

Appendix I

ADVICE TO GROW THE RURAL SECTOR



Tuesday, 10 May 2011

Mr Derek Kirke
Chairman
NZ Wool Services International Ltd

Dear Derek,

The New Zealand Sheep and Wool Production

This report is being prepared as an expert for your company in accordance with the High Court Rules. I would provide the same report for any party requesting it.

The request was to provide an independent report on the future of sheep numbers and therefore wool production in New Zealand.

My qualifications and background in preparing this report are:

- Registered Farm Management Consultant
- 15 years experience as an advisor to sheep and beef farm businesses.
- 15 years experience in facilitating industry lead tech transfer programs for sheep farmers.
- Over the 15 years of farm consultant experience I have also completed approximately 7 years of monitoring sheep and beef productive and financial trends through the annual MAF Farm Monitoring Survey.

The report is to provide a projection on the likely rise or fall in sheep numbers (and accordingly wool production) for the next five years. I have based my analysis on gross margin comparisons of returns for sheep in 2008 compared with returns for sheep in the 2010/2011 farming seasons.

With recent significant increases in sheep returns (both meat and wool) we expect at the very least for sheep numbers nationally to stabilise at current levels. There will continue to be some land use changes in down country districts where further intensification is economic. This may result in a drop in ewe numbers from these areas but we see ewe flock numbers increasing on rolling to hill country sheep and beef breeding properties. We expect the net result being stabilised sheep numbers at worst if not an increase in sheep numbers. This forecast trend is supported by Beef+Lamb New Zealand statistics shown below:

Table 1: LIVESTOCK NUMBERS SUMMARY

	30 June 2009 (million)	30 June 2010e (million)	% change
Breeding ewes	22.17	22.04	-0.6
Hoggets	9.14	10.10	10.4
Total sheep	32.38	33.20	2.5

e = estimate

Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

The figures above show a 2.5% increase in overall sheep numbers in 2010. The 10.4% increase in hogget numbers is particularly significant as it indicates a rebuilding of the national ewe flock. This trend is likely to be further repeated in the short to medium term due to the significant increase in sheep returns. Sheep returns increased at least 60% from 2008 to 2011(see gross margins attached). The forecast for lamb and wool returns continues to be positive due to the increasing global demand for protein.

I confirm that this information may be used as the basis establishing an accurate picture of sheep number trends going forward.

Yours faithfully,

Nicky Hyslop
B.Ag.Sci. (Hons) (Rural Valuation)
Registered Farm Management Consultant
Macfarlane Rural Business

News Article

NZ - Sheep and dairy cattle numbers increase slightly

Date: 12/5/2011

Sheep and dairy cattle numbers showed small increases in 2010 while deer numbers were stable and beef cattle numbers decreased, Statistics New Zealand said today. These are final results from the 2010 Agricultural Production Survey.

Favourable weather conditions with no major lambing losses helped the national sheep flock register a small increase in 2010. The national flock had 32.6 million sheep, 180,000 more than in 2009. This increase follows drought-affected losses of 1.7 million in 2009 and 4.4 million in 2008. The increase in 2010 occurred in the South Island, which had a total of 16.5 million sheep. The North Island number was stable, at 16 million.

The lambing percentage was 127 percent in the year ended 30 June 2010, after recovering from the two previous years. This level was last recorded in 2006.

Between 2009 and 2010 the national dairy herd increased by 50,000 to 5.9 million. In 2009, the dairy herd had increased by 280,000, and in 2008 by 320,000.

"The 2010 increase occurred in the North Island, which had close to 3.9 million dairy cattle in 2010. Unlike in recent years, the South Island number did not increase in 2010, remaining at 2.1 million," agriculture statistics manager Hamish Hill said.

Beef cattle numbered 3.9 million, down 4 percent since 2009. The number of deer was stable, at 1.1 million. The North Island is home to over 70 percent of all beef animals, while deer farming is concentrated in the lower South Island.

The area of exotic forest harvested increased by 9 percent, to 43,800 hectares, during the year ended 31 March 2010. This increase was driven by the strong international demand for New Zealand logs. Over 70 percent was harvested in the North Island - mainly in the Bay of Plenty, Waikato, and Northland regions.

The agricultural sector, including horticulture, accounts for two-thirds of merchandise exports. The 2010 survey was a sample survey of livestock and arable farmers, and foresters. It was conducted in partnership with the Ministry of Agriculture and Forestry.

Geoff Bascand
Government Statistician

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SCOURING VOLUMES AT WHAKATU AND KAPUTONE

Over the past two years the commission scouring business of NZWSI has materially increased. Set out below are the comparative figures for Whakatu and Kaputone in Kgs.

	Whakatu	%	Kaputone	%
2008/2009				
Commission	235,327	1.14%	1,703,312	9%
NZWSI	20,418,784	98.86%	18,699,295	91%
2009/2010				
Commission	2,693,436	10.2%	4,136,592	17%
For NZWSI	23,713,538	89.8%	20,977,633	83%
2010/2011	(to 30/4/2011)		(to 31/3/2011)	
Commission	3,151,596	13.30%	6,055,241 ¹	25%
NZWSI	20,535,798	86.70%	17,903,280	75%

Note 1: This volume does not include any wool scoured for Godfrey Hirst on commission as no wool is scoured under contract for Godfrey Hirst.



Christchurch, 17th of May 17, 2011

To Whom It May Concern:

I have been asked to comment on the relevance of Colour Testing of Scoured Wool.

Most of our customers, when contracting with us for wool supply would stipulate a maximum Y-Z reading.

In addition to this, some customers will also stipulate a minimum Y value, to ensure the brightness of the product is good.

Both these parameters are of importance to us, but the over-riding parameter in most cases would be the Y-Z value.

Best Regards,

A handwritten signature in black ink, appearing to read 'Palle Petersen', written over a horizontal line.

Palle Petersen
General Manager

Appendix ✓



17/05/2011

Dear Michael,

In answer to your question regarding colour measurement and in particular the importance of the Y factor in relation to commercial contracts I would point out the following:

In the majority, meaning 95% of our business, the Y factor is not mentioned in isolation, only the Y minus Z.

While we understand that you can try to use lower Y values and improve them with excessive opening we have found that this leads to fibre degeneration which in turn leads to customer dissatisfaction due to the poorer HB result achieved. This factor is far more important to our customer who is trying to maximise machine results to give him improved yarn yields.

Indeed I would go so far as to say that the Y factor has never been asked for in isolation so as a trading tool it is meaningless on its own.

Best regards

Peter

63 Mandeville Street, P.O. Box 8332, Christchurch 8440, New Zealand
Telephone: (64) 3 341 2004, Fax: (64) 3 341 6538,
e-mail: info@joma.co.nz website: www.joma.co.nz



18/05/11

Mr David Stock,
PO BOX 29443,
Fendalton,
Christchurch.

Dear David,
New Information.

Right at the end of Wednesday's session of the Commerce Commission Conference covering possible quality improvements, new information was presented by Godfrey Hirst and NZWSI concerning changes to the blend composition at Whakatu over the last five years. These two parties claimed that over the last five years, NZWSI blends scoured at Whakatu have utilized progressively poorer wools as the company has expanded its business in India.

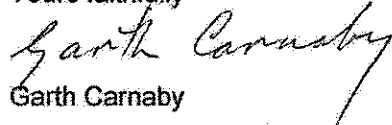
If this claim is supported by factual evidence of changing blend specification such as a higher use of oddments etc, then it has a bearing on the claim by Cavalier that the blends scoured at its plant have not changed over a ten year period. Since most of the wool produced in the North Island is scoured in one or other of these two plants, the claims are mutually incompatible.

The bottom line in Figure 1 of the Ben Gully submission of 28th March 2011 shows that the average colour of NI wool has not changed significantly over the last ten years. If NZWSI has been selecting and supplying to its scour, NI wool of decreasing base Y value, the converse would have to apply to Cavalier's input wool, unless it could be established that there had been a very large lift in the export of good colour wools in the unscoured state from the NI. The top line in Figure 1 may just reflect slight improvements in the wool being scoured, rather than be due to any change in scouring methodology by Cavalier.

In my first submission I cautioned against inferring causality from the data available. I specifically referred to the risk that the claimed Base Y improvement, if real, could be just due to selection of a whiter subset of NI wools by Cavalier. The new information in my opinion strengthens the need for caution and strongly mitigates against drawing the conclusion that the changes in scouring practice described by Cavalier have had any material affect on Base Y outcomes.

It remains my opinion that no evidence has been presented to support the claim that either of the Cavalier scours would produce a higher Base Y value than either of the NZWSI scours as they are currently configured, should the same parcel of wool be divided and processed separately on each. Accordingly it remains my opinion, now supported by this new evidence, that there is no evidence before the Commission to support the claim that reconfiguration of the NZWSI scours in the manner suggested would result in any Base Y improvements.

Yours faithfully


Garth Carnaby

**NZ WOOL EXPORTS TO CHINA BY MICRON GROUPS
(IN CLEAN TONNES)**

	24 - Finer FINE	25 - 31 MEDIUM	32 - 35 FINE (XBD)	35 + STR ST 4 (XBD)	TOTAL
2010 - 28 February 2011 % of Total	3,549 12.8	3,497 12.6	14,110 51.0	6,534 23.6	27,690
2009/2010 % of Total	4,587 9.9	8,240 17.8	20,742 44.8	12,714 27.5	46,283
2008/2009 % of Total	3,696 8.9	15,240 36.7	13,027 31.4	9,521 23.0	41,484
2007/2008 % of Total	2,337 6.3	10,782 28.9	12,467 33.5	11,658 31.3	37,245
2006/2007 % of Total	2,660 8.0	11,821 35.4	10,095 30.3	8,785 26.3	33,361

SOURCE: MEAT AND WOOL ECONOMIC SERVICE (BEEF AND LAMB)

STATEMENT of GRAEME JOHN HORSLEY OF Tauranga, Registered Valuer and Company Director.

- 1 My experience is set out in the annexed statement.
- 2 I am familiar with the Code of Conduct for Expert Witnesses contained in Schedule 4 of the High Court Rules and agree to comply with it.
- 3 This Statement is within my area of expertise.

BACKGROUND INFORMATION

- 4 As background information I have been supplied with and have reviewed the Draft Determination (Public Version) of the application of a business acquisition involving CAVALIER WOOL HOLDINGS LIMITED and NEW ZEALAND WOOL SERVICES INTERNATIONAL LIMITED along with various papers which related to valuations of NZWSI's two scouring plant properties.

SCOPE AND STRUCTURE OF THIS STATEMENT

- 5 In this Statement I review the valuation concepts and methodology as I understand to have been considered by the Commission at paragraphs 200 to 208 of the Draft Determination.

VALUATION CONCEPTS AND METHODOLOGY

- 6 The scouring plants are in valuation terminology referred to as *specialised property* defined¹ as property that is rarely, if ever, sold in the market except by way of a sale of the business or entity of which it is a part, due to uniqueness arising from its specialised nature and design, its configuration, size, location, or otherwise. The valuation approach is defined as a *non-market value* and generally follows an application of the *depreciated replacement cost* approach when assessing the value of specialised assets for financial reporting purposes.
- 7 Under International Financial Reporting Standards specialised trading property may be carried on an entity's balance sheet at either cost (as in 6 above) or at *fair value*. Fair value may be assessed on a going-concern basis reflecting specific assumptions regarding the prospective cash flow to the property or business and always assuming the assets remain operational.
- 8 These approaches differ materially from an approach which was to consider the business has having ceased to operate from the property i.e. where a specialised property has become redundant and the valuation will reflect the highest and best alternative use.
- 9 Market based valuations must determine the highest and best use, or most probable use, of the property asset where, in this instance, the vacant possession in highest and best alternative use

¹ PINZ & API Professional Practice – General Valuation Concepts and Principles

is further limited through the lodging of a restrictive covenant preventing any use of the property for wool scouring and or processing. Such an approach effectively negates any value in the improvements and is further impacted by, in all probability, significant restitution costs.

VALUATION OF SURPLUS LAND AND BUILDINGS

10 The application of a restrictive use covenant is not unusual and is generally used to prevent or limit competition from an alternative operator. I have seen it applied in the following circumstances:

- i.* Sale of a service station by a chain operator
- ii.* Sale of a super market where the operator has relocated elsewhere in the catchment area
- iii.* Closure of a natural resource where it is environmentally beneficial for the land to be used in an alternative manner
- iv.* Relocation of a commercial airport where the existing airport was restricted to non-commercial traffic only

11 There are also numerous examples of specialised property realised for alternative uses, regional hospitals, schools, abattoirs, gas works etc where the value in alternative use reflected both the highest and best alternative use along with the sometimes substantial restitution costs faced in demolishing the improvements and rectifying any ground contamination.

12 I am aware of instances where the specialised property once it ceased to be used as such had a negative value such was the cost faced in bringing the land to an alternative use.

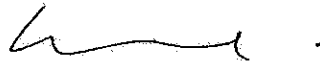
CONCLUSION

13 In my opinion it is most improbable that the Commission's conclusion at para. 205 is correct.

14 While I am not privy to the valuations referred to in the Commission's draft determination I believe the valuation of \$8.792 million is the fair value (going concern) of the land and buildings as a component of the overall scouring and processing plants.

15 As such the valuations do not assume an alternative use and thus over state the value of the land and buildings assuming vacant possession and subject to a restrictive covenant as to use.

16 By how much I cannot say but I suspect, from experience, that the post acquisition value is significantly over stated and as I noted in 12 above the resultant alternative use value could possibly be a negative amount.



G J Horsley

12 May 2011

BACKGROUND G J HORSLEY

- 1 Until 30 June 2004, I was a partner with Ernst & Young and National Director of the Ernst & Young Real Estate Group. I have 40 years' experience in urban property valuation. I am a Life Fellow and past President of the New Zealand Institute of Valuers (NZIV). For 12 years, I was the NZIV representative on the International Valuation Standards Committee (IVSC). I was chairman between 1989 and 1993. I am an Eminent Fellow of the Royal Institution of Chartered Surveyors (FRICS) and an Accredited Fellow of the Institute of Directors (AFInstD).
- 2 I was appointed a Member of the New Zealand Order of Merit (MNZM) for services to the valuation profession in the New Year Honours 2009.
- 3 My particular expertise is providing litigation support in the valuation of highly specialised assets. For 20 years, I have been actively involved in the preparation of valuation practice standards. I have written and presented many papers on valuation issues, including papers to the World Bank in Washington DC and to the World Bank Privatisation Conference held in Wellington in 1996.
- 4 I am an independent director of the AMP New Zealand Limited and the Vital Healthcare Properties Trust. I am chair of Ngati Whatao o Orakei Corporation Limited, a director of Trust Investments Management Limited and Willis Bond Capital Limited. I was a government appointed director and deputy chair to the Bay of Plenty District Health Board between 2001 and 2009 and an independent member of the Ministry of Education Governance Board – School Property between 2007 and 2010.
- 5 In December 2006, I was appointed a panel member of the Local Government Rates Inquiry by the Minister of Local Government. In November 2007, I was appointed an additional member of the High Court pursuant to section 3 of the Land Valuation Proceedings Act 1948.

Appendix X

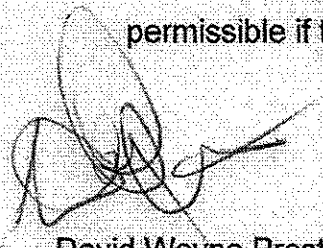
STATEMENT FROM DAVID WAYNE PRESTON IN RESPECT OF APPROPRIATE VALUATION METHODOLOGY OF LAND AND BUILDINGS OWNED BY KAPUTONE WOOL SCOUR (1994) LIMITED AND WHAKATU WOOL SCOUR LIMITED

1. My full name is David Wayne Preston. I am a Property Consultant and Advisor with over 40 years of continuous practice in valuation and property advisory services. I have held Associate Membership of the Australian Institute of Valuers and the New Zealand Institute of Valuers (now the Property Institute)
2. While now in sole practice I was formerly a shareholder and Director of the major property consulting and management company (Keys, Preston Maskell and Co) before becoming a Partner in the property division of Ernst and Young following merger with that firm. I have a wide ranging experience of differing property and building types and uses both in New Zealand and internationally.
3. I am providing this statement as an expert under the High Court Rules fully independent of any other party who may be involved with the subject properties.
4. I have not inspected the buildings and have no specific knowledge of them and accordingly this statement is based on the assumptions set out below. These assumptions are central to the opinion I have expressed in this statement as to the appropriate valuation methodology and must be read in conjunction with it.
5. The assumptions behind my opinion are
 - The buildings were purpose built for use as wool scours and associated storage and are likely to require modification/ adaptation for any other use.
 - It is proposed that the buildings be sold without the benefit of any existing tenancy or user and with a specific restrictive covenant preventing their ongoing use for wool scouring and associated storage.
 - The properties are to be offered on the open market with potential purchasers to satisfy themselves as to the appropriate adaptive reuse of the properties and the costs, if any, associated with conversion or modification to such use.

6. There is no doubt in my opinion that the properties are likely to have a different value if assessed for sale on the basis of a going concern as wool scours and associated storage than would be the case if the Valuer, or prospective purchaser, were to assess the value on the basis of vacant possession with recognition of the proposed restrictive covenant.

7. In assessing the value on the basis of vacant possession a Valuer or potential purchaser would need to look beyond the uses to which the properties may have been put had the restrictive covenant not been imposed and of necessity factor in the costs associated to adaptation to an alternative use to which the properties may be put to meets the needs of the market.

8. In my opinion the appropriate method of valuation having regard to the assumptions stated above is Vacant Possession and in arriving at a value the Valuer, or prospective purchaser, should be expected to allow for costs associated with adaptation to allow the properties to be used for other than for wool scouring purposes. Indeed no cognisance can be placed on the former use as that is not permissible if the restrictive covenant is in place.



David Wayne Preston

12 May 2011

NZWSI Capacity Utilisation 2010

