mr Peter Jackson will resign at the annual meeting by rotation.

Board meetings

Details of attendances at the fourteen board meetings held during the year ended 30 June 2011 were:

DM Kirke	14/14	
PAH Jackson	13/14	
DMJ Houldsworth	13/14	
HLJ Govan	6/7	Appointed 7/12/10
MBF Dwyer	14/14	
PG Morrison	6/6	Resigned 1/2/11
SJ Natrass	3/5	Resigned 7/12/10

Board committees

The board has two committees, each operating under specific terms of reference approved by the board. These committees make recommendations to the board.

The audit committee has a number of specific responsibilities, including:

- Reviewing the appointment of the independent auditor; their plan for the annual audit and addressing any recommendations made;
- Reviewing the recommended audit fees;
- Reviewing all financial information to be issued to the public, and any dividend proposals;
- Establishing a framework of internal control mechanisms to ensure proper management of the group's affairs and reviewing their adequacy and effectiveness.

The committee meets with the auditors as and when required. The members are currently David Houldsworth (Chair) and Derek Kirke.

The remuneration and appointments committee makes recommendation to the board on remuneration policies and packages applicable to the senior executives of the company.

When appropriate, the committee will make recommendations on the appointment of directors. The members are Derek Kirke, David Houldsworth, Bert Govan and Michael Dwyer.

Reporting and disclosure

The board focuses on providing accurate, adequate and timely information to both existing shareholders and the market generally. This enables all investors to make good quality decisions about the company.

The directors' shareholdings and all trading of shares during the year are disclosed later in the report. The NZX is advised if a director or officer trades in the company's shares.

The policy of the board is that directors and senior employees are required to seek board approval to trade in the company's shares.

Remuneration

The remuneration of the individual board members and the managing director are provided in the section headed 'Directors' Remuneration.' The shareholders have approved up to \$200,000 to be paid as directors' fees.

Risk assessment

The company has in place policies and procedures to identify areas of significant business risk and implement procedures to effectively manage those risks. Where appropriate, the board obtains advice directly from external advisers.

Treasury policy

Exposure to foreign exchange and interest rate risk is managed in accordance with set limits.

Corporate governance statement *Continued*

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Board of Directors:

DM (Derek) Kirke

- Independent director since 1993
- Member of the board's audit committee
- Member of the Board's audit and remuneration committees

MBF (Michael) Dwyer

- Managing Director since 1992
- Director of Kaputone Wool Scour (1994) Limited, Whakatu Wool Scour Limited and Rural Wool Link Limited.
- Also a director of non-trading subsidiary companies.
- Director of Lanolin Trading Company Limited.
- Member of the board's remuneration committee

PAH (Peter) Jackson

- Independent director since 1997

DMJ (David) Houldsworth

- Independent director since 1999
- Chairman of the board's audit committee
- Member of the board's remuneration committee

HLJ (Bert) Govan

- Independent director since December 2010
- Member of the board's remuneration committee

Disclosures under the Companies Act 1993

Directors' remuneration and other benefits for year ended 30 June 2011

In thousands of New Zealand Dollars	Directors' Fees \$'000	Salary +Bonus \$'000
PG Morrison (resigned 1/2/2011)	29	-
MBF Dwyer (Managing Director)	-	435
DM Kirke	56	-
PAH Jackson	34	-
DMJ Houldsworth	34	-
SJ Natrass (resigned 7/12/2010)	15	-
HLJ Govan (appointed 7/12/2010)	32	-

Financial assistance

A loan of for the purpose of financing the purchase of shares in the company was provided to Michael Dwyer in December 2003. The balance owing on this loan at 30 June 2011 was \$128,800. The loan is made on commercial terms and conditions and is renewable annually. No other financial assistance has been given to directors, or to related parties.

Directors' shareholding	30,061	30,061
	Shares	Shares
DM Kirke	648,433	648,433
PAH Jackson	379,515	379,515
HLJ Govan	167,640	-
MBF Dwyer	4,282,601	4,282,601

Holdings by associated parties

DMJ Houldsworth's family trust company, Bentwood Investments Limited holds 12,888 shares.

Dealings in Wool Services shares by directors and related parties

December 2010 - Purchase of 127,640 shares by HLJ Govan at an average price of \$0.44 cents per share.

January 2011 – Purchase of 40,000 shares by HLJ Govan at an average price of \$0.47 cents per share.

Employees remuneration and other benefits of \$100,000 or more

During the year the number of employees of the group, including employees holding office overseas but excluding employees holding office as directors of the company, who received remuneration and other benefits that exceeded \$100,000 were as follows:

Remuneration	Number of Employees
\$100,000 - \$110,000	1
\$110,000 - \$120,000	3
\$120,000 - \$130,000	2
\$130,000 - \$140,000	1
\$140,000 - \$150,000	1
\$150,000 - \$160,000	1
\$190,000 - \$200,000	1
\$200,000 - \$210,000	1
\$230,000 - \$240,000	2
\$260,000 - \$270,000	1

Auditor's remuneration

The amounts paid to the auditors of the company and its subsidiaries are disclosed in Note 8 to the Financial Statements.

Changes in accounting policies

There have been no changes in accounting policies. The accounting policies applied are consistent with those used in the previous period.

Indemnification and insurance of directors and officers

As provided under its constitution, the company has affected directors' and officers' liability insurance for all directors and officers against liabilities to other parties that may arise from their position as directors or officers. Certain criminal actions are excluded, for example where penalties and fines are imposed in respect of criminal breaches of the law. The policy premium is paid by the company.

Other statutory disclosures

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Shareholder information

The company's shares are listed on the alternative market operated by the New Zealand Exchange known as the NZAX.

Distribution of security holders and security holdings as at 30 June 2011.

Size of Holding	No of security holders	Number of Securities	
1 – 1,000	201	194,125	0.28%
1,001 – 5,000	3,235	6,727,813	9.75%
5,001 – 10,000	301	2,091,500	3.03%
10,001 – 100,000	151	3,522,985	5.11%
100,001 – 500,000	13	3,018,592	4.38%
500,001 and Over	8	53,432,711	77.45%
Total	3,909	68,987,726	100%

	Number
Plum Duff Limited (in receivership)	30,592,451
Woolpak Holdings Limited (in receivership)	13,795,830
MBF Dwyer	4,282,601

At 30 June 2011 the total number of issued voting securities of New Zealand Wool Services International Limited was 68,987,726.

Twenty largest registered holders of equity securities as at 30 June 2011

	TOTAL	%
Plum Duff Limited (in receivership)	30,592,451	44.34%
Woolpak Holdings Limited (in receivership)	13,795,830	20.00%
MBF Dwyer	4,282,601	6.21%
Scales Superannuation Management Limited	1,611,651	2.34%
JW Dawson	1,001,545	1.45%
PH Steel	1,000,100	1.45%
DM Kirke	648,433	.94%
IA, LM Caradus & DW Irvine	500,100	.72%
GW Deakins	450,100	.65%
Annan Investments Limited	420,000	.61%
PA Jackson	379,515	.55%
BK Reay	244,691	.35%
FNZ Custodians Limited	205,943	.30%
Seadown Holdings Limited	204,901	.30%
AM Kearney	199,299	.29%
Yuhui Chen	181,770	.26%
AJ & MJ Hubbard	174,435	.25%
HLJ Govan	167,640	.24%
HC Zingel	150,000	.22%
SJ Natrass	134,395	.19%
	56,345,400	81.66%
Earnings per share (normalised)	9.6	

Directory

Directory

Board of Directors

Chairman: DM Kirke

Managing Director: MBF Dwyer

Directors: HLJ Govan

PAH Jackson

DMJ Houldsworth

Registered Office

First Floor

30 Sir William Pickering Drive

PO Box 29 383

Christchurch

Share Register

Link Market Services Ltd

138 Tancred Street

PO Box 384

Ashburton

Phone: 03 308 8887

Fax: 03 308 1311

Email: info@linkmarketservices.co.nz

Auditors

Ernst & Young

Bankers

Bank of New Zealand Limited

