Asian Development Bank Meeting
1995

New Zealand

A Decade of Progress

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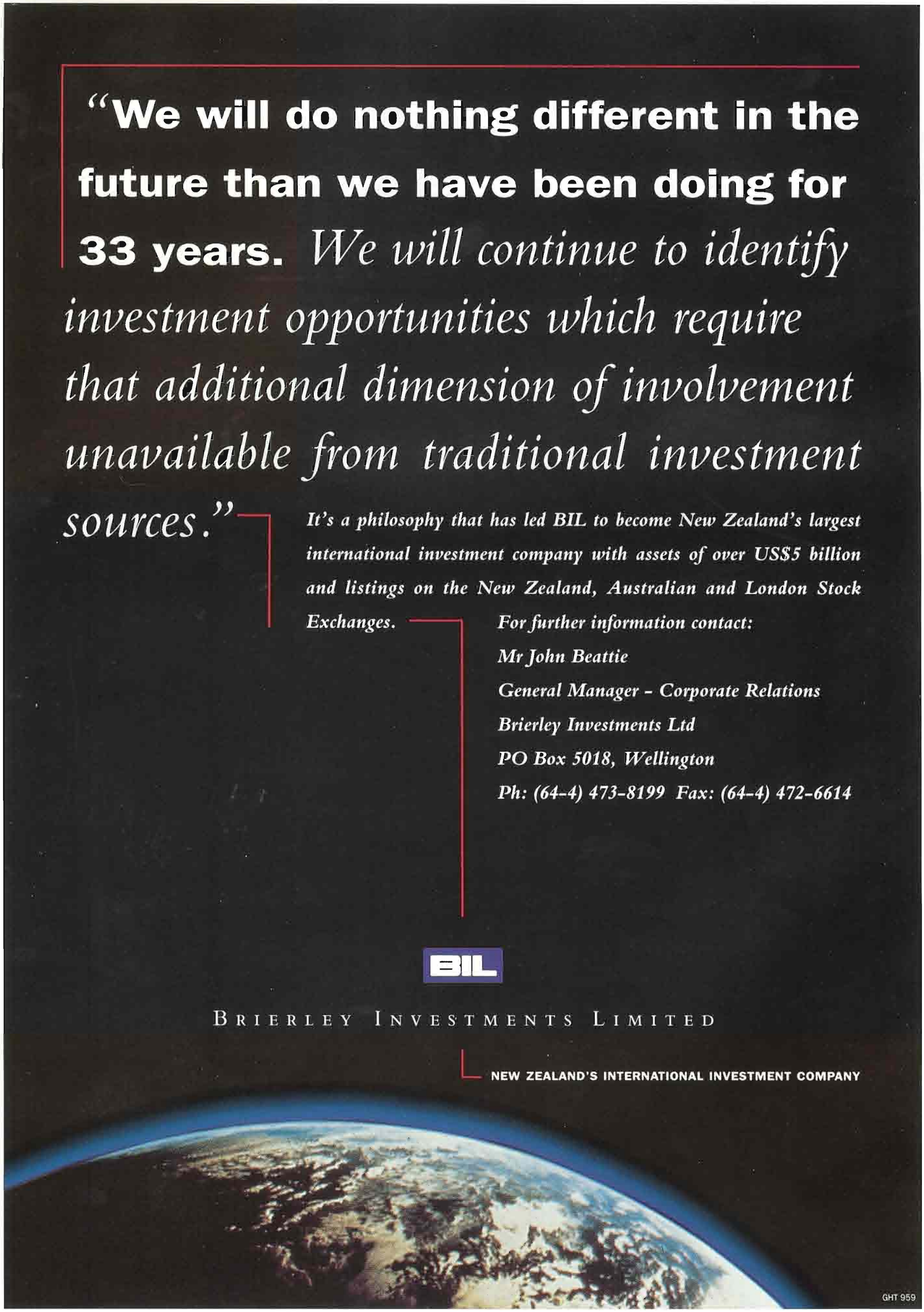
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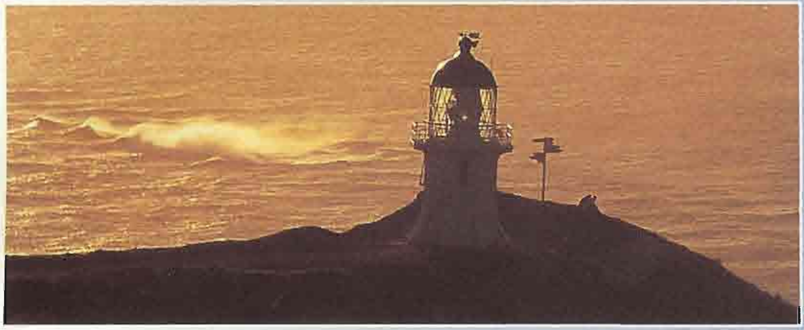

Cape Reinga — where the Pacific Ocean meets the Tasman Sea.

Auckland, the City of Sails.

NEW ZEALAND

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CREDITS: The following is a special sponsored section prepared by the Special Project Department at Institutional Investor. It was independently written by Sam Passow. Cover design by Elaine Casey. Photograph credits: cover (top), pp. 14, 20; Tourism Board of New Zealand, cover (background) and all other photos; Sam Passow.

New Zealand's natural beauty attracts tourists from all parts of the globe.

Auckland, the largest city in New Zealand with a population of one million, reflects the country's vigorous economic growth.

A DECADE OF PROGRESS

ECONOMIC REFORMS BRING IMPRESSIVE GROWTH

New Zealand today is the product of what many economists consider a decade of the most successful radical economic reform embarked on by a nation since the end of World War II. Policies of successive Labour and National Party governments deregulated the financial markets, dismantled the state sector and extended the free market philosophy to encompass industrial relations and the welfare system.

Yet few New Zealanders have emerged unscathed from this renaissance of prosperity. After almost half a century of cradle-to-grave protection under a universal welfare system that included free health care, education, generous unemployment benefits and housing allowances, a new generation is growing up in what is rapidly becoming a pay-as-you-go society. While the trade-off for this has been a dramatic reduction in taxes, lower mortgage rates, higher wages, more flexible working conditions, and an almost inflation-free economy, that the national mood is still one of unease is clear from the political stalemate gripping the country.

From an economic point of view, whether you choose to take a macro or micro look at the New Zealand economy, the picture is impressive. For the first time in 16 years, the government has a budget surplus and corporate profits across the spectrum of industry are very healthy. Business confidence is at its highest level in 26 years, with 32 percent of firms polled in a recent survey by the New Zealand Institute of Economic Research anticipating higher profits.

The economy grew at an estimated rate of 5 percent in fiscal year 1994, which ended June 30th. This was more than twice the rate of the previous year and the government is forecasting that the growth will continue at 4.6 percent in FY94/95 and 3.5 percent in each of the following two years.

Exports led the way with an estimated gain of 5.8 percent, up from 0.3 percent a year earlier, while imports fell to 6.4 percent from 7.9 percent the previous year. Non-commodity exports rose by 17 percent.

In FY1993/94 the government had a surplus of NZ$527 million on a budget of NZ$29.4 billion. Higher revenues from a growing economy should increase this surplus to NZ$730 million in FY94/95, NZ$2.49 billion in FY95/96 and NZ$4.53 billion in FY96/97. This would reduce the government's deficit from 42.1 percent of GDP in 1994 to 28.7 percent by 1997.

New Zealand's credit rating, which had fallen to one of the lowest in the 25-nation OECD, is once again on the rise. It is now tied with Finland for 18th place.

Unemployment, while still stubbornly high at 9.1 percent, fell by 2 percent over the last two years. In FY93/94, 57,000 new jobs were created, of which 37,500 are full-time.

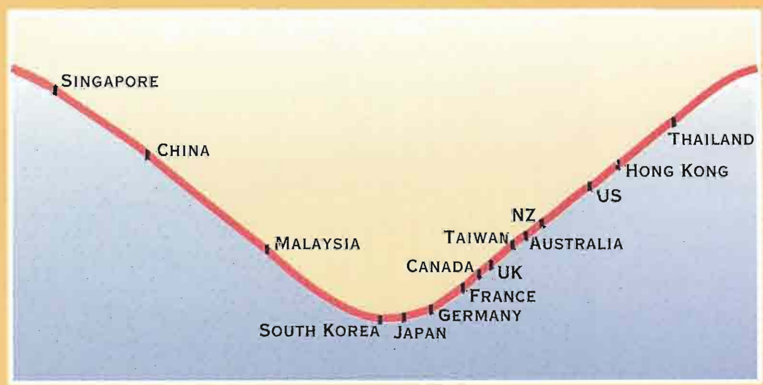
New Zealand's geographical remoteness is a source of both humor and independence.

Napier, one of New Zealand's seaside tourist attractions.

The government projects a further 90,000 jobs to be created over the next three years. Even so, that will leave a hard core of 8 percent of the work force unemployed.

Lower wage demands and high productivity growth as a result of the two-year old Employment Contracts Act brought the annualized inflation rate down to only 1.3 percent in July 1994. This is forecast by the Reserve Bank to rise only to 1.6 percent by March 1996.

THE GLOBAL ECONOMY*
THE SG WARBURG VIEW



* THE CHART SHOWS THE STAGE BUT NOT THE MAGNITUDE OF EACH COUNTRY IN ITS ECONOMIC CYCLE

With short-term interest rates averaging 5.7 percent in FY93/94, real interest rates worked out to 4.4 percent. The NZSE40 stock market index is holding steady with a dividend yield of 5.1 percent — higher than any other major equity market.

Other factors in New Zealand's favor include the new Gatt agreement which should stabilize commodity prices and increase market access for agricultural products, which account for two thirds of the country's exports. Manufacturers are also benefiting from a strengthening of the Australian economy, currently growing at 4 percent a year. Australia is the Kiwis' largest overseas market, accounting for 20 percent of all exports.

POLITICAL REGROUPING

Despite all this good economic news, the government has failed to get its message across. New Zealanders were so disenchanted with both ruling and opposition parties that last November they opted for a new mixed-member proportional (MMP) representation system. Loosely modeled on the German parliament, it is due to take effect either at the end of this government's current term in November 1996 or if a general election is held after April 1995. MMP will replace the current Westminster-style system of electing all constituency-based members of parliament on a first-past-the-post basis. It will increase the number of MPs from 99 to 120.

The decision to switch to MMP, which was carried by only 54 percent of the electorate, is now widely viewed as a protest against the policies of the two major parties rather than as evidence of a real desire to change the country's political structure. Many wonder if they have chosen a government by consensus or by confusion.

Under MMP, voters will

LION NATHAN LIMITED

MAKING THE RIGHT MOVES

In a part of the world blessed with sun and surf, beer and soft drinks are an indispensable part of life. Lion Nathan is the major player in this area in both New Zealand and Australia, with 60 percent and 44 percent respectively, of the beer market in the two countries with such internationally recognized brands as Castlemaine XXXX, Steinlager, Toohey's, and Swan Lager. Lion Nathan is also the bottler and distributor for PepsiCola down under.

FINANCIAL SUMMARY
(Six months ended Feb. 28)

Year Ended Aug. 31 1993		1994	1993
	Operating Results ($ millions)		
2,288.6	External sales	1,373.8	1,327.1
140.2	Group Trading Profit after Taxation but before Abnormal and Extraordinary Items	113.1	79.5
	Dividends		
13.5c	Interim Dividend per 25c share	7.5c	6.5c
	Capital Funds ($ millions)		
2,056.8	Amount	2,152.8	1,877.8
51.0%	Percentage to Total Assets	53.5%	48.5%
	Earning Rate		
29.9c	Net Tax Paid Trading Profit per 25c share	20.6c	17.3c
	Asset Backing		
$2.83	Net Asset Backing per 25c share	$2.99	2.89

In the first half of 1994, Lion Nathan had a net profit of NZ$113.1 million, up 42.2 percent over the same period in 1993 and 145 percent above 1992. Earnings per share rose 19 percent on the year and 70 percent over two years. "Based on first half results, we are confident that trading profit before abnormal and extraordinary items will exceed NZ$200 million for the year," says CFO Alan Dickson, who joined Lion Nathan in April 1994 from Procter & Gamble.

Lion Nathan hopes to increase its overall profitability through higher margins in its New Zealand and Australian breweries and through its 83.5 percent stake in PepsiCo operations in New Zealand and Australia, where Pepsi has a market share of 14 percent and 11 percent respectively.

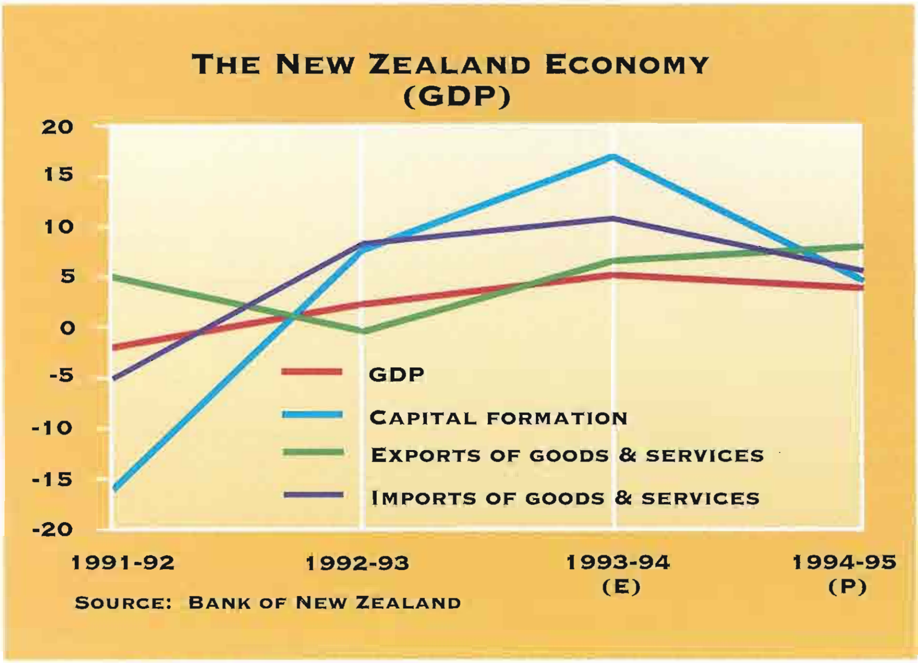
The top item on Dickson's agenda is to strengthen the balance sheet. "Our debt reduction program is consistent with our plan to regain an investment grade rating within the next two years," he says. "In the first six months of the 1994 fiscal year, we reduced our debt by NZ$54 million and hope to reduce it by a further NZ$150 million through the sale of some assets by the end of this financial year. We are encouraged that Standard & Poor's has upgraded our unsecured term debt rating to BB+, recognizing that the brewing industry ranks highest in terms of sustainable cash flow."

In August 1993 Lion Nathan acquired the South Australian Brewing Company, raising its share of Australia's beer market to 46 percent. Despite lower volumes due to tighter laws against driving while intoxicated, Lion Nathan Australia's profit before interest and taxes was A$124.5 million in the first half of FY94, 12.8 percent over FY93.

Australian operations account for almost 75 percent of the company's assets and remain its priority. A significant move of the past year was a joint venture with Coor's to brew XXXX in Tennessee for the U.S. and Caribbean markets. "The U.S. is the biggest and most competitive beer market, and through a strong joint venture partner in Coor's, Lion Nathan will tap the considerable potential for XXXX," says Dickson. In July Coors also began distributing Steinlager in the U.S.

Making the right moves includes investing in the future. To provide opportunities outside the mature beer markets of Australasia, Lion Nathan is exploring low-cost entry to China through several joint ventures. "We expect China to become the world's largest beer market in the next decade, and to have a significant impact over time in our profitability," says Dickson.

Farming and manufacturing are benefiting from successful efforts to control inflation.



have two ballots, one for their constituency MP, which will account for 60 seats, and one for their preferred political party. The latter vote will determine how many of the remaining 60 seats each party will have in Parliament based on lists determined by the parties before the election. To qualify for a parliamentary seat in the preferential, a political party must get at least 5 percent of all ballots cast. The final division of the 60 preferential seats will be based on each party's share of the total vote.

MMP will give minor parties a much greater voice in Parliament and will almost certainly result in coalition governments. In addition, because only half of the sitting MPs will represent specific constituencies, with the remainder drafted from party lists, MMP will probably mean that politicians' loyalty to the two major parties will diminish.

The second most popular sport in New Zealand these days after rugby, and only slightly less volatile, seems to be aligning possible partners in a future coalition government. While there is plenty of talk of new parties being formed on both the left and the right of the now centrist Labour and National parties, no one seems eager to state his intentions before voting procedures for MMP are firmly in place.

Despite a mere one-seat majority in Parliament, Prime Minister Jim Bolger is confident that his government will see out its full term until November 1996. Aware that members of his own party might well break away and form their own parties in the lead-up to MMP, he says he is prepared to live with that as long as he has a working majority. Although opinion polls show that Bolger is personally unpopular with most voters, there is little chance of anyone introducing a motion of no confidence since an early election could leave a third of today's MPs out of a job. And with nothing significant on Bolger's legislative agenda for the rest of his term, few see a need to rock the boat.

"MMP is not about economic policies. It's about the social equation still to be addressed as workers want to

HONGKONGBANK

Member HSBC *Group*

FINANCING INTERNATIONAL TRADE AND INVESTMENT

With New Zealand increasingly turning to the investment wealth and growth economies of Asia, HongkongBank has a growing role in providing trade-related financial services, often at both ends of the transaction. "We have seen an amazing transformation in New Zealand over the last 10 years," says Shaun Wallis, CEO of the bank's New Zealand operation. "The economic recovery is bringing in more blue-chip, conservative investors as opposed to a few years ago when the market attracted more opportunistic individuals. People have heard that New Zealand has recovered, know of people who have invested here and made money, and don't mind buying a little bit off the bottom."

HongkongBank's main business is financing corporate investment in New Zealand and abroad. Its relationships with large multinationals in many countries is the bank's competitive edge. "Swiss pharmaceuticals firms, Japanese trading companies, Singaporean hotel groups, French food groups and Fortune 100 companies like Heinz, which recently bought Watties Foods, are a few of the types of firms we have assisted here," says Wallis.

HongkongBank is part of the HSBC Group, one of the largest banking groups in the world. Based in the U.K., the Group has more than 3,000 offices in 65 countries and over US$305 billion in assets. HongkongBank first setup in New Zealand 10 years ago and now has branches in Auckland, Wellington and Christchurch.

HongkongBank's offices in Auckland, New Zealand.

The bank's key franchise is the Pacific Rim and it provides advice and assistance to major New Zealand corporates. "We have worked with firms like Lion Nathan, Brierley Investments, Fletcher Challenge and Carter Holt with their planned business ventures in Asia," says Wallis. "We have the balance sheet and the products, the global connections and the local knowledge."

"Similarly, we are able to help the major exporters of timber, meat, fish, wool, and dairy products. Traders need a bank that can handle problems at both ends and get the money paid quickly."

"That is the benefit of dealing with a major international bank. Our Treasury in New Zealand is one of 40 around the world privy to huge business flows, product expertise and capability that we deliver to local corporates and offshore investors."

One of HongkongBank's most innovative services is the HEXAGON, an international electronic banking system which facilitates international trade and cash management. It interfaces with all computer software and international communication systems, as well as with other banking systems such as SWIFT.

A New Zealand exporter to Japan, for example, can have the buyer pay his yen to HongkongBank, exchange it for NZ dollars and move it back to New Zealand the same day using his PC. Importers also benefit from opening letters of credit.

"Over the last few years we have positioned ourselves as the major international bank for the corporate sector," says Wallis. "I'd like to think that in every major deal here that involves a local and an international bank, we will be the international bank."

Sheep raising and forest products remain important sources of export income.

see payback for the pain of the last decade," says Robin Clements, chief economist for Buttle Wilson Investment Bank and a former advisor to the Reserve Bank of New Zealand. "Laws like the Reserve Bank Act, the Employment Contracts Act, the Fiscal Responsibility Act are all in place to protect the macroeconomic environment. From now on, a government that is going to be flagrantly imprudent will have to do so in the face of the markets.

"What this government should be doing is putting all the reforms it has made on a shelf so high that no future government can touch it. That will give us all a secure future."

The one person who could change this and force an MMP election as early as next May is Sir Roger Douglas, who set the country's free market reforms in motion as finance minister under the Labour government from 1984 to 1989.

After leaving the Labour Party, Douglas formed a political action group called the Association of Consumers and Taxpayers (ACT). Despite wide support from business because of its laissez-faire approach, ACT has yet to form a political party and at the moment is basing its platform entirely on Douglas's recently published book, Unfinished Business, which argues that social reform in New Zealand has further to go.

Some of Douglas's ideas are so simultaneously vague and revolutionary it is hard to tell whether ACT is left of Labour in its desire to abolish all elements of privilege in society, or right of National in contending that government should drastically cut personal income tax and leave matters such as health and education to the discretion of the individual. Still, they are captivated by his personal enthusiasm and creativity of thought. As Douglas Myers, chairman of the New Zealand Roundtable and chief executive of Lion Nathan Ltd., the country's leading brewery, puts it: "Douglas has been able to commence the debate and get feedback without having to commit himself."

AVOIDING AN ENERGY CRISIS

New Zealanders fear that political stagnation could lead to an energy crisis, as lobbyists from the private power sector, environmentalists and Maoris seeking to protect sacred land and water rights all vie to exert their influence. In May, the Electricity Corporation of New Zealand (ECNZ) issued a report claiming that unless new power plants are built immediately, the country's demand for electricity will outpace supply within three years. New Zealand currently generates 7,305 MW of electricity against demand of around 7,000 MW a year. According to the report, if the economy grows by an average of 3.7 percent a year from 1995 to 2000, ECNZ will have to double the system's capacity to 14,000 MW.

"We need to start construction on the 400 MW Taranaki combined-cycle gas and steam plant by April 1995 if we are to meet our target," says ECNZ treasurer Neil Bradley. "This plant will allow the current growth cycle to continue through July 1997, but will only carry us for another three to four years. Between 1994 and 2020, New Zealand will need at least ten new major power stations; in other words, a new plant every two to three years."

At the moment, the project is being held up because plans do not conform with New Zealand's environmental commitments under the Treaty of Rio. Although the Resources Management Act

From seedlings to logging, New Zealand's forestry industry has earned a reputation for quality control.

requires carbon dioxide emissions to be kept to 1990 levels, ECNZ says any new gas-fired plant will exceed those levels. It is seeking a change in the law to relax those guidelines, but New Zealand's strong environmental lobby and the need for their support either to keep the present government in office or in a future MMP coalition makes this easier said than done.

The alternative — to reactivate two costly mothballed coal- and oil-fired plants — would be equally unpalatable to voters because the high cost of fuel would almost surely raise electricity prices. The problem is acute: 77 percent of New Zealand's energy is hydro-based and the country has just 15 days of reserve power. In 1992 a severe drought caused a traumatic series of brownouts.

"There are now signs that the energy anxiety is affecting the market," says Buttle Wilson's managing director Jon Cimino. "It's becoming crunch time and decisions have to be made in the next 12 months."

AN INTERVIEW WITH THE RT. HON. JAMES B. BOLGER

PRIME MINISTER

Q: Are you looking forward to the new mixed-member proportional representation (MMP) system?
A: It has certainly injected a new dimension into New Zealand politics. It wasn't a change that I favored, but it is here and we will make it work.

Q: Whom does the National Party see as its natural allies in an MMP government?
A: It's too early to answer that in any detail. There is speculation about a third party on the right led by Roger Douglas and about one or more conservative parties, but I'm not sure where they would position themselves. There is certainly talk of a center party or another center-right party emerging, but I have no doubt that there will be parties to the right of the political spectrum or to the center-right who will form a natural coalition with our National Party.

Q: Job creation is your government's top priority, yet unemployment remains high. What is your government doing to tackle this problem?
A: I have set up a broad-based, multi-party task force under the chief executive of the National Bank here to look at new initiatives, particularly with regard to the long-term unemployed or those with a particular disadvantage. Those who are, to use the labor market jargon, "job-ready" are starting to find

Prime Minister James B. Bolger

opportunities as the economy picks up speed. So far, 57,000 jobs were created in the past 12 months, that is the largest increase in jobs in New Zealand in recent history. We expect to see GNP growth of 4.5 to 5 percent a year, creating tens of thousands of new jobs.

Q: Some say New Zealand is on the verge of an energy crisis. Do you believe this?
A: It is not a crisis. Strong growth after a period of stagnation will clearly demand that we look at our energy supply again and we will have to put new energy generating capacity in place quite quickly. The Electricity Corporation of New Zealand is already getting planning approval for a 400 MW station, so the process is going forward but there is still work to be done. For the good of the economy and to be consistent with Rio Summit declarations, we must also put more emphasis on energy conservation, which we will do.

Q: You recently came out in favor of New Zealand's formally breaking its ties with the British Crown and becoming a republic by the end of this decade. Why?
A: With the move to MMP and the higher probability, if not certainty, of a coalition government, the responsibility of the Queen to select a leader who may or may not be able to form a coalition could become more onerous. I believe New Zealanders will want a greater say as to who that person is. The only date I have suggested for this to happen is the year 2000. It's no better than any other date except that it has a certain symbolic value.

Q: How important is Asia to New Zealand's future?
A: In my judgment, it is impossible to overstate the importance of Asia to New Zealand's future. It is going to be the key to New Zealand's on-going economic development. This government has sought — successfully, I think — to increase New Zealanders' awareness of the countries of Asia, and we will continue to promote this. The broader Asia-Pacific region is our home, and we need to understand the many peoples and cultures of this region much better than in the past.

AN INTERVIEW WITH THE RT. HON. BILL BIRCH

MINISTER OF FINANCE

Q: For the first time in 17 years, the New Zealand government will show a budget surplus. It is also projected that, as the economy continues to grow, you will continue to show a budget surplus for the next few years. What will you be doing with this surplus?

A: We will use it to pay off our debt, simply because we are very much a part of the global economy. Our capital market is one of the most open in the world, so a high level of debt makes us very vulnerable to international interest rate exposure, exchange rate exposure and trade shocks. We regard our debt as being too high and until we get it down to acceptable levels and restore our AAA rating, which we lost in 1983 when debt exceeded 29 percent of GNP, we will continue to reduce our debt. My latest budget sets out the government's intention to reduce net public debt from the current level of 42.1 percent of GNP to 30 percent by June 1997 and to 20 percent within ten years.

Q: How do the international credit rating agencies currently rate New Zealand?

A: In March we received an upgrade from Moody's from Aa3 to Aa2, and Standard & Poor's gives us an AA- rat-

Finance Minister Bill Birch

ing. But based on the information that has come out since my latest budget, I would expect Standard & Poor's to be very encouraged to take another look at our credit rating.

Q: The Electricity Corporation of New Zealand (ECNZ) is predicting a power crisis by December 1997 unless its proposed new power plant comes on-stream. Do you agree with this assessment?

A: I have no reason to doubt their demand-supply scenario. I don't believe there will be a supply crisis because we will be able to meet the demand with our existing, but costly to operate, power stations. What there will be is a very rapid increase in prices unless the Taranaki combined-cycle gas station is built.

Q: Major opinion polls continue to show that this government is unpopular, and in the last election your majority in Parliament fell from 17 seats to just one. If the country's economy is going so well, why haven't the voters got the message?

A: That's a question of credibility and I think that credibility around the world is very low amongst governments that have had to initiate change as a result of global pressures. Look at what happened to the Conservative government in Canada, look at where John Major is today, look at what is happening in Japan. There is often a lag between what governments perceive to be desirable and the benefits that important structural changes are designed to deliver.

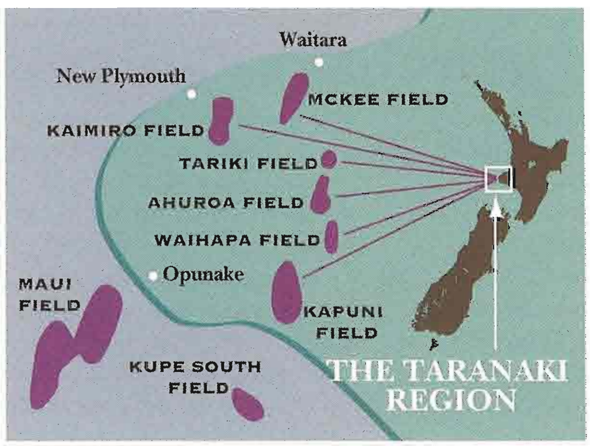
Here in New Zealand that has taken a considerable time, but we are now beginning to see those benefits. I think health care is an excellent example. We are turning the public health system on its ear because we want to deliver essential and desirable services in a cost-effective way, which the old system was not capable of doing.

(Continued on page 16)

ENERCO NEW ZEALAND LTD.

INVESTING IN NEW ZEALAND'S ENERGY SECTOR

One of the most open investment options in the New Zealand energy sector — as deregulated as any in the Western world and undergoing radical restructuring — is Enerco New Zealand Ltd. Listed on the New Zealand Stock Exchange since May 1992, with more than 3,000 shareholders, Enerco owns and operates more than 3,000 kilometers of gas pipeline, employs 430 people, and is the country's largest energy retailer.



By world standards, New Zealand has high known reserves of natural gas — certainly much higher than relatively high hydrocarbon producers such as the United States and Britain. New Zealand's known gas reserves are located both on and offshore in the Taranaki Region.

Enerco retails natural gas to key commercial centers in Auckland, Wellington, Napier, Hastings, and Palmerston North. It has a 45 percent market share, and leads the country in the promotion of cogeneration systems using gas as the feedstock.

Enerco is one of the few energy companies in New Zealand that is both publicly listed and has no restrictions on ownership. It is also a major shareholder (just under 20 percent) in another publicly listed energy company, Energy Direct Corporation Ltd, a gas and electricity retailer serving the satellite communities of the capital, Wellington.

In the two years since its listing, Enerco has increased after-tax operating profit by more than 40 percent to NZ$10. 6 million, nearly trebled assets to NZ$276 million, and almost quadrupled shareholders' equity to NZ$216 million. Enerco's policy is to pay out not less than 70 percent of after-tax profit as dividends. For the latest financial period from July 1, 1993 to March 31, 1994, it paid a tax-free ordinary dividend equal to 10.3 cents for the 12-month period. A supplementary dividend of 0.375 cents a share was paid to non-resident portfolio investors to compensate for the unavailability to them of the tax imputation credit on this dividend.

The company recently changed its financial reporting date from June 30 to March 31st, with the result that the 1994 reporting period was only nine months. Yet key ratios for 1994, based on a 12-month equivalent, include returns on weighted shareholders' equity at 9.5 percent, earnings per weighted average share at 14.4 cents,and net tangible assets per share of NZ$2.58.

Enerco's objective is to be a significant participant in New Zealand's energy sector. It is achieving this goal through focused marketing to increase its market share, acquisitions and strategic alliances. While still primarily a gas retailer, Enerco sees future opportunities in energy trading, energy wholesaling, energy efficiency, developing technology, pipeline construction, and international consulting.

Electricity consumption in New Zealand is close to present production capacity. With the economy expected to grow at about 5 percent a year for the next decade, Enerco predicts increased demand to lead to greater use of gas as the main source of energy, the growth of cogeneration and combined-cycle power plants, and more efficient use of the country's extensive natural gas reserves.

For further information, please contact:
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The Queenstown Mall is a re-creation of a 19th century village.

(continued from page 14)

We lost a lot of support in 1993 because we made changes to national superannuation [social security] and things like that. We intervened on people's expectations in retirement, a very unpopular thing to do, but we did them because we didn't see the old system as being sustainable and we wanted to position the country so there would be some security in its retirement policies.

Q: Will MMP affect the economic management of this country?

A: I do not regard MMP as a threat to our economic policy. Essentially, New Zealanders have to choose between a conservative government and a socialist government. If they chose a conservative government, the National Party, which is the major center-right party, will be the dominant partner, and we will be able to continue the policy direction we have now.

Q: Many consider New Zealand as a model free-market economy. What role does this government play in such a society?

A: The National Party is a conservative party. We expect people to develop their independence or their individualism and to seek to do better for themselves. What we want to do is to make sure that they have the tools to achieve this, that the opportunities and resources are available to them. We are in the process of reforming social assistance and delivery. In the area of health reform, we are more carefully targeting assistance to low-income families. For example, we are now insisting that our hospitals operate as successful businesses, that they compete for the health dollars with each other and with their suppliers. I see the government's role as one of purchasing those services from the most efficient providers.

Q: Does this mean that New Zealand will become a pay-as-you-go society?

A: We want a bit of both. There will be a safety net without any doubt. There will be a public health system and the taxpayer will still be funding it centrally, but it will be a system which will be much more efficient and cost-effective, with a much wider range of choices where we will use surplus state-owned capacity for private patients and where the state-owned hospitals will be competing with private hospitals for their dollars.

We have maintained free access to our hospitals, but people with higher incomes are expected to pay at outpatient clinics, whereas those on lower incomes have free access to outpatient clinics. If you have a higher income you pay NZ$15 for a prescription, while those on lower incomes pay NZ$3. We are committed to that sort of approach. What it delivers is that it allows us to have a broadly based, low-rate tax regime while at the same time allowing us to target assistance to the people who need it.

Q: Do you see this government as being able to lower the basic rate of taxation for both individuals as well as corporations?

A: Yes I do. We are doing some scenario work on that right now.

Q: As host country of the Asian Development Bank meetings in May 1995, what economic message does New Zealand have to offer its neighbors in the region?

A: I think the visiting finance ministers will be coming here at a time when we will be producing very good economic and fiscal results, and I think we will be able to demonstrate that a fundamental reform that is well principled and well thought through can deliver improvements in terms of jobs and rising household incomes.

St LUKES GROUP
LIMITED

Initial Public Offering

111,500,000 ordinary shares each offered at $1.10 per share and
223,000,000 convertible notes each offered at $1.00 per note

by

Challenge Properties Limited
a wholly-owned subsidiary of

FLETCHER CHALLENGE

to raise

NZ$345,650,000

December 1993

ORD MINNETT

Organising Broker and Underwriter

The Leading Edge in New Zealand

A member of the Jardine Fleming Group
New Zealand offices: Auckland, Christchurch, Wellington

This announcement appears as a matter of record only

Market analysts predict that the NZSE40 index will pass 3000 by the end of June 1995.

STOCK MARKET

STRONG FUNDAMENTALS BOOST SHARE PRICES

Despite New Zealand's strong export performance over the past year, most market analysts seem to contend that the best bets for investors are a strong exposure to domestic business sector recovery stocks such as transport and tourism, gas utilities, telecommunications, media and retail.

A consensus has emerged among most market analysts that the NZSE40 index, which stood at 2097.65 in mid-August, will close out 1994 around the 2200 mark and reach 2300 by June 1995. Wellington-based brokerage house Ord Minnett is even more optimistic. Their forecasting team is projecting that the NZSE40 index will pass 3000 by the end of next June.

"We are bullish because global growth forecast is more positive, especially in Europe, which affects New Zealand," says economist Ewen Griffiths. "At the moment we are seeing a transition from a market where financial assets are being driven by falling interest rates to one in which assets are driven by growth. In the last five months, economic forecasts in this country have risen from 3 percent GDP growth to 5 percent, so we are getting a lot of earnings estimates that are being revised upward. We expect the flow of profits to continue through into the second stage of the economic cycle, which is the point where corporate activity increases and investors focus on growth."

The contention is that equities, driven by better than expected corporate earnings, will outperform the bond market, which has been characterized by a spectacular rally since 1990 as interest rates on ten-year bonds fell from 13 percent to 8 percent in mid-August 1994. "From here on out, it will be a period of more normal returns instead of super profits," says Frances Loo, a securities analyst at Buttle Wilson. With capitalization currently around NZ$42 billion, the market's price/earning ratio is expected to average 15.2 in 1994, dropping to 12.2 in 1995 on current prices.

Earnings per share growth, which averaged 9 percent in 1993/94, is expected to soar to 24 percent in 1994/95. "Given New Zealand's low rate of inflation, EPS growth can be seen as real rates of corporate growth," says Peter Keenan, chief economist for CS First Boston (New Zealand).

While much of this improved business outlook is already evident in share prices, firms such as Air New Zealand and tour operator Helicopter Line are expected to receive strong boosts from the government's latest budget, which allocates NZ$3 million for the New Zealand Tourism Board to promote the industry over the next three years, especially in Asian markets.

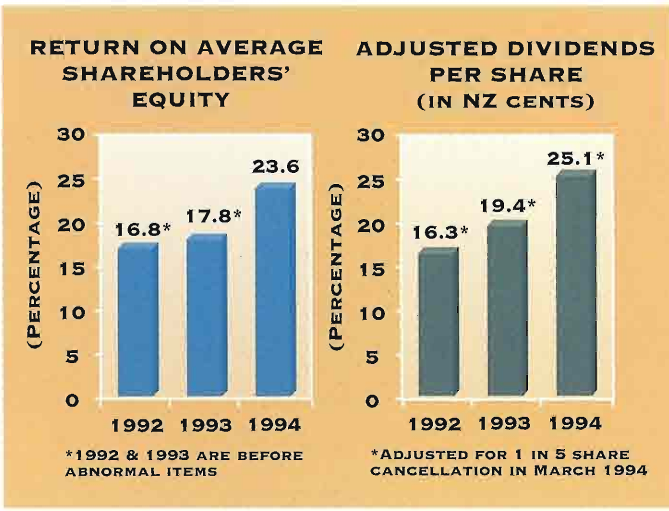
Another positive influence on the market is the beginnings of recovery in the Australian economy after years of recession. Trans-Tasman freight transport is expected to increase, which should positively affect companies like Owens Group.

One troubling factor, warns

(continued on page 22)

TELECOM CORPORATION OF NEW ZEALAND

STRATEGIES FOR GROWTH — FOCUS ON SHAREHOLDER VALUE



Capitalizing on New Zealand's economic recovery, Telecom is pursuing growth strategies based on its established role in New Zealand's telecommunications market.

In fiscal 1994 Telecom achieved robust growth in its core network operations and in its provision of enhanced network services, cellular services and directories. Despite increasing competition, Telecom's revenue is on a rising trend, and its revenues per access line (NZ$1,567) compare favorably with carriers worldwide.

Listed for three years, Telecom is New Zealand's largest public company by market capitalization.* Bell Atlantic and Ameritech have reduced their majority ownership to 49.6 percent consistent with their commitment to the government when they bought the company. Telecom is also listed on the New York and Australian Stock Exchanges, and its ADRs showed a gross return of 76 percent in 1993. Net earnings grew 15.4 percent to NZ$528.1 million for FY94, with revenue and earnings growth continuing into the first quarter of this financial year. Annualized return on average shareholder's equity for the quarter was 26.4 percent.

Telecom's financial performance reflects its growth strategies and a restructuring program aimed at raising operating efficiency to world standards by March 1997. With staff count down 25 percent during FY94, it has one of the lowest costs per employee. Telecom's capacity utilization (operating revenue/total assets net of cash and short-term investments) is currently 59.1 percent. Says CFO Jeff White: "There will be a definite push to raise asset utilization."

Telecom remains the country's premier corporate credit risk, rated Aa1 by Moody's on New Zealand dollar-denominated debt.

Using the most advanced communications technology, Telecom's network is 97 percent digital and the company is introducing new, value-added services. Substantial growth will come from increasing customer utilization of these services to levels achieved in mature markets such as North America, making this a high priority in Telecom's business strategy. Annual growth rates in Telecom's cellular business, above 45 percent, are among the world's fastest.

Telecom is pursuing opportunities in entertainment services and information technology. It has a pilot scheme to supply video and other services to homes on fiber optic cable and a fast growing business in the convergence of IT and telecommunications.

Telecom also has a growing facilities management business in Australia, through 51 percent-owned Pacific Star Communications. It has undertaken management and consulting projects in many Asian and Pacific nations as part of a low-risk strategy for establishing a presence in selected, fast-growing economies.

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**(Note: Bell Atlantic and Ameritech do not guarantee Telecom's securities.)*

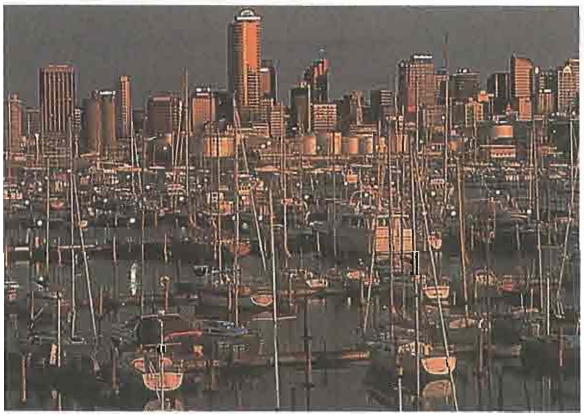
NEW ZEALAND TOURISM BOARD

REALIZING ITS GROWTH POTENTIAL

The 1990s are shaping up as a profitable and exciting decade for New Zealand tourism. The rapid growth in New Zealand tourism industry is resulting in plenty of scope for tourism investment in New Zealand.

Tourism, arguably New Zealand's major industry, has been growing by 8 percent annually over the last ten years, twice the world average. The World Tourism Organization predicts growth for the Asia-Pacific region at 6.8 percent a year throughout this decade, almost twice the rate of 3.6 percent predicted for world tourism growth in the same period. Total international visitor arrivals for the year ended June 1994 were 1.2 million, a 12 percent increase over the previous year, while international holiday visitors increased by 18 percent.

Asian countries continue to be the growth leaders in visitor arrivals, and aggressive promotion and marketing in these markets is providing further impetus. For 1993, the number of Asian visitors was 169,315, up 45 percent over 1992. The biggest increases came from Korea and Taiwan, with 114 percent and 79 percent, respectively. Hong Kong and Singapore are also of major importance to New Zealand. The European market was up 12 percent, with



Westhaven Marina at dusk, Auckland.

the number of German visitors increasing 23 percent to 561,623. After a downturn in 1992, the lucrative North American market has increased by 10 percent with total visitors from the U.S. up 11 percent to 152,424.

The New Zealand Tourism Board and the tourism industry are keen to encourage an appropriate mix of international visitors from the existing well-developed markets and emerging markets. Tourism potential is underlined by the fact that New Zealand currently attracts only an estimated 1 percent of the gross output generated by travel and tourism worldwide. Carefully targeted marketing strategies of the New Zealand Tourism Board, improving domestic economies in New Zealand's major visitor markets, are expected to contribute to continuing growth in New Zealand's tourism industry.

Other reasons for this positive outlook include the facts that: New Zealand is located in the fastest growing tourism region in the world. There is more long-haul travel from Northern Hemisphere markets. Interest in the natural environment is increasing worldwide. The growing demand for different cultural experiences and the unique culture of the Maori, a major aspect of New Zealand's heritage, enhances the country's appeal to the travelers. A trend toward independent travel suits New Zealand's style of tourism, while the trend towards more frequent, short holidays fits well with New Zealand's wide variety of spring, summer, autumn and winter holiday options.

Not only are increasing numbers of visitors coming to New Zealand, they are spending more while they are here, making tourism New Zealand's major earner of foreign exchange. Total international visitor spending for the year ended June 1994 was US$2.08 billion, up 12.5 percent from the previous year. Combined with domestic tourism earnings, tourism revenues came to US$4.54 billion.

"Tourism has played a significant role in New Zealand's economic turnaround," says Andrew Meehan, deputy chairman of the New Zealand Tourism Board and executive director of Brierley Investments

Golf at the Millbrook Resort in Queenstown.

New Zealand
TOURISM BOARD

Limited. "Tourism is firmly established as New Zealand's leading foreign exchange earner, reflected in the government's increased commitment to funding promotion of New Zealand as a tourist destination."

The New Zealand Tourism Board is aggressively pursuing strategies to treble visitor arrivals by the year 2000 and improve the industry's profitability. The Tourism Board's operations focused on seven key markets with a global network of 15 offshore offices.

New Zealand's sophisticated tourism infrastructure includes modern transport and communications systems, professional tour companies, first-class accommodation and scheduled service from 20 international air carriers. Due to industry growth, however, extensive capital investment will be required in all sectors of the industry.

After average annual growth of 5 percent in occupancy rates in 1991 and 1992, major hotels in the leading visitor destinations of Auckland, Rotorua, Christchurch and Queenstown had average occupancy rates of 70 percent for the year ended June 1994. Improvements in room yield are also becoming evident as higher occupancy and consistent growth in visitor arrivals has reduced the level of discounting within the industry. This trend is expected to become more pronounced in the next two years as limited numbers of new rooms are expected to be added.

New Zealand's hotel sector has seen extensive buying by Asian investors in recent times, with many commencing renovations and refurbishment programs as well as adding new rooms. The industry's performance and growth outlook now warrant the development of new accommodation facilities, not only in traditional tourist centers but also in increasingly popular second-tier destinations such as the Coromandel Peninsula, Nelson/Marlborough, Taupo, Hawkes Bay and the West Coast. Visitors traveling independently now amount to half of all international arrivals, creating new opportunities as vacationers travel more widely around the country.

The types of new investment needed include mixed-use retail, convention and hotel developments in central business district locations, development of destination resorts based on activities like golf and fishing, smaller boutique hotels and lodges, serviced apartments and condominium developments. There are also opportunities for joint ventures and strategic alliances with New Zealand-based transport and attraction operators and tour companies.

Besides marketing New Zealand as a visitor destination, the New Zealand Tourism Board actively promotes and facilitates tourism investment.

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Dockside shops and restaurants in Wellington Harbor.

The view from Coronet Peak near Queenstown.

(continued from page 18)
Buttle Wilson's Frances Loo, is the energy situation. "It is a concern and it is something we are beginning to factor in," she says. "For example, we are now taking a harder look at companies that are more energy-efficient and those which are developing cogeneration capability."

Almost all of New Zealand's local brokerage firms turned bullish on the paper and forest product sectors which include Fletcher Challenge and Carter Holt Harvey as world market prices for pulp rose from US$390 per metric ton to US$620. Worldwide, paper prices are expected to increase by 12 percent over the next year, while substantial increases in log harvest quantity and quality are expected over the ten years.

With domestic demand expected to remain strong because of record-high consumer confidence, and with manufacturing firms increasing production capacity while achieving considerable cost savings in the last two years, analysts also recommend such firms as agrochemicals maker Fernz Corporation and Fisher & Paykel, a manufacturer of white goods.

PROSPECTIVE RETURNS

Equity Markets(1)	Exchange	Current August 15, 1994	Forecast June 30, 1995
New Zealand(2)	NZSE 40	2097.64	2300
U.S.	S&P 500	461.23	530
U.K.	FTSE 100	3009.00	3500
Japan	Topix	1652.38	2000
Hong Kong	Hang Seng	9488.57	10000
Australia	All Ords	2055.70	2300
Germany	FAZ	807.04	905

(1) Forecast for world markets derived through a combination of SOW Group forecasts and efficient market considerations.
(2) New Zealand return includes imputation credits.

Source: Buttle Wilson

Despite the fact that nearly 45 percent of New Zealand's equity market is driven by foreign investors, "the problem that concerns foreign investors most is the lack of liquidity in the market and its low capitalization. No one has any problems with the economic fundamentals," says Robin Clements, chief economist at Buttle Wilson.

An important development in the New Zealand equity market in 1993 was the creation of its first "alphabet stock," a spin-off of Fletcher Forests Division from Fletcher Challenge common stock. Created by CS First Boston as one of the few "pure-play" plantation forestry stocks in the world, "the principal objective was to awaken and focus investor attention on the true value of the company's forests," says Chris Liddell, managing director of CSFB's investment banking division in New Zealand.

For investors in the U.S., two New Zealand firms, Telecom and Fletcher Challenge, have issued ADRs. In addition, there is a mutual fund, the Capstone New Zealand Fund, listed as CNZLX on Nasdaq, which specializes in small to medium-size and recently privatized companies.

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Minimal inflation •

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• *Expanding exports*

• *Sustained GDP growth*

• *No restrictions on fund transfers*

• *Transparent business environment*

• *Equitable treatment of foreign investors*

New Zealand Ministry of Foreign Affairs and Trade

Manatū Aorere

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