



LEADERSHIP, EXCELLENCE, INTEGRITY, SERVICE

Date: 11th March 2015

To: Phil Taylor

Subject: MergedCo plan to monitor costs and minimize productive efficiency losses

It is planned that the Merged Company will adopt the “best practice” methods of both current entities.

Cavalier Wool Holdings has a very developed reporting structure throughout its business. There are a number of productivity programs **[REDACTED]** and financial gains and CWH continually looks to improve its operating systems to reduce costs, ensure compliance with external requirements, and keep up with developments in China and other wool scouring nations.

Programs include;

- A robust Health and Safety system (both sites are tertiary ACC accredited).
- A structured reporting line through the various management roles.
- Independent assessment of staffing matters.
- Documented company procedures and policies (Board Approved).
- Independent financial and environmental audits.
- Minute by minute recording of every part of the factories' operation, including extensive camera systems.
- In house testing of wool samples to ensure quality of the scoured product is maintained.
- **[REDACTED]** for all staff members that are designed to improve quality and productivity. For the **[REDACTED]**
- Initiatives to improve wool grease recovery, reduce water use and improve waste management at both sites are ongoing.

Reporting Line

The scouring group has a well-defined reporting structure through the various management levels.

Reporting Structure
CEO
COO
Scour Manager
Production Managers
Shift Supervisors
Departmental Leading Hands

The productivity of each shift is monitored hour by hour and then reviewed by shift and by day. Both the COO and CEO receive daily KPI reports which are extensive. KPIs include: Run Rate, Down Time, Labour Utilization, Wool Grease Recovery, Power, Gas and Utilities usage. Run rates for example are monitored line by line, week by week and month by month, benchmarked against the previous year.

The COO writes a comprehensive weekly report to the CEO and the management team hold a weekly review meeting to discuss the previous week's KPIs. The weekly reports are then tabled as part of the monthly reporting package to the Board of Directors. A financial forecast is supplied to the Board by the CFO in week two of every month giving the Board a look at the previous month's performance. Management accounts and a comprehensive monthly report is supplied to the Board by the COO, CFO and CEO by the end of week three of every month.

Board meetings are held usually on the first Tuesday of each month. The reporting package to the Board includes:

- Update on H&S
- Minutes of previous meetings
- Action points arising from the previous meeting
- Full financial reports
- Comprehensive operational reports including KPIs (with a particular focus on run rates)
- Growth initiative progress as per Board approved projects
- Market intelligence and overview, including new innovations in technology
- Remuneration and policy updates

The business has for many years now adopted a Board directive of a "continuous improvement process" and now runs at world best practice standards. Each year there have been improvements made as technology changes and the understanding of the business improves. For example, in the year 2000, the HBWS scour lines were running at [REDACTED] gsy/kgs per hour and the business had [REDACTED]% downtime. Today the plants operate at over [REDACTED] gsy/kgs per hour and have a total downtime below [REDACTED]%. Work to improve run rates and the quality of the scouring product is ongoing. A small shift in run rate over a twelve month period can have a profound effect on the financial viability of the business. For example, Awatoto is sensitive to less than [REDACTED] gsy/kgs per hour shifts in run rate.

The scouring group is required to undertake market research to keep an eye on market trends and what our competitors are up to in terms of development, pricing etc.

- We [REDACTED] in China to give us regular [REDACTED] market. We generally commission these reports twice a year.
- CWH representatives have been attending the annual [REDACTED] each year allowing us to learn about the wool [REDACTED]. As part of this tour we generally try to [REDACTED] to gain further market intelligence.
- As CEO I travel to meet [REDACTED]. This is useful to gain an understanding of the worldwide [REDACTED]
- We subscribe to a number of industry newsletters and booklets that are published monthly to keep up to date with developments.
- I have [REDACTED] information with.

- A visit to China is being planned again this year. In September we will visit several leading wool scour and wool top manufacturing facilities to look at the newest effluent treatment systems and identify potential equipment for our sites in New Zealand.

We set out some examples of continuous improvement projects and KPI compliance monitoring below.

Wool grease recovery

Wool grease recovery is monitored on a daily bases through the Daily KPIs. Recovery rates are monitored daily, weekly and monthly as a percentage of greasy wool volume for each month and year to date.

CWS wool grease recovery

[REDACTED]

CWS wool grease recovery	%	Lanolin KG's
2009/2010	[REDACTED]	[REDACTED]
2010/2011	[REDACTED]	[REDACTED]
2011/2012	[REDACTED]	[REDACTED]
2012/2013	[REDACTED]	[REDACTED]
2013/2014	[REDACTED]	[REDACTED]

For benchmarking purposes, for the full year, CWS is [REDACTED]%, well ahead of Kaputone ([REDACTED]%). The total South Island recovery of wool grease was [REDACTED]%. CWS experienced a wool mix change which resulted in [REDACTED] processed as a % of total wool mix, as well as a drop off in volume which has impacted the tonnage of wool grease recovered.

Overall, the South Island volume in June was down on June 2013, by [REDACTED] tonnes or [REDACTED] bales. Full year South Island volume is [REDACTED]% behind LY which equates to [REDACTED]t or [REDACTED] bales.

HBWS wool grease recovery

Awatoto Wool grease recovery was [REDACTED]% for the 2013/14 year, against [REDACTED]% in 2012/13. The North Island recovery was [REDACTED]% against [REDACTED]% in 2012/13. Awatoto has gained recovery whilst the North Island recovery has dropped.

Full year North Island volume is [REDACTED]% behind LY which equates to [REDACTED]t or [REDACTED] bales.

Wool grease recovery improvement projects

Continuous process control improvements and equipment performance have been the major contributors to the wool grease recovery this year at both sites.

We undertook a trial of a [REDACTED], which has now concluded. [REDACTED] It was decided to abandon further trials. Trial costs were \$[REDACTED].

An [REDACTED] project has continued throughout 2013/14 with more site trials undertaken. To date progress has been slow with [REDACTED] Project costs are \$[REDACTED] to date.

We ran several [REDACTED] trials [REDACTED] The lease costs were \$[REDACTED]. We have decided [REDACTED]

Several [REDACTED] trials were run at Awatoto during the first half of the 2013/14 year. These included [REDACTED]

Water use

Water Use – CWS

June 14 FY [REDACTED] ltrs / kg wool

June 13 FY [REDACTED] ltrs / kg wool

Water efficiency for both years is well under the [REDACTED] ltrs / kg wool.

Water intake has been controlled throughout the year, and continuously metered, with daily readings taken and recorded. There have been no excessive water usages or spills.

Water Use HBWS

June 14 FY [REDACTED] ltrs / kg wool

Water use continues to be closely monitored and reported continuously. Each day KPI reports are prepared and distributed to Management, including water use. Weekly and monthly reports also include water use. [REDACTED]

The hot washing part of the process is recycled [REDACTED] and heat exchanges at both sites. This is the most efficient hot water and heat recovery system in use at any wool scour worldwide. Below is an example of the level of instrumentation and control in place:

[REDACTED]

Energy Management

CWS

We entered into a HOA in 2012 with [REDACTED], which was extended until December 2014. Initial costings for [REDACTED]

Electricity efficiency improved from [REDACTED] kg/kwh in 2011/12 to [REDACTED] kg/kwh in 2012/13. The 2013/14 result has maintained [REDACTED] kg/kwh. This is despite [REDACTED] in 2013/14 ([REDACTED]% vs [REDACTED]% in 2012/13), [REDACTED]

HBWS

Energy Management has been improved with the addition of [REDACTED]

[REDACTED]

Energy use is an important KPI and is reported continuously at both sites to management and the board. Continuous improvements are ongoing, including higher output motors which are more efficient when replacing old motors, squeeze roller lapping replacement at regular intervals, replacing old lighting with more energy efficient options and ongoing monitoring and maintenance of electrical systems.

[REDACTED]

[REDACTED]

[REDACTED]

Solar energy project

As a result of a fact finding visit to major solar equipment manufacturers in China in September 2013, we have commenced work with [REDACTED] Napier is more favourable as the Hawkes Bay has more sunlight hours than Timaru. This is a work in progress.

Historical and ongoing projects of enhancement for energy efficiency

In 2009, an [REDACTED] unit was installed for the 2.4 metre scouring plant at Timaru. Prior to the installation of the [REDACTED] unit on the 2.4m switch board the [REDACTED] were [REDACTED] amps, with the [REDACTED] unit [REDACTED] have dropped to [REDACTED] amps, a saving of [REDACTED]Kwh per hour when the 2.4m scour is in operation.

[REDACTED] up to the required temperature using a heat exchanger & modulating valves & steam, only heating the water being used, thus making a huge energy saving.

In the store, florescent lighting is being progressively changed from 400w metal halide to 212w T5 fittings. Savings are around 50% per fitting.

Motors are being replaced as they fail with energy efficient motors – Weg high efficient motors, with direct savings of around 12%.

Other areas we are looking at improving on are VSD's on motors that run nonstop, so they can be managed to go to sleep when running idle i.e. HD presses hydraulic pumps, sleeping between cycles / bales, SWP's between paused cycles, stopping the motors, Decotters, air compressors on full automated pressure sensor to demand via VSD. Savings could be at least 20%, mainly coming from the times that the air system is up to pressure.

Waste Management

Good progress has been made at Timaru with compliance against new trade waste limits set by the Council. A combination of tight management of plant operations, equipment and process upgrades and improved benchmarked wool grease recovery are the main factors in trade waste compliance. There have been no compliance issues with either the NCC or TDC over the 2013/14 year.

Waste Streams

Types & quantities of waste recovered for reuse

All group conventional greasy packs are recovered, and recycled. The packs are weighed and recorded through our accounting system. In total, the group washed [REDACTED] bales in 2014 (each bale has one pack), and in the 2013 year washed [REDACTED] bales.

Recycled straps (used straps) are cut up and sold as scrap metal as part of our combined loads of scrap.

All opener dirt, the waste from under the openers [REDACTED] machine more regularly.

General rubbish is disposed of to landfill and these movements are monitored monthly. All ash from the boilers is sent back to the mine for burial.

Effluent flow down is monitored and recorded daily and monitored and tested externally by the both the Napier City Council and the Timaru District Council.

There are currently no tonnages of waste burned internally for energy recovery. However, the [REDACTED] has run a trial of greasy opener waste as a fuel for their coal fired boiler. There remains an opportunity to re-use waste from our site to help fuel an additional EFI boiler.

Waste and rubbish disposal expense

Timaru waste tracking

Timaru FY 2014 is under budget by \$[REDACTED], and \$[REDACTED] less than FY 2013.

In the 2012/13 year, [REDACTED] kg of dry waste was sent for composting from Timaru. In the 2013/14 year, [REDACTED] kg of dry waste was sent for composting. There were also 5 trial containers sent to [REDACTED] ([REDACTED] kg).

We were able to sell a container of the recovered dirt to [REDACTED] and shipped it to them for a trial. We await results of their trial and hope that this will lead to an ongoing outlet for the waste stream.

The resulting additional [REDACTED] from the [REDACTED] has been able to be re processed through the [REDACTED]. For the year 2012/13 [REDACTED] weight was [REDACTED] kg or [REDACTED]% of total volume, and in 2013/14 the [REDACTED] weight was [REDACTED] kg or [REDACTED]% of total volume.

Deep burial for [REDACTED] ash disposal costs are also included in rubbish / waste costs.

Awatoto waste tracking

Awatoto rubbish and waste disposal FY2014 is under budget by \$[REDACTED], and \$[REDACTED] less than FY 2013.

In the 2012/13 year, [REDACTED]kg of recovered fibre was re-used in processing, and [REDACTED]kg of waste was recycled to compost. In the 2013/14 year, [REDACTED]kg was re-used, and [REDACTED]kg composted. This is despite a [REDACTED]t reduction in wool volume for the year.

Below are graphs of the Awatoto waste tracking programme, and they show good progress for waste reduction in the 2013/14 year, despite [REDACTED] reducing the amount of recovered dirt they have been able to take due to a new facility being built.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Product Testing Records

Regular testing is undertaken of scouring product. Group scouring process reporting is driven by printed instructions generated from our scouring programs [REDACTED]

These instructions contain all the processing rules for each scourment which reflect our customers' requirements. Compliance with these instructions is by review of the results by a number of staff both during and post scouring.

The results for each scourment are recorded in [REDACTED] and collated into a "Test House Variance Report" which is analysed by senior management continually.

Customer complaints and feedback are managed daily by the CEO, COO, Client Manager, Scour Manager and the General Manager. A register of customer issues is kept in a spreadsheet.

The Environmental Choice scoured wool must meet the following limits:

- Residual grease on the scoured wool must not exceed 0.3% by weight
- Ash on the scoured wool must be less than 1% by weight
- Delta Y (dY) should not exceed a level of 4 (for crossbred wools)

Any non-conforming results are managed by retesting and reworking if they are outside the maximum tolerance.

Group Projects of Enhancement during the year:

As an example of continuing upgrades undertaken by CWH, the following upgrade projects have been completed during the previous year.

- A [REDACTED] unit was installed at the Timaru 3 metre sorting floor which has [REDACTED]. Cost \$[REDACTED].
- In addition, a [REDACTED] was done at Timaru to [REDACTED] Cost \$[REDACTED].
- At Awatoto, CAPEX was committed to [REDACTED]. Cost \$[REDACTED].
- The major Awatoto upgrade for the year was a [REDACTED]. Cost \$[REDACTED].
- In addition, plant enhancements at both sites for the year were included in the annual maintenance shutdown. Total CAPEX committed across both sites was \$[REDACTED].

Staff monitoring and bonus incentives

The factory staff all participate in a collective bonus system which is designed to drive continuous improvement and better than budget performances. The bonus system is regularly reviewed and can viewed on a daily basis by the staff so they know at all times how they are doing throughout the week – generally the staff can earn another \$[REDACTED] to \$[REDACTED] per hour from the productivity bonus.

[REDACTED] The specific levels of this bonus scheme are set out in the following report from David McLeod from Employment Relations (HB) Limited.

We have also included an example of an absence report, which is generated weekly.

Report from David McLeod – Employment Relations (HB) Limited

Further to the meeting on Wednesday [REDACTED] I have conducted a thorough review of the CWS information and [REDACTED]

It would be helpful if I could be sent the actual rules for the production and supervisors bonus at CWS. Please review and amend as you see fit.

Scour Supervisor	Core	Bonus	Bonus	Overall Effecti
Core Rate	[\$REDACTED]			
Production Bonus		[\$REDACTED]*		
Supervisor Bonus		[\$REDACTED]*		
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

* Bonus payments based on annualized effective rate.

Press Leading Hand	Core	Bonus	Premium	Overall Effecti
Core Rate	[\$REDACTED]			
Production Bonus		[\$REDACTED]*		
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

* Bonus payments based on annualized effective rate.

Sorter Leading Hand	Core	Bonus	Premium	Overall Effect
Core Rate	[\$REDACTED]			
Production Bonus		[\$REDACTED]*		
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

* Bonus payments based on annualized effective rate.

Sorter	Core	Bonus	Premium	Overall Effecti
Core Rate	[\$REDACTED]			
Production Bonus		[\$REDACTED]*		
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

* Bonus payments based on annualized effective rate.

Presser	Core	Bonus	Premium	Overall Effecti
Core Rate	[\$REDACTED]			
Production Bonus		[\$REDACTED]*		
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

* Bonus payments based on annualized effective rate.

Stores	Core	Bonus	Premium	Overall Effecti
Core Rate	[\$REDACTED]			
Level #1 (no experience)			[\$REDACTED]	[\$REDACTED]
Level #2 (limited experience)			[\$REDACTED]	[\$REDACTED]
Level #3 (Good experience)			[\$REDACTED]	[\$REDACTED]
Level #4 (Advanced experience)			[\$REDACTED]	[\$REDACTED]
Level #5 (Superior experience)			[\$REDACTED]	[\$REDACTED]

Please contact the writer if I can be of further assistance.



David McLeod

 Employment Relations (HB) Ltd

Tel 06 835 4573
 Fax 06 835 4753
 Cell 0275 335 790
 PO Box 302 Napier

Example of Hawkes Bay Wool Scourers' Absence Report

HBWS Absence Report	January 2015	Date: 7 Feb 15	Week: 5
Number of Days this Week: [REDACTED]	Average MTD: [REDACTED]%	ACC:	David McLeod

Overview: No staff were absent this week and no company funded ACC absence occurred this week. The month to date average is [REDACTED]% across all staff. This concludes January.

By Individual Staff Member:

[REDACTED]

Year to Date Absence:

[REDACTED]

Summary

CWH has a well-developed reporting and incentive system which supplies accurate and up-to-date information to the Board of Directors in a regular and timely basis.

The CWH Board of Directors take a very active role in maintaining and overseeing the business with 11 Board meetings planned for the 2014/15 year. The reporting structure to the Board is designed to ensure that A) the Board is fully informed about past events and B) that it is able to make informed plans to improve the business and its future prospects.

Due to our extensive and regular market research done in China, as business managers we are acutely aware of the serious threat that China poses to the CWH business. As identified in my report **[REDACTED]** the Chinese wool scourers continue to invest heavily in new technology and processing systems. A world leading scour builder now works out of China and is building world class equipment in China for the Chinese and international Market. Other emerging textile nations such as Vietnam, Malaysia and Myanmar pose as equally a high threat going forward.

CWH will continue to innovate, find ways to improve productivity and lower costs following the merger, particularly because the tipping point towards more greasy wool exports to be scoured in China and other countries is so low. Further, innovations and improvements are often necessary to comply with external requirements, such as trade waste rules.

N Hales
Chief Executive Officer
Cavalier Wool Holdings Ltd