

By email

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MATTER NO. 02-341-9209
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Dear David and Hamish

Cavalier Wool Holdings - capital cost savings

We refer to our letter dated 14 March and our meeting on 10 March. In response to your questions prepared for the 10 March meeting relating to capital cost savings, we set out below answers to Part B: Benefits questions 3 and 4.

3. **It appears to us that there is no guarantee that the proportionally small additions to the buildings proposed as part of the post-acquisition rationalisation will result in any increase in a potential sale price of the land and buildings and that that part of the cost of building rationalisation should be considered as sunk along with the cost of relocating the plant and machinery**

For the reasons outlined at the meeting, CWH does not believe the expenditure on the buildings will be sunk. Rather, it can be expected to increase the resale value of those properties.

In response to your question about the extent of the additions:

- []
- []

4. **The method of obtaining the cost of the rationalisation has not been described and in this respect we notice that considerable rounding of the numbers appears to have been applied. Is there an accredited engineering estimate that could be provided to the Commission?**

As Nigel Hales outlined in the meeting, he has extensive knowledge and experience in closing scours, relocating scouring equipment and building new woolscours. He has been involved in restructuring seven woolscours and in the rebuild of Canterbury Woolscourers. In summary those are:

- E Lichtenstein closure: moved Autefa HD woolpress from Auckland to Awatoto. Awatoto rebuilt as a part of this project.
- Gisborne Woolscour closure: dismantled, removed and sold all the parts.

- Seaview Woolscour closure: completely dismantled and sold all the parts. Relocated the blending equipment to Awatoto.
- Ashburton woolscour closure: completely dismantled and sold the parts. Moved the effluent treatment to Awatoto.
- Ferriers Winchester closure: completely stripped out and sold parts. Moved the "G Press" to Washdyke. Purchased the business for restructure and merged with Fairlie Woolscour.
- Fairlie Woolscour: Purchased and rebuilt this scour line – it is now in Timaru. Installed new 3.0 meter scour, upgraded the 2.4 scour, fitted HD wool presses, upgraded the blending systems.
- Godfrey Hirst: purchased woolscouring business and amalgamated into CWH. Stripped and closed Clifton including selling all equipment, relocating the dumps and HD wool press to Timaru. Successfully integrated this business into the CWH business.

Given this experience and expertise, and the due diligence CWH performed in 2010 when exploring a collaborative deal with WSI, CWH has a good understanding of the scouring equipment WSI has, how that equipment is configured, and what will be required to be done to upgrade those scour lines to CWH standards.

For the purposes of this letter and for the cost estimations below, CWH has assumed (it believes reasonably) that WSI's equipment is maintained to a good standard []. However, CWH is aware that the boilers at Kaputone are old and require servicing, but anticipates that the boilers are suitable for relocation to Canterbury Woolscourers. If they are not suitable for relocation, CWH will utilise the two boilers at Cavalier Spinners.

CWH's forecasts of costs are set out in the following tables. The forecasts are based on CWH's best knowledge taking into account previous relocations of scouring equipment that Nigel has been involved in.

4.1 ***Awatoto capital spend***

As outlined in the Application CWH has projected the cost of the building and plant capital works needed to move the WSI 3.0m Whakatu scourline to Awatoto to be [].

[]

[

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[]

4.2 ***Timaru capital spend***

As outlined in the Application CWH has projected the cost of the building and plant works needed to move WSI's 3.0m Kaputone scourline to Timaru to be [].

[]

[

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[

]

4.3 ***Cost recovery***

In addition to the capital spends outlined above, CWH believes there are a number of areas where cost recovery may be possible.

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Please let us know if you have any questions in relation to this letter.

Yours sincerely

[Sgd: Phil Taylor / David Blacktop]

Phil Taylor / David Blacktop
Partner / Senior Associate