

Date: 7 November 2000

Ref: GB

MEMORANDUM

To: New Zealand Trading Permit Holders

From: Greg Boland

SUBJECT: Fletcher Challenge Forests Rights Issues Pending

New Zealand Futures & Options Exchange will be adjusting the Fletcher Challenge Forests equity options on Monday 13th November 2000 in accordance with Contract Specifications for the Exchange Traded Equity Options Contracts (EQO).

On Friday 3rd November NZSE announced:

ISSUER	RATIO	EX DATE	RECORD DATE	5PM	TRADING COMM	TRADING STOP	5PM	APPLN MONEY \$	APPLN DATE	RENUN DATE
FLETCHER FORESTS SHARES	2:1	13/11	10/11		13/11	06/12		\$0.25	08/12	08/12

A FULLY UNDERWRITTEN PRO-RATA RENOUNCEABLE 2:1 RIGHTS ISSUE OF FORESTS PREFERENCE SHARES AT \$0.25 PER SHARE. THE FLETCHER CHALLENGE FORESTS PREFERENCE SHARES WILL BE ISSUED WITHIN FIVE TRADING DAYS OF THE CLOSE OF THE OFFER. THE FLETCHER CHALLENGE FORESTS PREFERENCE SHARES WILL, UPON PAYMENT FOR THESE SHARES, HAVE THE SAME RIGHTS (INCLUDING AS TO VOTING AND DIVIDEND ENTITLEMENTS) AS EXISTING FLETCHER CHALLENGE FORESTS SHARES, EXCEPT THAT THEY WILL RANK IN PRIORITY (AS TO THE AMOUNT OF THEIR ISSUE PRICE OF NZ\$0.25 PER SHARE) TO THE EXISTING FLETCHER CHALLENGE FORESTS SHARES.

THE EXISTING FLETCHER CHALLENGE FORESTS SHARES WILL BE ENTITLED TO THE NEXT NZ\$0.25 PER SHARE ON LIQUIDATION AND THEREAFTER, THE EXISTING FORESTS SHARES AND THE NEW FORESTS PREFERENCE SHARES WILL SHARE EQUALLY ON LIQUIDATION. THE FLETCHER CHALLENGE FORESTS PREFERENCE SHARES WILL AUTOMATICALLY CONVERT (ON A 1 FOR 1 BASIS AT NO COST) INTO FLETCHER CHALLENGE FORESTS SHARES ON THE 5TH ANNIVERSARY OF THEIR ISSUE. SHAREHOLDER APPROVAL WILL BE SOUGHT AT THE AGM ON 02/11/2000, ALLOTMENT DATE ON OR BEFORE 15/12. CODE FOR RIGHTS FFSRA (ISIN NO. NZFLCE0022S3) CODE FOR PREFERENCE SHARES FFSPA (ISIN NZFLCD0001S9) DELAYED DELIVERY ON FFSPA FROM 7/12 TO 15/12.

As in the past the Exchange is proposing to adjust Fletcher Challenge Forests share option contracts using the standard adjustment formulas (normally used for rights issues). The formula will result in the contract size of shares being increased and the strike price decreased as discussed below:

1. Adjustment to contract size:

The contract size will be increased using the “Contract Size Multiplier” (CSM) calculated as follows:

$$\text{CSM} = \frac{(m * \text{WASP}) + (n * \text{WARP})}{(m * \text{WASP})}$$

where: m = number of FF shares held ex date
 n = number of FF shares to be received ex date
 WASP = average weighted share price of FF on ex date
 WARP = average weighted rights price on ex date

Please follow this spreadsheet as an example.

RIGHTS ISSUES EXAMPLE ONLY

Variables :

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	n	for	m	
Terms of rights issue :	2		1	
Number of shares covered by contract - cum rights :			1,000	
Average share price - ex date :			0.35000	WASP
Average rights price - ex date :			0.5000	WARP
Number of options held - cum rights (same series) :			1	
Exercise Price – cum rights :			\$0.90	
			CONTRACT SIZE MULTIPLIER	1.3
			PRICE ADJUSTMENT	0.80000

Calculations :

INCREASE IN SHARES :	300.00	
NEW CONTRACT SIZE :	1,300 Shares	1200
STRIKE PRICE ADJUSTMENT FACTOR :	0.800	

1 **0.90 CALL (for 1000 shares)**
 1 **0.72 CALL (for 1300 shares)**

The New Zealand Stock Exchange Weekly Bulletin Number 44 highlights that the ex date is Monday, 13th November 2000 as well as other details of the rights issue.

LISTING OF FS CONTRACT

As with other company restructuring the Exchange has de-listed existing contracts once open interest in far months become zero. NZFOE plans to de-list the current Fletcher Forests contract with the pneumatic FF on or before the end of May 2001. This will occur sooner if open interest in the February and May FF contracts becomes zero.

A new contract for Fletcher Forests with the pneumatic FS will be launched on the evening of Monday, 13th November 2000 for trade date Tuesday, 14th November 2000. The Contract Specifications for the new contract based on 1000 shares per option are set out below. Initial listings will be for February 2001 and May 2001 with strike prices ranging from 10c to 90c at 10c intervals.

If you have any questions regarding this, please contact Greg Boland on (09) 309 8308, 021 428 600 or greg@nzfoe.co.nz

Greg Boland
GENERAL MANAGER

6 NOVEMBER 2000

<u>Contract</u>	Fletcher Challenge Forests Share Options
Option Style	American
Underlying	1000 Shares of Fletcher Challenge Forests
Trading Unit	1000 Shares
Price/Premium Quotation	Quoted in 0.1 cent per share premium
Minimum Price Fluctuation (Tick)	0.1 cents per share = NZD \$1.00 per option
Contract Cycle	3 contract months of the February, May, August and November cycle for options
Last Trading Day	The second to last business day of the contract month. The close of trading is currently prescribed as 16:30 New Zealand time.
First Trading Day/Time	Ten minutes before the market open on the first trading day following the last trading day of the previous contract month.
Strike Prices	Set at intervals of 10 cents apart. 4 Steps either side of the ATM exercise price are initially created New option exercise prices created automatically as the underlying share price moves keeping the range covered at least 4 above or below the ATM exercise price.
Settlement / Exercise	Physical settlement, Expiration settlement price calculated in accordance with NZFOE Equity Options contract specifications. In-the-money options are automatically exercised at expiration, unless specified otherwise by the customer. Option exercise prior to expiry: results in the holder receiving (call) or delivering (put) 1000 shares at the options strike price.
Margin	Margin information (margin calculation, list of collateral, etc) can be obtained from SFECH.
Trading Hours	19:10 – 07:00, 08:00 – 12:00, 13:00 – 16:30 (NZ Time)
Daily Settlement Time	16:30 New Zealand standard time