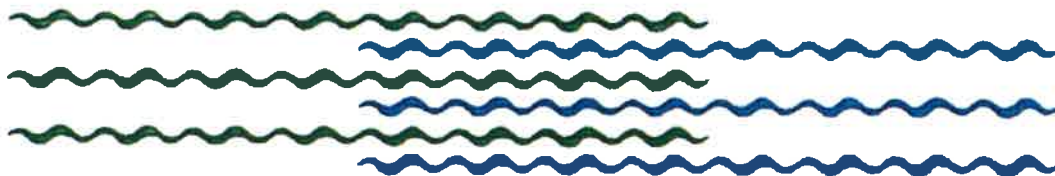


THIS IS AN IMPORTANT DOCUMENT  
AND IT REQUIRES YOUR IMMEDIATE  
ATTENTION.

# TARGET COMPANY STATEMENT

Response to the full takeover offer from WSI  
Holdings Pty Limited



**New Zealand Wool Services**  
INTERNATIONAL LIMITED

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27 November 2012

Dear Shareholder,

On the 29<sup>th</sup> of October 2012 WSI Holdings Pty Ltd (*WSIH*) announced its intention to make a full takeover offer for all of the shares in New Zealand Wool Services International Ltd (*NZWSI*) that it does not already control. (Through earlier lock-up agreements with various shareholders, including the controlling shareholders, subject to the conditions in the WSIH Offer being met, WSIH will gain control of over 75% of the shares in NZWSI on issue.)

Since that date a committee of the NZWSI Board, comprising those Directors not associated with WSIH by having entered into pre bid agreements to sell their shares, has been considering the Offer.

This committee has been working through various tasks required under the rules set in the Takeovers Code.

Each shareholder will receive;

- This Chairman's letter from the independent directors of NZWSI
- The Independent Appraisers Report from Northington Partners
- The Target Company Statement from the independent directors of NZWSI
- The Takeover Offer from WSIH

While we urge you to read all documents and seek your own independent advice the following key points relating to this Offer may assist you with your decision;

- The Independent Appraiser's Report on page 4 calculates the "Assessed Value Range" between -38 cents per share and 47 cents.
- The Independent Directors of NZWSI agree with this assessment and their present intention is to accept the Offer for their shares from WSIH.
- If the WSIH offer conditions are met the pre bid agreements will give WSIH control of in excess of 75% of the voting shares in NZWSI. The independent Directors of NZWSI believe it is very unlikely a better offer will emerge during the offer period.
- WSIH will have the right to appoint a majority of Board members of NZWSI should WSIH's Offer become unconditional and WSIH has indicated that for other subsidiary companies that WSIH's policy does not include the payment of dividends. The NZWSI independent Directors see this matter as crucial to decisions shareholders may make.
- If for any reason WSIH wish to raise their offer to achieve their goal of a full take over during the takeover period that improved offer price would be paid to all existing shareholders.
- Usually independent Directors would advise target shareholders to wait until near the end of the takeover period to make a decision on selling. Because of the pre bid lock-up agreements this is less relevant as WSIH, through the pre bid agreements will have control of NZWSI through the holding of over 75% of the shares on issue. In this situation Shareholders should make their own decision about timing.
- Historically there is a lack of liquidity in the trading of shares in NZWSI on the NZAX.

**This decision is for each shareholder to make, but the Independent Directors (comprising Derek Kirke, Peter Jackson, Bert Govan and David Houldsworth), recommend that you accept the offer after first reviewing all of the documents, and seeking advice from your own financial advisor, so that you make a fully informed decision on the merits of the offer.**

Yours sincerely

Derek Kirke  
Chairman NZWSI

NEW ZEALAND WOOL SERVICES INTERNATIONAL LIMITED  
Postal Address: PO Box 29 383 Fendalton, Christchurch 8540 Tel: 0064-3-3578700 Fax: 0064-3-3578720  
Email Address: info@woolserv.co.nz, marketing@woolserv.co.nz  
Website: www.woolserv.co.nz

## Definitions

In this document:

*NZWSI* means New Zealand Wool Services International Limited;

*Offer* means the offer by WSIH to acquire all of the shares in NZWSI not held by WSIH;

*Reference Date* is 19 November 2012

*WSIH* means WSI Holdings Pty Limited;

## Frequently Asked Questions

### 1 When do I have to make a decision on the WSIH Offer?

WSIH's Offer will remain open for acceptance until 5pm on Sunday 24 day of February 2013 (*the Closing Date for the Offer*) unless extended in accordance with the provisions of the Takeovers Code. If the Offer is still subject to statutory approvals on the Closing Date of the Offer, the date for declaring the Offer unconditional can be extended by up to 30 days to obtain those approvals.

### 2 How do I accept the Offer?

You should follow the instructions set out in the WSIH Offer Document. If you are uncertain you should consult your financial or legal adviser.

### 3 Is the Offer for all my shares?

The Offer is for all of the shares in NZWSI not already held or controlled by WSIH. The intention of WSIH in making the Offer is to acquire 100% of the shares on issue in NZWSI.

### 4 What happens if WSIH is successful in achieving acceptance for at least 90% of NZWSI's shares

If WSIH obtains 90% or more of the shares on issue in NZWSI WSIH may compulsorily acquire the balance of the outstanding shares on issue in NZWSI not held by WSIH. If WSIH does not proceed to acquire the remaining shares in NZWSI then the minority shareholders can require WSIH to acquire those shares. The consideration payable to the holders of the outstanding shares will be the same price as contained in the Offer.

### 5 What are the main conditions of the WSIH Offer?

The Offer from WSIH is conditional upon all relevant regulatory approvals under the Overseas Investment Act 2005 being obtained. WSIH also included two further conditions relating to obtaining certificates from Apex Environmental Limited in respect of the operations of the Kaputone Wool Scour and these conditions are still to be satisfied. To date preliminary

testing has been carried out but further tests are required to enable this condition to be satisfied. This is likely to take place in the period ending 7 December 2012.

**6 What occurs if another offer is made for the shares in NZWSI before the closing date for the WSIH Offer?**

If you accept the WSIH Offer you will be unable to accept any other offer which may be made. The committee of independent directors considers that because WSIH control 75.093% of the total voting shares on issue it is unlikely that another offer will be made. For this reason no recommendation is being made on when shareholders should accept the Offer.

Notwithstanding the date on which shareholders accept the Offer WSIH is not required to pay for the shares until late February 2013 or such later date as Overseas Investment Office approvals are obtained. If the consideration is not paid within the period specified in WSIH's Offer shareholders have the right to withdraw their acceptances as provided by the Takeovers Code.

**7 What occurs if WSIH lifts its offer price after I have accepted the Offer?**

Under the terms of the Takeovers Code all shareholders receive the same price so that if you have already accepted the Offer, and the price is increased, you will receive the increased price.

**8 What occurs if the terms of the WSIH Offer change?**

If the terms of the WSIH Offer change, notice of any variation or change will be sent by WSIH to every shareholder, to NZWSI, the Takeovers Panel and the New Zealand Stock Exchange, in accordance with the provisions of the Takeovers Code. WSIH may vary the Offer in accordance with the Takeovers Code and this includes the right under Rule 27 to increase the Offer price or extend the Offer period.

**9 When will I receive payment if I accept the Offer?**

Assuming the Offer is successful and is unconditional prior to 24 February 2013 a cheque for the amount to which you will be entitled under the Offer will be posted to you, or paid by electronic transfer to your nominated New Zealand bank account, not later than 7 days after Sunday 24 February 2013. This presumes there is no extension to the offer date. If the Offer is extended the payment date will be 7 days after the Offer becomes unconditional or when an acceptance is received, whichever is the later.

**10 Can I be forced to accept the Offer?**

You cannot be forced to accept the Offer for your shares in NZWSI from WSIH. If WSIH achieves 90% of the shares compulsory acquisition applies. Once you have accepted the Offer that acceptance may not be withdrawn unless WSIH fails to pay shareholders who have accepted the Offer in accordance with the Takeovers Code.

**11 What will be the listed status of NZWSI**

If WSIH is successful in obtaining 90% or more of the shares on issue in NZWSI, and WSIH compulsorily acquires the remaining shares under the terms of the Takeovers Code, then after all shares have been acquired in NZWSI it will cease to be listed on the NZAX.

**12 Regulatory Approvals**

The WSIH takeover Offer is subject to receiving Overseas Investment Office approval. WSIH applied to the OIO for regulatory approval to acquire 100% of the shares in NZWSI pursuant to its full takeover offer. In determining whether or not to give approval the OIO is required to investigate a wide range of matters including the public benefit and the benefit of the proposal for New Zealand. More information on the role of the OIO, the criteria they consider in respect of applications, and the role of the Ministers, can be found on the OIO website at <http://www.linz.govt.nz/overseas-investment>.

**13 Where can I get more information or assistance?**

For more information on your shareholding or to assist in completing your acceptance form please contact:

Link Market Services Limited on 09 375 5998 or email [info@woolserv.co.nz](mailto:info@woolserv.co.nz)

## **New Zealand Wool Services International Limited (NZWSI) - Response to Takeover Offer**

### **1 Date**

This target company statement (*statement*) is dated Tuesday 27 November 2012.

### **2 Offer**

The Offer is a full takeover offer by WSI Holdings Pty Limited (*WSIH*) to purchase 100% of the fully paid ordinary shares in New Zealand Wool Services International Limited (*NZWSI*) (not already held or controlled by WSIH as at the date of the Offer).

The terms of the Offer are set out in the offer document dated 27 November 2012 which has been sent to shareholders by WSIH.

### **3 Target Company**

The name of the target company is New Zealand Wool Services International Limited.

### **4 Directors of NZWSI**

The names of the directors of New Zealand Wool Services International Limited are:

Derek Mervyn Kirke  
Michael Brian Francis Dwyer  
Herbert Lawrence John Govan  
David Michael John Houldsworth  
Peter Alexander Hughlings Jackson

### **5 Ownership of equity securities of NZWSI**

5.1 Schedule 1 to this statement sets out the number, designation and the percentage of any class of equity securities of NZWSI held or controlled as at the date of this statement by:

- (a) each director or senior officer of NZWSI and their associates; and
- (b) any other person holding or controlling 5% or more of any class of equity securities of NZWSI to the knowledge of NZWSI.

5.2 NZWSI states in respect of the issue of equity securities of NZWSI:

- (a) NZWSI has not during the two year period immediately preceding the date of this statement issued any equity securities to the directors or senior officers of NZWSI or their associates; and
- (b) NZWSI has not issued any equity securities in the two year period immediately preceding the date of this statement in which the directors or senior officers of

NZWSI, or their associates, have obtained a beneficial interest under any employee share scheme or other remuneration arrangement.

## 6 Trading in NZWSI

Schedule 2 to this statement sets out the number and designation of equity securities of NZWSI acquired or disposed of by a director or senior officer of NZWSI or their associates or any other person holding or controlling 5% or more of any class of equity securities of NZWSI during the six month period before 19 November 2012 (being the latest practicable date before the date of this statement) including the consideration for and the date of each such transaction.

## 7 Acceptance of Offer

The Receivers of Plum Duff Limited and Woolpak Holdings Limited (both in receivership) hold in aggregate 44,388,281 ordinary shares in NZWSI being 64.342% of the total shares on issue. On 19 September 2012 the receivers entered into two pre bid agreements with WSIH to sell those shares to WSIH for 45 cents per share

The following directors, senior officers and associates of NZWSI on 19 September 2012 entered into pre-bid agreements in respect of all of the securities held or controlled by them, as set out below, to sell those shares to WSIH for 45 cents per share.

NAME OF PERSON/ENTITY THAT ORDINARY SHARES ARE REGISTERED IN	NUMBER OF ORDINARY SHARES HELD BY PERSON/ENTITY	NUMBER OF SHARES THAT IT IS CURRENTLY INTENDED THAT THE OFFER BE ACCEPTED FOR	NAME OF NEW ZEALAND WOOL SERVICES INTERNATIONAL LIMITED DIRECTOR OR SENIOR OFFICER THAT HOLDS OR CONTROLS THESE SHARES
Michael Brian Francis Dwyer	4,282,601	4,282,601	Michael Brian Francis Dwyer
Geoffrey William Deakins	450,100	450,100	Geoffrey William Deakins
John William Dawson	1,001,545	1,001,545	John William Dawson
Paul Huxley Steel	1,000,100	1,000,100	Paul Huxley Steel
Yuhui Chen	181,770	181,770	Yuhui Chen

Except as set out above there are no other senior officers of NZWSI, or any associates of those senior officers, whom hold or control any equity securities in NZWSI.

The other Directors of NZWSI being Derek Kirke, Peter Jackson, Herbert Govan, and David Houldsworth have indicated that they will all accept the Offer for the shares held by them or by associated persons controlled by them. They have taken into account the independent adviser's report, which is attached to this statement, in making this decision. Full details of the shareholdings of the Directors are set out in Schedule 1.



## **8 Ownership of equity securities of WSIH**

Neither NZWSI nor any of its directors or senior officers or associates hold or control any class of securities of WSIH.

## **9 Trading in equity securities of WSIH**

Neither NZWSI nor any director or senior officer of NZWSI or any of their associates, have traded in any equity securities of WSIH during the six month period before the Reference Date.

## **10 Arrangements between NZWSI and WSIH**

- 10.1 Messrs Michael Dwyer, Geoffrey Deakins, John Dawson and Paul Steel being senior employees of NZWSI have entered into binding pre offer waivers with WSIH under which they have agreed that pursuant to the employment contracts entered into between each of those senior employees and NZWSI that they will not exercise a right to terminate their employment arising from any change of control of NZWSI that arises by reason of the Offer from WSIH being successful.
- 10.2 The receivers for Plum Duff Limited (in receivership) and Woolpak Holdings Limited (in receivership) advised NZWSI on 19 September 2012 that they entered into binding pre bid agreements to accept the offer of 45 cents per share in respect of all of the 30,592,451 equity securities held by Plum Duff Limited (in receivership) and the 13,795,601 equity securities held by Woolpak Holdings Limited (in receivership) in NZWSI.
- 10.3 No other agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between WSIH (or any associate of WSIH) and NZWSI (or any related company of NZWSI) in connection, in anticipation of, or in response to, the Offer.

## **11 Relationship between WSIH and directors and senior officers of NZWSI**

- 11.1 None of the directors or any senior officers of NZWSI are also directors or senior officers of WSIH or any related company of WSIH.
- 11.2 Other than set out in clauses 10.1 and 12 no agreements or arrangements (whether legally enforceable or not) have been made or are proposed to be made between WSIH (or any associate of WSIH) and any of the directors or senior officers of NZWSI (or any related company of NZWSI) in connection with, in anticipation of, or in response to, the Offer.
- 11.3 WSIH has indicated that there will be continuity of the existing business. Based on this assumption all senior employees of NZWSI, including the Managing Director, will continue to be employed on their current terms and conditions of employment. WSIH has given no indication of its intentions relating to the other directors of NZWSI or the

continuity of the Board. There is no agreement or arrangement in this regard dependent on the outcome of the Offer.

11.4 WSIH has stated that if it acquires less than 90% of the shares in NZWSI there will continue to be two independent directors as required by the NZAX Listing Rules.

## **12 Agreements between NZWSI and directors and senior officers**

No agreement or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between NZWSI (or any related company of NZWSI) and any of the directors or senior officers of NZWSI, or any related company of NZWSI or their associates, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retirement from office in connection with or in anticipation of, or response to the Offer, except as set out in clause 10.1. All current employment contracts with the senior employees contain a redundancy payment if there is a change of control of NZWSI or a sale of NZWSI's major assets. Those change of control rights have been waived by those employees stated in clause 10.1 in respect of the Offer from WSIH. Assurances on continuity of the business of NZWSI have been received by those senior employees from WSIH. The relevant provisions in those employees' employment contracts continue after the acquisition of shares in NZWSI by WSIH.

## **13 Interests of directors and senior officers of NZWSI in material contracts of WSIH**

13.1 Except as set out below, no director or senior officer of NZWSI or their associates has any interest in any contract to which WSIH or any related company of WSIH is a party. A family trust associated with David Houldsworth (a director of NZWSI) leases to a related party of WSIH a building in Levin at an annual rental of approximately \$80,000.

13.2 The trustees of the H & D Family Trust, whom are David Michael John Houldsworth, Honor Joan Houldsworth and Robert Mainwaring Noakes, entered into a lease dated 27 June 2006 of a property at 16 Stanley Street, Levin to Levana Textiles Limited (*Levana*). On 11 December 2007 the lease was assigned by Levana to The Merino Company Limited (*Merino*). The shares in Merino are now held by Lempriere (Australia) Pty Limited and William Lempriere is a director of WSIH, Levana and Merino.

## **13A Interests of substantial security holders of NZWSI in material contracts of WSIH (or its related companies)**

13A.1 The receivers of Plum Duff Limited (in receivership) and Woolpak Holdings Limited (in receivership) have signed and therefore are interested in the pre bid agreements dated 19 September 2012 entered into with WSIH whereby the receivers have agreed to accept the Offer in respect of the 13,795,830 shares in NZWSI held by Woolpak Holdings Limited and the 30,592,451 shares held by Plum Duff Limited in NZWSI. Those receivers have on the 19<sup>th</sup> September 2012 committed themselves to accept the Offer in accordance with the terms of those agreements. The amount payable to the receivers of those companies under the Offer (on the basis of the current price of the Offer of 45 cents per share) is \$19,974,726.45.

In addition WSIH has entered into pre bid agreements to purchase at a price of 45 cents per share 6,916,116 shares from employees of NZWSI as set out in Appendix 2, and a further 500,100 shares from the trustees of a trust established by a retired employee of NZWSI. The aggregate amount payable under these pre bid agreements, all of which are dated 19 September 2012, is \$ 3,337,297.20 which gives WSIH a further 10.723% of the shares on issue in NZWSI which when added to the above shares gives a total number of shares held under pre bid agreements of 51,804,497 ordinary shares (75.092%).

Set out in Schedule 1 are all holders of a relevant interest in 5% or more of the shares on issue in NZWSI. Set out in Schedule 2 are the monetary values being received by the specified employees of NZWSI and by holders of over 5% of the shares on issue in NZWSI by entering into pre bid agreements to sell their shares in NZWSI to WSIH for 45 cents each.

13A.2 WSIH does not hold rights to any shares in NZWSI except the shares set out in clause 13A.1 above and as set out in Schedule 2.

13A.3 WSIH has filed a substantial security holder notice with NZWSI in accordance with the terms and conditions of the six pre bid agreements dated 19 September 2012 which are referred to in clause 13A.1 and details of which are contained in Schedule 2.

13A.4 To the knowledge of the directors or senior officers of NZWSI there is no other person who holds or controls 5% or more of any class of equity securities of NZWSI and has an interest in any material contract to which WSIH or any related company of WSIH is a party except as set out in Schedules 1 and 2.

## 14 **Additional Information**

In the opinion of the directors of NZWSI no additional information, to the knowledge of NZWSI, is required to make the information in WSIH's takeover offer document correct or not misleading.

## 15 **Recommendation**

### 15.1 ***Committee of Independent Directors***

The independent directors of NZWSI, being Derek Kirke, Herbert Govan, David Houldsworth and Peter Jackson recommend that shareholders accept the Offer from WSIH for their shares in NZWSI. Their reasons for making this recommendation to shareholders are:

- The receivers of Plum Duff Limited and Woolpak Holdings Limited (both in receivership) offered for sale 64.3% of the voting shares on issue in NZWSI and, after fully testing the market, accepted the 45 cents per share offered by WSIH as the best available.
- On WSIH confirming the conditions in the Offer, WSIH will control over 75% of the voting shares on issue in NZWSI so in that event WSIH will then have a controlling shareholding in NZWSI.

- The Offer is near the high end of the range of values placed upon the shares in NZWSI by the independent adviser.

#### **15.2 Disclosure of Interest:**

Michael Dwyer, as the Managing Director of NZWSI, abstains from making a recommendation to shareholders as he considers that by entering into a pre bid agreement with WSIH to sell all of his shares in NZWSI to WSIH he has a conflict and should make no recommendation.

### **16 Actions of NZWSI**

16.1 There are no material agreements or arrangements (whether legally enforceable or not) of NZWSI and its related companies entered into as a consequence of, in response to, or in connection with, the Offer other than the waivers explained and referred to at paragraphs 10.1 and 12.

16.2 There are no obligations underway as a consequence of, or in response to, or in connection with, the Offer that relate to or could result in:

- (a) an extraordinary event such as a merger, amalgamation, or reorganisation involving NZWSI or any of its related companies; or
- (b) the acquisition or disposition of material assets by NZWSI or any related company of NZWSI;
- (c) an acquisition of equity securities by, or of NZWSI or any related company of NZWSI; or
- (d) any material change in the equity securities on issue, or policy relating to distributions, or of NZWSI.

### **17 Equity securities of NZWSI**

17.1 NZWSI has 68,987,726 ordinary shares on issue. The rights of shareholders in respect of capital, distributions and voting are as follows:

- (a) the right to an equal share with other shareholders in dividends authorised by the Board of NZWSI;
- (b) the right to an equal share with other shareholders in dividends authorised by the Board of NZWSI;
- (c) subject to the prohibitions in the listing rules of the NZAX and the constitution of NZWSI, the right to cast one vote on a show of hands or the right to cast one vote for each share held on a poll, in each case at a meeting of shares on any resolution, including a resolution to:
  - appoint or remove a director or auditor;

- alter NZWSI's constitution;
- approve a major transaction;
- approve an amalgamation of NZWSI; and
- put NZWSI into liquidation.

17.2 The constitution of NZWSI provides that any shareholder who holds more than 20% of the voting shares on issue in NZWSI may appoint persons to be directors of NZWSI with the appointment to be based on the proportionate number of shares held by that shareholder in NZWSI. By way of example the Receivers of Plum Duff Limited (in receivership) and Woolpak Holdings Limited (in receivership) hold 44.82% of the voting shares on issue in NZWSI and therefore hold a right to appoint 2 directors out of the total number of directors currently holding office in NZWSI. To date the rights under the constitution of Plum Duff Limited and Woolpak Holdings Limited (both in receivership) to appoint directors of NZWSI has not been exercised.

## 18 Financial Information

18.1 Offerees are entitled to obtain from NZWSI a copy of NZWSI's most recent annual report, which includes the audited annual financial statements for the year ended 30 June 2012, by making a written request to NZWSI at PO Box 29383, Christchurch. A copy of the annual report is also available from NZWSI's website at [www.nzws.co.nz](http://www.nzws.co.nz). A copy of the 2012 annual report has recently been sent to all shareholders. No half yearly report is due.

18.2 The results for the first four months of the 2012/2013 financial year commencing 1 July 2012 have been affected by the following factors which have been previously advised to shareholders in the 2012 Annual Report;:

- a continuation of the factors that affected the final months of the 2011/2012 year as reported in the 2012 Annual Report; and
- the closure of Kaputone Wool Scour for four weeks to undertake major upgrades, including the replacement of the boiler and improvements to the effluent disposal system.

While the profit is down on the same period for last year improved results are expected for the remainder of the current financial year and a tax paid profit of in the range of \$1 million should be achieved for the six months trading to 31 December 2012.

18.3 There is no other information known to the directors about the assets, liabilities, profitability, or financial affairs of NZWSI that could reasonably be expected to be material to a shareholder making a decision whether or not to accept or reject the Offer from WSIH.

## 19 Independent advice on merits of Offer

- 19.1 Northington Partners Limited, as independent adviser, has prepared a report on the merits of the Offer as required by Rule 21 of the Takeovers Code. A copy of Northington Partner Limited's full report accompanies this statement.
- 19.2 Excerpts from the report prepared by Northington Partners Limited are set out below. These summarise the assessment by the independent adviser of the merits of the Offer as required by the Takeovers Code.

- (a) Clause 1.4.6 of that report states:

*"We believe that the Offer is reasonably compelling for the minority shareholders in Wool Services. The Offer Price is towards the top end of our assessed valuation range and is consistent with the prices offered by other bidders for the Company that emerged from the competitive sale process run by the Receivers for the 64.3% shareholding parcel."*

- (b) Clause 1.4.1 of that report states:

*"In our opinion, the full underlying value of Wool Services' shares is in a range between \$0.38 and \$0.47 per share."....." The Offer Price of \$0.45 per share is close to the top end of our value range (\$0.47 per share) and we therefore conclude that the Offer Price is fair"*

- 19.3 The report from Northington Partners Limited sets out on page 38 of that report a statement on its qualifications and expertise. Northington Partners Limited confirms on page 38 of its report that it has no conflict of interest that could affect the ability of Northington Partners Limited to provide an unbiased report.

## 19A Different Classes of securities

Not applicable. The Offer only relates to NZWSI's ordinary shares.

## 20 Asset valuation

- 20.1 None of the information provided in this statement refers to a valuation of any asset.
- 20.2 The Independent Adviser's Report does not refer to the valuation of any assets of NZWSI. The Independent Directors of NZWSI accept that the share price valuation calculations would need, for this type of company, to reflect net profits and dividends paid rather than net tangible asset valuations.

## 21 Prospective financial information

Northington Partners Limited, as part of its report as independent adviser, set out in Table 10 to that report the management budget for NZWSI for the financial year ending 30 June 2013. Shareholders should not rely on the figures contained in those projections as being attainable

for the financial year ending 30 June 2013. NZWSI operates in markets that are subject to volatility through changes in the price of wool, currency exchange fluctuations and the vagaries of world trading. The key assumptions on which that prospective financial information for NZWSI has been included in that report are as follows:

- Revenue is budgeted at a materially lower level on the basis of current wool prices.
- That the price for wool grease will remain at its historical peak for the remainder of the budget period.
- The budget has been revised downward due to the scouring plant at Kaputone having significant downtime in the first 2 – 3 months of the financial year arising from a material upgrade to that plant.
- That administration expenses remain approximately the same for the financial year ending 30 June 2012.
- The strong wool indicator will remain at approximately NZ\$4.40 per kilogram.
- There will be no material change in bank facilities or interest rates.
- The US dollar cross rate to the New Zealand dollar will remain at 79 cents.
- There will be no other material variations to costs and margins for NZWSI.

## **22 Sales of unquoted equity securities under Offer**

Not applicable. The shares that are the subject of the Offer are quoted on the NZAX.

## **23 Market prices of quoted equity securities under Offer**

23.1 The closing price on the NZAX of the shares subject to the Offer on:

- (a) 16 November 2012 being the last recorded trade of shares in NZWSI prior to 19 November 2012, being the Reference Date, was NZ42 cents per share;
- (b) 26 October 2012, being the last day on which the NZAX was open for business before the date on which NZWSI received WSIH's takeover notice, was NZ 39 cents per share.

23.2 The highest and lowest closing market price of the shares on the NZAX (and the relevant dates) during the 6 months before 29 October 2012 being the date on which NZWSI received WSIH's takeover notice were as follows:

- (a) Highest closing market price was NZ46 cents on 21 September 2012 (this price was also achieved on 4 and 7 May 2012); and
- (b) Lowest closing market price was NZ32 cents on 15 May 2012.

23.3 During the 6 month period referred to above, NZWSI did not issue any equity securities or make any changes in the equity securities on issue which could have affected the market prices of the shares referred to above.

23.4 The following dividends have been paid in the 2011/2012 financial year:

- The final dividend for the 2011 financial year of 3 cents per share was paid on 10 November 2011.
- An interim dividend of 1.5 cents per share was paid on 4 May 2012.
- No further dividends will be paid for the current financial year.

23.5 The Board believes that other than matters set out elsewhere in this statement and/or in the Independent Adviser's Report, there is no information about the market price of securities that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

## **24 Other Information**

24.1 Shareholders, when making decisions as to whether to accept or reject the Offer and at what point any acceptance should be given, should be aware that the terms of the Offer state that, once given, acceptances may not be withdrawn by acceptors, whether or not the Offer is varied by WSIH or any better Offer is made by a third party, unless WSIH fails to pay acceptors in accordance with the Takeovers Code. The Offer from WSIH is conditional on WSIH receiving acceptances for more than 50% of the voting shares on issue in NZWSI. The pre-bid agreements ensure this condition will be met. The other main conditions relate to Overseas Investment Office consent to the transaction and receiving a certificate from Apex Environmental Limited. If all those conditions are confirmed and met by the Closing Date then the date for payment by WSIH for the shares will be early March 2013. The Closing Date may be extended by WSIH under the Takeovers Code. The Closing Date may only be extended in accordance with the Takeovers Code.

24.2 If WSIH acquires 90% or more of the NZWSI shares, including the shares set out in Schedule 2, then under the Takeovers Code, WSIH will have the right to compulsorily acquire the remaining shares in NZWSI and the shareholders of NZWSI whom hold those shares can require WSIH to acquire those shares on WSIH meeting the 90% shareholding requirement.

24.3 The Directors of NZWSI consider that there is no other information not required to be disclosed elsewhere in this statement that could reasonably be expected to be material to the making of a decision by the offerees to accept or reject the Offer.

## **25 Approval of this statement**

The contents of this statement have been approved by all the directors of the Board of NZWSI.



26 **Certificate**

To the best of our knowledge and belief, after making proper inquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by NZWSI under the Takeovers Code.

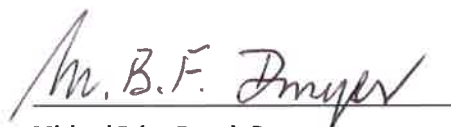
Dated this 27<sup>th</sup> day of November 2012



**Derek Mervyn Kirke**  
Chairman  
New Zealand Wool Services International Limited



**Herbert Lawrence John Govan**  
Director  
New Zealand Wool Services International Limited



**Michael Brian Francis Dwyer**  
Managing Director and Chief Executive Officer  
New Zealand Wool Services International Limited



**Geoffrey William Deakin**  
Chief Financial Officer  
New Zealand Wool Services International Limited

## Schedule 1: Ownership of Equity Securities in NZWSI

### Controlled by directors and senior officers of NZWSI and their associates (paragraph 5)

Name	Number	Percentage <sup>2</sup>
<b>Directors and Associates</b>		
Derek Mervyn Kirke	648,433	0.940%
Peter Alexander Hughlings Jackson	379,515	0.550%
Herbert Lawrence John Govan	167,640	0.243%
Michael Brian Francis Dwyer <sup>1</sup> Please note this is also a relevant interest above 5% of the total voting shares on issue.	4,282,601	6.208%
Bentwood Investments Limited (DJM Houldsworth)	12,888	0.019%
<b>Senior Employees</b>		
John William Dawson <sup>1</sup>	1,001,545	1.452%
Paul Huxley Steel <sup>1</sup>	1,000,100	1.450%
Geoffrey William Deakins <sup>1</sup>	450,100	0.652%
Yuhui Chen <sup>1</sup>	181,770	0.263%

### Holders or controllers of 5% or more of voting shares in NZWSI (paragraph 5)

Name	Number	Percentage
WSI Holdings Pty Limited (Relevant interest held under pre bid agreements)	51,804,699	75.093
Plum Duff Limited (in receivership) <sup>1</sup>	30,592,451	44.345%
Woolpak Holdings Limited (in receivership) <sup>1</sup>	13,795,830	19.998%
Michael Brian Francis Dwyer <sup>1</sup>	4,282,601	6.208%

**Note 1** These shares are subject to a pre bid agreement with WSIH (see clause 13A.1). MBF Dwyer also holds more than 5% of the voting shares of NZWSI (he is a director and senior officer of NZWSI and also holds more than 5% of the voting shares of NZWSI on issue).

**Note 2** All percentages to nearest 3 decimal places.

## Schedule 2: Disposals/acquisitions of equity securities of NZWSI by directors/senior officers

The date a relevant interest was sold is 19 September 2012. Each of the equity securities set out below were disposed of, or acquired, on 19 September 2012 with each share being disposed of, or acquired, for 45 cents each. The weighted average price for all the transactions was 45 cents per share.

### Disposals

Name	Number	Percentage	Consideration at 45 cents per share
Michael Brian Francis Dwyer	4,282,601	6.208%	\$1,927,170.45
John William Dawson	1,001,545	1.452%	\$450,695.25
Paul Huxley Steel	1,000,100	1.450%	\$450,045.00
Geoffrey William Deakins	450,100	0.652%	\$202,545.00
Yuhui Chen	181,770	0.263%	\$81,796.50
WSI Holdings Pty Limited <sup>1</sup>	51,804,497	75.092	\$23,312,023.65
Plum Duff Limited (in receivership) <sup>1</sup>	30,592,451	44.345%	\$13,766,602.95
Woolpak Holdings Limited (in receivership) <sup>1</sup>	13,795,830	19.998%	\$6,208,123.50

### Acquisition

Name	Number	Percentage	Consideration at 45 cents per share
WSI Holdings Pty Limited <sup>1</sup>	51,804,497	75.092	\$23,312,023.65

# Independent Adviser's Report



## New Zealand Wool Services International Limited

Prepared Pursuant to Rule 21 of the New Zealand Takeovers Code in  
Relation to a Full Takeover Offer from WSI Holdings Pty Limited

November 2012

### Statement of Independence

Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## Abbreviations and Definitions

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<b>APEX</b>	APEX Environmental Limited
<b>Cavalier</b>	Cavalier Corporation Limited
<b>Cavalier Wool</b>	Cavalier Wool Holdings Limited
<b>EBIT</b>	Earnings before Interest and Tax
<b>EBITA</b>	Earnings before Interest, Tax, and Amortisation
<b>EBITDA</b>	Earnings before Interest, Tax, Depreciation and Amortisation
<b>GFC</b>	Global financial crisis
<b>Lempriere</b>	The Lempriere Group, headquartered in Melbourne, Australia
<b>Northington Partners</b>	Northington Partners Limited
<b>NPAT</b>	Net Profit After Tax
<b>NTA</b>	Net Tangible Assets
<b>NZ\$</b>	New Zealand dollars
<b>NZAX</b>	The NZX Alternative Market, being the secondary market operated by NZX
<b>NZX</b>	NZX Limited
<b>Offer</b>	The offer from WSIH dated on or around 27 November 2012 for all of the equity securities on issue in Wool Services
<b>Offer Price</b>	NZ\$0.45 for each Wool Services ordinary share
<b>Plum Duff</b>	Plum Duff Limited (in receivership)
<b>Pre-bid Counterparty</b>	A party that entered into a pre-bid agreement with WSIH pursuant to which that party undertook to sell its shareholding in Wool Services to WSIH under the terms of the Offer
<b>Receivers</b>	Maurice Noone and Malcolm Hollis (both of PricewaterhouseCoopers), appointed as joint receivers of Plum Duff and Woolpak Holdings
<b>Takeover Notice</b>	The notice from WSIH received by Wool Services on 29 October 2012 setting out WSIH's intention to make the Offer
<b>Wool Services or Company</b>	New Zealand Wool Services International Limited
<b>Woolpak Holdings</b>	Woolpak Holdings Limited (in receivership)
<b>VWAP</b>	Volume Weighted Average Share Price
<b>WSIH</b>	WSI Holdings Pty Limited, an entity associated with Lempriere

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## 1.0 Assessment of the Merits of the Offer

### 1.1 Introduction

New Zealand Wool Services International Limited ("**Wool Services**" or "**Company**") is a public company listed on the NZX Alternative Market ("**NZAX**"), being the secondary market operated by NZX Limited ("**NZX**"). Wool Services operates as a vertically integrated merchant wool scourer and exporter of New Zealand wool to markets in over 20 countries. Further details on Wool Services are set out in Section 3.0.

On 29 October 2012, Wool Services received a notice ("**Takeover Notice**") from WSI Holdings Pty Limited ("**WSIH**"), an entity associated with the Australian based Lempriere Group ("**Lempriere**"). The Takeover Notice set out WSIH's intention to make a full takeover offer for all of the equity securities on issue in Wool Services ("**Offer**") at a cash price of \$0.45 per share ("**Offer Price**"). Further details on WSIH (and Lempriere) are set out in Appendix 1.

WSIH's Offer will be sent to Wool Services shareholders on or around 27 November 2012, and will remain open for acceptance until on or around 24 February 2013 (unless that date is extended by WSIH or the Takeovers Panel in accordance with the provisions of the Takeovers Code).

WSIH has entered into pre-bid agreements with various parties (each a "**Pre-bid Counterparty**") in respect of approximately 75% of Wool Services' ordinary shares, as set out in Table 1 below. Under the terms of the pre-bid agreements, the Pre-bid Counterparties have agreed to sell their respective shareholdings in Wool Services to WSIH on the terms set out in the Offer.

Table 1: Pre-bid Counterparties (Party to Pre-bid Agreements with WSIH)

Shareholder	Wool Services Shareholding Sold into Offer (%)
Plum Duff Limited (in receivership)	44.34%
Woolpak Holdings Limited (in receivership)	20.00%
Michael Dwyer (the Company's Managing Director)	6.21%
Four other senior Company employees plus one retired employee	4.54%
<b>TOTAL</b>	<b>75.09%</b>

Source: Wool Services NZAX Announcement

### 1.2 Offer Conditions

The Offer is subject to a number of conditions, the full details of which are set out in the Offer document that will be sent to Wool Services shareholders. Key conditions are also summarised in Appendix 2 of this report. Each condition may be waived by WSIH, other than the conditions relating to WSIH:

- Achieving acceptances that will allow it to hold or control greater than 50% of the total voting rights in Wool Services (which cannot be waived pursuant to the rules of the Takeovers Code). We note however that the satisfaction of this condition is effectively assured by the acceptances pursuant to the pre-bid agreements.
- Obtaining the required approvals from the Overseas Investment Office.



The Offer conditions (most of which are standard in a takeover offer of this type) are solely for the benefit of WSIH and are designed to protect WSIH from substantial changes to Wool Services or the markets within which Wool Services operates while the Offer is open for acceptance.

### 1.3 Requirements of the Takeovers Code

Wool Services is a “Code Company” for the purposes of the Takeovers Code. WSIH’s Offer and the Company’s response to the Offer must therefore comply with the provisions set out in the Takeovers Code.

Rule 21 of the Takeovers Code requires the directors of Wool Services to obtain a report from an independent adviser on the merits of the Offer. The Company’s independent directors requested Northington Partners Limited (“**Northington Partners**”) to prepare the Rule 21 report, and our appointment was subsequently approved by the Takeovers Panel. Further details on the regulatory requirements and scope of this report are set out in Appendix 3.

This report will accompany the Target Company Statement to be sent to all Wool Services shareholders and sets out our opinion on the merits of the WSIH Offer. This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 7.

### 1.4 Summary of Our Assessment

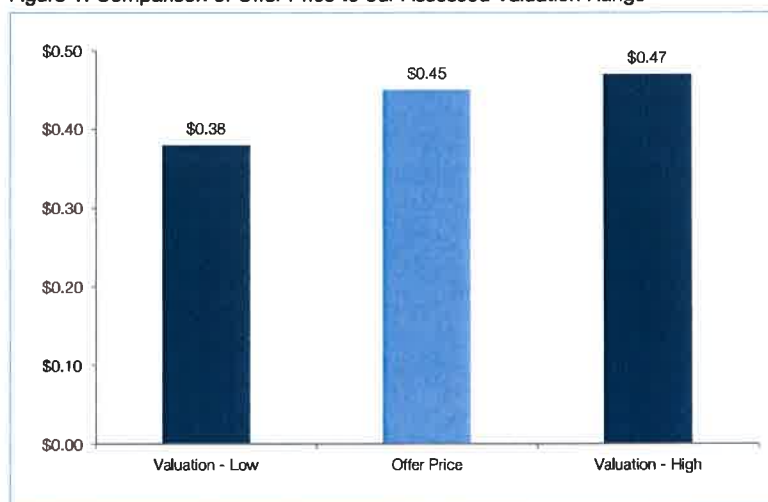
#### 1.4.1 Value of the Offer

##### Assessed Valuation Range

In our opinion, the full underlying value of Wool Services’ shares is in a range between \$0.38 and \$0.47 per share. This value range represents the value of acquiring 100% of the equity in Wool Services and includes a premium for control. The valuation range is determined primarily on the basis of an earnings multiple approach, considering Wool Services’ current financial position, earnings outlook and risk profile. Full details of our valuation approach and conclusions are set out in Section 4.0.

Figure 1 below compares WSIH’s Offer Price with our assessment of the full underlying value of Wool Services’ shares. The Offer Price of \$0.45 per share is close to the top end of our value range (\$0.47 per share) and we therefore conclude that the Offer is fully priced.

Figure 1: Comparison of Offer Price to our Assessed Valuation Range





#### Process Followed by the Receivers Seeking Bids for Majority Stake

As set out in Table 1 above, 64.34% of the shares in Wool Services are held by two companies currently in receivership - Plum Duff Limited ("Plum Duff") and Woolpak Holdings Limited ("Woolpak Holdings"). Both companies were placed in receivership on 16 December 2010, and Maurice Noone and Malcolm Hollis (both of PricewaterhouseCoopers) were appointed as joint receivers (together the "Receivers").

Prior to the Receivers entering into pre-bid agreements with WSIH, they conducted an extensive process to sell Plum Duff's and Woolpak Holdings' respective shares in Wool Services. Based on our understanding and assessment of the process (as described in more detail in Section 4.4), we conclude that:

- All of the most likely potential purchasers of the Wool Services business were provided with the opportunity to make a well-informed bid. The process was drawn out over a long period, was very well publicised, and provided all of the interested parties with the necessary detailed information regarding Wool Services' position and outlook.
- When compared on a consistent basis, a number of the final bids were at a very similar price level. However, the Lempriere bid (formalised through WSIH) was ultimately determined to be the most compelling and its acceptance by the Receivers led to the execution of the pre-bid agreements.

In our view, the sale process had all of the attributes needed to allow the Offer Price to be interpreted as a direct and compelling estimate of the market value of a controlling interest in Wool Services. We believe that this outcome provides strong market-based evidence in support of our assessed value range.

#### Offer Price Relative to Recent Share Price Performance

The Offer Price represents:

- A 21.6% premium to the closing price of \$0.37 per share as reported on 18 September 2012, being the last trading day before notice was given to the NZAX on 19 September 2012 that the Pre-bid Counterparties had entered into pre-bid agreements with WSIH; and
- A 21.6% premium to the volume weighted average price ("VWAP") of \$0.37 for the month to 18 September 2012, and a 12.5% premium to the three month VWAP of \$0.40 per share.

While this level of offer premium is broadly consistent with evidence from other takeover offers, the significance of the comparison is relatively limited in this case. The market has been aware of the Receivers' attempts to sell the Plum Duff and Woolpak Holdings share parcels since the process began in early 2011. As such, market prices over the subsequent period will have to some extent incorporated a premium in anticipation of the potential for a takeover offer following the share sale. We also note that Wool Services shares are extremely illiquid (as discussed further in Section 3.4), and the observed transaction prices are unlikely to consistently represent an accurate representation of the market's view on underlying value.

#### 1.4.2 Possible Outcomes of the Offer

##### Majority Control between 75% and 90%

If all the conditions of the Offer are satisfied or waived by WSIH and the Offer is declared unconditional, WSIH will hold or control a minimum of 75.09% of the shares in Wool Services as a result of the pre-bid agreements entered into with the Pre-bid Counterparties. If other Wool Services shareholders accept the Offer but WSIH does not receive sufficient acceptances to take its shareholding to 90% before the closing date of the Offer (or as extended) then:



- Wool Services will continue to be listed on the NZAX, with WSIH as a majority shareholder controlling more than 75% of the shares on issue but less than 90%;
- WSIH will have effective control over the day-to-day operations of Wool Services;
- With a minimum 75.09% shareholding, WSIH would control the outcome of any ordinary resolutions put to shareholders as well as special resolutions (such as those required to approve "major transactions" or change the constitution of Wool Services);
- Pursuant to the constitution of Wool Services and the NZAX listing rules, WSIH will have the ability to appoint a majority of directors to the board of Wool Services: WSIH has indicated in its Takeover Notice that it intends to do this;
- Although the liquidity of the Wool Services shares has historically been low (given three shareholders between them currently hold over 70% of the shares), liquidity would reduce even further. The closer WSIH gets to a 90% shareholding, the lower the liquidity of Wool Services shares will be; and
- WSIH will be permitted to "creep" towards a 90% shareholding in Wool Services over time by buying up to a further 5% of the shares on issue each year, commencing 12 months after the Offer closes. However, WSIH would not have to wait 12 months if it wished to make another partial or full offer after the current Offer closes.

#### 90% Compulsory Acquisition Threshold

WSIH's Offer is for all the shares in Wool Services. As noted above, given the existence of the pre-bid agreements, WSIH is guaranteed to achieve a minimum 75.09% shareholding if the Offer is declared unconditional. If WSIH can achieve acceptances in respect of at least a further 14.91% of the shares in Wool Services, then WSIH will have reached the compulsory acquisition threshold of 90%.

If the 90% threshold is reached, WSIH will be entitled to effect the compulsory acquisition provisions of the Takeovers Code to acquire the remaining shares it was not able to acquire under the Offer. WSIH indicated in its Takeover Notice that it intends to exercise this right if the compulsory acquisition threshold is reached. In this circumstance, Wool Services shareholders who did not sell their shares into the Offer can require WSIH to acquire them at the Offer Price.

After the compulsory acquisition procedure is completed, Wool Services would be delisted from the NZAX and be wholly owned by WSIH.

#### 1.4.3 Factors that May Affect the Outcome of the Offer

The likely level of acceptances over and above the 75.09% level guaranteed by the pre-bid agreements is difficult to predict. With most of the top 10 shareholders in Wool Services (see Section 3.3 below) being party to a pre-bid agreement, the chances of WSIH being able to reach the 90% compulsory acquisition threshold will depend less on the views of larger shareholders but instead on the reaction of the more than 3,850 smaller shareholders.

WSIH has limited ability to vary the Offer in response to low acceptance levels. While it could elect to increase the Offer Price above \$0.45 per share while the Offer remains open<sup>1</sup>, the increased price would be available to all Wool Services shareholders whether or not those shareholders had already accepted the Offer (which would include all the Pre-bid Counterparties). In our view, an increase in the Offer Price is therefore very unlikely.

<sup>1</sup> The offer must remain open for at least 14 days after any potential price increase.



In the circumstances, if WSIH does not receive sufficient acceptances to reach the 90% threshold, it would be better suited to acquire the shares that are available under this Offer at the proposed Offer Price and then reconsider its options. As stated above, WSIH can try to reach the 90% threshold either via the creep provisions of the Code or by making a new offer to the remaining shareholders. Any such offer may be at a price which is higher or lower than the current Offer Price, depending on the financial position and prospects of the Wool Services business prevailing at that time.

The Offer will close on or around 24 February 2013, being 90 days from and including the proposed date of the Offer. Because this represents the "maximum period" for which the offer can remain open under Rule 24 of the Takeovers Code, WSIH cannot extend the Offer beyond the proposed closing date if acceptances before that date are lower than targeted.

#### 1.4.4 Likelihood of Alternative Offers

In our view, the likelihood of an alternative offer emerging is extremely low. Key reasons for this opinion are as follows:

- If WSIH declares the Offer unconditional, WSIH will hold or control a minimum of 75.09% of the shares in Wool Services as a result of the pre-bid agreements entered into with the Pre-bid Counterparties. Any alternative partial or full takeover offer would require the support of Wool Services shareholders, particularly WSIH. For WSIH to sell into such an alternative offer would constitute a significant about-turn given it has clearly signalled through the Offer that it wishes to acquire 100% of the shares in Wool Services.
- The sale process (see section 1.4.1 above) undertaken by the Receivers of Plum Duff and Woolpak Holdings failed to identify any party other than WSIH that was willing (through the takeover mechanism prescribed by the Takeovers Code) to make a full takeover offer for all the outstanding shares in Wool Services on terms as favourable as WSIH.

#### 1.4.5 Prospects for Wool Services under WSIH's Control

In the event that the compulsory acquisition threshold of 90% is not reached and Wool Services remains listed on the NZAX, it is difficult to speculate on the prospects for the Company under Lempriere's control (being the ultimate owner of WSIH).

Although Lempriere is a well-established family business that has been operating for more than 150 years and is one of the world's largest wool merchants and processors, no financial information for Lempriere is available and little is known about its strategic plans. However, as set out in Appendix 2, WSIH has indicated in its Takeover Notice possible changes it may seek to make to Wool Services, including the cessation of dividends, a review of trade finance terms (which may result in changes to the capital structure of the Company) and the application of established Lempriere business practices to Wool Services.

#### 1.4.6 Summary of our Assessment

We believe that the Offer is reasonably compelling for the minority shareholders in Wool Services. The Offer Price is towards the top end of our assessed valuation range and is consistent with the prices offered by other bidders for the Company that emerged from the competitive sale process run by the Receivers for the combined 64.3% shareholding parcel held by Plum Duff and Woolpak Holdings.

Further, because WSIH is guaranteed to achieve at least a 75.09% acceptance level as a result of the pre-bid agreements, it will have full control of Wool Services when the Offer closes. If acceptances from other shareholders are not sufficient to reach the 90% threshold which allows compulsory acquisition, the future outlook for the non-accepting shareholders is uncertain. While WSIH may make another offer at



some point in the future in an attempt to increase its shareholding and move to compulsory acquisition, there is no guarantee that the new offer will be at a better price. In the interim, minority shareholders will likely be left holding a very illiquid shareholding in a non-dividend paying business with relatively volatile earnings prospects.

#### 1.4.7 Acceptance or Rejection of the Offer

This report represents one source of information that Wool Services shareholders may wish to consider when forming their own view on whether to accept or reject the Offer. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation. If appropriate, shareholders should consult their own professional adviser(s).



## 2.0 Industry Background

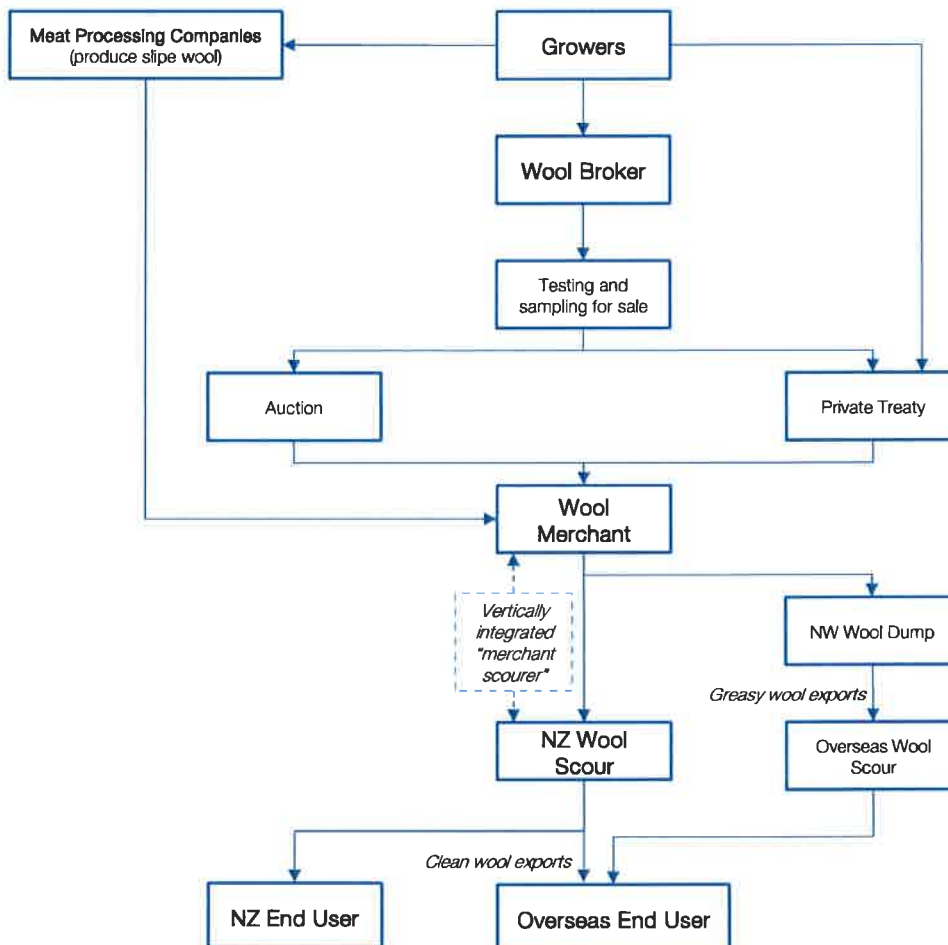
### 2.1 Overview of Wool Industry

Wool produced in New Zealand is sold either at auction or direct to wool buyers (brokers). New Zealand wool may be<sup>2</sup>:

- Scoured and used in New Zealand for the manufacture of carpet, yarn or apparel (22% of the wool clip);
- Scoured and exported as clean wool (56% of the wool clip); or
- Exported as un-scoured greasy wool (22% of wool clip).

A representation of the various functional levels within the New Zealand wool industry is set out in Figure 2 below<sup>3</sup>.

Figure 2: New Zealand Wool Industry



<sup>2</sup> Source: Commerce Commission Decision No. 725 (September 2011), relating to an application for authorisation of a business acquisition involving Cavalier Wool Holdings Limited and New Zealand Wool Services International Limited.

<sup>3</sup> Source: Ibid



## 2.2 Wool Merchants

There are a number of New Zealand based merchants involved in the purchase of wool by auction, direct from growers, and from meat processors in the case of slipe wool<sup>4</sup>. In addition to Wool Services, other key merchants include Segard Masurel (NZ) Limited, J S Brooksbank & Co (Australasia) Limited, H Dawson Sons & Co Wool NZ Limited, and Fuhrmann NZ (1983) Limited. Wool merchants are the major customers of commission wool scourers.

## 2.3 Wool Scouring

Wool scouring is performed either by a merchant wool scourer like Wool Services (where the scouring is performed by the wool merchant in relation to wool that it purchases itself) or a commission wool scourer (where scouring is performed on a commission basis for various independent wool exporters and other local end users).

The process of wool scouring involves:

- Receiving batches of greasy wool from wool merchants that are of a suitable mix of wool types to meet customers' quality specifications (i.e. fibre strength, length and diameter, colour, brightness and cleanliness)
- Opening of the blended wool fibres by a mechanical flail process to allow full contact between fibres and washing liquid
- Washing (and sometimes bleaching) the wool in various numbers of bowls of hot water and detergent
- Extraction of wool grease (the waxy secretion from sebaceous glands in the sheep's skin)
- Drying the wool
- High density pressing packing into bales
- Testing of each bale for correct wool specification

Wool grease is a profitable by-product of the scouring process. Globally, as a result of a number of factors including the reduction in sheep numbers, high international demand in the wool grease industry has resulted in historically high prices. New Zealand wool grease is shipped to over eight major lanolin refiners around the world.

## 2.4 Industry Trends

### 2.4.1 Industry Size

Historically, the size of the wool scouring industry has been closely aligned to sheep numbers and the available wool clip. For instance, when the New Zealand sheep flock reached its peak of 70 million in 1982-3, there were about 20 separate wool scouring operations. However, the decline in sheep numbers to around 32 million at present has been accompanied by a significant reduction in the wool clip. This factor, together with the development of higher capacity modern scouring plants and presses, has resulted in a reduction in the number and total capacity of wool scours in New Zealand.

Currently there are four wool scouring plants in New Zealand, two in the North Island and two in the South Island. Wool Services, the only true "merchant wool scourer", owns two scours – one in

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<sup>4</sup> When the skin is removed from a carcass as part of the process of slaughtering sheep, two by-products result: pelt for leather and the residual wool, known as slipe wool.

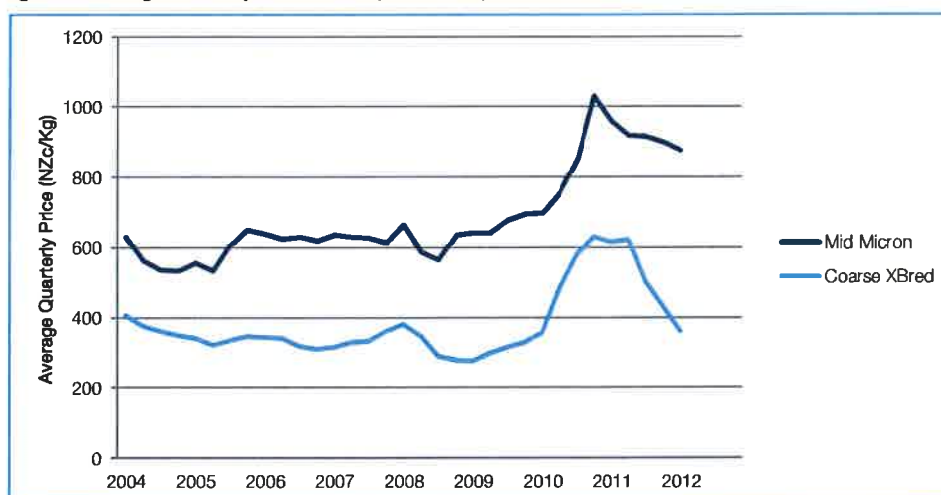


Canterbury and one in the Hawkes Bay. The other two scours are at Awatoto in the Hawkes Bay and Timaru in South Canterbury and are commission wool scours owned by Cavalier Wool Holdings Limited ("Cavalier Wool").

#### 2.4.2 Wool Prices

As set out in Figure 3 below, since the onset of the global financial crisis ("GFC") in 2008, wool prices have been particularly volatile.

Figure 3: Average Quarterly Wool Prices (2004-2012)



Source: Wool Services' Market Indicators

As the GFC took hold, wool prices declined on the back of a significant drop in worldwide demand. From around the middle of 2009, prices began to recover as worldwide production levels and stocks of wool were significantly reduced. This trend continued through 2010-2011, driven in particular by strong demand out of China, India and Europe. Between July 2010 and July 2011, the coarse wool indicator moved from 337 NZc/kg to 648 NZc/kg, an increase of 92%.

Since the peak of late 2010 / early 2011, there has been a sharp correction in wool prices. Key reasons for this include:

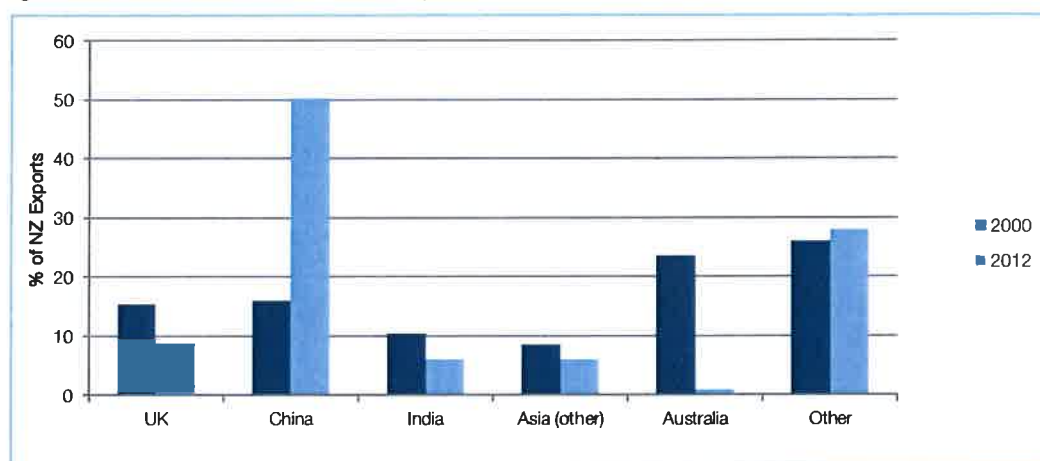
- Reduced consumer demand in Europe, particularly for floor coverings;
- Decreased demand out of the textile industry in China (the single largest market for exported New Zealand wool) which has also been impacted by the recessionary conditions affecting much of Europe; and
- A major decline in the consumption of carpet wool in both New Zealand and Australia (the second largest market for New Zealand wool), driven by a significant shift to nylon carpets and carpet tiles as a result of the high wool prices that existed in 2010/2011.

#### 2.4.3 Markets

The world market for New Zealand wool is long established. However, in recent years a major shift has been occurring in international carpet manufacturing from Europe to low-cost Asian countries, particularly China. As set out in Figure 4 below, this trend is clearly demonstrated through a comparison of the destination of New Zealand wool exports in 2000 with the corresponding situation in 2012.



Figure 4: Destination of New Zealand Wool Exports



Source: Beef + Lamb New Zealand Limited

## 2.5 Industry Outlook

From Wool Services' perspective, we suggest that the key issues facing the industry include the following:

- Although sheep numbers and the resulting coarse wool supply have decreased markedly since their peak in the 1980s, the decline has definitely slowed and many believe that long-term supply will stabilise at current levels;
- Many in the industry are still recovering from the major disruptions caused by the 90% wool price spike experienced during FY2011. While down-stream manufacturers were unable to pass on the price increases to their customers because of the weak economic environment and poor consumer demand, the position of most wool merchants was also adversely affected by the rapid decline in prices and the impact that that had on the value of wool inventories;
- Market conditions for carpet manufacturers have been extremely difficult for the last one-two years. Although the issues have affected all participants in the industry, those operating in Australasian markets have been particularly hard hit by the strength of the currency, the intense competition from synthetic carpets, and the historically low level of residential housing construction; and
- Reflecting the long-term decline in coarse wool returns, Wools of New Zealand is currently undertaking a capital raising process to fund a grower-owned entity looking to enhance efforts to support the brand development and marketing activities in the coarse wool sector. As part of the investment process, new shareholders will be required to commit to a new funding levy based on \$0.15 per kilogram of wool produced.

The coarse wool industry in New Zealand has been subject to many major changes over a prolonged period, and the current outlook remains very uncertain. While the size of the market may have stabilised in the medium term, it is highly likely that industry participants will continue to be exposed to new challenges and on-going structural changes.





## 3.0 Profile of Wool Services

### 3.1 Background

#### 3.1.1 Overview

Wool Services was originally established as a subsidiary of the New Zealand Wool Board in 1991, and is now a publicly owned company listed on the NZAX. The Company's global head office is in Christchurch, New Zealand. International offices are located in New Delhi, India and Nanjing, China.

Wool Services operates as a vertically integrated merchant wool scourer, commission wool scourer, and exporter. Wool Services produces top-quality scoured New Zealand wool which it exports to markets in over 20 countries around the world. The Company is the largest wool buyer at most wool auctions (playing a major role in establishing the price for New Zealand woolgrowers' wool), is the largest wool exporter in New Zealand, and has an annual turnover that has exceeded \$200 million in both of the last two completed financial periods.

As set out in Figure 5 below, Wool Services owns and operates two scouring plants, one in Canterbury and the other in the Hawkes Bay. Both plants are equipped with modern equipment, and have the capacity to process 40% of New Zealand's wool clip.

Figure 5: Location of Wool Services New Zealand Operations



Source: Wool Services

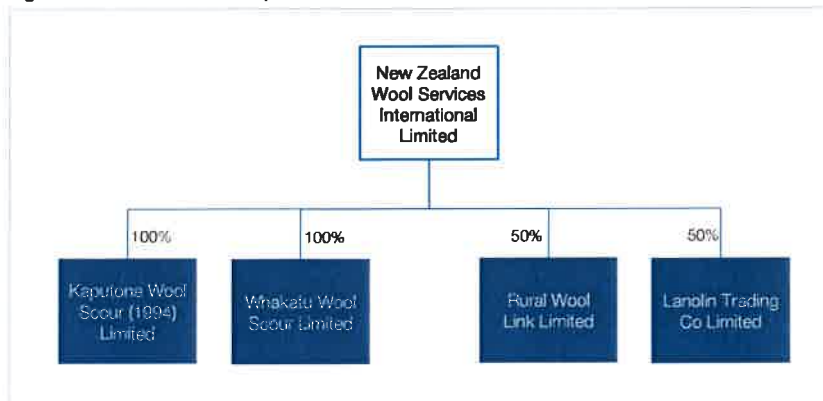
In recent years, the industry has faced challenging times and Wool Services, recognising the need for change, developed a number of strategies to differentiate itself from the traditional role of a wool commodity exporter. These strategies included significant improvement to its wool procurement systems, developing unique technologies for its scours, and initiating new branding initiatives based around the Purelana, Glacial and Red Band brands.

#### 3.1.2 Corporate Structure

Wool Services has two significant wholly-owned subsidiaries and two equity accounted investments, as detailed in Figure 6 below.



Figure 6: Wool Services Corporate Structure



Source: Wool Services

The Company's 50% shareholding in Rural Wool Link Limited, which procures wool from North Island growers, was acquired in July 2003. Lanolin Trading Co Limited, which is owned 50% by Wool Services and 50% by Cavalier Wool, is a co-operative company set up by the New Zealand scouring industry to sell wool grease internationally. The Company also owns a number of other non-trading or dormant companies used for name protection purposes.

### 3.1.3 Significant Historical Events

Key milestones in Wool Services' history are summarised below:

- **1991:** Wool Services was formed as a wholly owned subsidiary of the New Zealand Wool Board. The Company was formed for the purpose of creating an independent company to market New Zealand wool worldwide.
- **1992:** Wool Services commenced trading.
- **1994:** The Company acquired scouring operations at Kaputone and Whakatu.
- **1996:** The New Zealand Wool Board distributed all of the shares it held in Wool Services to nearly 14,000 woolgrowers. Subsequently, further share issues were undertaken to raise the additional capital needed for the on-going business of the Company.
- **1997:** The Company issued 40 million new ordinary shares, the proceeds of which were partly used to commission a new three-metre scouring line and build a new storage complex at Kaputone.
- **1999:** 10% of Kaputone Wool Scour (1994) Limited ("KWS") and 50% of Whakatu Wool Scour Limited ("WWS") was sold to a privately owned Auckland based wool exporting company, RDWM Limited ("RDWM").
- **2004:** The Company listed on the NZAX.
- **2005:** Wool Services installed a new three-metre scouring line at Whakatu.
- **2007:** The remaining minority interest in KWS and WWS wool scours and the trading and marketing interests in RDWM were purchased by Wool Services.



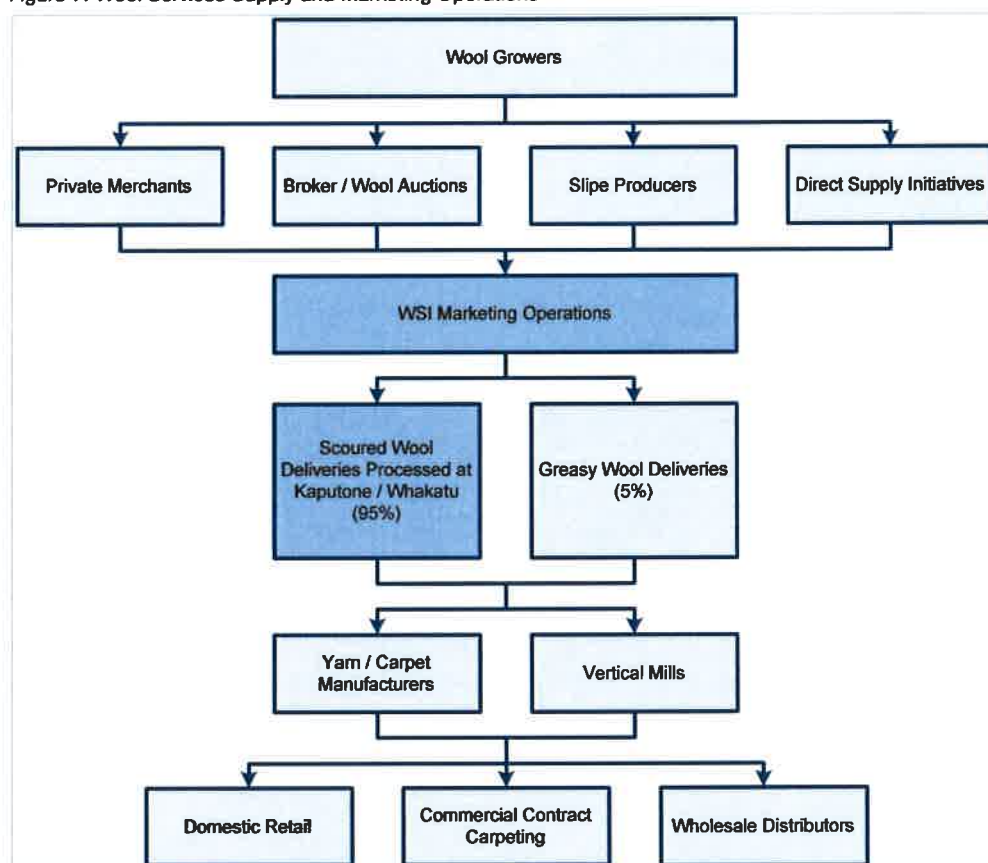
## 3.2 Supply and Marketing Operations

### 3.2.1 Overview

The principal business activities of Wool Services comprise the scouring and trading of New Zealand scoured and greasy wool. Wool Services' key competitive advantage lies in its vertically integrated business model whereby Wool Services buys, scours and delivers coarse wool internationally to meet customer's specific requirements. The integrated operation gives the Company the flexibility to maximise advantages at different levels, from direct supply with growers, negotiated purchases with private merchants, and targeted purchasing from wool auctions.

An outline of the Company's supply and marketing operations is set out in Figure 7 below.

Figure 7: Wool Services Supply and Marketing Operations



Source: Wool Services

Wool Services' business strategies have been developed around three core business functions: procurement, scouring and marketing.

### 3.2.2 Procurement

To meet its production requirements, Wool Services procures wool from a number of sources:

- Rural Wool Link Limited, a company specialising in the purchase of wool from North Island growers (Wool Services holds a 50% shareholding)



- Traditional auction and online tendering
- Private merchant procurement methods
- Directly from growers through its *Purelana* direct supply initiative
- Canterbury Romney Limited, a company with which the Company has a close working relationship
- Slipe wool from fellmongers and freezing works

### 3.2.3 Scouring

Wool Services' Kaputone and Whakatu scours provide the Company with economies of scale and the capacity to process 400,000 bales per year. The scours process the Company's traded wool, together with wool cleaned for third parties.

Wool Services places significant emphasis on the quality of its scouring, using leading edge technology that is regularly maintained and updated. Processing at each plant comprises an automated, computer controlled blend and operating system. Each plant comprises:

- A three metre scour and a 500 tonne high density wool press
- Multiple scouring bowls, enabling high levels of processing control
- New technologies used for separation and wool grease removal
- The capacity to load 20 tonne containers, providing enhanced freight efficiency for customers
- Fully automated sampling and testing, enabling Wool Services to guarantee the integrity of its test certificate data
- Systems to ensure compliance with environmental standards

### 3.2.4 Marketing

Wool Services' marketing policies are centred around increasing sales in a measured and sustainable way, with a focus on trading profitability. Key aspects of the Company's marketing include:

- **Branding** – to promote Wool Services' image in the market place, Wool Services introduced the concept of branding scoured wool bales, an initiative which has been successful in helping to differentiate the Company's products.
- **Scouring Reputation** – both the Kaputone and Whakatu scours enjoy a reputation for excellent quality of product (which has contributed to Wool Services' international image and the growth of its commission scour business).
- **Quality Standards** – Wool Services has promoted strict quality standards to reduce the level of claims or complaints.
- **Partnerships** – Wool Services continually strives to develop close working relationships with its customers.
- **Direct Marketing** – Wool Services personnel regularly visit clients around the world; face-to-face marketing is regarded as a vital ingredient for success.

## 3.3 Capital Structure and Ownership

As at 9 November 2012, Wool Services had 68,987,726 ordinary shares on issue held by 3,868 shareholders. The Company's top 10 shareholders are set out in Table 2 below.



**Table 2: Top 10 Shareholders**

	Shareholder	Number of Shares Held	% Shareholding
1	Plum Duff Limited (in receivership)	30,592,451	44.3%
2	Woolpak Holdings Limited (in receivership)	13,795,830	20.0%
3	Michael Brian Francis Dwyer	4,282,601	6.2%
4	New Zealand Central Securities Depository Limited	1,411,651	2.0%
5	John William Dawson	1,001,545	1.5%
6	Mr Paul Huxley Steel	1,000,100	1.4%
7	Derek Mervyn Kirke	648,433	0.9%
8	Ian Andrew Caradus & Lesley Maude Caradus & Others	500,100	0.7%
9	Geoffrey William Deakins	450,100	0.7%
10	Alistair Annan McGregor & Angus Rochfort Bradshaw & Others	420,000	0.6%
	<b>Top 10 Shareholders</b>	<b>54,102,811</b>	<b>78.4%</b>
	Remaining 3,858 Shareholders	14,884,915	21.6%
	<b>Total Shares on Issue</b>	<b>68,987,726</b>	<b>100.0%</b>

Source: Wool Services

Wool Services is a closely held company with the substantial shareholders owning more than 70% of the Company's shares. Substantial shareholders are set out in Table 3 below.

**Table 3: Substantial Security Holders (as at 30 September 2012)**

	Shareholder	Number of Shares Held	% Shareholding
1	Plum Duff Limited (in receivership)	30,592,451	44.3%
2	Woolpak Holdings Limited (in receivership)	13,795,830	20.0%
3	Michael Brian Francis Dwyer	4,282,601	6.2%
	<b>Substantial Security Holders</b>	<b>48,670,882</b>	<b>70.5%</b>
	Remaining Shareholders	20,316,844	29.5%
	<b>Total Shares on Issue</b>	<b>68,987,726</b>	<b>100.0%</b>

Source: Wool Services

### 3.4 Share Price Performance and Liquidity

The performance of Wool Services' shares since October 2007 relative to the NZX50 Index is shown below in Figure 8. Wool Services' share price generally underperformed the index from August 2009 until November 2010, as the market reacted to the Company's fortunes on the back of declining wool prices in the immediate post-GFC environment. As wool prices began to recover following reduced worldwide production and diminished wool stocks, Wool Services' profitability improved and the share price has generally outperformed the index from late 2010 to date.

We believe that recent share price performance has also positively benefited from on-going speculation over possible takeover activity.



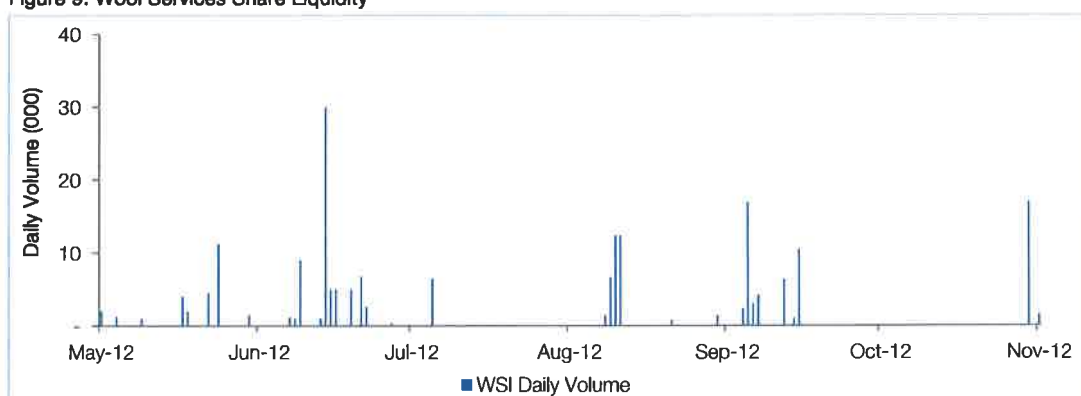
**Figure 8: Wool Services Share Price Performance Relative to NZX50 Index**



Source: Capital IQ / Northington Partners' analysis

Given the significant shareholding in Wool Services held by each of Plum Duff and Woolpak Holdings, the Company's shares have historically suffered from extremely low liquidity. Figure 9 below sets out the daily trading volumes in Wool Services' shares during the six month period to November 2012, showing many days without any trades and very low volumes on the days when trading did take place.

**Figure 9: Wool Services Share Liquidity**



Source: Capital IQ / Northington Partners' analysis

Further details on the liquidity of Wool Services shares during the last six months are set out in Table 4 below.

**Table 4: Share Liquidity Last 6 Months**

	6 Months to 7 November 2012
Average Daily Share Trading Volume	1,574
Total Shares Traded (6 Month Period)	171,570
Shares on Issue	68,987,726
Total Volume / Shares on Issue	0.25%

Source: Capital IQ / Northington Partners' analysis



### 3.5 Financial Information

#### 3.5.1 Financial Performance

A summary of the financial performance of Wool Services for the period FY2008 to FY2012 is set out in Table 5 below.

**Table 5: Wool Services Statement of Historical Financial Performance**

Year Ended 30 June	2008 (\$000)	2009 (\$000)	2010 (\$000)	2011 (\$000)	2012 (\$000)
Revenue	179,215	150,561	151,034	200,113	201,971
Cost of Sales	(163,521)	(139,148)	(138,213)	(181,359)	(190,050)
Gross Profit	15,694	11,413	12,821	18,754	11,921
Other Income	-	-	87	119	102
<b>Total Operating Income</b>	<b>15,694</b>	<b>11,413</b>	<b>12,908</b>	<b>18,873</b>	<b>12,023</b>
Marketing Expenses	-	(543)	(534)	(683)	(681)
Administration Expenses	(5,021)	(5,434)	(5,393)	(5,920)	(4,990)
Share of profit/(loss) of associate	(5)	(44)	96	57	13
<b>EBITDA</b>	<b>10,668</b>	<b>5,392</b>	<b>7,077</b>	<b>12,327</b>	<b>6,365</b>
Depreciation	(2,329)	(2,540)	(1,924)	(1,840)	(1,759)
Impairment of Intangibles	-	(4,584)	-	-	-
Net Interest	(4,759)	(2,089)	(1,913)	(1,375)	(1,435)
<b>Profit before Tax</b>	<b>3,580</b>	<b>(3,821)</b>	<b>3,240</b>	<b>9,112</b>	<b>3,171</b>
Depreciation rate adjustments	-	-	(1,082)	3	-
Income Tax	(1,190)	(559)	(1,011)	(2,479)	(933)
<b>Profit after Tax</b>	<b>2,390</b>	<b>(4,380)</b>	<b>1,147</b>	<b>6,636</b>	<b>2,238</b>

Source: Wool Services Audited Financial Statements

The main features of Wool Services' historical financial performance can be summarised as follows:

- The business has demonstrated significant volatility in profitability, due largely to revenues being exposed to movements in international wool prices and the level of worldwide demand for wool.
- The decline in profit before tax in FY2009 (excluding the intangibles impairment of \$4.58 million, profit before tax was \$763,000 in FY2009 compared to \$3.58 million in FY2008) was primarily attributable to the drop in international wool prices following the GFC in 2008. The subsequent improvement in FY2010 (\$3.24 million) reflected a gradual strengthening in prices, while the \$9.11 million profit before tax in FY2011 occurred on the back of wool prices reaching record levels.
- In FY2012, profit before tax dropped significantly compared to the FY2011 result. Although total revenue of \$201.97 million was up marginally on the previous period, gross profit was lower by approximately \$6.83 million as the business was impacted by a sharp decline in wool prices following unprecedented high volumes of wool on the market. Profitability was also impacted by the high value of the New Zealand dollar.
- Throughout the historical period, the overall level of marketing and administration expenses was reasonably constant. Administration expenses (which actually include almost all of the general





operating expenses) were reduced by just under \$1.0 million in FY2012 compared to FY2011 as the business reacted to unfavourable global market conditions.

### 3.5.2 Financial Position

Table 6 summarises Wool Services' financial position for the period FY2008 to FY2012.

**Table 6: Wool Services Statement of Historical Financial Position**

As at 30 June	2008 (\$000)	2009 (\$000)	2010 (\$000)	2011 (\$000)	2012 (\$000)
<b>Assets</b>					
Cash and Cash Equivalents	403	1,431	2,218	1,805	1,233
Inventories	53,674	30,204	32,628	46,717	42,482
Derivatives	88	1,969	450	825	-
Current Tax Assets	2,910	1,465	1,284	-	717
Trade and Other Receivables	43,562	26,594	22,928	30,824	25,477
Plant, Property and Equipment	18,844	17,969	16,598	15,602	14,273
Intangible Assets	6,145	6,145	6,145	6,145	6,165
Investments in Equity Accounted Investees	153	109	205	262	275
Investments in Subsidiaries	-	-	-	-	-
Deferred Tax Asset	-	1,389	305	638	309
<b>Total Assets</b>	<b>125,779</b>	<b>87,275</b>	<b>82,761</b>	<b>102,818</b>	<b>90,931</b>
<b>Liabilities</b>					
Cash and Cash Equivalents	32,800	22,800	10,500	20,000	18,100
Secured Bank Loans	4,266	3,328	11,407	10,247	9,087
Discounted Bills	37,590	20,082	17,008	20,018	18,241
Derivatives	585	-	-	-	65
Trade and Other Payables	14,946	9,851	10,958	13,951	9,204
Current Tax Liability	-	-	-	1,445	-
Deferred Tax Liability	485	859	1,595	1,549	1,555
<b>Total Liabilities</b>	<b>90,672</b>	<b>56,920</b>	<b>51,468</b>	<b>67,210</b>	<b>56,252</b>
<b>Net Assets</b>	<b>35,107</b>	<b>30,355</b>	<b>31,293</b>	<b>35,608</b>	<b>34,679</b>
<b>Equity</b>					
Issued Capital	28,804	28,804	28,804	28,804	28,804
Other Reserves	2,387	2,704	2,491	2,253	2,190
Retained Earnings	3,916	(1,153)	(2)	4,551	3,685
<b>Total Equity</b>	<b>35,107</b>	<b>30,355</b>	<b>31,293</b>	<b>35,608</b>	<b>34,679</b>

Source: Wool Services Audited Financial Statements

The main features of Wool Services' historical financial position are summarised as follows:





- In common with trading businesses with similar sales cycles to Wool Services, the Company maintains a high level of working capital. Although the required level of current assets is seasonal and varies with fluctuations in wool supply and the level of sales, throughout the FY2008 to FY2012 period Wool Services has held a significant investment in inventory and receivables. The \$42.48 million carrying value of inventory at balance date for FY2012 is net of a \$2.87 million fair value provision to reflect recent decreases in wool prices.
- Over the historical period, Wool Services' net assets have remained relatively flat, decreasing slightly from \$35.11 million in FY2008 to \$34.68 million in FY2012.

### 3.5.3 Cash Flows

Table 7 below summarises Wool Services' historical cash flows for the period FY2008 to FY2012.

**Table 7: Wool Services Statement of Historical Cash Flows**

Year Ended 30 June	2008 (\$000)	2009 (\$000)	2010 (\$000)	2011 (\$000)	2012 (\$000)
<b>Cash Flows from Operating Activities</b>					
Receipts from Customers	179,836	153,472	155,639	187,752	196,778
Cash Paid to Suppliers and Employees	(178,376)	(136,627)	(147,275)	(193,003)	(186,819)
Net Receipt from Forex Trading	712	-	-	-	-
Interest Received	69	196	-	56	16
Interest Paid	(4,599)	(3,664)	(1,913)	(1,256)	(1,586)
Income Tax Paid	(188)	(3,025)	66	74	(2,720)
<b>Net Cash Flow from Operating Activities</b>	<b>(2,546)</b>	<b>10,352</b>	<b>6,517</b>	<b>(6,377)</b>	<b>5,669</b>
<b>Cash Flows from Investing Activities</b>					
Proceeds from Sale of PPE	42	66	207	108	20
Acquisition of Subsidiary, net of Cash Acquired	-	(1,306)	-	-	-
Acquisition of Property, Plant and Equipment	(1,078)	-	(751)	(972)	(464)
Repayment of Loan to Associate	-	-	-	-	-
Repayment of Loan by Employees	(71)	-	76	177	225
<b>Net Cash Flow from Investing Activities</b>	<b>(1,107)</b>	<b>(1,240)</b>	<b>(468)</b>	<b>(687)</b>	<b>(219)</b>
<b>Cash Flows from Financing Activities</b>					
Receipt from Term Loan	-	-	11,407	-	-
Repayment of Borrowings	(4,938)	(938)	(3,328)	(1,160)	(1,160)
Dividends Paid	-	(690)	-	(2,070)	(3,104)
<b>Net Cash Flow from Financing Activities</b>	<b>(4,938)</b>	<b>(1,628)</b>	<b>8,079</b>	<b>(3,230)</b>	<b>(4,264)</b>
<b>Net Increase (Decrease) in Cash Held</b>	<b>(8,591)</b>	<b>7,484</b>	<b>14,128</b>	<b>(10,294)</b>	<b>1,186</b>
Opening Cash	(23,806)	(32,397)	(21,369)	(8,282)	(18,195)
Effect of Exchange Rate Fluctuations on Cash Held	-	3,544	(1,041)	381	142
<b>Cash and Cash Equivalents</b>	<b>(32,397)</b>	<b>(21,369)</b>	<b>(8,282)</b>	<b>(18,195)</b>	<b>(16,867)</b>

Source: Wool Services Audited Financial Statements



## 4.0 Valuation of Wool Services

### 4.1 Valuation Summary

Our valuation assessment of the Wool Services business is based primarily on an earnings multiple approach. Estimated maintainable earnings relate to the projected level of EBITDA for the financial year ending 30 June 2013, adjusted to reflect some normalisations that we believe are appropriate. Our EBITDA multiple range of between 5.0 and 5.5 times is based primarily on recent transaction evidence, but with reference also to the implied trading multiples for a small set of comparable companies.

We have estimated a fair value range for the Wool Services shares of between \$0.38 and \$0.47 per share. A summary of the full acquisition value is set out in Table 8.

**Table 8: Summary of Full Acquisition Value for Wool Services**

Component	Low	High
Maintainable EBITDA	\$7,000,000	\$7,500,000
Valuation Multiple	5.0	5.5
Enterprise Value	\$35,000,000	\$41,250,000
less Net Debt	\$8,800,000	\$8,800,000
Aggregate Equity Value	\$26,200,000	\$32,450,000
Number of Shares on Issue	68,987,726	68,987,726
<b>Value per Share</b>	<b>\$0.38</b>	<b>\$0.47</b>

Source: Northington Partners analysis

Details of our adopted valuation approach and assumptions are provided in the remainder of this section.

### 4.2 Valuation Methodology

In general terms, the value of equity in any company can be determined using a deductive approach that starts with an estimate of the underlying enterprise value. Enterprise value represents the aggregate value of the company's on-going operations assuming that the assets are entirely equity funded. In order to estimate the aggregate value of equity, the enterprise value is adjusted to account for the level of debt carried by the company and the values of any other assets and liabilities of the company that are not needed to maintain the core operations of the business.

A summary of the steps needed to estimate the aggregate equity value of Wool Services is set out in Table 9 below.



**Table 9: General Framework for Assessing Equity Value**

	Step	Comment
	Value of Operating Assets	Represents the aggregate value of the operating assets of the business. Can be estimated using a variety of methods (see discussion in Section 4.2.1)
<i>Plus</i>	Surplus Assets (if any)	The value of assets that are not required to support the on-going operation of the business and which can therefore be sold.
<i>Less</i>	Net Debt	Defined as interest-bearing debt less cash reserves. Does not include any components of working capital.
<i>Less</i>	Other Liabilities (if any)	Accounts for other liabilities that would be borne by the new owner of the company, such as the net present cost of derivative exposures.
<i>equals</i>	Equity Value	Directly comparable to Market Capitalisation

In almost all cases, estimating enterprise value is the most difficult part of the process.

#### 4.2.1 Alternative Methodologies

For a company viewed on a going-concern basis, enterprise value should be determined as a function of the estimated level of cash returns that the operating assets are expected to generate in the future. The specific approach that is used to estimate this value is dependent on the nature of the company and the expectations regarding future performance. The two main approaches usually adopted in the valuation of publicly listed companies are summarised as follows:

- **Earnings Multiple:** This method determines enterprise value by applying a valuation multiple to the assessed level of maintainable annual earnings (or cash flows), where the multiple is chosen to reflect the risk associated with the future performance of the business. Depending on the nature of the business, earnings can be appropriately measured at the EBITDA, EBITA, EBIT, or NPAT levels.
- **DCF:** A DCF approach is based on an explicit forecast of the annual cash flows that will be generated over a specified forecast period (typically between 5 and 10 years). The value of cash flows that may occur after the end of the explicit forecast period are incorporated into the valuation process by capitalising an estimate of maintainable cash flows for the terminal period. A DCF model is therefore usually made up of two components:
  - (i) The present value of the projected cash flows during the forecast period; and
  - (ii) The present value of all other cash flows projected to occur after the explicit forecast period. This component is commonly referred to as the terminal value.

Each approach has some advantages and disadvantages, and the most appropriate choice is dependent on the characteristics of the business under consideration and the quality of the market data that is available. The key advantage of the earnings multiple approach is its simplicity. Total enterprise value can be determined on the basis of the actual earnings results for the most recent financial reporting period or the equivalent projection for next year. Companies with well-established operations should be in a position to supply reasonably reliable earnings projections for the next one or two years, and the valuation model is therefore only reliant on an independent assessment of the appropriate earnings multiple. Estimates of an appropriate multiple are typically based on data derived from other companies that are considered to be comparable to the target company in relation to growth prospects, capital expenditure requirements, and risk profiles.



Unfortunately, it is extremely rare that the target company will have any close comparables with respect to all of these important characteristics. In many cases, earnings multiples extracted from a set of businesses within exactly the same industry will have a wide range of values that reflect company specific factors rather than the underlying risk level of the industry itself. It then becomes a matter of judgement to make a series of adjustments to the implied multiples to properly account for the differences between the companies. These adjustments are often arbitrary and very difficult to benchmark.

In the majority of cases, the earnings multiple approach is therefore most suited to businesses with a relatively stable earnings outlook, low capital expenditure requirements, and limited growth opportunities. For companies with these characteristics, the multiples derived from market data are more likely to accurately reflect the market's perception of the underlying quality of the projected earnings stream.

The DCF approach can provide a better valuation treatment for companies with future growth prospects and high capital expenditure requirements. Because each of these factors can be explicitly incorporated into the valuation process, the DCF model directly accounts for many important value drivers of the business under consideration. Accessing the necessary data for a DCF model can however be problematic, especially when there is no credible process by which to construct the future forecasts of free cash flows. The discounting process is also reliant on an estimate for the required rate of return. Because this estimate is not directly observable and must be derived from data collected from other comparable companies, the DCF value is also reliant on the existence of other companies that have the same risk profile.

#### 4.2.2 Preferred Valuation Approach

We believe that the Earnings Multiple valuation framework is most appropriate for Wool Services. The business operates in a mature industry and does not have any explicit growth plans or extraordinary capital expenditure requirements. The biggest valuation issue relates to the significant earnings volatility that the Company has experienced in the past and is likely to continue to experience in the future. On-going uncertainty over market demand and wool prices clearly makes the assessment of a maintainable earnings figure far more difficult for Wool Services than for companies with a relatively stable earnings outlook. However, the issue of accurately projecting future earnings levels is even greater for the DCF approach, which must effectively incorporate a forecast of the degree and timing of the cyclical highs and lows of the industry.

### 4.3 Valuation of Wool Services Shares

#### 4.3.1 Assessed Enterprise Value Range

The assessed enterprise value of Wool Services is determined with reference to estimates of the maintainable earnings for the business and an appropriate earnings multiple. Our analysis and conclusions for each of these inputs is summarised below.

#### **Estimate of Maintainable Earnings**

Our estimate of maintainable earnings for Wool Services is based primarily on the Company's recent performance and budget for FY2013. Table 10 below summarises actual EBITDA levels for the four year period between FY2009 and FY2012, along with the average of the period and the budget for FY2013.



Table 10: Wool Services Historical Earnings and Budget for FY2013

Year Ended 30 June	2009 (\$000) Actual	2010 (\$000) Actual	2011 (\$000) Actual	2012 (\$000) Actual	Average FY09 – FY12 (\$000) Actual	2013 (\$000) Budget
Revenue	150,561	151,034	200,113	201,971	175,920	138,751
Cost of Sales	(139,148)	(138,213)	(181,359)	(190,050)	(162,193)	(124,382)
Gross Profit	11,413	12,821	18,754	11,921	13,727	14,369
Gross Margin (%)	7.58%	8.49%	9.37%	5.90%	7.84%	10.36%
Other Income	-	87	119	102	77	240
<b>Total Operating Income</b>	<b>11,413</b>	<b>12,908</b>	<b>18,873</b>	<b>12,023</b>	<b>13,804</b>	<b>14,609</b>
Marketing Expenses	(543)	(534)	(683)	(681)	(610)	(849)
Administration Expenses	(5,434)	(5,393)	(5,920)	(4,990)	(5,434)	(4,973)
Share of profit/(loss) of	(44)	96	57	13	31	13
<b>EBITDA</b>	<b>5,392</b>	<b>7,077</b>	<b>12,327</b>	<b>6,365</b>	<b>7,790</b>	<b>8,787</b>
EBITDA Margin	3.58%	4.69%	6.16%	3.15%	4.39%	6.33%

Source: Wool Services Audited Financial Statements

In comparison to actual performance over the last four year period, the key features of the FY2013 budget are as follows:

- Turnover is budgeted at a materially lower level. While this partly reflects expectations that demand from key international markets will be lower than that over the historical period, the main driver of the reduction is the fact that current wool prices are dramatically lower than those achieved in the last two years;
- The budgeted gross margin is however higher, largely as a consequence of expectations that the wool grease price will remain at its current historical peak for the remainder of the budget period. Compared to the average price observed for wool grease over the FY2009 – FY2012 period, the budgeted price for FY2013 is approximately 65% higher;
- The budget has been revised downwards to reflect the significant disruption that was experienced at the Kaputone scouring plant during the first two-three months of the financial year arising from the introduction of a new wastewater treatment process. While these issues have largely been overcome, there is still some risk that short term profitability at Kaputone will continue to be affected;
- Budgeted administration expenses are generally in line with the actual level for FY2012, lower than the average cost over the full historical period, but consistent with the current operational base.

Given the nature of the Wool Services business and the very high level of historical earnings volatility, it is difficult to reliably assess an appropriate level of maintainable earnings. While projected turnover for FY2013 is considerably lower than that achieved in the last two years, it is broadly consistent with longer term averages for both wool throughput and wool prices. Based on our understanding of the current state of the market, the prospects of both variables returning to the levels generated in FY2011 and FY2012 are limited.



We therefore suggest that the FY2013 budget provides a reasonable framework for the maintainable earnings estimate, but with a normalisation adjustment for wool grease prices. While it is difficult to determine whether the current historically high prices will persist in the future, we suggest that it is prudent to assume that prices will fall off the current highs and that the resulting gross margin will also decline closer to the historical average. Based on that adjustment and other benchmarking analysis, we conclude that the appropriate range for Wool Services' maintainable EBITDA level is between \$7.0m and \$7.5m.

#### Determining Appropriate Earnings Multiples

A valuation multiple range can be derived from two sources:

- Implied multiples from recent transactions involving similar target companies; and
- Publically traded companies that are considered to be comparable to the subject company.

There is data available for a small number of transactions that have some relevance to this valuation. The most useful data relates to a series of transactions that involved Wool Services itself, either in relation to transactions involving various share parcels in the Company or where Wool Services was the acquirer. A summary of the valuation metrics for these selected transactions is contained in Table 11 below, with more detailed information on these and a small number of other transactions set out in Appendix 4.

**Table 11: Recent Relevant Transactions**

Target	Acquirer / Transaction	Date	Implied EV (NZSM)	Implied EBITDA Multiple
NZ Merino Company Limited	Merino Grower Investments Limited	2011	\$15	6.5x
Dalewool	Wool Services	2007	\$10	4.4x
Wool Services	Woolpak Holdings acquisition of Hellaby's 19.85% stake	2006	\$40	6.2x
Wool Services	Initial Public Offering	2004	\$53	6.6x
<b>Average</b>				<b>5.9x</b>

*Source: Capital IQ and other Public Reports*

We note that all of the Wool Services transactions took place in the relatively buoyant market environment that existed prior to the onset of the GFC. Observed valuation multiples since the GFC are generally lower, reflecting the market's greater focus on operational and financial risks and a resulting increase in the required risk premium.

The transaction involving the New Zealand Merino Company ("NZMC") is more recent and therefore arguably more comparable, but we note that we would expect NZMC to be valued at a higher multiple than Wool Services for a number of reasons. Unlike Wool Services, NZMC has a low level of investment in fixed assets and can be broadly characterised as a marketing operation which has very secure access to its supply base. NZMC has also entered into long-term contracts with both its suppliers and end users which have materially reduced the variability in earnings arising from year to year volatility in wool prices. In our view, both of these factors translate into a lower risk profile for NZMC compared to Wool Services and should lead to a correspondingly higher valuation multiple.





Relevant evidence from publicly traded businesses is even more limited than that from comparable transactions. While some current earnings multiples for a range of companies operating in the agriculture sector are presented below in Table 12, we believe that the evidence should be viewed with considerable caution given the many differences between the nature of Wool Services' business and those of the selected comparable companies.

**Table 12: Comparable Trading Multiples**

Company	Country	EV (NZ\$M)	EV / EBITDA
Cavalier Corporation	New Zealand	201	12.9x
PGG Wrightson	New Zealand	393	7.7x
GrainCorp	Australia	3,235	9.5x
Elders	Australia	612	9.7x
RuralCo Holdings	Australia	292	6.1x
Archer Daniels Midland	United States	32,977	8.2x
Bunge	United States	21,127	11.2x
Agrium	Canada	20,748	5.9x
Viterra	Canada	8,166	8.6x
Chargeurs	France	290	7.1x
<b>Average</b>			<b>8.7x</b>

*Source: Capital IQ and other Public Reports – as at 25 July 2012*

On the face of it, Cavalier Corporation ("**Cavalier**") represents the most comparable business to Wool Services on the basis that its 50% owned subsidiary company competes directly with Wool Services in the New Zealand wool scouring sector. However, Cavalier is effectively a vertically integrated carpet manufacturer and is dominated by its exposure to the carpet business in both New Zealand and Australia; in the FY2012 period, over 80% of revenue and operating earnings were generated by the carpet business, with most of the remaining contribution coming from the wool trading and wool scouring operations. Notwithstanding its current issues, we suggest that the Cavalier business has a lower risk profile than the wool merchant model adopted by Wool Services, and Cavalier should therefore be expected to trade at a higher multiple.

This contention is largely supported by a comparison of some high level metrics for both companies. The observed level of volatility in earnings and share prices has been considerably higher for Wool Services compared to Cavalier, consistent with our view that the Wool Services business model is exposed to a higher level of uncertainty.

Considering the risk profile and future outlook for the Wool Services business, we conclude that an appropriate EBITDA multiple range is 5.0x to 5.5x. In forming this view, we have placed particular emphasis on the following factors:

- Although the transactional evidence is limited, we suggest that the Dalewool and Woolpak Holdings transactions provide the best guide. Our assessed multiple range is higher than that implied by the Dalewool transaction because of Wool Services' superior scale and market



position, but lower than the implied multiple for the Woolpak Holdings transaction because of the overall decline in valuation multiples since that transaction took place.

- Wool Services operates in a sector that has always been subject to a high level of uncertainty, and that uncertainty leads to large swings in profitability. However, we believe that the current level of risk relating to Wool Services' main business drivers remains at a level which is historically high, and is unlikely to reduce in the short to medium term.
- Economic conditions in the Company's traditional international markets are expected to remain poor for some time and the outlook for demand from China is also uncertain. This is coupled with the potential for a continued decline in the New Zealand wool supply and faltering demand for wool-based products such as carpet. On balance, the prospects for growth in the Wool Services business are not strong.

### Enterprise Value Range

Based on our estimates for maintainable earnings and an appropriate earnings multiple, the resulting enterprise value range for Wool Services is summarised in Table 13. These values represent our assessment of the full acquisition value of Wool Services, and implicitly incorporate a premium for control and acquisition synergies.

**Table 13: Earnings Multiple Valuation Assessment**

	Valuation Range	
	Low	High
Maintainable EBITDA (NZ\$000)	\$7,000	\$7,500
EBITDA Multiple	5.00x	5.50x
<b>Enterprise Value (NZ\$000)</b>	<b>\$35,000</b>	<b>\$41,250</b>

*Source: Northington Partners' Analysis*

#### 4.3.2 Aggregate Equity Value and Value per Share

The aggregate value of equity in Wool Services is determined as the difference between the enterprise value assessment and the Company's outstanding net debt position. Determining net debt for Wool Services is somewhat complicated by its requirement to maintain a high level of working capital and the funding arrangements in place to support that investment. The total debt position of the Company as at 30 September 2012 is summarised in Table 14 below.

**Table 14: Reported Debt Position (30 September 2012)**

Component	Value (\$000)
Bank Overdraft	7,600
Discounted Bills	16,800
Term Loan	8,800
<b>Total Debt</b>	<b>\$33,200</b>

*Source: Wool Services*





As set out in Section 3.5.2, the Company maintains a significant investment in inventory and receivables, as is relatively standard for other trading businesses with a similar sales cycle to Wool Services. The required level of current assets is seasonal and varies considerably through the year in line with the fluctuations in wool supply and sales, and a significant amount of the peak investment is funded through short-term bank facilities (overdraft and Discounted Bills).

We note that the Discounted Bills facility with the Company's bank is a form of receivables factoring and the value of both the outstanding Discounted Bills and the associated receivables are excluded from Wool Services' management accounts<sup>5</sup>. This is done on the basis that the debt is effectively offset by the pledged receivables and is therefore no longer a liability of the Company. On that basis, the Discounted Bills should be excluded from our assessment of net debt.

We also suggest that the overdraft funding should be excluded from the calculation because the net working capital of the business is always positive. Table 15 summarises working capital at four different points over the last 12 month period, and demonstrates that the net position is consistently positive.

**Table 15: Net Working Capital**

	Interim Accounts 31/12/11 (NZ\$000)	Management Accounts 31/3/12 (NZ\$000)	Annual Accounts 30/6/12 (NZ\$000)	Interim Accounts 30/09/12 (NZ\$000)
Cash and Cash Equivalents	1,264	1,046	1,233	1,878
Inventory	33,325	50,570	42,482	27,832
Trade and Other Receivables	26,009	30,966	25,477	26,863
<b>Total Current Assets</b>	<b>60,598</b>	<b>82,582</b>	<b>69,192</b>	<b>56,573</b>
Payables	6,664	14,459	9,204	9,770
Overdraft Facility	10,900	21,200	18,100	7,600
Discounted Bills	18,315	21,078	18,241	16,821
<b>Total Current Liabilities</b>	<b>35,879</b>	<b>56,737</b>	<b>45,545</b>	<b>34,191</b>
<b>Net Working Capital</b>	<b>24,719</b>	<b>25,845</b>	<b>23,647</b>	<b>22,382</b>

Source: Wool Services Accounts

To the extent that any of the overdraft funding was included in net debt, it could be argued that some level of the investment in net working capital was surplus to requirements and should therefore be included in our assessment of enterprise value. As such, we conclude that the net debt position of the Company is limited to the outstanding value of the term debt, which was \$8.8 million as at 30 September 2012.

The resulting range for the value of 100% of the shares on issue in Wool Services is set out in Table 16. We have assessed a value range between \$0.38 and \$0.47 per share; this represents a relatively wide range of \$0.09 (approximately 20% of the mid-point value per share of \$0.425), but we believe that range is in keeping with the high level of business risk faced by Wool Services.

<sup>5</sup> The values must be included in the reported accounts (both annual and interim) to comply with the requirements of IFRS standards.



**Table 16: Total Equity Value and Value per Share**

	Low Value	High Value
Assessed Enterprise Value	\$35,000,000	\$41,250,000
less Net Debt	\$8,800,000	\$8,800,000
Total Equity Value	\$26,200,000	\$32,450,000
Shares on Issue	68,987,726	68,987,726
<b>Value per Share</b>	<b>38.0c</b>	<b>47.0c</b>

Source: Northington Partners' Analysis

We note that as at 30 June 2012, the reported net tangible assets ("NTA") of the Company was approximately \$0.41 per share<sup>6</sup>. Given the high level of asset intensity required for this type of business and Wool Services' low profit margins, we believe that the relativity between the current NTA and our assessed value range is appropriate. Based on recent performance and the current outlook for the business, we do not think that the valuation range should reflect a significant level of intangible value.

#### 4.4 Review of the Sale Process for the Share Parcels Owned by Plum Duff and Woolpak Holdings

As previously discussed, approximately 64% of the total shares on issue in Wool Services are currently owned by Plum Duff and Woolpak Holdings, two entities associated with the late Alan Hubbard. Both companies were placed in receivership on 16 December 2010. Beginning soon after their appointment, the Receivers undertook a comprehensive sale process for the share parcels which, after considerable time and effort, has culminated in the pre-bid agreements with WSIH and the consequent full takeover offer for all of Wool Services' shares on issue.

Noting that the Receivers operate under an obligation to obtain the best price for the shares, we believe that the feedback received during the transaction process provides direct and compelling evidence as to the market value of the Wool Services business. Based on discussions with the Receiver, we summarise the key components of the transaction process as follows:

- A formal sale process was commenced in January 2011. The Receivers contacted over 30 parties which were expected to have some interest in Wool Services, of which six parties eventually submitted indicative non-binding bids. Based on the level of the indicative bids, four parties were invited to conduct some form of due diligence and three binding bids were subsequently received.
- The Receivers believed that the only credible proposition was submitted by Cavalier Wool, Wool Services' direct competitor in its wool scouring activities. Because the potential acquisition of Wool Services would give Cavalier Wool a monopoly position in the New Zealand wool scouring market, it was therefore subject to clearance by the Commerce Commission. When the Commerce Commission signalled that the application would only succeed if Cavalier Wool acquired the assets of the Company rather than the shares owned by Plum Duff and Woolpak Holdings, the bid was made to the Wool Services Board rather than to the Receivers. The original application to the Commerce Commission was made in February 2011 and then altered in May 2011 to reflect the focus on an asset acquisition only.

<sup>6</sup> Based on net assets of \$34.679m less reported intangible asset value of \$6.165m.



- The Commerce Commission released its decision in June 2011, finding that although the acquisition would have the effect of substantially lessening competition in the wool scouring sector, the public benefits would outweigh the detriments arising from the loss of competition. Authorisation for the asset acquisition was therefore granted, but this was immediately appealed by Godfrey Hirst. Although the original Commerce Commission decision was eventually upheld (in a decision released in November 2011), Godfrey Hirst only notified that it had let any further appeal rights lapse on 22 December 2011.
- Various discussions took place between Cavalier Wool and the Board of Wool Services throughout the fourth quarter of 2011. As part of these discussions, the parties attempted to refine the practical implications of an asset purchase and the process by which the Wool Services Board could return the proceeds from the sale of the assets to the Company's shareholders. It was determined that the process would require the eventual liquidation of the Company (with associated costs), could give rise to some potential tax liabilities and a range of other issues, and the eventual proceeds per share implied by the offer for the assets was therefore subject to many uncertainties. The Board of Wool Services had also received legal advice suggesting that it would be inappropriate to enter into formal arrangements with any party while the Commerce Commission appeal process was outstanding.
- In order to bring matters to a conclusion, the Receivers re-engaged in April 2012 with all of the parties which had continued to express an interest in acquiring the shares owned by Plum Duff and Woolpak Holdings, including Lempriere. Given the continued interest by Cavalier Wool in the asset acquisition, the Receivers worked with the Wool Services Board to run another formal process by which to evaluate the bids and determine which potential transaction would provide all Wool Services shareholders with the best outcome.
- Following evaluation of the four indicative bids which were submitted, one party was excluded from the process because its bid price was significantly lower than the others. The remaining three bids were all viewed as being broadly equivalent when the differing terms and conditions were taken into account, and each party was therefore invited to reconsider their bids in a final submission.
- The Lempriere bid (formalised through WSIH) was ultimately determined to be the most compelling and its acceptance by the Receiver led to the execution of the pre-bid agreement. Not only was the Lempriere bid price per share consistent with the other bids, the Lempriere bid was also less conditional and was likely to be capable of quicker completion. In contrast, the price bid by Cavalier Wool for the Wool Services' assets was subject to a potential downwards adjustment (based on recorded NTA at settlement) and the overall transaction process was more involved and would take a longer time. Most importantly however, the Cavalier Wool transaction was conditional on receiving some shareholder approvals which may have been difficult to achieve.

Given the competitive and open nature of the sale process, we believe that all of the most likely potential purchasers of the Wool Services business were provided with the opportunity to make a well-informed bid. The Receiver can obviously also be described as a willing and well informed seller.

We therefore conclude that the transaction process has all of the attributes needed to view the Offer Price as being indicative of the market value per share for a 100% interest in Wool Services. Because the transaction related to a controlling interest in the Company, the transaction price directly includes allowance for an acquisition premium (if any) that the participants considered was appropriate in the circumstances.



## Appendix 1: Summary Profile of WSIH and Lempriere

WSIH is an entity associated with the privately owned wool merchant Lempriere, based in Melbourne, Australia.

Lempriere is a 150-year-old family-owned business, now in its 5th generation of stewardship, led by William Lempriere (Managing Director). Following the implementation in 2000 of a strategy to source wool globally, the business has become one of the world's largest wool merchants and processors, with operations having been established in Argentina, USA and South Africa. Since its establishment, Lempriere has sourced more than 1.8 billion kilograms of sheep wool.

Lempriere also owns specialist merino wool business The Merino Company, which was established in 2005. The Merino Company is a major supplier of fine wool to European, Japanese and American fashion houses (including the likes of Burberry, Austin Reed, Zegna, Cerruti and St. John Knits). The company has global capabilities, either owned or through select partners, in early stage processing, spinning, knitting, weaving and garment manufacture.

Further details on Lempriere can be found on its website: [www.lempriere.com.au](http://www.lempriere.com.au)



## Appendix 2: Offer Conditions and Possible Changes in Wool Services

Key conditions of WSIH's Offer are as follows:

- Acceptances being received by WSIH which will result in WSIH holding or controlling more than 50% of the total voting rights in Wool Services;
- WSIH receiving all consents required under the Overseas Investment Act 2005 and Overseas Investment Regulations 2005 for WSIH to acquire the shares in Wool Services under the Offer;
- WSIH receiving a certificate from APEX Environmental Limited ("**Apex**"), a consulting engineer appointed by Wool Services, confirming that Wool Services' wool scour based at Kaputone in Canterbury has been re-commissioned and is fully operational with all consents and approvals required by law in full force and effect;
- WSIH receiving a certificate from Apex confirming that the wastewater discharge levels at Wool Services' Kaputone wool scour are less than maximum levels previously agreed between WSIH and Apex;
- Between the date of the Takeover Notice (being 29 October 2012) and the date on which WSIH may declare the Offer unconditional:
  - No dividends, bonus issues or other distributions are declared or paid by Wool Services;
  - The business of Wool Services (including its subsidiaries) is carried on in the ordinary course;
  - Wool Services not undertaking any acquisition or disposal of businesses or assets for an amount in excess of \$100,000; and
  - There not being any material adverse change in the financial position, trading operations or assets of Wool Services, or any event occurring which may give rise to a material adverse change.

WSIH's Takeover Notice also contained details on the likelihood of changes in Wool Services if the Offer becomes unconditional. Subject to the outcome of a strategic review which WSIH intends to conduct, WSIH has indicated it has no present intention to make any material changes to Wool Services' business, except WSIH:

- Will seek appropriate board representation on the Wool Services board (and Wool Services subsidiaries);
- Intends to recommend to the Wool Services board that Wool Services cease all future dividend payments to shareholders (but reserving the right for such payments to be resumed at any time);
- Intends to review Wool Services' trade finance terms, which may result in changes to the capital structure of Wool Services; and
- Intends to utilise the Wool Services group to complement and contribute synergies to the existing businesses of Lempriere, apply established business practices of Lempriere to Wool Services, and to introduce proprietary technology, systems and process to the Wool Services group.



## Appendix 3: Regulatory Requirements and Scope of this Report

### Takeovers Code Requirements

The Takeovers Code, which came into effect on 1 July 2011, sets out rules governing the conduct of company takeovers in New Zealand. The provisions of the Takeovers Code apply to any company that is a "Code Company" (as defined in the Takeovers Code). Wool Services is a "Code Company" by virtue of it being listed on the NZAX and by having more than 50 shareholders.

The fundamental rule of the Takeovers Code is set out in Rule 6 and prevents any entity (together with its associates) from becoming the holder or controller of 20% or more of the voting rights in a "Code Company" other than via one of several courses of action prescribed in Rule 7 of the Takeovers Code.

Pursuant to Rule 7 of the Takeovers Code, a person may (among other exceptions) become the holder or controller of 20% or more of a Code Company "by an acquisition under a full offer". A "full offer" requires the offeror to make an offer for all the equity securities in the Code Company that it does not already own.

WSIH's Offer is a "full offer" for the purposes of the Takeovers Code. WSIH's Offer and the response by Wool Services to the Offer must comply with the provisions set out in the Takeovers Code. Rule 21 of the Takeovers Code requires the directors of Wool Services to obtain a report from an independent adviser on the merits of the Offer.

The exact meaning of the word "*merits*" is not prescribed in the Takeovers Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a takeover offer. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

### Basis of Assessment

Northington Partners has assessed the merits of WSIH's Offer by taking into account the following factors:

- Our estimate of the underlying value range of the ordinary shares in Wool Services (based on an assessment of the intrinsic value of the Company) and a comparison of our estimated value range with WSIH's Offer price;
- The market prices for Wool Services' shares prior to the announcement of the Offer, and the implied premium or discount that the Offer represents;
- The timing and circumstances surrounding WSIH's Offer;
- The prospects, attractiveness and risk profile of Wool Services and alternatives that may be available to the Company's shareholders to derive value from their investment;
- The likely market price and liquidity of Wool Services' shares in the absence of WSIH's Offer;
- The likelihood of WSIH increasing its Offer price or an alternative takeover offer being made by another party; and
- The impact of the Offer on the control position of Wool Services and the future rights and obligations of WSIH if the Offer is successful, including the consequences for non-accepting shareholders.



## Appendix 4: Comparable Transaction Data

A description of the transactions listed in Table 11 in Section 4.3.1 (together with some additional transactions) is set out below.

Date	Target	Target Domicile	Acquirer / Transaction	Description of Target	Implied EV (\$m)	EV / Revenue	EV / EBITDA
01-Jun-11	NZ Merino Company	NZ	Merino Grower Investments	Markets and distributes merino fibre	15		6.5x
11-Feb-11	PGG Wrightson	NZ	Agria	Rural services, livestock, real estate, and finance	655	0.6x	8.0x
15-Aug-10	AWB	Australia	Agrium	Rural services, financial services, and commodity management businesses	2,387	0.3x	
19-May-09	ABB Grain	Australia	Viterra	Grain handling and marketing, food processing, feed products, and financial services businesses	2,796	0.8x	15.3x
05-Oct-07	Hunter Grain	Australia	GrainCorp	Grain trading services	31	0.1x	
04-Apr-07	Dalewool	NZ	Wool Services	Wool scouring operations (Kaputone, Whakatu) and RDWM Wool marketing operations	10		4.4x
30-May-06	Wool Services	NZ	Woolpak Holdings acquisition of 19.85%	Processing, marketing, and selling New Zealand wool worldwide	40	0.5x	6.2x
04-Jul-05	Wrightson	NZ	PGG Wrightson	As of October 7, 2005, Wrightson Ltd. was acquired by PGG Wrightson	490	0.7x	12.1x
04-May-04	Wool Services	NZ	IPO	Processing, marketing, and selling New Zealand wool worldwide	53	0.4x	6.6x
<b>Average</b>						<b>0.5x</b>	<b>8.4x</b>

Source: Capital IQ, Company Announcements and Financials, Northington Partners' Analysis



## Appendix 5: Comparable Company Data

A summary description of the companies listed in Table 12 in Section 4.3.1 is set out below.

Company	Description	EV (\$m)	EV / Revenue	EV / EBITDA
<i>Australia &amp; New Zealand</i>				
GrainCorp	Integrated agribusiness	3,235	0.8x	9.5x
Elders	Selling and marketing various products to rural and related industries in Australia	612	0.2x	9.7x
Ruralco Holdings	Selling and marketing various products to rural and related industries in Australia	292	0.2x	6.1x
PGG Wrightson	Various products, services, and solutions to farmers, growers, and processors in the agricultural sector	393	0.3x	7.7x
Cavalier Corporation	Manufacture, sale, and export of broadloom carpets and carpet tiles	201	0.9x	12.9x
<b>ANZ Average</b>			<b>0.5x</b>	<b>9.2x</b>
<i>International</i>				
Archer Daniels Midland Company	Manufacture and sale of protein meal, vegetable oil, corn sweeteners, flour and biodiesel	32,977	0.3x	8.2x
Bunge	Agriculture and food businesses worldwide.	21,127	0.3x	11.2x
Agrium	Retail of agricultural products and services worldwide.	20,748	1.0x	5.9x
Viterra	Integrated agri-business company in Canada and internationally.	8,166	0.5x	8.6x
Chargeurs	Development, production, and marketing of surface protection products, technical fabrics, and raw materials	290	0.3x	7.1x
<b>International Average</b>			<b>0.5x</b>	<b>8.2x</b>
<b>Average</b>			<b>0.5x</b>	<b>8.7x</b>

Source: Capital IQ, Company Announcements and Financials, Northington Partners' Analysis





## Appendix 6: Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Annual reports for Wool Services for 2011 and 2012
- Audited financial statements for Wool Services for the period FY2008 to FY2012
- Wool Services' management budget for FY2013
- Discussions with senior management personnel of Wool Services
- The websites of Wool Services and Lempriere
- WSIH's Takeover Notice dated 29 October 2012
- Various other documents that we considered necessary for the purposes of our analysis



## Appendix 7: Declarations, Qualifications and Consents

### Declarations

This report is dated 22 November 2012 and has been prepared by Northington Partners at the request of the directors of Wool Services to fulfil the reporting requirements pursuant to Rule 21 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Wool Services for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of Wool Services (other than WSIH or any entity associated with WSIH) that are subject to the Offer, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

### Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

### Independence

Northington Partners has not been previously engaged on any matter by Wool Services or WSIH or (to the best of our knowledge) by any other party to the proposed transaction. None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the proposed Offer.

The preparation of this Rule 21 report will be Northington Partners' only involvement in relation to the Offer. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.



## Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by Wool Services. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

## Indemnity

Wool Services has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Wool Services has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.



