

Wool Equities Limited

Six Monthly Report

31st December 2010

UNAUDITED



**Wool Equities Limited
December 2010 Directors' Report
30 March 2011**

Dear Shareholder,

In our June 2010 Directors' Report, we advised of our plans for the commencement of considerable business activity.

The past six months have been largely focused on the implementation of our business strategies in wool rug and broadloom carpet manufacture, and preparation for the 1 April 2011 formal retail launch in the US for these products. It is fair to say that your Board has found it frustrating to be affected by delays, which were beyond our control, in getting to this formal launch date. However, we are excited that wool carpets and rugs derived from the farms of our shareholders are now being shown off to key home and office furnishing decision-makers in the high-end IDG rug and carpet stores.



We will be closely following the sales figures and trends, and we will endeavor to keep our shareholders updated on progress. It is important to note that it is rare that start-up businesses achieve an early profit and it will undoubtedly take some time for these investments to be fully cash-positive, especially in the light of the current recession.

Wool trading through the electronic auction system Wool Online is increasing with around 10% of the New Zealand wool clip now being sold through this system. With every bale sold returning our wool grower shareholders cost savings of between \$20 and \$50, we are delighted with our joint venture. Visit www.woolonline.co.nz for more details.

DisCo Distribution

We have delayed this report to be able to advise that the legal action between the Wool Board Disestablishment Co Ltd (DisCo) and Saxmere Co Ltd has been settled and that DisCo plans to make a distribution of the final funds within the next four months.

We are planning a series of shareholder meetings around the country to discuss this distribution and what is Wool Equities Ltd's future focus and our present activities. A separate notice detailing the location and timing of these meetings will be sent to you shortly – we would like to meet as many of you at these meetings as possible so that we can get your feedback on our plans.

We have put considerable work into making sure that every person eligible for a return from DisCo will soon be sent a notice of their entitlement and options. This distribution will bring to an end the remnants of the Wool Board and not only deliver to you more shares but also provides your company full access to the historic tax losses of the Wool Board. At a little under \$300m, these are of significant value to Wool Equities Ltd if matched with profitable enterprises.

Financial Results

The company incurred a loss of \$0.355 million for the six months to 31 December 2010 from operations, largely attributable to one off costs around the establishment of the new operating ventures.

As at 31 December 2010, the company had investments of \$1.776 million to fund future business investments and overhead obligations.

The company has no debt other than normal trade creditors and provisions of \$0.318 million.

Outlook

Over the last two years, Wool Equities Ltd has maintained a low profile as the fight for wool at the farm gate continued in the media. Increasing our profile during that period would have led to more confusion, hence our approach.

We have closely watched all of the media and marketing activity with interest and have drawn the conclusion that increasing financial returns for wool growers seems to be of secondary importance over gaining market share to many of those involved.

It has also become clear to Wool Equities that the efforts of those entities seeking to gain access to the cash originally levied from wool growers' pockets have been largely founded on unstable business cases.

Now that DisCo is near resolution, Wool Equities Ltd can move forward and take a strong leadership role in the future of wool. It is our objective to build a profitable company based on sound financial and marketing principals.

We all agree that wool growers need to be in charge of investing in their own futures and we believe you already have that ability as shareholders in Wool Equities Limited.

New Zealand-owned Wool Equities Limited is best situated to be the industry leader, because:

- Wool Equities Ltd has no debt and is already owned by 7,800 wool growers
- Increased capital is likely in the next four months from the DisCo distribution
- We are already active in the promotion of wool value at a retail level
- Our Wool Online is producing real cost savings for growers now
- We are developing a Wool Pool system to supply wool direct from farm to product
- We have a 5% maximum ownership cap on any single shareholder – ensuring no one person or entity can control Wool Equities Ltd
- Our directors have a mix of strong farm and business acumen
- We understand that wool is an ingredient, not a finished product
- Wool Equities Ltd has proven ability to partner with existing industry players rather than competing
- We are a supporter and signatory of the HRH Campaign for Wool Programme

You will be aware that you have an “opt out” option as part of finalising the DisCo settlement. We ask you to instead retain your shareholding in Wool Equities Limited and help us fulfil the role for which we were originally established by the New Zealand Wool Board – to lead the New Zealand wool industry to real and sustainable financial success.



Cliff Heath (Chair) Hugh Taylor Jim Pringle Peter McPartlin Kevin Arscott Keith Cowan (GM)

Board Membership

At our AGM, Michael Mellon retired from our board. Michael has given many decades of marketing support and encouragement to many in the wool industry and it is with regret that we received his announcement due to ill health. Peter McPartlin was elected in his place and his extensive international business background will be an asset to our board.

In March, we received the resignation of Chris Stewart from our board of directors. After a New Zealand-wide search, we are pleased to advise the appointment of Mr Kevin Arscott to our board. Kevin brings tremendous skills in investment, business acquisition and capital-raising from his background as CFO of Gould Holdings and Special Projects Executive to Pyne Gould Corporation Ltd and CFO for South Eastern Utilities Ltd.

Directors' Interests and Certificates

Where applicable, the required directors' certificates to cover entries in the Interests Register have been disclosed, in respect of conflicts of interest, remuneration, insurance indemnities for directors, consulting arrangements, dealing in the company's shares and other interests, as required by the Companies Act 1993.

On a personal level, I would like to sincerely thank my fellow board members and the executive staff of Wool Equities Limited for their work with the company during this period. It has been a difficult period establishing new business investments for the future but we have made good progress and now have a very good understanding of the wool process and financial costs from the sheep's back to the final product.

Cliff Heath
Chairman
Wool Equities Ltd

FINANCIAL STATEMENTS

Summarised Income Statement

For the Six Months Ended 31st December 2010 (Unaudited)

	Notes	Group 2010 \$000	Parent 2010 \$000	Group Dec 2009 \$000	Parent Dec 2009 \$000
Operating Income					
Sales – Romney Rugs JV	1	39	-	-	-
Sales – Broadloom	2	3	3	-	-
Sales – Other		-	-	29	29
Other Income	3	24	50	-	-
Interest Income		39	39	54	54
		105	92	83	83
COS & Operating Expenditure – Romney Rugs JV	1	156	-	-	-
COS & Operating Expenditure – Broadloom	2	71	71	-	-
Operating Expenditure		233	233	337	337
Wages		-	-	288	288
		460	304	625	625
Operating Surplus/(Loss) Before Taxation		(355)	(212)	(542)	(542)
Income Tax		-	-	-	-
Net Surplus/(Loss) after Tax from Continuing Operations		(355)	(212)	(542)	(542)
Attributable To:					
- Parent Shareholders		(212)	(212)	(542)	(542)
- Minority Interest – Romney Rugs JV	1	(143)	-	-	-
Net Surplus/(Loss) for Period		(355)	(212)	(542)	(542)

FINANCIAL STATEMENTS CONTINUED

Summarised Statement of Changes in Equity

For the Six Months Ended 31st December 2010 (Unaudited)

	Notes	Group 2010 \$000	Parent 2010 \$000	Group Dec 2009 \$000	Parent Dec 2009 \$000
Equity at Beginning of Period		2,355	2,355	4,557	4,557
Net Surplus/(Loss) after tax attributable to:					
- Parent Shareholders		(212)	(212)	(542)	(542)
- Minority Shareholders	1	(143)	-	-	-
Total Recognised Income and Expenditure		(355)	(212)	(542)	(542)
Equity Movements					
Share Buy back		-	-	(1,434)	(1,434)
Assets Scrapped		-	-	(2)	(2)
Minority Equity Interest	1	120	-	-	-
Equity at End of Period		2,120	2,143	2,579	2,579

FINANCIAL STATEMENTS CONTINUED

Balance Sheet

For the Six Months Ended 31st December 2010 (Unaudited)

	Notes	Group 2010 \$000	Parent 2010 \$000	Group Dec 2009 \$000	Parent Dec 2009 \$000
CURRENT ASSETS					
Cash & Cash Equivalents		1,776	1,776	563	563
Term Deposits		-	-	2,000	2,000
Trade Receivables		-	-	68	68
Other Current Assets		54	54	-	-
Trading Stock – Wool Equities Ltd	2	217	217	-	-
Trading Stock – Romney Rugs JV	1	366	-	-	-
		2,413	2,047	2,631	2,631
NON CURRENT ASSETS					
Property, Plant & Equipment		1	1	1	1
Intangible Assets		-	-	74	74
Capitalised Market Research Costs	1	104	-	-	-
Romney Rugs JV Current Account	1	-	293	-	-
Shares – Subsidiaries: Romney Rugs JV	1	-	120	-	-
		105	414	75	75
TOTAL ASSETS		2,518	2,461	2,706	2,706
CURRENT LIABILITIES					
Accounts Payable		318	318	127	127
Minority Interest – Romney Rugs JV	1	80	-	-	-
TOTAL LIABILITIES		398	318	127	127
EQUITY					
Share Capital		22,323	22,203	22,203	22,203
Retained Earnings		(20,203)	(20,060)	(19,624)	(19,624)
TOTAL EQUITY		2,120	2,143	2,579	2,579
TOTAL EQUITY AND LIABILITIES		2,518	2,461	2,706	2,706

FINANCIAL STATEMENTS CONTINUED

Statement of Cash Flows

For the Six Months Ended 31st December 2010 (Unaudited)

	Notes	Group 2010 \$000	Parent 2010 \$000	Group Dec 2009 \$000	Parent Dec 2009 \$000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from Customers		42	-	34	34
Dividend from Keratec		-	-	1600	1600
Interest Income		57	57	36	36
		99	57	1670	1670
Cash was applied to:					
Payments to suppliers and employees		761	383	721	721
Net Cash Inflow/(Outflow) from Operating Activities		(662)	(326)	949	949
CASH FLOW FROM INVESTING ACTIVITIES					
Cash was provided from:					
Disposal of Investments		-	-	-	-
Cash was applied to:					
Purchase of Investments		-	-	-	-
Romney Rugs JV - Working Capital Advances	1	-	336	-	-
Share Buy Back		-	-	1,434	1,434
		0	336	1,434	1,434
Net Cash Inflow/(Outflow) from Investing Activities		0	(336)	(1,434)	(1,434)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		(662)	(662)	(485)	(485)

FINANCIAL STATEMENTS CONTINUED

Statement of Cash Flows (continued)

For the Six Months Ended 31st December 2010 (Unaudited)

	Group 2010	Parent 2010	Group Dec 2009	Parent Dec 2009
Notes	\$000	\$000	\$000	\$000
REPRESENTED BY:				
Opening Cash & Cash Equivalents	2,438	2,438	3,048	3,048
Closing Cash & Cash Equivalents	1,776	1,776	2,563	2,563
	(662)	(662)	(485)	(485)

FINANCIAL STATEMENTS CONTINUED

Reconciliation of Net Surplus/(Loss) after Tax With Cash Inflow/(Outflow) from Operating Activities

For the Six Months Ended 31st December 2010 (Unaudited)

Notes	Group 2010 \$000	Parent 2010 \$000	
Reported Net Surplus/(Loss) after Tax	(355)	(212)	
Add Back Items Not Involving Cash Flow			
Charges & Reimbursements - Romney Rugs	-	(50)	
Movements in Working Capital			
(Increase)/Decrease in Trade Receivables	18	18	
Increase/(Decrease) in Accounts Payable	151	151	
(Increase)/Decrease in Inventories	(487)	(217)	
(Increase)/Decrease in Prepayments	(16)	(16)	
(Increase)/Decrease in Receivables Romney Rugs	27	-	
	(307)	(64)	
Net Cash Inflow/(Outflow) from Operating Activities	(662)	(326)	

NOTES TO ACCOUNTS

Note 1. Romney Rugs JV

Romney Rugs JV is a limited liability company acting as a 50/50 joint venture between Romney NZ Ltd and Wool Equities Limited. The company has been formed up with 240,000 shares which are fully subscribed to \$1.00 per share. Wool Equities Limited and Romney NZ Ltd own 120,000 shares each.

Romney NZ Ltd has supplied raw wool and market research investment while Wool Equities Ltd has supplied working capital for the manufacture of the rugs in Nepal, freight charges, advertising, travel and accommodation as well as the retaining of a marketing consultant and agent in the USA. The completed rugs arrived in the USA in December 2010. A summary of the contribution statement is as follows:

Contribution Statement (Proforma)

For the Six Month Period Ended 31 December 2010 (Unaudited)

	2010
	\$000
Sales	39
	39
Cost of Sales	37
Advertising/Customs	14
Consulting (USA Based)	12
Administration (NZ based)	48
Travel & Accommodation	45
	156
Net Contribution/(Deficit) to Date	(117)
Administration Charge – Wool Equities Ltd	26
Net Surplus/(Deficit) to Date	(143)

<u>Balance Sheet</u>	<u>(Proforma)</u>
Capital	\$000
Romney NZ	120
Wool Equities Ltd	120
	240
Represented By:	\$000
Stock	
Rug Stocks	327
Prototype Rugs	14
Raw Wool	25
	366
Other Assets	
Cap. Mkt Research	104
Liabilities	
Wool Equities C/ac	(293)
Romney NZ C/ac	(80)
	(373)
Deficit to Date	143
	240

NOTES TO ACCOUNTS Continued.

Reconciliation of Cash Advances to Current Account

For the Six Month Period Ended 31 December 2010 (Unaudited)

2010

\$000

Working Capital Advances for Period	336
Plus : Administrative Charges and Reimbursements	50
Plus: Current Account Opening balance 1 July 2010	27
	<hr/> 77
Less: Capital subscribed by deduction from Working Capital	120
Balance of Current Account at End of Period	293

NOTES TO ACCOUNTS Continued.

Note 2. Broadloom Carpet

Both cut pile and loop pile carpets have been manufactured specifically for the USA market using market research results to determine the colour and style of carpet.

Contribution Statement

For the Six Month Period Ended 31 December 2010 (Unaudited)

	2010
	\$000
Sales	3
	<hr/>
	3
Cost of Sales	19
Advertising/Customs	6
Consulting (USA Based)	7
Administration (NZ based)	34
Travel & Accommodation	5
	<hr/>
	71
Net Contribution/(Deficit) to Date	(68)

The carpet stocks on hand in the USA total \$217k

NOTES TO ACCOUNTS Continued.

NOTE 3. Other Income

Other Income

For the Six Month Period Ended 31 December 2010 (Unaudited)

2010

\$000

Administration Charge – Romney Rugs JV

26

Cost Recovery from prior year – Romney Rugs JV

26

Exchange Loss for Period

(2)

Other Income

50

WOOL EQUITIES DIRECTORY

Directors of Wool Equities Limited

Mr C J Heath (Chairman)
Mr P McPartlin
Mr J Pringle
Mr C Stewart
Mr H Taylor

Executive Management

Keith Cowan, General Manager
Ian Gilbert, Company Secretary

Registered Office

Wool Equities Limited
14 Gerald Street
Lincoln 7608
Canterbury
Phone: 03-325 2409

Website

www.woolequities.co.nz

Share Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
Phone: 09-488 8777

Solicitors

Saunders & Co.
P O Box 18
Christchurch 8011
Phone: 03-379-7690

Auditors

Ashton Wheelans & Hegan
P O Box 13-042
Christchurch 8011
Phone: 03-366-7154