



## New Zealand Wool Services International Limited

### INDEPENDENT ADVISER'S REPORT

Prepared by

**GRANT SAMUEL & ASSOCIATES LIMITED**  
Auckland : Sydney : Melbourne

23 November 2001

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## 1 Proposed Transaction

Hellaby Holdings Limited ("Hellaby") is the holder of 59.2% of the issued o New Zealand Wool Services International Limited ("NZWSI"). Hellaby has from Forresters (New Zealand) Limited ("Forresters") on behalf of Mr Alan 28,529,587 ordinary shares in NZWSI from its shareholding (the "Forresters equivalent to 39.2% of the capital of NZWSI. The offer is the result of priva between Hellaby and Forresters over the past several months. If successful t NZWSI shares by Forresters will take the total shareholding of interests asso Hubbard to 43.4%.

The price offered by Forresters is 37 cents per NZWSI share with final settle 21 December 2001. Forresters paid a \$100,000 deposit on 2 November 2991 consideration of \$10,555,947, Hellaby will provide an interest bearing vend \$6,115,947 to Forresters for a one year term, but with Forresters having the r loan at any time without penalty. The principal amount of the loan and accru secured by a first mortgage over 19,455,000 NZWSI shares held by Forreste unconditional guarantee from Mr Hubbard and Mrs M J Hubbard.

Other relevant terms and conditions of the Forresters Purchase are:

- the transaction is conditional upon the approval of NZWSI shareholders i no later than 20 December 2001;
- the transaction is conditional upon the approval of the directors of Hellab been satisfied;
- both Hellaby and Forresters agree to use their best endeavours to ensure t maintains its existing dividend policy (as long as it is consistent with pruden management and does not jeopardise the balance sheet or cash flow position
- Hellaby undertakes to use its best endeavours to support the appointment representatives to the NZWSI Board of Directors;
- Forresters agrees to vote in favour of the continued appointment of David Managing Director of Hellaby as a director of NZWSI as long as Hellaby co

least 20% of NZWSI's issued shares;

- Hellaby undertakes to procure the immediate resignation of David Houlds Hellaby's shareholding in NZWSI fall below the 20% threshold;
  - Forresters and Hellaby agree to assist each other to enable NZWSI to be consistent with maximising its performance, profits and returns to its shareh
  - if Hellaby wishes at any time to sell all or part of its remaining shareholdi required to first offer the shares to Forresters who have 15 days in which to price is to be determined between both parties but can be no less than 37 cen
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## **2 Scope of the Report**

### **2.1 Requirement of the Takeovers Code**

The Takeovers Code came into effect on 1 July 2001, replacing the Exchange Listing Rules and the Companies Amendment Act 1963 governing the conduct of company takeover activity in New Zealand. The Code seeks to ensure that all shareholders are treated equally and disclosures are able to make informed decisions on shareholding transactions and their impact on their own holdings.

NZWSI is subject to the Takeovers Code as it has more than 50 shareholders and more than \$20 million in assets. Under the Code, an offeror seeking to acquire a shareholding in a Code company to 20% or more is normally required to make a partial offer to all shareholders conditional on the offeror receiving more than 50% of the target company's voting rights. Rule 7(c) of the Code provides an exception to this requirement. It allows an offeror to acquire existing shareholdings totalling less than 50% of a Code company's total voting securities if the acquisition is approved by the target company shareholders in a general meeting. The notice of meeting and the resolution to be voted on must contain (inter alia) a report (or reports) from an independent adviser on the merits of the proposed acquisition and the interests of the shareholders entitled to vote to approve the acquisition.

### **2.2 Purpose of the Report**

The proposed acquisition of a 39.16% holding in NZWSI by Forrester, a major shareholder, Hellaby, constitutes a compliance option under Rule 7 of the Takeovers Code. Accordingly, the Directors of NZWSI not associated with Forrester (the "Independent Directors") have engaged Grant Samuel & Associates ("Grant Samuel") to prepare the Independent Adviser's Report required by the Takeovers Code setting out an assessment of the merits of the proposed acquisition having regard to the interests of those NZWSI shareholders who are not associated with Forrester on the proposal. Grant Samuel is independent of NZWSI, Forrester has no involvement with, or interest in, the proposed acquisition of NZWSI by Forrester from Hellaby.

Grant Samuel has been approved by the Takeovers Panel to prepare Adviser's Report. The report is for the benefit of holders of NZWSI Hellaby, Forresters and their associated persons). The report should have no purpose other than as an expression of Grant Samuel's opinion as to whether the Forrester's acquisition having regard to the interests of NZWSI shareholders should be approved or not.

### 2.3 Basis of Assessment

Rule 18 of the Takeovers Code requires the Independent Adviser to assess the merits of any proposed acquisition ... having regard to the interests of the shareholders who may vote to approve the acquisition ...". The term "merits" has no specific meaning in the Takeovers Code itself or in any statute dealing with securities in New Zealand. The Takeovers Panel has not issued guidelines as to the meaning of the term "merits". For the purpose of this report Grant Samuel's assessment of the merits of the proposed acquisition should consider the relative strengths and weaknesses of the two transacting parties in as much as they contribute to the overall value of the Forrester's Purchase.

The merits of the Forrester's Purchase are to be assessed for the shareholders other than Hellaby and Forresters, who as existing shareholders of NZWSI at the time of the proposed transaction, are not entitled to vote on the resolution to approve the proposed arrangement. Grant Samuel has assessed the merits of the Forrester's Purchase taking into consideration the following factors:

- the nature of the proposed share sale and purchase transaction;
- Forrester's intentions for NZWSI and the implications of a change of control;
- the consequences of Hellaby no longer being a controlling shareholder;
- the market for NZWSI shares; and
- the likely consequences if the sale and purchase is not approved.

Grant Samuel has not taken into consideration the price agreed between Hellaby and Forrester for the proposed transaction. Both parties have agreed the conditions following extended negotiations as willing buyer and willing seller. As the transaction has been negotiated by private treaty there is no obligation on the part of the shareholders. Grant Samuel understands that if the Forrester's Purchase is approved, Forrester will not pursue any other action and will not make a full takeover offer to NZWSI shareholders as allowed under the Takeovers Code. Grant Samuel is of the view that a valuation of NZWSI is not required because minority shareholders have not been asked to sell their shares nor will they be asked to sell their shares if the Forrester's Purchase is approved.

### 2.4 Sources of Information

The following information was relied on in preparing this report:

- correspondence between Hellaby and Forrester detailing the terms of the proposed purchase of NZWSI shares by Forrester from Hellaby;
- annual reports for NZWSI for the years ending 30 June 1999, 2000 and 2001;
- interim reports for NZWSI for the six months ending 31 December 2000;

- shareholding reports provided by BK Registries Limited; and
- the draft notice of meeting to be sent to NZWSI shareholders.

Grant Samuel also held discussions with Alan Hubbard and manag and NZWSI.

## 2.5 Limitations and Reliance on Information

The report is based on information provided by NZWSI, Hellaby a Samuel has considered and relied upon this information. Grant Sa information provided was reliable, complete and not misleading an believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enq the purposes of forming an opinion as to the merits of the Forrester regard to the interests of those NZWSI shareholders entitled to vot approve the proposed transaction. However, Grant Samuel does no inquiries have identified or verified all of the matters which an audi examination or "due diligence" investigation might disclose.

## 2.6 Current Market Conditions

The opinion of Grant Samuel is based on economic, market and ot prevailing at the date of this report. Such conditions can change sig relatively short periods of time.

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## 3 Profile of NZWSI

NZWSI is a wool processor and exporter based in Christchurch. It is one of largest exporters of greasy and scoured wools, purchasing approximately 20 or about 13% of the country's total production. It has over 13,000 shareholde who are wool growers.

The company has marketing offices in the key wool importing countries of United Kingdom, and has representatives based in Turkey, Italy, Iran, Taiwa Spain. Processing of greasy wool is undertaken at scouring plants located at of Christchurch) and Whakatu (near Hastings). NZWSI has 90% and 50% o plants respectively, in partnership in both cases with Dalewool Holdings Li largest privately owned wool exporter. The scours, and particularly the Kap modern and efficient and compete well on quality and cost with other New

NZWSI purchases wool to customer order with approximately 50% being so auctions throughout the country, but with an increasing percentage being so the woolgrower. Approximately 80% of wool is scoured before shipment, wi shipped as greasy wool.

The scouring sector in New Zealand has undergone considerable rationalisat

five years. A reduction in sheep numbers leading to reduced supplies of wool, a downturn in consumption led to considerable competition and an over capacity situation has resulted in the closure of several merchant scourers with NZWSI merchant scourer in the country. NZWSI has emerged from the rationalisation improving trading margins.

NZWSI's main competition in wool trading comes from the New Zealand based (primarily European) wool traders. It competes well against these competitors on consistent quality of product at competitive prices dealing direct with end users through intermediaries. A strong balance sheet relative to its competitors has enabled it to handle seasonal funding requirements without disruption to customer service.

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#### **4 Profile of Forresters**

Forresters is currently a shell company with no assets. It has been established as a company to hold the NZWSI investment. The sole shareholder of Forresters is the Forrester Charitable Trust. The two trustees of the Trust are Mr P Hewitson and Mr N Hubbard. Mr Hewitson and Mr Gormack are also the directors of Forresters. The Trust is associated with Mr Allan J Hubbard and his wife, Mrs Margaret J Hubbard, a founding partner of Hubbard Churcher & Co and has initiated the proposed shares from Hellaby. Mr Hubbard has proposed that he and Mr Stuart Nattrass be directors representing the interests of Forresters on the NZWSI Board.

Mr Hubbard has extensive business interests in his own right, including shares in Canterbury Finance, general aviation and rental car businesses, and land ownership. Mr Hubbard is also the owner of a number of farms and has an ongoing interest in the forestry and agricultural sectors in New Zealand generally.

Mr Hubbard has an existing 4.25% shareholding in NZWSI held jointly with Mr Stuart Nattrass. On the proposed purchase of NZWSI shares from Hellaby proceeds, the Hubbards will have an interest of 43.4% in NZWSI.

Mr Hubbard has indicated to Grant Samuel that his existing and proposed investment in NZWSI is a financial investment only and that he has no plans to seek to influence the company's strategic or business plans. He will seek to have two directors appointed to the Board of Directors of NZWSI, one of which is likely to be himself. Mr Hubbard stated that he wishes to see the existing independent directors (i.e. those not appointed by Hellaby or Forresters) continue to hold their Board seats in accordance with NZWSI. Mr Hubbard has also stated that he supports the continuation of NZWSI's dividend policy.

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#### **5 History of Hellaby's Interest in NZWSI**

Hellaby is an investment company listed on the New Zealand Stock Exchange with a capitalisation of approximately \$112 million. It has a diverse range of investments and generally followed a strategy of investing in under-performing businesses with the aim of realising investment gains as a result of profit improvements. As is normal with investment companies of this type, Hellaby has generally considered that any of its portfolio interests

than long term assets. The company has been active in selling mature assets months with sales totalling \$20 million occurring.

Hellaby first invested in NZWSI in December 1997, paying 25 cents per share issued as part of a cash issue of 40 million shares made by the company at the time when the Wool Board withdrew its guarantee of the debt.

Further financial support to NZWSI was provided by Hellaby when it agreed for a cash issue of shares to all shareholders in March 2000 at 25 cents per share. This was not well supported by minority NZWSI shareholders and Hellaby was required to provide a shortfall equivalent to 79% of the shares offered to these shareholders. As a result, shareholding in NZWSI moved from 46% to 59.2%.

In July 2001, Hellaby signalled to the NZWSI Board that it wished to sell all shareholding in NZWSI. Grant Samuel understands that this move is consistent with the operating policy of selling assets when they will realise a target rate of return.

## 6 Merits of the Forresters Purchase

### 6.1 New Shareholding and Board Structure

Based on NZWSI's existing share register at 19 November 2001 and the purchase of the shareholding by Forresters proceeds, the resultant structure for NZWSI will be as follows:

#### NZWSI - Top 5 Shareholders following Forresters

	No. of Shares
Forresters/Mr & Mrs A Hubbard	31,625,85
Hellaby Holdings	14,568,85
Michael Dwyer	4,100,10
John Dawson	1,000,00
Paul Steel	1,000,00
<b>Total</b>	<b>52,295,00</b>

Following the Forresters Purchase, Hubbard interests will control 40% of the issued shares. It is generally regarded that a single shareholder holding a large number of shares in a company with a large number of shareholders on its register has a significant influence over the company. This will be the case with the Hubbard interests, who they will seek to have two directors appointed to the NZWSI Board. Grant Samuel understands that Hellaby will lose one of its current two directors. The Board will consist of:

- Hubbard interests - 2 directors
- Hellaby - 1 director

- Independent - 3 directors

If NZWSI shareholders approve a special resolution to be voted on meeting considering the Forresters Purchase, a seventh director will be added to the Board. This will be an independent person not associated with Hubbellaby.

Mr Hubbard, who has extensive interests as a farm owner and is known as a supporter of the continued growth of the agricultural sector in New Zealand, has indicated that he is supportive of current management and that he does not intend to change NZWSI's current direction. Forresters and Hellaby have agreed together to enable NZWSI to maximise profits and shareholder returns.

In Grant Samuel's opinion, it is unlikely that there will be any significant change in the governance of NZWSI from the current situation with Hellaby as a major shareholder.

## 6.2 Relative Attributes of the Transacting Parties

Mr Hubbard has demonstrated a continuing interest in the agricultural sectors in New Zealand. He was previously an 8% shareholder in ERM, a major arm of the apple and pear industry in New Zealand and was a partner in a group of agribusiness investors who purchased a 66.1% shareholding in Crown Pastoral, a major owner, Tasman Agriculture. He holds a number of directorships across a wide range of business sectors. In Grant Samuel's opinion, Mr Hubbard's business experience and commitment to the rural sector should be taken into account in NZWSI.

NZWSI has in the past relied on its major shareholder to support cash requirements required to recapitalise its balance sheet at a time when the company was experiencing trading difficulties. Whilst NZWSI is currently experiencing more stable trading conditions and has a strong balance sheet and does not need to require further equity issues, Mr Hubbard has indicated that he will support the issue if required. Grant Samuel is unable to verify the financial strength of the Hubbard family interests because of their private nature, and therefore cannot comment on the capacity of the Hubbard interests to support any further issues if they were required.

Hellaby has brought similar business acumen and experience to the company during its time as a shareholder, although its investment interests are more diversified than those of Mr Hubbard with less focus on the agricultural sector. As a result of the nature of its investment company, Hellaby is likely to have a relatively short holding period for its investments and look for opportunities to exit them profitably at points in trading cycles. This has been borne out in the case of NZWSI, which signalled its intention to sell its shareholding at a time when the industry was in a prolonged period of difficult trading conditions.

Overall, in Grant Samuel's opinion, there is no imbalance in the relationship between Hellaby and Forresters/Hubbard and the change in controlling shareholding is not expected to bring any disadvantages to the other NZWSI shareholders.

## 6.3 Shareholder Returns



For the years ending 30 June 2000 and 2001, NZWSI paid dividend and 104% of the company's net profit after tax respectively. The 2 dividends have both had full imputation credits attached. As part of governing the Forresters Purchase, Hellaby and Forresters have agreed endeavours to ensure that NZWSI maintains its existing dividend policy. Forrester, the current dividend will be sufficient to cover the interest on the vendor loan provided by Hellaby for the share purchase.

In Grant Samuel's view there is no reason to expect that Hellaby will change their understanding on dividend payments and thus there is no income disadvantages to the other shareholders as a result of the Forrester Purchase.

#### **6.4 The Market for NZWSI Shares**

NZWSI shares are traded on the Unlisted Securities Board operated by the Zealand Stock Exchange's electronic trading system. Despite the large number of NZWSI shareholders, the shares are only sporadically traded in small volumes. It is unlikely that the shares would attract much buy interest outside the existing shareholder base unless a trade or strategic buy occurs.

If the Forrester Purchase proceeds, Hellaby will be left with approximately 10 million shares, or 20% of NZWSI's issued capital. Hellaby informed NZWSI in July 2001 that it intended to sell all of its shareholding in NZWSI. It is unlikely that it will attempt to sell all or portions of its remaining shareholding in the secondary market due to its lack of depth. Hellaby is more likely to sell its shares to a private purchaser. Because of this, Grant Samuel is of the opinion that the Forrester Purchase is likely to have little impact on the secondary market for NZWSI shares.

#### **6.5 Consequences if the Forresters Purchase is not approved**

The Takeovers Code requires approval of the Forrester Purchase by NZWSI shareholders other than Forrester and Hellaby because of the fact that Forrester is making an offer to all NZWSI shareholders as the Code normally requires when a person acquires shareholding in a target company of 20% or greater. Shareholders who do not accept an offer for their own holdings have the right to vote against the Forrester Purchase. In anticipation that Forrester would then proceed to make an offer to all NZWSI shareholders, Under the Code, such an offer could be a full offer for all the shares or a partial offer for a shareholding greater than 50%.

However, Forrester has indicated that it is unable to make an offer (or a partial offer) to all shareholders. Grant Samuel notes that Forrester has indicated that it has finance from Hellaby to finance part of the proposed 39% share purchase. It is assumed that it does not have the resources to finance a larger share purchase offer to all shareholders.

It is therefore likely that Forrester will take no further action if shareholders do not approve the Forrester Purchase. Hellaby may seek other prospective buyers for its shareholding. However, Hellaby has indicated that it has no other likely buyers.

A possible consequence of this is that having Hellaby as a continuing unsettler to the Board and management of NZWSI, diverting attention matters.

It is possible that if another buyer was found it could be a party who in agreement with NZWSI current business direction. This could cause Board and management level with possible negative impact on share

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## 7 Conclusion

The Forrester Purchase will lead to a change in the controlling shareholder. The shareholder has indicated support for the company's current business direction. Grant Samuel represents the interests of Mr Hubbard who is a strong supporter of the rural. Grant Samuel is of the opinion that in evaluating the merits of the Forrester reason to suggest that shareholders of NZWSI, other than Hellaby or Forrester disadvantaged if the transaction proceeds.

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## 8 Qualifications, Declarations and Consents

### 8.1 Qualifications

Grant Samuel and its related companies provide financial advisory corporate and other clients in relation to mergers and acquisitions, corporate restructuring, property and financial matters generally in Zealand. One of its activities is the preparation of company and business the provision of independent advice and expert's reports in connection and acquisitions, takeovers and capital reconstructions. Since its inception Grant Samuel and its related companies have prepared more than 20 appraisal reports.

The person responsible for preparing this report on behalf of Grant Mandeno, BCom. He has a significant number of years experience in corporate advisory matters.

### 8.2 Disclaimers

It is not intended that this report should be used or relied upon for a purpose other than as an expression of Grant Samuel's opinion on the merits of the acquisition having regard to the interests of NZWSI shareholders. Grant Samuel expressly disclaims any liability to any shareholder that relies or purports to rely on the report for any other purpose. No other party who relies or purports to rely on the report for any purpose

This report has been prepared by Grant Samuel with care and diligence. The statements and opinions given by Grant Samuel in this report are given and in the belief on reasonable grounds that such statements and opinions are true and not misleading. However, no responsibility is accepted by Grant Samuel or its officers or employees for errors or omissions however arising in this report, provided that this shall not absolve Grant Samuel from an opinion expressed recklessly or in bad faith.

### 8.3 Independence

Grant Samuel does not have at the date of this report, and has not had in the previous two years, any shareholding in or other relationship with Forrester's that could reasonably be regarded as capable of affecting the ability to provide an unbiased opinion in relation to the proposed acquisition.

However, Grant Samuel has previously been engaged as an independent valuer to undertake the following assignments:

- independent valuations for the Board of Hannah Limited (an associated company of Hellaby) for the purpose of determining a fair price for Hellaby's shares in the company (November 1998 and October 1999); and
- preparation of a summary valuation of an acquisition target for a company of Hellaby (November 1999).

Grant Samuel had no part in the formulation of the Forrester's Purchase Agreement. The only work done by Grant Samuel has been the preparation of this report and its summary.

Grant Samuel will receive a fee for the preparation of this report. The fee is contingent on the outcome of the proposed transfer. Grant Samuel does not expect to benefit from the preparation of this report.

Accordingly, Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

### 8.4 Information

Grant Samuel has obtained all information, which it believes is necessary for the purposes of preparing this report, including all relevant information that has been known to any Director of NZWSI and made available to Grant Samuel. Grant Samuel confirms that in its opinion the information to be provided in this report is sufficient to enable shareholders of Hellaby or Forrester's to understand all relevant factors and make a decision in respect of the proposed acquisition.

### 8.5 Declarations

NZWSI has agreed that to the extent permitted by law, it will indemnify and its employees and officers in respect of any liability suffered or incurred or arising out of the preparation of the report. This indemnity will

respect of the proportion of liability found by a court to be attributable involving negligence or wilful misconduct by Grant Samuel. NZW indemnify Grant Samuel and its employees and officers for time spent legal costs and expenses incurred in relation to any inquiry or proceeding by any person except where Grant Samuel or its employees and officers have been negligent or engaged in wilful misconduct in which case Grant Samuel bears such costs.

Advance drafts of this report (and parts of it) were provided to NZWSI. Changes were made to this report as a result of the circulation of the drafts. However, there was no alteration to the methodology, conclusions or recommendations made to NZWSI shareholders as a result of issuing the drafts.

Grant Samuel's terms of reference for its engagement did not contain any provisions that materially restricted the scope of the report.

## 8.6 Consents

Grant Samuel consents to the issuing of this report in the form and content in which it appears and is to be included in the information to be sent to NZWSI shareholders as a whole nor any part of this report nor any reference thereto may be included in any document without the prior written consent of Grant Samuel as to the form and content in which it appears.

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**Yours faithfully**  
**GRANT SAMUEL & ASSOCIATES LIMITED**