

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016



100% NZ GROWER OWNED

**WOOLS OF NEW ZEALAND LIMITED**  
**CONSOLIDATED ANNUAL REPORT**  
**30 JUNE 2016**

# Wools of New Zealand Limited

## Contents

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### Page

1	Directory
2	Directors' Report
3	Consolidated Statement of Profit or Loss and Other Comprehensive Income
4	Consolidated Statement of Financial Position
5	Consolidated Statement of Changes in Equity
6	Consolidated Statement of Cash Flows
7 – 21	Notes to the Consolidated Financial Statements
22	Statutory Information
23	Independent Auditor's Report

# Wools of New Zealand Limited

## Directory

30 June 2016

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### Directors

MP Shadbolt (Chairman)

PJ Guscott (resigned 30 November 2015)

CRN Hickson

KG Sutton (resigned 30 June 2016)

JGD Tuuta

### Registered Office

c/- Buddle Findlay

83 Victoria Street

Christchurch

### Independent Auditor

BDO Christchurch

30 Sir William Pickering Drive

Burnside

Christchurch

### Bank

ANZ Banking Group Limited

203 Queen Street

Auckland

### Solicitor

Buddle Findlay

83 Victoria Street

Christchurch

# Wools of New Zealand Limited

## Directors Report

30 June 2016

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The Directors have pleasure in presenting their report for the year ended 30 June 2016.

### DIRECTORS

Directors holding office during the year were:

#### Parent

MP Shadbolt (Chairman)

PJ Guscott (resigned 30 November 2015)

CRN Hickson

KG Sutton (resigned 30 June 2016)

JGD Tuuta

### PRINCIPAL ACTIVITY

The principal activity of the Group is the provision of international sales and marketing of New Zealand Strong Wool on behalf of New Zealand Strong Wool Grower Shareholders.

### EARNINGS FOR THE YEAR AND DIVIDENDS

Total revenue for the year was \$31.5m (2015: \$27.3m). The net profit after taxation and attributable to the shareholders of the company amounted to \$1.5m (2015: \$(1.0m)).

No dividends have been declared or paid for the current year (2015 nil).

### AUDITOR

BDO remained the Group auditors during the year.

### FINANCIAL STATEMENTS

#### *New Structure of the Consolidated Financial Statements*

The Group is pleased to present a new structure of the consolidated financial statements. The new structure has been designed to improve the clarity and usefulness of this report. Two key changes are as follows:

- A new sequence to the notes. The notes are now grouped into the broad categories the Directors consider the most relevant when evaluating the consolidated financial statements of the Group; and
- To incorporate the accounting policies in the related note disclosure as well as any identified areas of key accounting estimates, judgements and financial risk management, where this is relevant.

The financial statements for the year ending 30 June 2016 are attached to this report.

For and on behalf of the Board



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Director

Dated: 7 September 2016



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Director

Dated: 7 September 2016

# Wools of New Zealand Limited

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

30 June 2016

	Note	2016 \$	2015 \$
Revenue	1	31,488,357	27,289,865
Cost of Sales	2	(26,386,706)	(23,826,058)
Gross Profit		5,101,651	3,463,807
<b>Expenses</b>			
Operating Expenses	3	3,173,748	2,816,421
Administration Expenses	4	1,246,980	1,130,616
Total Expenses		4,420,728	3,947,037
<b>PROFIT/(LOSS) FROM OPERATIONS</b>		<b>680,923</b>	<b>(483,230)</b>
<b>Finance Income and Expenses</b>			
Finance Income	5	810,577	60,940
Finance Expenses	5	(79,092)	(628,110)
		731,485	(567,170)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>1,412,408</b>	<b>(1,050,400)</b>
Income Tax Expense/(Benefit)	6	(70,166)	(32,451)
<b>PROFIT/(LOSS) FOR THE YEAR AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,482,574</b>	<b>(1,017,949)</b>
<b>Other Comprehensive Income:</b>			
<b>Will be reclassified subsequently to profit or loss</b>			
Translation of Foreign Operations		(46,923)	(94,145)
<b>Will not be reclassified subsequently to profit and loss</b>			
Gain on Property, Plant and Equipment Revaluation		-	222,748
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,435,651</b>	<b>(889,346)</b>

**Wools of New Zealand Limited**  
**Consolidated Statement of Financial Position**  
**30 June 2016**

		2016	2015
	Note	\$	\$
<b>Current Assets</b>			
Cash and Cash Equivalents	7	883,625	1,202,507
Trade and Other Receivables	8	1,801,445	2,110,854
Prepayments		227,176	284,419
Wool Inventory	2	5,445,936	2,622,122
Short Term Deposits	7	1,012,969	1,262,969
Taxation Refund	6	-	17,626
Derivative Financial Assets	12	630,377	-
<b>Total Current Assets</b>		<b>10,001,528</b>	<b>7,500,497</b>
<b>Non Current Assets</b>			
Property, Plant and Equipment		307,878	281,834
Intangible Assets	11	788,536	725,299
Deferred Tax Asset	6	190,408	50,997
Investments		50,000	50,000
<b>Total Non Current Assets</b>		<b>1,336,822</b>	<b>1,108,130</b>
<b>Total Assets</b>		<b>11,338,350</b>	<b>8,608,627</b>
<b>Current Liabilities</b>			
Loans and Borrowings	9	2,634,047	1,246,959
Trade and Other Payables	9	3,047,207	2,096,515
Revenue in Advance		92,269	92,975
Taxation Payable	6	29,905	-
Derivative Financial Liabilities	12	-	914,309
<b>Total Current Liabilities</b>		<b>5,803,428</b>	<b>4,350,758</b>
<b>Non Current Liabilities</b>			
Derivative Financial Liabilities	12	-	158,598
<b>Total Liabilities</b>		<b>5,803,428</b>	<b>4,509,356</b>
<b>Net Assets</b>		<b>5,534,922</b>	<b>4,099,271</b>

Represented by:

**Equity**

Share Capital	10	7,997,021	7,997,021
Accumulated Losses		(2,623,359)	(4,105,933)
Revaluation Reserve	10	222,748	222,748
Foreign Currency Translation Reserve	10	(61,488)	(14,565)
<b>Total Equity</b>		<b>5,534,922</b>	<b>4,099,271</b>

For and on behalf of the Board:



Director



Director

Dated: 7 September 2016

Dated: 7 September 2016

**Wools of New Zealand Limited****Consolidated Statement of Changes in Equity****30 June 2016**

	Share Capital	Foreign Currency Translation Reserve	Revaluation Reserve	Accumulated Losses	Total Attributable to Equity Holders of Parent
<b>30 June 2014</b>	7,997,021	79,580	-	(3,087,984)	4,988,617
Profit/(Loss) for the year	-	-	-	(1,017,949)	(1,017,949)
<b>Other Comprehensive Income</b>					
Translation of Foreign Operations	-	(94,145)	-	-	(94,145)
Revaluation of Property, Plant and Equipment	-	-	222,748	-	222,748
<b>Total Comprehensive Income</b>	<b>-</b>	<b>(94,145)</b>	<b>222,748</b>	<b>(1,017,949)</b>	<b>(889,346)</b>
<b>30 June 2015</b>	<b>7,997,021</b>	<b>(14,565)</b>	<b>222,748</b>	<b>(4,105,933)</b>	<b>4,099,271</b>
<b>30 June 2015</b>	7,997,021	(14,565)	222,748	(4,105,933)	4,099,271
Profit for the year	-	-	-	1,482,574	1,482,574
<b>Other Comprehensive Income</b>					
Translation of Foreign Operations	-	(46,923)	-	-	(46,923)
<b>Total Comprehensive Income</b>	<b>-</b>	<b>(46,923)</b>	<b>-</b>	<b>1,482,574</b>	<b>1,435,651</b>
<b>30 June 2016</b>	<b>7,997,021</b>	<b>(61,488)</b>	<b>222,748</b>	<b>(2,623,359)</b>	<b>5,534,922</b>



**Wools of New Zealand Limited**  
**Consolidated Statement of Cash Flows**  
**30 June 2016**

	Note	2016	2015
		\$	\$
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from Customers		30,679,737	28,022,743
Interest Received		50,201	60,940
		<u>30,729,938</u>	<u>28,083,683</u>
<i>Cash was disbursed to:</i>			
Payments to Suppliers and Employees		(32,446,860)	(28,710,017)
Interest Paid		(79,092)	(12,969)
		<u>(32,525,952)</u>	<u>(28,722,986)</u>
<b>Net Cash (Outflows)From Operating Activities</b>		<b>(1,796,014)</b>	<b>(639,303)</b>
<b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from:</i>			
Short Term Deposits		250,000	-
		<u>250,000</u>	<u>-</u>
<i>Cash was disbursed to:</i>			
Property, Plant and Equipment		(26,044)	(26,191)
Investments		-	(50,000)
Intangibles		(72,424)	(51,412)
Short Term Deposits		-	(250,255)
		<u>(98,468)</u>	<u>(377,858)</u>
<b>Net Cash (Outflows)/Inflows From Investing Activities</b>		<b>151,532</b>	<b>(377,858)</b>
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Proceeds from Bank Borrowings		1,387,088	1,246,959
		<u>1,387,088</u>	<u>1,246,959</u>
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>		<b>1,387,088</b>	<b>1,246,959</b>
Net increase/(decrease) in cash and cash equivalents		(257,394)	229,798
Net foreign exchange movements		(61,488)	(80,032)
Cash and Cash Equivalents at the Beginning of Year		1,202,507	1,052,741
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>7</b>	<b><u>883,625</u></b>	<b><u>1,202,507</u></b>
Profit/(Loss) for the Year		1,482,574	(1,017,949)
<i>Adjustments for non cash items:</i>			
Depreciation and Amortisation		44,795	84,048
Allowance for Doubtful Debts		363,794	61,163
Net foreign exchange loss/(gain)		61,488	(14,113)
Movement in Deferred Tax		139,411	(32,451)
		<u>2,092,062</u>	<u>(919,302)</u>
<i>Movement in working capital</i>			
Trade and Other Receivables		(699,891)	402,410
Inventories		(2,823,814)	(325,073)
Trade and Other Payables		(364,371)	202,662
<b>Net Cash Flows from Operating Activities</b>		<b><u>(1,796,014)</u></b>	<b><u>(639,303)</u></b>

# Wools of New Zealand Limited

## Notes to the Consolidated Financial Statements

### 30 June 2016

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#### ***Reporting Entity and Statutory Base***

Wools of New Zealand Limited (the Company) is a profit-oriented company domiciled in New Zealand and registered under the Companies Act 1993. The Company has issued shares and has elected to become an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013.

These consolidated financial statements comprise of the controlling entity, the Company and its subsidiaries including Wools of New Zealand (UK) Limited and other non-trading entities (the Group). The Group's principal activity is the provision of international sales and marketing of New Zealand Strong Wool on behalf of New Zealand Strong Wool Growers.

#### ***Basis of Preparation***

The consolidated financial statements for the year ended 30 June 2016 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand Equivalents to the International Financial Reporting Standards (NZ IFRS) and other financial reporting standards as appropriate for Tier 1 profit entities. The financial statements also comply with the International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 7<sup>th</sup> September 2016.

#### ***Basis of Measurement***

The financial statements have been prepared on a historical cost basis, except for derivatives and plant and equipment which are recognised at fair value. The information is presented in New Zealand dollars, rounded to the nearest dollar, which is the Company's functional and the Group's presentation currency.

#### ***Significant Accounting Policies***

The principle accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented. Where necessary, certain comparative numbers have been restated to comply with the current year.

#### ***Accounting Estimates and Judgements***

The preparation of these consolidated financial statements to conform with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

Information about critical judgements in applying accounting policies that have the most significant impact on the financial statements is included in note 6 and 11.

#### ***Property, Plant and Equipment***

Items of property, plant and equipment are initially recognised at cost, then subsequently at cost or valuation less accumulated depreciation. Plant and equipment are subsequently carried at fair value based on valuation provided by a qualified valuer. Any changes are recognised in other comprehensive income in the revaluation reserve. The following rates are applied for all periods

Property, Plant and Equipment	DV or SL
<b>Plant and Equipment</b>	13 – 20%
<b>Fixtures and Fittings</b>	10 – 16%
<b>IT and Communications</b>	13 – 80%
<b>Office Equipment</b>	10 – 50%

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

***Notes to the Consolidated Financial Statements***

The notes include information which is required to understand the consolidated financial statements and is material and relevant to the operations, financial position and performance of the Group.

**1. Revenue**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Wool Sales	27,255,988	23,406,928
Wool Market Development Commitment	2,650,713	2,283,217
Commission	371,185	441,332
Brand Partner Fees	337,876	353,810
Product Sales	381,601	370,705
Royalties	191,860	230,610
Trade Show Income	158,999	159,332
Other Revenue	140,135	43,931
<b>Total Revenue</b>	<b>31,488,357</b>	<b>27,289,865</b>

***Accounting Policies***

***Revenue***

Revenue from Wool Sales is presented net of sales tax, discounts and rebates. Revenue is recognised when the risks and rewards of ownership of the wool being sold are transferred to the buyer as dictated by the applicable contract.

Shareholders contribute the annual Wool Market Development Commitment (WMDC). The WMDC is presently set at \$0.20 per kilogram of assessed annual wool production produced by each shareholder. The WMDC is invoiced twice a year and recognised at the point the invoice is issued.

The Group recognises revenue via the invoicing of 'Brand Partner Fees' to its licensees in the United Kingdom, Asia and the United States of America and other revenue streams. The Group recognises the revenue over the period for which the arrangement exists.

Royalty-earning programmes and Wool Sales Commissions are earned in the United Kingdom on sales by manufacturing licences of branded carpet ranges. These are recognised on an accrual basis.

**2. Cost of Sales**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Wool Purchases	25,648,362	22,823,861
Brand Partner Expenses	65,771	372,866
Trade Show Expenses	450,045	430,017
Other Direct Costs	222,528	199,314
<b>Total Cost of Sales</b>	<b>26,386,706</b>	<b>23,826,058</b>

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

*Accounting Policy*

***Inventories***

Inventories are initially recognised at cost on a first in, first out basis, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

**3. Operating Expenses**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Employment Costs	2,228,545	2,043,601
Staff Pensions	131,811	111,207
Contractor Expenses	325,658	340,678
Travel Costs	236,795	178,533
Marketing	132,914	102,303
Other Operating Expenses	118,025	40,099
<b>Total Operating Expenses</b>	<b>3,173,748</b>	<b>2,816,421</b>

**4. Administration Expenses**

Administration expenses include:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Director's Fees	190,000	227,692
Consulting and Accounting Fees	168,501	214,281
Rental and Operating Lease Costs	245,851	208,058
Depreciation	35,609	78,159
Insurance	111,197	70,117
Audit Fees - For Financial Statements		
Parent Company Auditor – BDO Christchurch	33,238	32,025
UK Subsidiary Auditor – Clough & Co	16,809	18,113
Advisory Services - BDO Christchurch	5,135	-
Legal Expenses	106,130	47,731
Bank Fees	64,378	23,828
Board Travel and Expenses	28,057	20,391
Bad Debts Written Off	54,030	17,850
Amortisation of Intangible Assets	9,186	5,955

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

**5. Interest and Finance Costs**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Finance income includes:</i>		
Interest received on loans and receivables	50,201	60,940
<b>Total Finance Income</b>	<b>50,201</b>	<b>60,940</b>
<i>Interest expenses includes:</i>		
Interest on liabilities at amortised cost	(79,092)	(12,969)
<b>Total Interest Expense</b>	<b>(79,092)</b>	<b>(12,969)</b>
Foreign exchange contains the following items:		
Net gain/(loss) on derivative financial instruments	1,703,284	(1,072,915)
Net (loss)/gain on foreign denominated items	(942,908)	457,775
<b>Foreign Exchange Income/(Expense)</b>	<b>760,376</b>	<b>(615,140)</b>

*Accounting Policies*

***Finance Income and Expenses***

Finance income comprises interest on deposited funds using the accrual method. Finance costs are recognised on an accrual basis. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognised in profit or loss using the effective interest method.

***Foreign Currency***

Transactions in a currency other than the currency of the primary economic environment in which they operate (functional currency) are recorded at the exchange rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date, with differences recognised immediately in profit or loss.

**6. Income Tax Expense**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Operating Profit/(Loss) Before Tax	1,412,408	(1,050,400)
Estimated Tax Losses Brought Forward	(2,155,414)	(1,121,564)
	(743,006)	(2,171,964)
<b>Permanent Differences</b>		
Amortisation of Intangibles	9,187	5,955
Non-deductible Expenses	7,257	3,348
<b>Total Permanent Differences</b>	<b>16,444</b>	<b>9,303</b>
<b>Timing Differences</b>		
Holiday Pay	38,720	(31,297)
Bonus Provision	102,568	(22,619)
Impairment Allowance	356,607	61,163
<b>Total Timing Differences</b>	<b>497,895</b>	<b>7,247</b>
<b>Estimated Loss for Tax Purposes</b>	<b>(228,666)</b>	<b>(2,155,414)</b>

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Current Taxation @ 28%	69,245	-
Resident Withholding Tax	10,881	17,626
Research and Development Rebate	28,459	-
<b>Taxation Payable/(Refund Due) as per Consolidated Statement of Financial Position</b>	<b>29,905</b>	<b>(17,626)</b>
<b>Taxation Charge</b>		
Current Tax	69,245	-
Deferred Tax - Current Year	(139,411)	(2,029)
- Prior Year	-	(30,422)
<b>Income Tax Benefit as per Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>(70,166)</b>	<b>(32,451)</b>
<b>Deferred Taxation</b>		
Deferred Tax Asset at Beginning of Year	(50,997)	(18,546)
Income Tax Benefit	(139,411)	(32,451)
<b>Deferred Tax asset as per Consolidated Statement of Financial Position</b>	<b>(190,408)</b>	<b>(50,997)</b>
<b>Non-recognised deferred tax losses</b>	<b>(489,240)</b>	<b>(2,155,414)</b>

Items giving rise to the deferred tax asset include the provision for holiday pay, the bonus provision and the allowance for doubtful debts. The tax losses relate to current and prior year losses. These losses are available to offset against future taxable profits of the company in which the loss arose.

**Imputation Credit Account**

Imputation taxes at reporting date of \$10,881 (2015: \$17,626) are available for future use to the Group.

*Accounting Policies*

**Tax**

The Group is subject to income tax in both the United Kingdom and New Zealand jurisdictions and significant judgement is required in determining the accrual for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, each company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

***Income Tax***

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 Taxation***

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets are reviewed at each reporting date and recognised to the extent it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

**7. Cash, Cash Equivalents and Short Term Deposits**

<i>Cash and Cash Equivalents consist of the following:</i>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
New Zealand Dollar Accounts	685,517	748,388
United States Dollar Accounts	23,805	27,208
China RMB Accounts	42,695	39,473
Great British Pound Accounts	115,895	363,809
Cash in Hand	15,713	23,629
	<b>883,625</b>	<b>1,202,507</b>

Interest is received at variable rates ranging between 0% and 3.25%, calculated on a daily basis. On call and short term deposits are held by ANZ Banking Group Limited and have varying terms less than 180 days. The Company has an overdraft limit of \$250,000 secured by way of a General Security Agreement held by ANZ Banking Group Limited. Interest is incurred at 11.9% per annum up to this limit.

The New Zealand Dollar accounts also include an amount of \$400,000 of funds held in an Escrow Account. This represents restricted funds that are held for the purpose of acquiring the exclusive rights to utilise white wool technologies intellectual property. The initial payment is held in escrow until terms of the agreement have been met. In the event the terms of the agreement are not met, the funds will be released.

***Accounting Policy***

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and for the purpose of cash flows, bank overdrafts.

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

**8. Trade and Other Receivables**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade Receivables – Wool Trading	378,815	1,281,219
Trade Receivables – Other	1,761,337	756,370
<b>Total Trade Receivables</b>	<b>2,140,152</b>	<b>2,037,589</b>
Other Receivables	110,250	158,428
Allowance for Doubtful Debts	(448,957)	(85,163)
<b>Total Trade and Other Receivables</b>	<b>1,801,445</b>	<b>2,110,854</b>

**Analysis of movements in allowance for doubtful debts**

Balance at Beginning of Year	85,163	24,000
Movement	363,794	61,163
<b>Balance at End of Year</b>	<b>448,957</b>	<b>85,163</b>

**Age of Receivables**

Current or not yet due	1,432,730	1,544,785
Overdue 30 days	14,209	11,052
Overdue 60 days	7,903	5,760
Older	685,310	475,992
<b>Trade Receivables</b>	<b>2,140,152</b>	<b>2,037,589</b>

*Accounting Policy*

***Loans and Receivables***

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers.

They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less allowance for impairment.

Trade receivables are non-interest bearing and are generally 30 day terms. Trade receivables post due date are assessed for impairment. At reporting date, the Company in accordance with its constitution can call any amount of balance that remains unpaid, subsequently the Board may at their discretion choose to give notice to cancel the shares in lieu of outstanding balances together with interest and expenditure incurred to recover their costs.

Impairment allowances are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance being the difference between the net carrying amount and the present value of the future expected cash flows. For trade receivables, which are reported net, such allowances are recorded in a separate allowance account with the loss being recognised within administrative expenses. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.



**9. Loans and Borrowings**

The total outstanding loan at balance date on the trade facility was \$2,634,047 (2015: \$1,246,959). The facility has a limit of \$3,000,000 and is secured over specific accounts receivable relating to the Group's wool trading activities \$1,617,337 (2015: \$1,246,959), refer to note 8. The facility is repayable within 180 days. Interest is incurred at "Cost of Funds" (as determined by the bank) plus 1.5% margin per annum. The facility is subject to review on 30 November each year. The Group is subject to bank covenants as part of the terms of its secured bank export link facility. The covenants are monitored and reported to the bank on a six monthly basis. There have been no breaches of the covenants during the year.

*Accounting Policy*

***Liabilities at Amortised Cost***

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

The Group classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

**10. Capital and Reserves**

Of the allotted 7,339,941 ordinary shares, 6,068,385 were issued at a \$1 per share and 1,271,556 shares were issued as additional shares in respect of which no payment was required.

All shares are ordinary fully paid shares with no par value, carry equal voting rights and share equally in any profit on the winding up of the Group. Refer to Note 8 regarding forfeiture of shares.

*Accounting Policy*

***Share Capital***

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments. Any costs associated with raising of capital are offset against share capital.

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

**Capital Management**

The Group's objectives when maintaining capital are to ensure the Group continues as a going concern as well as to provide an adequate return to its shareholders that by pricing products and services commensurately with the level of risk. The Board has no plans to pay a dividend until such time as the Group generates appropriate surpluses from trading activities. There have been no material changes to the Group's management of capital during the period.

The Group is subject to bank covenants as part of the terms of its trade finance facility. These are monitored on a monthly basis and reported to the bank every six months. There have been no breaches during the period (2015: nil).

**Plant and Equipment Revaluation Reserve**

The property, plant and equipment revaluation reserve relates to the revaluation of the subsidiary's plant and machinery.

**Foreign Currency Translation Reserve**

Exchange differences relating to the translation from the functional currency of the foreign subsidiary into New Zealand dollars are brought to account by entries to the foreign currency translation reserve. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

**11. Intangible Assets**

	Brands \$	Trademarks \$	Websites \$	Total \$
<b>2015</b>				
Opening Balance	637,612	-	42,230	679,842
Additions	-	51,412	-	51,412
Amortisation of Intangible Assets	-	(5,955)	-	(5,955)
<b>Closing Balance</b>	<b>637,612</b>	<b>45,457</b>	<b>42,230</b>	<b>725,299</b>
<b>2016</b>				
Opening Balance	637,612	45,457	42,230	725,299
Additions	-	72,423	-	72,423
Amortisation of Intangible Assets	-	(9,186)	-	(9,186)
<b>Closing Balance</b>	<b>637,612</b>	<b>108,694</b>	<b>42,230</b>	<b>788,536</b>

The Board has reviewed the useful life of the intangible assets held and the following determinations have been made:

**Brands**

The brands have an indefinite useful life which can be renewed in perpetuity and support the principal activity of the Group being the provision of international marketing of New Zealand Strong Wool. On-going enhancement is anticipated to these brands over time as the Group's strategy is achieved. The estimated future cash flows use projections to support the brands. The pre-tax discount rate applied to each cash flow projection is 10% (2015 15%). The weighted average cost of capital used in these calculations is 9% (2015 11%).

**Trademarks and Patents**

The trademarks and patents are deemed to have a finite life of between 4 and 10 years, and have been amortised over the number of years on a straight line basis.

**Websites**

These websites have an indefinite useful life while the Group operates as an international sales and marketing organisation. The Board does not envisage any major change (in the architecture) of these sites, within 5 years, however some on-going maintenance and enhancement is anticipated to ensure these sites remain consistent with the Groups brand strategy.

*Accounting Policies*

***Intangible Assets***

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

***Impairment of Non-Financial Assets (excluding Inventories and Deferred Tax Assets)***

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Impairment losses are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the carrying value of the asset does not exceed the carrying value that the asset would have had, net of depreciation or amortisation, if no impairment loss had been recognised.

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

**12. Derivative Financial Instruments**

	2016	2015
	\$	\$
<i>Derivative Financial Assets</i>		
Derivatives not Designated as Hedging Instruments		
Forward Foreign Exchange Contracts	630,377	-
<b>Total Derivative Financial Assets</b>	<b>630,377</b>	<b>-</b>
<i>Derivative Financial Liabilities</i>		
Derivatives not Designated as Hedging Instruments		
Forward Foreign Exchange Contracts	-	1,072,907
<b>Total Derivative Financial Liabilities</b>	<b>-</b>	<b>1,072,907</b>
Less non-current Portion		
Forward Foreign Exchange Contracts	-	158,598
<b>Current Portion</b>	<b>-</b>	<b>914,309</b>

*Accounting Policy*

***Foreign Exchange Derivatives***

The Group enters into various derivative financial instruments for the purpose of reducing its exposure to fluctuations in foreign exchange rates. These are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss.

**13. Risk Management**

The Board has overall responsibility through management for the determination of risk management objectives and policies and for designing operating processes to effectively manage identified risks. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group is exposed through its operations to the following financial risks:

- Credit risk;
- Foreign exchange risk;
- Price risk;
- Liquidity risk; and
- Interest rate risk

***Credit Risk***

Credit risk is the risk of financial loss due to the failure of a counterparty to a financial instrument to meet its contractual obligations. The Group is exposed to credit risk in respect of cash, trade and other receivables, short term deposits and derivative financial assets to the extent of the carrying value of these assets at year end. It is Group policy to assess the credit risk of new customers before entering contracts, and where appropriate, uses insurance products to manage these risks.

**Wools of New Zealand Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2016**

The Group places cash and short term deposits with good credit quality counterparties. All such investments are held with counterparties having a minimum Standard and Poor's credit rating of AA-. Included with Note 8 is a summary of the age of receivables at year end. As at 30 June 2016, one key customer represented 11% (2015: 38.8%) of trade receivables, representing a total outstanding of \$321,268 (2015: \$790,274).

**Foreign Exchange Risk**

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than the functional currency. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (Sterling, Euro, US dollar and China RMB) with cash generated from their own operations in that currency.

Wool sales contracts are often denominated in currencies other than New Zealand dollars. The Group has entered into a number of foreign currency forward contracts relating to wool trading. All foreign currency forward contracts have settlement dates which are current (2015: current and non-current).

At reporting date the exposure to foreign currencies is as follows:

<b>2016</b>	<b>GBP</b>	<b>EURO</b>	<b>USD</b>	<b>RMB</b>
Cash and Cash Equivalents	115,895	-	23,805	42,695
Trade and Other Receivables	102,594	-	3,377	-
Trade Payables	94,769	-	5,450	-
Foreign Currency Forward Exchange Contracts	4,402,668	303,179	130,833	-
<b>2015</b>	<b>GBP</b>	<b>EURO</b>	<b>USD</b>	<b>RMB</b>
Cash and Cash Equivalents	363,809	-	27,208	39,473
Trade and Other Receivables	150,803	-	7,089	-
Trade Payables	268,965	-	-	-
Foreign Currency Forward Exchange Contracts	11,499,328	2,814,913	-	-

**Market Price Risk**

Price risk is the risk of variability in returns due to movements in the market price of Wool. Wool is purchased to meet individual contracts and is sourced from a number of sources including shareholders and wool traders.

**Liquidity Risk**

Liquidity risk is the Group's ability to meet its financial obligations as they fall due. Management reviews the cash requirements on a regular basis to ensure there is sufficient cash available to meet its obligations to not only suppliers but also its obligations to provide funds to Group operations. The presentation of current and non-current items on the consolidated statement of financial position reflects the contractual settlement terms of assets and liabilities.

**Wools of New Zealand Limited**  
**Notes to and Forming Part of the Consolidated Financial Statements**  
**30 June 2016**

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***Interest Rate Risk***

Interest rate risks is the risk of variability in returns to movements in market interest rates. Currently all loans and borrowings incur floating rates of interest and the Group does not enter into any interest rate derivatives to manage this interest rate. A change of 10 basis points in interest rates would have resulted in increase/(decrease) profit or loss by \$2,654 based on the current loan balances.

**14. Related Party Transactions**

**Transactions with Key Management Personnel**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Key management personnel compensation comprised:</i>		
Short-term employee benefits	111,641	385,134
Directors Fees	190,000	200,000
Termination benefits	-	121,154
	<b>301,641</b>	<b>706,288</b>

As at reporting date the table below sets out balances owed to key management personnel.

All shareholders contribute to the revenue the Wool Market Development Commitment. Directors and employees of the Group may deal with the Group as Strong Wool Growers on normal terms and conditions within the ordinary course of trading activities.

All directors own shares in the Company either in their own names or via entities controlled by them. The details of transactions between the Company and other entities that are classed as related entities are set out in the table below.

# Wools of New Zealand Limited

## Notes to and Forming Part of the Consolidated Financial Statements

For the Year Ended 30 June 2016

Director of Wools of New Zealand Limited	Related Entity	Role in Related Entity	Nature of Transaction	Value		Balance owing	
				2016 \$	2015 \$	2016 \$	2015 \$
M P Shadbolt	Banks Peninsula Wool Growers Limited	Director / Shareholder	Levies	65,088	52,617	3,934	-
			Commission	32,223	33,991	2,034	-
			Product Sales	90,993	28,600	-	-
	M P Shadbolt	Owner	Direct to Scour	2,593	36,536	-	-
			Levies	5,000	4,588	-	-
P Guscott	Kahuiti Farms Limited	Director / Trustee Shareholder	Direct to Scour	9,861	24,328	4,518	-
			Levies	-	2,913	-	-
	White Rock Station (1990) Limited	Director	Direct to Scour	-	68,829	-	-
			Levies	9,200	6,900	-	-
K Sutton	Run 351 Limited	Director / Shareholder	Direct to Scour	170,490	81,346	71,992	-
			Levies	80	60	-	-
	Moanui Farm Limited	Director	Direct to Scour	4,729	2,588	-	-
			Levies	86,736	65,024	11,793	-
	Te Hau Station Limited	Director	Direct to Scour	8,000	6,000	-	-
			Levies	188,875	21,196	-	-
	Maori Soldiers Trust (Hereheretau Station)	Advisory Board member	Direct to Scour	14,388	7,500	-	-
Levies			10,000	25,827	-	-	
C Hickson	Progressive Leathers Limited	Director	Levies	17,000	12,750	-	-
			Commission	-	497	-	-
	Anawai Partnership	Partner	Fees	22,587	51,658	2,973	-
			Levies	4,000	3,125	-	-
J Tuuta	Maori Soldiers Trust (Hereheretau Station)	Statutory Trustee	Direct to Scour	55,337	65,566	11,974	-
			Levies	10,000	7,500	-	-
			Direct to Scour	14,388	25,827	-	-

**Wools of New Zealand Limited**  
**Notes to and Forming Part of the Consolidated Financial Statements**  
**30 June 2016**

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**15. Operating Lease Commitments**

As at 30 June 2016, the Group had the following lease commitments:

	<b>2016</b>	<b>2015</b>
	\$	\$
<b>Future Lease Commitments</b>		
Less than 1 Year	124,324	30,262
Between 2 to 5 Years	128,882	87,574
	<b>253,206</b>	<b>117,836</b>

**16. Adoption of New and Revised Standards and Standards Not Yet Effective**

Amendments to NZ IAS 1 Presentation of Financial Statements has been early adopted by Wools of New Zealand Limited for the first time for its financial reporting period ended 30 June 2016. This is a framework for the further simplification of the financial statements, removal of disclosures not considered to be material or significant and enhancements to the presentation.

A number of new standards and interpretations are not yet effective for the year ended 30 June 2016 and have not been applied in preparing these financial statements. None of these are expected to have a significant impact except for:

- IFRS 15 *Revenue from Contracts with Customers* has been issued. The standard introduced a new revenue recognition model for contracts with customers. The standard is effective for the year ended 30 June 2019. The Group does not plan to adopt IFRS 15 early and the extent of the impact has not yet been determined.
- IFRS 16 *Leases* has been issued. This standard removes the classification of leases as either operating or finance leases. The standard uses a single lease model which requires a lessee to recognise on the Statement of Financial Position assets and liabilities for all leases with a term of more than 12 months. The standard is effective for the year ended 30 June 2020. The Group does not plan to adopt IFRS 16 early and the extent of the impact has not yet been determined.
- IFRS 9 *Financial Instruments* recognition and measurement. The standard reduces the number of categories of financial assets and requires measurement to be at either at amortised cost or fair value. It is expected to be adopted for the first time for its financial reporting period ended 30 June 2019.

**17. Subsequent Events**

There were no subsequent events requiring adjustment to these financial statements.



# Wools of New Zealand Limited

## Statutory Information

30 June 2016

### REMUNERATION OF DIRECTORS

The fee paid and payable to Directors during the year were:

	Group	
	2016	2015
	\$	\$
M Shadbolt	60,000	60,000
K Sutton	50,000	50,000
P Guscott	20,000	30,000
J Tuuta	30,000	30,000
C Hickson	30,000	30,000
<b>Total Directors' Fees</b>	<b>190,000</b>	<b>200,000</b>

M Shadbolt served as Executive Chairman from 4 March 2015 to 8 September 2015. In addition to Director's Fees, the following remuneration was paid to him:

	2016	2015
	\$	\$
M Shadbolt – executive compensation	24,232	27,692
	<b>24,232</b>	<b>27,692</b>

### DEEDS OF INDEMNITY

Pursuant to section 162 of the Companies Act 1993 and the Constitution, Wools of New Zealand Limited has entered into insurance and indemnity agreements with the Directors of to indemnify them to the maximum extent permitted by law, against all liabilities which they may incur in the performance of their duties as Directors of any company within the Group. Insurance cover extends to Directors and Officers for the costs and expenses of successfully defending legal proceedings. Specifically excluded are penalties and fines which may be imposed for breaches of law and criminal actions. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy.

### REMUNERATION OF EMPLOYEES

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees, who are not directors, whose remuneration and benefits in their capacity as employees, exceeding \$100,000 in the financial year, were:

	Group	Group
	2016	2015
\$100,001 – 110,000	1	2
\$110,001 – 120,000	-	-
\$120,001 – 130,000	-	-
\$140,001 – 150,000	2	1
\$150,001 – 160,000	-	-
\$160,001 – 170,000	-	1
\$180,001 – 190,000	1	-
\$220,001 – 230,000	1	1
\$500,001 – 510,000	-	1

**INDEPENDENT AUDITOR'S REPORT**  
**To the Shareholders of Wools of New Zealand Limited**

**Report on the Financial Statements**

We have audited the consolidated financial statements of Wools of New Zealand Limited ("the Company") and its subsidiaries on pages 3 to 21, which comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 207B(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 opinion we have formed.

**Directors' Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Wools of New Zealand Limited or any of its subsidiaries.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects the financial position of Wools of New Zealand Limited and its subsidiaries as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

*BDO Christchurch*

**BDO Christchurch  
7 September 2016  
Christchurch  
New Zealand**