

**Designer Textiles
(NZ) Limited**

**Special Meeting of
Shareholders**

**29 August 2002
64 Porana Road, Glenfield, Auckland
Commencing at 10.00 am**

DESIGNER TEXTILES (NZ) LIMITED

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DESIGNER TEXTILES (NZ) LIMITED.
Lovegrove Crescent, Otara, Auckland.
P.O. Box 61016, Otara, Auckland 6, New Zealand.
Telephone: 0-9-274 6049, Fax: 0-9-274 0987

7 August 2002

Dear Shareholder

NOTICE OF SPECIAL MEETING AT MOLLERS TEXTILES LIMITED, 64 PORANA ROAD, GENFIELD, AUCKLAND ON THURSDAY 29 AUGUST 2002 COMMENCING AT 10.00 AM.

Background

Under the notice of meeting to shareholders included with this letter there are two resolutions being put to the shareholders. The first resolution relates to a potential increase in the shareholding in the Company associated with George Gould as a result of the Company's proposed buyback. This resolution if passed will exempt George Gould from the requirements of the Takeovers Code to sell down any increase in his percentage shareholding arising from the buyback.

The second resolution relates to a proposed restructuring of Mr Gould's personal affairs involving the transfers of the company's shares held currently by two Trusts associated with Mr Gould to a company Gould Holdings Limited which is owned by Hambleden Nominees Limited which in turn is owned by another trust associated with Mr Gould. Mr Gould is the sole director of both Gould Holdings Limited and Hambleden Nominees Limited.

Both resolutions are related to compliance with the Takeovers Code. As part of the Takeovers Code's requirements, an independent adviser's report has been required and this KPMG report is attached to this letter. In addition the directors of the Company must provide a written statement on whether they recommend approval or disapproval of the resolutions. This is the purpose of this letter. If you have any concerns regarding how you should respond to the proposed resolutions after reading this letter, and the KPMG report, we would recommend you discuss this matter with your financial adviser.

Statement in relation to Resolution

One

The independent directors, Mr Craig Thompson and Mr Kevin Arscott have considered the potential increase in shareholding of the Avonbank Trust and the Belvoir Trust (the *Trusts*), or Gould Holdings Limited, as a result of a buy back of shares pursuant to a notice previously issued by the Company (and attached to this letter by way of information to

shareholders) and recommend the shareholders permit the potential increase in shareholding as an exception to rule 6 of the Takeovers Code for the following reasons:

- (a) The increase in shareholding of the Trusts or, Gould Holdings Limited, if the full 5% of shares is repurchased will only be 1.3%, and will in the opinion of the independent directors, not have any material impact on control or governance of the Company.
- (b) Mr Gould's involvement in the Company has been positive for the Company and its shareholders. Since his involvement with the Company the performance of the Company has improved and the shares have appreciated in value.
- (c) The independent directors accept Mr Gould's explanation that he does not wish to participate in the buyback, because he is committed to the success of the Company, and does not wish to sell down after the buyback. The independent directors consider this commitment to be positive for the Company.
- (d) If Mr Gould was required to sell down his increased shareholding, this might have the effect of depressing the market price of the shares.
- (e) We concur with the conclusions of the independent adviser's report, provided to shareholders with the notice of meeting.

Statement in relation to Resolution

Two

The Directors have also considered the proposed transfer of shares held by the Trusts to Gould Holdings Limited and recommend the shareholders permit the transfer as an exception to rule 6 of the Takeovers Code for the following reasons:

- (a) The independent directors accept Mr Gould's explanation that the transfer of the shares to a holding company controlled by the Wellington Trust is a function of a reorganisation of Mr

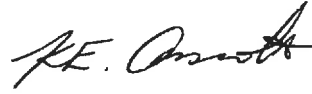
Gould's family financial affairs and is not to the detriment of the Company.

- (b) Gould Holdings Limited is through Hambleton Nominees Limited wholly owned by the Wellington Trust, a trust associated with Mr Gould, and accordingly, a transfer of the shares in the Company from the Avonbank Trust and the Belvoir Trust (both of which are also associated with Mr Gould) should not, in the opinion of the independent directors, have any material impact on the control or governance of the company.
- (c) Similarly, the proposed transfer of shares does not, in the opinion of the independent directors, bring about any effective change in the control of the shares to be transferred that is relevant to the interests of other shareholders. In this regard shareholders are referred to the independent adviser's report.

Position of Mr G. A. C. Gould

Mr Gould has not made a recommendation to shareholders on the two resolutions, as he has informed the independent directors that he would not consider this appropriate in the circumstances. As required by the Takeovers Code the interests associated with Mr Gould will not be voting on the two resolutions.

Yours faithfully



Kevin Arscott
Director



Craig Thompson
Director

2nd April 2002

To: The New Zealand Stock Exchange
P O Box 2959
Wellington
By Facsimile: (04) 473-1470

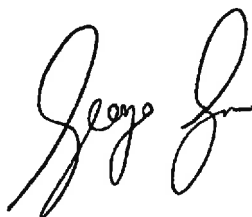
PRIOR NOTICE OF ACQUISITION OF EQUITY SECURITIES

Please take notice that the Issuer will acquire shares issued by the Issuer from its shareholders. Details of the acquisition are as follows:

- 1 The Issuer will acquire shares issued by the Issuer within the period of twelve months commencing on the 8th April 2002 (*the buy-back period*);
- 2 A maximum of 1,787,075 ordinary shares will be acquired during the buy-back period.

This notice is given to you pursuant to rule 7.6.2 of the New Zealand Stock Exchange Listing Rules.

Yours faithfully



George Gin

For the Board of Directors

DESIGNER TEXTILES (NZ) LIMITED

Notice of Special Meeting

Designer Textiles (NZ) Limited gives you notice that a special meeting will be held at Mollers Textiles Limited, 64 Porana Road, Glenfield, Auckland on Thursday 29 August 2002 commencing at 10.00 am.

The business of the meeting will be to consider and, if thought fit, to pass the following ordinary resolutions:

Resolution One:

That any increased shareholding of George Arthur Churchill Gould and Perpetual Trust Limited as trustees of the Avonbank Trust and George Arthur Churchill Gould, Susannah Scott Gould and Benjamin William McAlpine Tohill as trustees of the Belvoir Trust, or Gould Holdings Limited (if resolution two is passed and the shares referred to in resolution two are transferred to Gould Holdings Limited) as a result of the acquisition of shares in the Company by the Company in accordance with the notice given to the New Zealand Stock Exchange by the Board of Directors of the Company dated 2 April 2002 be permitted as an exception to rule 6 of the Takeovers Code pursuant to rule 7(c) of the Takeovers Code.

Resolution Two:

That a transfer of 7,030,399 shares from George Arthur Churchill Gould and Perpetual Trust Limited as trustees of the Avonbank Trust and 1,857,000 shares from George Arthur Churchill Gould, Susannah Scott Gould and Benjamin William McAlpine Tohill as trustees of the Belvoir Trust to Gould Holdings Limited be permitted as an exception to rule 6 of the Takeovers Code pursuant to rule 7(c) of the Takeovers Code.

Explanatory Note: Resolution One

On 2 April 2002, the Board of Directors of the Company gave notice to the New Zealand Stock Exchange that the Company may acquire up to 1,787,075 shares previously issued by the Company within a period of twelve months commencing on 8 April 2002 (the *buy back*).

The consideration to be paid for each share purchased by the Company as part of the buy back will be determined by the market, but in any event shall not be more than \$1.00. The maximum number of shares the Company will purchase during the buy back is 1,787,075 shares, which represents less than 5% of the current 35,991,500 shares in the Company.

Currently, between them the Avonbank Trust and the Belvoir Trust (together the *Trusts*) hold 24.69% of the shares in the Company, and are associated with Mr G. A. C. Gould. If 1,787,075 shares are purchased by the Company during the buy back and the Trusts do not accept the buy back, then because of the decrease in the number of shares in the Company resulting from the buy back, the Trusts will hold approximately

25.98% of the voting shares in the Company between them, an increase of approximately 1.3%.

Rule 6(b) of the Takeovers Code provides that a person (in this case, the Trusts) who holds 20% or more of the shares in the Company may not become the holder of any more shares in the Company. There is an exception to Rule 6(b) of the Takeovers Code (see rule 5 of the Takeovers Code (Class Exemption) Notice (No. 2) 2001) where the increased shareholding is the result of a buy back. However, the exception would only apply if the Trusts decreased their shareholding to the level it was prior to the buy back within six months of the buy back.

The Trusts do not intend to reduce their shareholding as is required for the exception to apply, and accordingly, the purpose of Resolution One is to obtain your approval for the increased shareholding of the Trusts as a result of the buy back. The increased voting control of the Trusts that would result from the buy back, will, if Resolution One is approved, be permitted as an exception to rule 6 of the Takeovers Code. The Trusts have sought this approval under the terms of the Takeovers Code. A statement from Mr G. A. C. Gould accompanies this notice.

This notice of meeting is also accompanied by a report on the buy back in the context of the potential increase in shareholding of the Trusts from Bruce Gemmill of KPMG International, Chartered Accountants, an independent adviser. A statement from the Directors (other than Mr G. A. C. Gould) recommending that the resolution be passed is also attached.

Explanatory Note: Resolution Two

The Company has been informed that, as part of a rearrangement of Mr G. A. C. Gould's family financial affairs, it is proposed that the 7,030,399 shares in the Company held by the Avonbank Trust and the 1,857,000 shares in the Company held by the Belvoir Trust (the *Shares*) are intended to be transferred to Gould Holdings Limited (the *transfer*). Gould Holdings Limited is a wholly owned subsidiary of Hambleton Nominees Limited which is in turn jointly owned by George Arthur Churchill Gould and Benjamin William McAlpine Tohill as trustees of the Wellington Trust a trust associated with Mr Gould. Mr Gould is the sole director of Gould Holdings Limited and Hambleton Nominees Limited.

As outlined above, the Shares amount to 24.69% of the voting shares in the Company (prior to the completion of the buy back) and will amount to 25.98% of the shares in the Company if the maximum number of shares permitted under the buyback notice

are purchased by the Company and Resolution One is approved. Gould Holdings Limited does not currently own any shares in the Company, and as such its total shareholding as a result of the transfer, if approved, will be 24.69% prior to the buy back or 25.98% after the buy back (if Resolution One is approved), and the maximum number of shares permitted to be acquired under the buyback notice are acquired.

The consideration to be paid for the purchase of the Shares by Gould Holdings Limited will be the fair market value of the Shares as at the date of transfer as determined by a valuer appointed by the Trusts.

The purpose of Resolution Two is to obtain your approval of the transfer. If the transfer of the Shares to Gould Holdings Limited is approved, it will be permitted under rule 7(c) of the Takeovers Code as an exception to rule 6 of the Takeovers Code. The resolution is being placed before shareholders at the request of Mr G.A.C. Gould. A statement by Mr G. A. C. Gould is included with this notice.

This notice of meeting is also accompanied by a report on the transfer from Bruce Gemmill of KPMG International, Chartered Accountants, an independent adviser, a statement from the Directors (other than Mr G. A. C. Gould) recommending that the transfer be approved and a statement from Gould Holdings Limited.

Takeovers Code Exemptions

To be in a position to put the two resolutions to shareholders the Company has obtained from the Takeovers Panel the following exemptions:

- (a) For the Company, an exemption from rule 15(b) of the code in respect of this notice of meeting describing the increase in voting control arising from the acquisition of shares by Gould Holdings Limited. This exemption was required as due to the buyback it is not possible to set out the exact increase in voting control but it is possible to set out the maximum increase in voting control.
- (b) For the Trusts and Gould Holdings Limited

an exemption from rule 6(1)(b) of the Code in respect of an increase in voting control in the Company by reason of the buyback. This exemption was required because the general exemption provision in rule 7 was not available as there will be no acquisition of shares by the Trusts or Gould Holdings Limited in the context of the buyback, as distinct from an increase in voting rights.

- (c) For Gould Holdings Limited an exemption from rule 7(c), to the extent it requires compliance with rule 15(b), in respect of the notice of meeting as it relates to the transfer of shares to Gould Holdings Limited. This exemption was required because it was not possible to specify the exact increase in voting percentage due to the buyback, whereas it is possible to specify the maximum increase in voting percentage.

Voting

The two trusts associated with Mr G. A. C. Gould holding 8,887,399 of the shares on issue (24.69%), will not be voting on either of the two resolutions.

Proxies

You may exercise your right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in your place. A proxy need not be a shareholder of the Company.

A proxy form is attached to this notice. If you wish to vote by proxy you must complete the form and produce it to the Company at least 48 hours before the time for holding the meeting.

By order of the Board



Mr Craig Thompson
Director
7 August 2002

DESIGNER TEXTILES (NZ) LIMITED

Proxy Form

SECTION 1: SHAREHOLDER DETAILS (PLEASE PRINT CLEARLY)

Full name:

Full address:

If shares are held jointly, enter details of other joint holders:

Full name:

Full address:

Full name:

Full address:

SECTION 2: APPOINTMENT OF PROXY

(Please note that if the shares are held jointly, the appointment made in this section is made on behalf of each joint holder).

I appoint

Full name:

Full address:

as my proxy to exercise my vote at the special meeting of shareholders of the Company to be held on 29 August 2002, and at any adjournment of that meeting. If the person I have appointed is unable to be my proxy then I appoint

Full name:

Full address:

SECTION 3: VOTING INSTRUCTIONS

(Please note that if the shares are held jointly, the voting instructions given in this section are given on behalf of each joint holder).

I direct my proxy to vote in the following manner:

(Tick the box that applies)

Resolution One

For

Against

Resolution Two

Signed by each shareholder named in Section 1

.....

.....

.....

Date:

Notes:

- 1. As a shareholder you may attend the meeting and vote, or you may appoint a proxy to attend the meeting. A proxy need not be a shareholder of the Company.
2. If you are joint holders of shares each of you must sign this proxy form. If you are a company this proxy form must be signed on behalf of the Company by a person acting under the Company's express or implied authority.
3. For this proxy form to be valid, you must complete it and produce it to the Company at least 48 hours before the time for holding the meeting. You can produce it to the Company by forwarding this form to George Gin at Designer Textiles (NZ) Limited, PO Box 100777, Auckland.
4. If this proxy form has been signed under a power of attorney a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be produced to the Company with this proxy form.
5. If you return this form without directing the proxy how to vote on any particular matter, the proxy will vote as he or she thinks fit.

5 August 2002

G. A. C. Gould
20 Desmond Street
Fendalton
CHRISTCHURCH

Dear Shareholders of Designer Textiles (NZ) Limited

Re: Resolutions to be put to Shareholders at Special Meeting of Designer Textiles (NZ) Limited (DTL) on 29 August 2002

This letter forms part of the bundle of documents enclosed with the notice of special meeting to shareholders to be held on 29 August 2002.

The background to the two resolutions to be put to the meeting and the reasons for them are well covered in the notice of meeting, the letter from the independent directors and the KPMG report. The shareholders will form their own views on how they wish to vote in relation to both resolutions.

The Takeovers Code and the conditions of the exemptions granted by the Takeovers Panel, referred to in the notice of meeting, require a statement from the two trusts which I am associated with which hold shares in DTL (the Trusts) and the other entities associated with me (being Hambleton Nominees Ltd, Gould Holdings Limited and the Wellington Trust) that in relation to both the increase in voting percentage from the buy back and the transfer of the shares to Gould Holdings Limited that neither the Trusts, Hambleton Nominees Ltd, Gould Holdings Limited and the Wellington Trust or myself have any agreement or arrangement with third parties relating to the acquisition, holding or control of the voting securities in DTL held or to be held by those entities, or as to the exercise of voting rights attaching to such voting securities.

The entities associated with me (being two Trusts, Hambleton Nominees Ltd, Gould Holdings Ltd and the Wellington Trust) have and will enter into arrangements to sell the shares to Gould Holdings Limited for their fair market value and to fund the purchase of the shares by Gould Holdings Limited by way of loans from the Trusts to the Wellington Trust and the subscription of capital in Hambleton Nominees Ltd and Gould Holdings Ltd.

I confirm on behalf of myself, the Trusts, Hambleton Nominees Ltd, Gould Holdings Limited and the Wellington Trust, that except as stated above, no such agreements or arrangements exist. This statement is made for the purposes of satisfying Clause 15(g) of the Takeovers Code and the conditions of the exemptions granted by the Takeovers Panel referred to in the notice of meeting.

Yours sincerely



George Gould



Independent Appraisal Report for Designer Textiles (NZ) Limited

Introduction

Background

On 2 April 2002 the Board of Directors of the Company gave notice to the New Zealand Stock Exchange that the Company, Designer Textiles (NZ) Limited (DTL), wished to acquire up to 1,787,075 shares previously issued by the Company within a period of twelve months commencing on 8 April 2002.

We understand all the shares will be repurchased as market transactions through the New Zealand Stock Exchange. Therefore the consideration to be paid for each share purchased by the Company, as part of the buy back, will be determined by the market but in any event will not to be more than \$1 each.

The maximum number of shares the Company could purchase during the buy back is 1,787,075, which represented 5% of the 35,741,500 shares in the Company on issue at the notice date.

On 18 June 2002, 250,000 share options were exercised. This means there are now 35,991,500 DTL shares on issue.

Mr GAC Gould's interests, the Avonbank Trust and the Belvoir Trust ("the trusts"), hold 24.69% of the shares in the Company.

If 1,787,075 shares are purchased by the Company during the buy back and the trusts do not sell any shares in the Company, then because of the decrease in the number of shares resulting from the buy back, the Trusts' shareholding will increase to approximately 25.98% of the voting shares in the Company.

Further, as part of a rearrangement of Mr Gould's family financial affairs, DTL has been informed that Mr Gould proposes to transfer 7,030,399 shares held by the Avonbank Trust and the 1,857,000 shares held by the Belvoir Trust, to Gould Holdings Limited, a company which is controlled by Mr Gould.

We are advised:

- Gould Holdings Limited does not currently own any shares in the Company and, as such, its total shareholding as a result of the transfer, if approved, will be 24.69% pre buy back or 25.98% post buy back.
- Mr Gould is able to exert the same level of control over DTL regardless of whether he owns his 25.98% interest through the trusts (Belvoir and Avonbank) or Gould Holdings Limited.
- The impact of this rearrangement will not change Mr Gould's interest in the Company or the potential increase in those interests arising from the proposed buy-back. That is, his interest could still increase from 24.69% of the voting shares in the Company, prior to the completion of the buy back, to 25.98% of the shares in the Company if the maximum number of shares permitted under the buy back notice are purchased by the Company.

Implications of the New Zealand Takeovers Code

The aforementioned transactions breach Rule 6 of the Takeovers Code which states that a person who holds or controls no voting rights, or less than 20% of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after the event, that person and the person's associates hold or control in total no more than 20% of the voting rights in the code company.

The shareholders of DTL are to be asked to approve the transactions pursuant to an exception provided by Rule 7(c) of said Code. Rules 15 and 18 (h) require the preparation and presentation of an Independent Appraisal Report by a suitably qualified individual.

The Directors of DTL have asked KPMG to prepare the Independent Appraisal Report required by the Takeovers Code.

Purpose of the report

The purpose of this Independent Appraisal Report (the "Report") is to satisfy the requirements of the Takeovers Code Rules 7(c) and 18 (1).

Our Report considers the merits of the proposed transactions. Neither the Takeovers Code nor its controlling body, the Securities Commission, has defined what *merit* means for the purposes of this report. KPMG have therefore considered the literal interpretation and the legal interpretation of the word *merit* and concluded that *merit* means the opportunities and risks associated with this particular transaction and whether or not these opportunities and risks will enhance or detract from the value of the voting shareholders' shares.

Information relied upon

In completing the Report KPMG have relied upon the following information:

- The published annual financial statements for the years ended 31 March 1994 to 31 March 1996.
- The published annual financial statements for the 15 months ended 30 June 1997.
- The published financial statements for the years ended 30 June 1998 to 2001.
- The Press announcements for DTL from 27 February 2000 to date.
- Discussions with Mr GAC Gould.
- Various reports on the Australasian textiles market.
- Other publicly available information.

Report restrictions

This report has been prepared for the "voting shareholders"¹ of DTL and is based on information that is publicly available and discussions with the Directors and management of DTL.

In forming our opinion, we have made certain assumptions about the market in which DTL operates. A change in circumstances could impact significantly on our conclusions. In the circumstances, KPMG can give no guarantee as to the certainty of outcomes.

We further advise in accordance with our firm's policy, that neither the firm nor any member or employee of the firm undertake responsibility to any entity or person for any variance to the projected results of the business, or any statement made by the Management and Directors of the Company which is subsequently found to be untrue, but is relied upon by KPMG in reaching our opinion.

We reserve the right but not the obligation to amend this opinion should any further relevant information come to hand. Nothing in this opinion may be extracted or reprinted without our express prior written consent.

We advise that we have not audited or independently verified the information we have received and this Report should not be construed as an audit or verification of the businesses.

We stress that our advice in respect of the proposed transaction is limited to the "voting shareholders" of DTL.

Qualifications, declarations and independence

Detailed in Appendix 1 are our statements regarding our qualifications, independence and declarations.

Designer Textiles (NZ) Limited

DTL was formed from the textile division of Bonds New Zealand Limited and was listed on the New Zealand Stock Exchange in 1993.

In 1996 DTL acquired the Auckland based knitting and dyeing operation of LWR Industries Limited (Auckland Knitting Mills Limited) and Logan Textiles Pty Limited operating out of Brisbane, Australia.

¹ Voting shareholders of DTL are defined as those that are able to vote on the proposed transaction discussed in this paper as classified by the Takeovers Code Rules.

The DTL knitting and dyeing business combined with the LWR Industries operation became a major supplier to the New Zealand fabrics market.

Logan Textiles Pty Limited is a specialist provider of stretch knits for the swim and underwear markets. These products are made from pre-dyed yarns blended with a certain amount of lycra.

In 1998 the group acquired Prato Textiles Limited to strengthen its general knitted fabrics business in cotton, polyester and nylon, primarily for use in the contemporary fashion, corporate, tourist and active clothing markets.

In 1999 the Company purchased Moller Textiles Limited to vary its textile offering into various ready made products.

In late 2000 and early 2001 Mr GAC Gould proceeded to acquire a significant number of shares in the Company.

The major shareholders in DTL as at 30 June 2001 are detailed in Appendix 2.

Consideration of the merits of the proposed transactions

The restructure of Mr Gould's interests

As part of a rearrangement of Mr Gould's family financial affairs, DTL has been informed that Mr Gould proposes to transfer 7,030,399 shares held by the Avonbank Trust and the 1,857,000 shares held by the Belvoir Trust, to Gould Holdings Limited, a company which is controlled by Mr Gould.

These transfers may result in up to 25.98% of the Company's shares being owned by one shareholder, Gould Holdings Limited.

We are required to consider the merits, or otherwise of the shareholders approving the transfer of shares from the Trusts to Gould Holdings Limited.

As discussed, we understand Mr Gould is able to exert as much influence on DTL through his interests in the Avonbank and Belvoir Trusts as he will be able to through Gould Holdings Limited.

The transfer of DTL's shares from these two trusts to the abovementioned company should have no impact on the rights of the other shareholders or the value of their shares.

Therefore, in our opinion, the transfer has no advantages or disadvantages for the voting shareholders.

The proposal to buy back shares in DTL

As discussed, the Company proposes to acquire up to 1,787,075 of the existing shares previously issued by the Company within a period of twelve months commencing on 8 April 2002. The consideration to be paid for each share purchased by the Company, as part of the buy back, will be determined by the market but in any event is not to be more than \$1.

The maximum number of shares the Company could purchase during the buy back is 1,787,075 shares, which represents 5% of the shares in the Company.

If 1,787,075 shares are purchased by the Company and Gould Holdings Limited for the trusts (Avonbank and Belvoir) do not sell any shares in the Company, then because of the decrease in the number of shares resulting from the buy back, the Trusts' shareholding or the shareholding of Gould Holdings Limited will increase from 24.69% to approximately 25.98% of the voting shares in the Company.

We are required to consider the merits, or otherwise of the shareholders approving the buy back, knowing that it could result in the increase in Mr Gould's interests.

Benefits

Compliance costs

To the extent that small shareholders sell their entire shareholding in the buy back, there is likely to be a reduction in compliance cost through the buy back of 1,787,075 shares. However this benefit is not likely to be significant.

Share liquidity

It could be argued DTL's shares will be slightly more liquid during this buy back period than they otherwise would have been and therefore easier for the voting shareholders to sell.

Net tangible asset backing per share

The latest financial statements of the Company are for the year ended 30 June 2001 and show equity of \$13.668 million and no intangible assets. Based on the net assets at 30 June 2001 and the current number of shares on issue of 35,991,500, each share has a net tangible asset backing of \$0.38.

To the extent the shares are purchased at less than \$0.38 there will be an increase in the net tangible asset backing per share.

Future earnings per share

With less shares on issue the future earnings of a single share could be enhanced even though actual earnings may remain the same.

Risks and disadvantages

Increase in control

We have considered whether the proposed buy back will give Mr Gould the ability to increase his control over the Company, and if so, whether any premium should be paid for this benefit.

As discussed, Mr Gould's equity interest in DTL could move from 24.69% to 25.98%.

In New Zealand any shareholder that controls over 25% of a company has the right to veto any major transaction when the Board attempt to ratify it at a meeting of the shareholders. Such a right conveys a certain amount of privilege. This right is often referred to as *negative control*.

KPMG understand there has never been any substantive body of research completed into the effects of negative control on the price of shares of New Zealand listed companies. Further, while there is some legal precedent for complete company control, negative control has received less attention.

KPMG consider that as Mr Gould has a substantial shareholding and is Chairman of the Board of the Company, he already has a significant amount of control over the affairs of the Company.

We further consider the market is aware of Mr Gould's position and has already allowed for this control in establishing DTL's price.

From a practical perspective, in the present circumstances with Mr Gould controlling the 24.69% of the voting shares in the Company, he would achieve effective negative control at any meeting where less than 99.4% of the shares are voted. Having that percentage of shares voting at any meeting of a listed company is, in our experience, very rare. Because of this we consider Mr Gould already has "negative control" rights.

We note, however, in the event that an unrelated party acquired all the shares other than those controlled by Mr Gould, his increase in shareholding from 24.69% to 25.98% would be critical to Mr Gould's ability to exercise negative control.

Net tangible asset backing

As previously discussed, the latest financial statements of the Company are for the year ended 30 June 2001 and show equity of \$13.668 million and no intangible assets. Based on the net assets at 30 June 2001 and the current number of shares on issue of 35,991,500, each share has a net tangible asset backing of \$0.38.

The buy back price is up to \$1 per share. As the shares will be purchased at the market price it is not possible to predict the precise impact on the net tangible asset backing of the remaining shares.

We may speculate, however, to the extent that the shares are purchased for greater than \$0.38 there will be a decrease in net tangible asset backing per share. We suggest the maximum this could be is only \$0.03 however.

Information or contemplated transactions

There is a risk that the buy back could enable Mr Gould to benefit from information of which he, but not the general market, is aware by using the buy back of shares to increase his relative shareholding in the Company.

KPMG have discussed Mr Gould's intentions as they relate to his shareholding interests in DTL and understand that there is no information known to him about the market, nor is there any transaction contemplated immediately subsequent to the buy back or transfer that could unduly affect DTL's share price.

Share liquidity

We have given as a benefit the possibility that DTL's shares will be slightly more liquid during this buy back period than they otherwise would have been and therefore easier for the voting shareholders to sell. Conversely after the buy back there will be fewer shares on issue, and this could have a negative impact on the liquidity of the shares. However given the size of the buy back we consider this disadvantage to be insignificant.

Statement of financial position "gearing"

Given the likely cash position of the company, some of the buy back is likely to be funded from debt. This means the debt gearing of the company may increase slightly.

Conclusion

KPMG conclude:

In the absence of knowing the actual buy back price we cannot precisely say what impact the whole buy back would have on the company gearing, net tangible assets backing per share or the earning per share. We suspect, however, DTL's current share price most likely reflects the market's

anticipation of these factors as well as any control Mr GAC Gould's interests could have over the business of DTL.

We also consider the share buy back is likely to reduce compliance costs to DTL but not significantly.

We suggest:

- because the share buy back is not compulsory and shareholders have the ability to determine whether or not to sell their shares; and
- the share buy back is available to Mr Gould who could participate if he chose to and, as a result, not breach the Takeovers Code, although in those circumstances approval would still be required for the transfer of shares from the Trusts to Gould Holdings Limited.

There are few merits or risks or disadvantages in the two proposed transactions to voting shareholders. The offer price to voting shareholders should be their main concern, and this will be determined by the operation of the market.

In our opinion neither transaction, the share buy back or the transfers of Mr Gould's interests from the Trusts to Gould Holdings Limited, will have any significant impact on the value of the voting shareholders' shares.

Appendix 1

Qualifications

This report has been prepared by KPMG Corporate Finance. KPMG Corporate Finance provides advisory services in relation to mergers and acquisitions, independent appraisal reports, valuations and other corporate advisory services.

The partner responsible for preparing the report is Bruce Gemmell, who is the Managing Partner of KPMG's Christchurch office. Bruce Gemmell has experience in valuations, preparing independent appraisal reports and advising on mergers and acquisitions. Bruce Gemmell holds a Bachelor of Business Studies from Massey University and is a Member of the Institute of Chartered Accountants of New Zealand.

Declarations

KPMG has prepared the report at the request of the Independent Directors of DTL. The report meets the

Takeovers Code Rule 7(h) and 18(1) in relation to the proposed share buy back and transfer.

It is not intended for the report to be used for any other purpose.

The report has been provided for the benefit of the voting shareholders of DTL.

KPMG will receive a fixed fee for the preparation of this report. The fee is not contingent on the outcome of the proposed transaction.

KPMG consents to the issuing of this report to the shareholders of DTL.

KPMG provided drafts of this report to the Directors of DTL to confirm the factual accuracy of the report.

KPMG consider that they have had access to all relevant information.

The terms of reference for completing this report were issued by the Directors of DTL and in no way restricted our ability to act. KPMG also advise that they have no conflict of interest that could compromise their independence and affect their ability to report.

Appendix 2

Largest shareholders

As at 31 August 2001	Shares held	%
George Arthur Churchill Gould and Perpetual Trustees Ltd Avonbank Trust	7,030,399	19.67
Kevin Ernest Arscott and Susan Leah Arscott and Benjamin William Tothill Ref Napoleon Trust	2,091,000	5.85
George Arthur Churchill Gould and Susannah Scott Gould and Benjamin William Tothill Ref Belvoir Trust	1,857,000	5.20
National Nominees	1,448,500	4.05
David Russel Carter and Jillian Robin Carter and John Boswell Burns	1,144,250	3.20
John Bruce Gibson	1,000,000	2.80
Anne Cowlshaw Rutherford	1,000,000	2.80
Jan Scott Rutherford	1,000,000	2.80
George Chien Hsun Lu and Jenny Chin Pao Lu	761,500	2.13
Margaret Rose Rutherford and Jan Scott Rutherford and Gael Rutherford Ref Indiana Trust	716,825	2.01
Lu's International Limited	533,000	1.49
William John Bishop and Helen Mary Bishop and Michael David Toomey	500,000	1.40
Craig John Thompson	484,350	1.36
Amanda Mary Austin	461,400	1.29
Thomas Leslie Jones and Marjorie Sheila Jones and William Ross Devitt	361,700	1.01
Jayseger Investments Limited	299,500	0.84
Pohutukawa Nominees Limited	277,350	0.78
Peter Carnoutsos	270,000	0.76
Monkat Investments Pty Ltd	250,733	0.70
Pajama Investments Limited	230,000	0.64