TARGET COMPANY STATEMENT

IN RESPONSE TO AN OFFER MADE BY H&G LIMITED

Target Company Statement

Statement by the Directors of Rural Equities Limited

to Shareholders

including an Independent Adviser's Report

by Deloitte Corporate Finance

in Response to the Partial Takeover Offer from

H&G Limited

Prepared in accordance with the Takeovers Code

31 May 2004

rural equities LIMITED

STATEMENT FROM RURAL EQUITIES LIMITED

1. Date

This Statement is dated 31 May 2004.

2. Offer

This Statement relates to a takeover offer ("Offer") by H&G Limited ("H&G") for 2,303,551 ordinary shares in Rural Equities Limited ("REL"). Notice of intention to make the Offer was given on 30 April 2004.

3. Target Company

The name of the target company is Rural Equities Limited.

4. Directors of Target Company

The directors of REL are:

(a) Roger Bonifant

(b) David Cushing

(c) Sir Selwyn Cushing

(d) Murray Gough

(e) Brian Martin

(f) Gerald Weenink

5. Ownership of Equity Securities of Target Company

5.1 The number, designation and percentage of equity securities of REL held or controlled by the directors and senior officers of REL and their associates are set out in the table below:

Name of Shareholder	Associate of	Number of Ordinary Shares	Percentage
Sir Selwyn Cushing	DC & BM	203,876	1.38
David Cushing	SC	357,948	2.41
Brian Martin	SC	208,580	1.41
Sir Selwyn Cushing and David Cushing		146,200	0.99
Brian Martin and Sir Selwyn Cushing		92,640	0.62
Sir Selwyn Cushing and Jeanette Jenkins		83,640	0.56
Brian Martin and Sydney Deacon	SC	47,596	0.32
Brian Martin, Jan Snijders and Joan Snijders		110,000	0.74
Ben Cushing	SC & DC	56,568	0.38
Glennis Webber	SC	7,000	0.05
Ashfield Farm Ltd	SC, DC & BM	45,748	0.31
Ashfield Properties Ltd	SC, DC & BM	99,200	0.67
Datastore Systems (NZ) Ltd	BM	15,000	0.10
Fairway Finance Ltd	SC & DC	34,500	0.23
H&G Ltd	SC, DC & BM	3,749,300	25.29
Makowai Farm Ltd	SC, DC & BM	116,092	0.78
Seajay Securities Ltd	SC & DC	174,236	1.18
Suesyd Enterprises Ltd	BM	10,500	0.07
Whakamarumaru Station Ltd	SC	6,432	0.04
A A Bonifant	RB	1,000	0.01
M E Gough	MG	46,252	0.31
Gerald Weenink, J M Weenink and A D McBeth		37,404	0.25
Brian Burrough (Chief Executive Officer), S E Burrough and S M Burrough		9,060	0.06
Owen Trimmer (Chief Financial Officer) and M L Trimmer		21,296	0.14
James Wright (Company Secretary) and A M Wright		20,296	0.14

Legend: SC = Sir Selwyn Cushing
DC = David Cushing
BM = Brian Martin
RB = Roger Bonifant
MG = Murray Gough

5.2 To the knowledge of REL, there are no persons other than H&G holding or controlling more than 5% of the ordinary shares of REL.

5.3 No equity securities of REL were issued by REL to directors or senior officers of REL or their associates during the two year period before the date of this Statement.

6. Trading in Target Company Equity Securities

All of the shares referred to in clause 5 were transferred to the relevant shareholder by Williams and Kettle Limited ("W&K") in accordance with a Court approved Scheme of Arrangement ("Scheme of Arrangement") which took effect on 27 February 2004. The price at which the shares were transferred under the Scheme of Arrangement was not a cash consideration but the issue of four shares in REL for every one share in W&K repurchased from that shareholder.

7. Acceptance of Offer

As at the date of this Statement none of the directors and senior officers of REL or their associates listed in the table in paragraph 5.1 of this Statement intend to accept the offer.

8. Ownership of Equity Securities of Offeror

8.1 REL does not hold or control any equity securities of any class in H&G.

8.2 Sir Selwyn Cushing holds 50% of the equity securities of H&G. David Cushing owns 50% of the equity securities of H&G.

8.3 None of the other directors or senior officers of REL or their associates hold or control any equity securities of H&G.

9. Trading in Equity Securities of Offeror

No equity securities of H&G were acquired or disposed of by any director or senior officer of REL or their associates during the six month period before the date of this Statement.

10. Arrangements between Offeror and Target Company

There are no agreements or arrangements whether legally enforceable or not made or proposed to be made between H&G or any associates of H&G and REL or any related company of REL in connection with, in anticipation of, or in response to the Offer.

11. Relationship between Offeror and Directors and Officers of Target Company

11.1 There are no agreements or arrangements whether legally enforceable or not made or proposed to be made between H&G or any associates of H&G and any of the directors or senior officers of REL or any related company of REL.

11.2 Sir Selwyn Cushing, David Cushing and Brian Martin are directors of both H&G and REL. There are no other directors or senior officers of REL who are also directors or senior officers of H&G.

12. Agreement between Target Company and Directors and Officers

There are no agreements or arrangements whether legally enforceable or not made or proposed to be made between REL or any related company of REL and any of the directors or senior officers or their associates of REL or its related companies under which a payment or other benefit may be made or given by way of compensation for loss of office or as to the remaining in or retiring from office in connection with, in anticipation of, or in response to the Offer.

13. Interests of Directors and Officers of Target Company in Material Contracts of Offeror

No directors or senior officers of REL or their associates or its substantial security holders has an interest in any material contract to which H&G or any related company of H&G is a party.

(We note however that REL has a Service Provision Agreement with W&K. The details of this are provided in section 4.3 of the Deloitte Corporate Finance report a copy of which is included in this booklet. H&G is a substantial shareholder of both W&K and REL and the three directors of H&G are also directors of W&K and REL.)

14. Recommendation

14.1 The Independent Directors of REL, Roger Bonifant, Murray Gough and Gerald Weenink have considered the H&G offer and the report by Deloitte Corporate Finance as independent advisers on the H&G offer. The Takeovers Code requires directors to do one of the following –

(a) recommend that shareholders accept the offer;

(b) recommend that shareholders reject the offer; or

(c) state that directors are not making or are unable to make a recommendation with respect to the offer (in which case directors may propose to revisit their decision not to make a recommendation in the future and may recommend that shareholders do not accept the offer in the meantime).

Since receiving the H&G offer, notice of an intention to make an alternative offer of $1.50 for 100% of REL shares has been received from St Laurence Equities Limited (St Laurence). The notice states that the intended offer is conditional upon receiving acceptances which will result in St Laurence holding more than 50% of the REL shares on issue. REL will shortly appoint an independent adviser on the St Laurence offer, and has expanded the role of the Independent Directors to include consideration of the St Laurence Offer.

REL expects that the independent adviser's report on the St Laurence offer will include an analysis of the relative merits of the two competing offers. Upon receipt of that report the Independent Directors will consider the advice they wish to give to shareholders.

IN LIGHT OF THE RECENTLY RECEIVED ST LAURENCE OFFER THE INDEPENDENT DIRECTORS HAVE DECIDED:

(a) NOT TO MAKE A RECOMMENDATION TO SHAREHOLDERS IN RESPECT OF THE H&G OFFER AT THIS TIME;

(b) TO RECONSIDER WHETHER OR NOT TO MAKE A RECOMMENDATION ON THE H&G OFFER ONCE THEY ARE IN A POSITION TO CONSIDER AND PROVIDE ADVICE ON THE RELATIVE MERITS OF THE H&G AND THE ST LAURENCE OFFERS.

(c) TO PROVIDE THEIR ADVICE IN SUFFICIENT TIME FOR SHAREHOLDERS TO ACCEPT THE H&G OFFER IF THEY SO WISH BEFORE ITS EXPIRY ON 24 JUNE 2004; AND

(d) TO STRONGLY RECOMMEND TO SHAREHOLDERS THAT THEY TAKE NO ACTION ON THE H&G OFFER OR THE ST LAURENCE OFFER IN THE MEANTIME.

14.2 Sir Selwyn Cushing, David Cushing and Brian Martin are directors of H & G and for that reason they have abstained from consideration of a recommendation in respect of the H & G offer.

14.3 St Laurence has advised us that it intends to send its offer to shareholders on 4 June 2004 or shortly after that date. We will endeavour to have the independent adviser's report and REL's target statement in respect of the St Laurence offer sent to shareholders as close as possible to the date on which St Laurence mails its offer.

In the meantime, we encourage Shareholders to read carefully this Statement and the Deloitte Corporate Finance independent adviser's report on the H&G offer, and to seek independent advice if unsure about the information presented to them or about what action to take.

15. Actions of Target Company

15.1 No material arrangements or agreements of REL or its related companies have been entered into as a consequence of, in response to, or in connection with, the Offer.

15.2 No negotiations are underway as a consequence of, in response to, or in connection with, the Offer that relate or could result in:

(a) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving REL or any of its related companies; or

(b) the acquisition or disposition of material assets by REL or any of its related companies; or

(c) an acquisition of equity securities by, or of, REL or any related company of REL; or

(d) any material change in the equity securities on issue, or policy relating to distributions, of REL.

16. Equity Securities of Target Company

REL has 14,825,260 ordinary shares being the only class of equity securities REL has on issue. The ordinary shares rank pari passu and each ordinary share carries an equal right to vote and to any distribution including a capital distribution. There are no options or rights to acquire equity securities in REL.

17. Financial Information

17.1 Each shareholder to whom the Offer is made is entitled to obtain from REL a copy of its 2003 annual report ("annual report") being the most recent annual report of REL. That report was prepared under the previous name of the company (New Zealand Rural Properties Limited) for its then sole shareholder, W&K.

17.2 Since the date of the annual report there have been a number of material changes in the financial and trading position and prospects of REL which are summarised below:

On 27 February 2004:

- REL paid a cash dividend of $2,020,000 to its sole shareholder, W&K.
- REL made a bonus issue of one share to its sole shareholder, W&K for nil consideration. Pursuant to the Income Tax Act 1994, REL elected that:
    - the bonus issue be a taxable bonus issue,
    - $927,848.51 be treated as a dividend,
    - the dividend be fully imputed by attaching imputation credits of $457,000.
- REL acquired 13,727,716 units in the New Zealand Rural Property Trust from W&K for $20,454,297, settlement effected by issuing 32,628,210 REL shares to W&K with the balance of $6,000,000 paid in cash. The $6,000,000 cash was borrowed by REL from the Bank of New Zealand under a multi facility agreement.
- REL consolidated the number of REL shares on issue to 14,825,260.
- Following these transactions W&K, pursuant to the Scheme of Arrangement, transferred all of its REL shares to W&K shareholders in consideration for W&K repurchasing shares in W&K from those shareholders.
- A Service Provision Agreement became effective between REL and W&K pursuant to which W&K provides management services to REL.

18. Independent Advice on Merits of Offer

Deloitte Corporate Finance has been appointed by REL as an independent adviser to provide a report under Rule 21 of the Takeovers Code. A copy of the full report is included in this booklet.

19. Sales of Unquoted Equity Securities Under Offer

On 27 February 2004 W&K transferred 14,825,260 ordinary shares in REL to shareholders of W&K in consideration for W&K repurchasing shares in W&K from those shareholders. To the knowledge of REL, since the implementation of the Scheme of Arrangement the following dispositions of ordinary shares have been undertaken at the consideration listed:

Date	Number of Shares	Consideration $
15 March 2004	84	0.85
	3,640	0.90
	6,512	1.05
16 March 2004	3,000	0.83
	1,500	1.00
	3,600	1.05
17 March 2004	10,884	1.05
	10,000	1.10
22 March 2004	44	0.90
	312	0.98
	4,600	1.05
23 March 2004	800	0.95
	52	0.98
	552	1.00
	31,168	1.05
24 March 2004	3,292	1.00
	26,224	1.05
25 March 2004	200	1.05
26 March 2004	5,200	1.05
29 March 2004	2,556	1.05
31 March 2004	1,200	1.05
1 April 2004	500	1.05
2 April 2004	5,480	1.05
5 April 2004	9,676	1.05
6 April 2004	1,220	1.05
7 April 2004	1,732	1.05
8 April 2004	6,748	1.05
14 April 2004	428	1.05
15 April 2004	100	1.05
16 April 2004	324	1.05

Date	Number of Shares	Consideration $
19 April 2004	112	1.00
	9,032	1.05
20 April 2004	2,028	1.05
	49,560	1.06
23 April 2004	1,644	1.05
26 April 2004	8,664	1.05
27 April 2004	4,452	1.05
28 April 2004	27,040	1.05
30 April 2004	15,440	1.05
3 May 2004	1,992	1.20
4 May 2004	2,000	1.05
	1,000	1.08
5 May 2004	500	1.10
	508	1.15
	250,000	1.24
7 May 2004	5,000	1.23
10 May 2004	2,000	1.23
	19,319	1.25
12 May 2004	3,700	1.25
14 May 2004	60	1.05
	1,700	1.22
	10,692	1.25
18 May 2004	8,032	1.22
19 May 2004	268	1.22
20 May 2004	15,512	1.22
21 May 2004	22,240	1.26
	3,072	1.30
	100,000	1.35
25 May 2004	2,000	1.30
	5,000	1.35

20. Approval of Target Company Statement

The contents of this Statement, with the exception of paragraph 14, have been approved by the board of directors of REL. Sir Selwyn Cushing, David Cushing, and Brian Martin have abstained from voting on the decision to make no recommendation at this stage (see paragraph 14.2).

21. Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by REL under the Takeovers Code.

Roger Bonifant
Director

Brian Burrough
Chief Executive Officer

Murray Gough
Director

Owen Trimmer
Chief Financial Officer

Deloitte.

Corporate Finance

Independent Adviser's Report

In Respect of the Partial Takeover Offer by H&G Limited for Rural Equities Limited

May 2004

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Abbreviations and Definitions

Ascot	Ascot Management Corporation (NZ) Limited
Code	Takeovers Code
CPI	Consumer Price Index
DCF	discounted cash flows
Deed	the Trust's Deed of Modification dated 5 October 1999
Fonterra	Fonterra Co-operative Group Limited
H&G	H&G Limited
H&G Associates	certain associates of H&G who collectively hold 1,374,604 REL shares
H&G Offer	the partial takeover offer by H&G for 2,303,551 shares in REL
Independent Directors	the directors of REL not associated with H&G
IRD	Inland Revenue Department
Management Contract	the management contract between the Trustee and the Manager
Manager	New Zealand Rural Property Trust Management Limited
NAV	net asset value
Non-associated Shareholders	the REL shareholders not associated with H&G
NZX USM	New Zealand Exchange Unlisted Securities Market
REL	Rural Equities Limited
Service Provision Agreement	Service Provision Agreement between REL and W&K dated 19 January 2004
ShareMart	the ShareMart exchange
Specified Percentage	20.8%, being the percentage of the REL shares not directly owned by H&G, which H&G seeks to acquire under the H&G Offer
St Laurence	St Laurence Equities Limited
St Laurence Offer	the full takeover offer by St Laurence for 100% of the shares in REL
Surplus Shares	acceptances of the H&G Offer in excess of their Specified Percentage of shares
Trust	New Zealand Rural Property Trust
Trustee	The New Zealand Guardian Trust Company Limited
Unlisted	the Unlisted internet-based trading facility
VWAP	volume weighted average share / unit price
W&K	Williams & Kettle Limited

1. Introduction

1.1 Background

Rural Equities Limited ("REL") is a rural property investment and management company. It owns all of the shares in New Zealand Rural Property Trust Management Limited (the "Manager") which is the manager of New Zealand Rural Property Trust (the "Trust"). REL and the Manager hold approximately 32% of the units in the Trust.

REL's shares are traded on the ShareMart exchange ("ShareMart") and the Unlisted internet-based trading facility ("Unlisted"). It had a market capitalisation of approximately $16 million as at 26 April 2004 and unaudited total equity of approximately $19 million as at 31 March 2004.

The Trust holds a portfolio of rural property, forests and farmland assets. Its units are traded on ShareMart and Unlisted. It had a market capitalisation of approximately $56 million as at 26 April 2004 and unaudited total unitholders' funds of approximately $103 million as at 31 December 2003.

H&G Limited ("H&G") is an investment company owned by Sir Selwyn Cushing and David Cushing. H&G currently holds 3,749,300 fully paid ordinary shares in REL, representing approximately 25.3% of the 14,825,260 REL shares currently on issue.

1.2 H&G Offer

H&G announced on 26 April 2003 that it intended to make a partial takeover offer under the Takeovers Code (the "Code") for 2,303,551 fully paid shares in REL (the "H&G Offer").

H&G sent a Notice of Intention to Make an Offer to REL on 30 April 2004. The key terms of the H&G Offer are:

- the cash consideration is $1.25 per REL share; and
- the offer is conditional on H&G receiving acceptances that, when taken together with the REL shares already held by H&G and certain associates of H&G (the "H&G Associates"), will confer on H&G together with the H&G Associates 50.1% of the voting rights in REL.

Number of Shares Sought

H&G currently holds approximately 25.3% of the REL shares. The H&G Associates hold a further 9.3% of REL's shares. Accordingly, the combined holding of H&G and the H&G Associates is currently approximately 34.6%. H&G is seeking to acquire a further 15.5% interest in REL under the H&G Offer.

Number of Shares Sought Under the H&G Offer

	No of Shares	% of Total
Current Shareholding		
- H&G	3,749,300	25.3%
- H&G Associates	1,374,604	9.3%
Total	5,123,904	34.6%
Sought Under the H&G Offer	2,303,551	15.5%
	7,427,455	50.1%

The 2,303,551 REL shares sought by H&G represents approximately 20.8% of the REL shares not currently owned directly by H&G (the "Specified Percentage").

In accordance with the Code, each REL shareholder is entitled to sell to H&G the Specified Percentage of the REL shares they hold (i.e. 20.8% of their REL shares).

To the extent that REL shareholders do not accept the H&G Offer for 20.8% of their shares, H&G is entitled to accept acceptances from REL shareholders who wish to sell more than 20.8% of their REL shares.

The H&G Associates will not be accepting the H&G Offer. Accordingly, those REL shareholders not associated with H&G (the "Non-associated Shareholders") will be entitled to sell to H&G more than 20.8% of their REL shares if they wish.

If H&G receives acceptances from Non-associated Shareholders in excess of their Specified Percentage ("Surplus Shares"), then H&G will take up from each accepting REL shareholder a sufficient number of Surplus Shares to enable it to reach its target level of 2,303,551 shares. The number of Surplus Shares acquired from each such REL shareholder will be proportionate to the total number of Surplus Shares offered to H&G.

H&G cannot accept more or less than 2,303,551 REL shares under the H&G Offer.

Conditional Offer

The H&G Offer is conditional upon H&G receiving acceptances for 2,303,551 REL shares, thus increasing its direct shareholding to 6,052,851 shares (approximately 40.8% of the REL voting rights) and the combined shareholding with H&G Associates to 7,427,455 shares (approximately 50.1% of the REL voting rights).

H&G cannot waive this condition. It cannot take up any REL shares under the H&G Offer unless this condition is satisfied by the date the offer closes.

The H&G Offer is also conditional upon approval being obtained (under Rule 10(1)(b) of the Code) to H&G making an offer for approximately 20.8% of the REL shares it currently does not own. This requires the approval of greater than 50% of the votes cast on this matter. H&G and the associates of H&G may not vote on the matter. H&G cannot waive this condition.

The H&G Offer is also subject to conditions in respect of the prohibition of:

- the payment of dividends, bonuses and distributions;
- share subdivisions, consolidations or buybacks; or
- alterations to REL's constitution.

Offer Dates

The record date for the offer is 18 May 2004. H&G intends to send its Offer Document to REL's shareholders no later than 28 May 2004. The offer closes on 24 June 2004 (unless extended by H&G in accordance with the provisions of the Code).

1.3 H&G's Stated Intentions

H&G has not made any public statements as to its rationale for the partial offer or its intentions for REL should its offer succeed, other than to state that it "does not currently intend to make any material changes in respect of the business activities of REL and its subsidiaries."

1.4 Alternative Offer

St Laurence Equities Limited ("St Laurence") announced on 20 May 2004 that it intended to make a full takeover offer for REL (the "St Laurence Offer"). The offer is for 100% of the shares in REL at a consideration of $1.50 per share payable in cash. The offer is conditional on St Laurence receiving acceptances which will result in it holding more than 50% of REL's shares.

1.5 Regulatory Requirements

Rule 6 of the Code prohibits a shareholder who holds or controls more than 20% of the voting rights in a code company from increasing its shareholding unless it complies with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(b) of the Code, enables a shareholder to increase its shareholding beyond 20% of the voting rights by making a partial offer for a specified percentage of the shares of the target company.

Rule 21 of the Code requires the directors of a target company to obtain an Independent Adviser's Report on the merits of the offer. This Independent Adviser's Report is to be included in the Target Company Statement required to be sent to the target's shareholders pursuant to Rule 46 and Schedule 2 of the Code.

1.6 Purpose of the Report

The independent directors of REL, being those directors not associated with H&G (the "Independent Directors"), have engaged Deloitte Corporate Finance to prepare an Independent Adviser's Report on the merits of the H&G Offer in accordance with Rule 21 of the Code.

Deloitte Corporate Finance has been approved by the Takeovers Panel to prepare the Independent Adviser's Report.

Deloitte Corporate Finance issues this Independent Adviser's Report to assist REL's shareholders in forming their own opinion on whether or not to accept the H&G Offer. We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the H&G Offer in relation to each shareholder. This report on the merits of the H&G Offer is therefore necessarily general in nature.

The Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

This Independent Adviser's Report is in respect of the H&G Offer only. A separate Independent Adviser's Report will be prepared in respect of the St Laurence Offer.

2. Evaluation of the Merits of the Takeover Offer

2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the H&G Offer. There is no legal definition of the term "merits" in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of "merits", guidance can be taken from:

- the Takeovers Panel guidance note on the role of independent advisers dated July 2003;
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- overseas precedents; and
- the ordinary meaning of the term "merits".

The New Zealand regulations[1] and overseas regulations[2] focus primarily on fairness and reasonableness rather than "merits" and as such are of limited assistance.

The New Collins Concise Dictionary of the English Language defines the term "merit" as "the actual and intrinsic rights and wrongs of an issue, especially in a law case." Black's Law Dictionary defines "merit" as "the substance, elements or grounds of a cause of action or defence." These definitions imply that the essential elements of an issue should be considered as well as the issue itself, and an assessment is then made of the associated advantages and disadvantages of the issue in relation to the relevant party.

Therefore, in addition to reviewing the fairness to REL's shareholders of the consideration offered by H&G for their REL shares, we are required to address other matters in relation to the H&G Offer which may, or may not, be meritorious to REL's shareholders. These include a consideration of:

- the implications of the conditions attached to the H&G Offer;
- other advantages and disadvantages to REL's shareholders associated with the H&G Offer; and
- alternative options available to REL's shareholders, including not proceeding with this transaction or possible alternative transactions.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

[1] *NZX Listing Rules (especially Rule 4.8.4(c) (iv)) and Guidance Note No. 10 issued by the Institute of Chartered Accountants of New Zealand ("Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders").*

[2] *Policy Statements 74 and 75 and Practice Note 43 issued by the Australian Securities and Investment Commission and Rule 3 of the City Code (City of London).*

2.2 The H&G Offer is Fair

In our opinion, the H&G Offer is fair. The H&G Offer is a partial offer which, if successful, will result in H&G, with the H&G Associates, controlling 50.1% of the voting interests in REL. We assess the fair market value of a 50.1% interest in REL to be in the range of $1.21 to $1.46 per share. This value is for 50.1% of REL and includes a premium for control but does not represent the full underlying value of REL.

The H&G Offer is a partial offer. If successful, it will increase H&G's control over the voting rights in REL to 50.1%. As such, it will have a high degree of control over REL, but it will not have absolute control that a 100% shareholding would offer.

As the value of the consideration offered of $1.25 per share is within our valuation range for a 50.1% interest in REL, we conclude that the H&G Offer is fair.

The H&G Offer of $1.25 per share represents:

- a premium of 19% over the closing price of $1.05 on 23 April 2004; and
- a premium of 20% over the volume weighted average share price ("VWAP") of $1.04 for the two months prior to the announcement.

REL shares have traded in the range of $1.05 to $1.25 since the announcement of the H&G Offer on 26 April 2004 up to the announcement of the St Laurence Offer on 20 May 2004. REL's shares have traded in the range of $1.26 to $1.35 since 20 May 2004.

H&G currently holds approximately 25.3% of REL's shares and with the H&G Associates controls approximately 34.6% of REL's shares. It has three directors (out of six) on the REL board. At this point in time, H&G can (subject to certain voting restrictions) single-handedly block special shareholders' resolutions and most likely can single-handedly pass ordinary shareholders' resolutions (as often a percentage of shareholders do not vote, thus increasing the relative weight of the major shareholding). Accordingly, H&G already has significant control over REL. In these circumstances it may be reasonable to expect that a bidder will not pay a significant premium to further its control of the target. We are of the view that the consideration offered by H&G is fair as it falls within our assessed range of the fair market value of a 50.1% interest in REL.

2.3 Alternative Offers

REL has received an alternative offer in the form of the St Laurence Offer. The St Laurence Offer differs from the H&G Offer in the following key areas:

- the St Laurence Offer is a full takeover offer for 100% of the shares in REL whereas the H&G Offer is a (prorata) partial offer;
- the consideration offered by St Laurence of $1.50 per share is higher than the $1.25 offered under the H&G Offer;
- the St Laurence Offer is conditional on it gaining acceptances that will result in it holding more than 50% of REL's shares. The H&G Offer is conditional on H&G gaining acceptances for 20.8% of the outstanding shares of REL and REL's shareholders approving H&G increasing its shareholding to 40.8%.

2.4 Acceptance Level

Offer is for 20.8% of REL's Shares

The H&G Offer is a partial offer and is conditional on H&G receiving acceptances for 2,303,551 shares, representing 20.8% of the outstanding shares of REL. H&G cannot accept more or less than 2,303,551 shares under the H&G Offer. Therefore, if it receives acceptances for less than 2,303,551, the offer will lapse. Likewise, if it receives acceptances for more than 2,303,551 shares, then the acceptances must be scaled down.

Acceptance Level May be Uncertain

H&G currently holds 3,749,300 shares in REL, representing approximately 25.3% of the voting rights. In addition the H&G Associates hold 1,374,604 shares in REL, representing approximately 9.3% of the shares in REL. The H&G Associates have indicated that they will not be accepting the H&G Offer. This means that for the offer to be successful, acceptances must be received in relation to approximately 23.7% of the shares not owned by H&G and the H&G Associates.

If H&G receives acceptances for more than 2,303,551 shares, then the acceptances must be scaled down to this amount. This will mean that shareholders accepting for more than 23.7% of their shares will face uncertainty as to the number of shares they can sell to H&G until the H&G Offer is completed and the total number of acceptances can be determined.

Dependent on Large Number of Individual Acceptances

With the exception of H&G, no shareholder owns more than 5% of the REL shares. This means that in order for the H&G Offer to be successful, acceptances must be received from a large number of individual shareholders.

Success of the Offer Uncertain

Individual shareholders will not know whether the H&G Offer has been successful until the completion of the offer. If a shareholder accepts the offer, they will be unable to sell the shares subject to the acceptance until the offer is completed. This will be of particular importance if the offer is unsuccessful or if the shareholder's acceptance is scaled down.

2.5 Other Conditions

The H&G Offer is conditional on approval being obtained from REL's shareholders for H&G to make the offer in accordance with Rule 10(1)(b) of the Code. This requires a simple majority of votes cast. H&G and the associates of H&G cannot vote on this matter.

Shareholder approval is required in this instance because if the H&G Offer is successful, H&G's direct shareholding in REL will increase to 40.8%. However, H&G will effectively control 50.1% of REL via its indirect shareholding through the H&G Associates.

In these circumstances, we are of the view that when deciding on how to vote on this matter, Non-associated Shareholders should for all intents and purposes view the issue as whether to approve H&G increasing its effective shareholding to 50.1% rather than the direct shareholding of 40.8%. Therefore the issues discussed below as to the merits of the H&G Offer are directly relevant to the decision as to whether to approve the H&G Offer.

However, we note that there may be instances where Non-associated Shareholders consider it appropriate to approve the H&G Offer even though they do not intend to accept it. There is no compulsion for shareholders who approve the H&G Offer to also accept the H&G Offer. Conversely, it is unlikely that a shareholder who plans to accept the H&G Offer would object to it because if the H&G Offer is not approved under Rule 10(1)(b) of the Code, then it cannot proceed.

We are of the view that the votes on this matter will most likely mirror the level of acceptances of the H&G Offer, i.e. those shareholders accepting the offer will most likely vote in approval. Accordingly, the likelihood of this condition being met is similar to the likelihood of H&G receiving sufficient acceptances. However, there is a possibility that a sufficient proportion of non-accepting shareholders vote against the resolution such that the condition is not met.

The H&G Offer is also conditional on various matters such as REL not paying any dividends during the period that the offer is open and not altering its constitution. We do not believe that these conditions are of an onerous nature such that they pose an impediment to the possible success of the offer.

2.6 H&G's Intentions

H&G motives for making the partial offer are not fully apparent. It has not publicly stated its rationale for making the partial offer nor its intentions for REL should the offer succeed, other than to say that it does not currently intend to make any material changes to REL's business activities.

In the absence of any definitive comment from H&G, it is difficult to ascertain whether the success of the H&G Offer and the resulting increase in H&G's control over REL will have positive and / or negative implications for the REL business.

2.7 Implications of the H&G Offer Succeeding

Increased Control by H&G over REL and the Trust

In the event that the H&G Offer is successful, H&G together with the H&G Associates will control 50.1% of the voting rights in REL and will have three directors (out of six) on the REL board. H&G together with the H&G Associates will be able to single-handedly pass ordinary resolutions and its ability to pass special resolutions will have increased significantly.

Furthermore, by virtue of its control of REL, H&G will have significant control over the Trust. It will effectively control the Manager, which is wholly-owned by REL. H&G will also control REL's strategic 31.9% interest in the Trust, in conjunction with its direct and indirect interests in the Trust.

While H&G will have increased control over REL, it cannot act in an oppressive manner against minority shareholders. The Companies Act 1993 provides a level of protection to minority shareholders.

H&G Cannot Increase Its Shareholding Without Making Another Offer and/or Obtaining Shareholder Approval

If the H&G Offer succeeds, H&G's interest in REL will increase to 40.8%. The Code prohibits a 40.8% shareholder from increasing its shareholding in a company, unless it does so under one of the following ways:

- by a full takeover offer;
- by a partial takeover offer;
- by acquisition of shares if the acquisition is approved by an ordinary resolution; or
- by the allotment of shares if the allotment is approved by an ordinary resolution.

The 40.8% shareholder may not vote on such an ordinary resolution.

Accordingly, H&G will not be able to increase its shareholding in REL beyond 40.8% unless it makes another offer (either partial or full) or it receives shareholder approval by way of an ordinary resolution for it to purchase certain parcels of existing REL shares or to be allotted new REL shares. In such circumstances, H&G will not be permitted to vote on such an ordinary resolution. In addition, the associates of H&G could not vote on such an ordinary resolution.

H&G will not be able to purchase any REL shares via private treaty, ShareMart or Unlisted without shareholder approval. In fact, this is the case for H&G at present as it currently holds 25.3% of REL's shares. Accordingly, H&G's status in respect of acquiring shares on-market will not change if the H&G Offer succeeds. What does change however is that H&G and the H&G Associates will control 50.1% of REL's shares. In such circumstances, the likelihood of H&G making another partial offer or a full offer may diminish as it will have increased its level of control over REL and may not be inclined to further increase its control.

Liquidity of REL Shares Likely to Decrease

REL shares are thinly traded. If the H&G Offer is successful, the size of the pool of shares held by Non-associated Shareholders will decrease. This will likely lead to a further reduction in the liquidity of the REL shares and hence may suppress the price at which the shares trade.

Likelihood of Further H&G Offer Reduces

If H&G and the H&G Associates succeed in reaching the 50.1% shareholding level, its level of control over REL will increase. This could reduce H&G's inclination to further increase its shareholding in REL via another offer. Furthermore, if H&G did make an offer for further shares in REL, it may not offer as large a control premium as another bidder might, as H&G may value its offer on the basis that it already has significant control of REL and hence does not need to pay a control premium of any significance.

We note that H&G has not provided any indication (and nor does it have to) as to whether it may seek to increase its shareholding above 40.8%.

Likelihood of Other Offers Reduces

If H&G and the H&G Associates control 50.1% of the voting rights in REL, this will significantly reduce the attraction of REL as a takeover target. Any bidder looking to take over REL would need to ensure that H&G and the H&G Associates would accept its offer. This creates a greater difficulty than if the shares in REL were widely held and accordingly this will reduce the likelihood of other takeover offers.

No Change in Business Risk

If the H&G Offer succeeds, shareholders are unlikely to face any material change in business risk. As the offer is a partial offer, shareholders will still retain an interest in REL. H&G has stated that it currently has no intention to materially change the nature of REL's operations if its offer is successful.

2.8 Implications of the H&G Offer Not Succeeding

REL Share Price May Drop

In the event that H&G is unsuccessful in gaining acceptances in respect of at least 2,303,551 shares in REL, then the H&G Offer will lapse. In the absence of an increased offer from H&G or any alternative higher offer (such as the St Laurence Offer), the minority traded share price of REL will most likely drop following the expiry of the H&G Offer. While we have assessed the value of the REL shares to be in the range of $1.21 to $1.46, this represents the pro-rata value of 50.1% of the shares and accordingly includes a premium for control. We expect that minority parcels of shares would trade at a discount to these values in the absence of a takeover offer.

H&G's Response is Unknown

If the offer is unsuccessful, H&G will either let its offer lapse and continue to hold 25.3% of REL's shares, undertake a new partial or full takeover offer under new terms or potentially exit its shareholding in REL. H&G has not indicated its intention should the offer be unsuccessful.

2.9 Likelihood of Alternative Offers

St Laurence Offer

REL will be issuing a separate Target Company Statement in relation to the St Laurence Offer. This statement will include an Independent Adviser's Report on the merits of the St Laurence Offer. The H&G Offer will remain open until 24 June 2004 (unless extended by H&G). The Independent Directors expect to issue their Target Company Statement in respect of the St Laurence Offer before the H&G Offer closes. We can see no benefit to Non-associated Shareholders accepting the H&G Offer before REL's Target Company Statement in respect of the St Laurence Offer is issued.

We recommend that any decision in relation to the acceptance of the H&G Offer or the St Laurence Offer be delayed until shareholders receive further advice from the Independent Directors.

Other Offers

H&G and the H&G Associates' current shareholding of 34.6% creates a significant impediment to an alternative offer. As evidenced by the St Laurence Offer, an alternative and higher offer could be made for REL. However, it would be difficult for any other bidder to achieve control of REL, without H&G's support.

2.10 Advantages of Accepting the H&G Offer

Shareholders Will Receive $1.25 per Share if Offer is Successful

Acceptance of the H&G Offer will enable shareholders to realise cash of $1.25 per share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of Surplus Shares, if the H&G Offer is declared unconditional.

Depending on the size of the individual shareholder's parcel of shares, the ability to dispose of at least the Specified Percentage of shares may represent an exit opportunity not currently available on the open market for REL's shares as they are currently thinly traded.

However, the St Laurence Offer may provide an opportunity for shareholders to sell their shares at $1.50.

If the 50.1% threshold is not reached, then the H&G Offer will lapse and any accepting shareholders will continue to own their existing interest in REL.

2.11 Disadvantages of Accepting the H&G Offer

Reduction in Interest in REL

If the H&G Offer is successful, accepting shareholders will hold smaller shareholdings in a company whose shares are now likely to be traded less regularly.

By reducing their proportionate interest in REL, accepting shareholders will not participate to the same extent in any appreciation in the value of the REL shares as a result of improved performance or new takeover offers at a higher price.

Inability to Transact Accepting Shares

If an individual shareholder accepts the H&G Offer and the offer is not successful, they will continue to hold their existing shares in REL. However, until the expiry of the offer period this shareholder will be unable to dispose of the shares for which they have accepted the H&G Offer, either by selling on-market or by accepting an alternative offer.

2.12 Implications of Not Accepting the H&G Offer

Offer May Lapse

If insufficient shareholders accept the H&G Offer then the offer will lapse. The implications of this outcome are discussed above.

Potentially Lower Liquidity and/or Share Price

In the event that certain shareholders do not accept the H&G Offer but the offer is successful, then those shareholders who did not accept the offer will have a proportionately greater percentage of the shares not owned by H&G. A successful offer by H&G will reduce the "free float" of shares in REL which will likely reduce the overall liquidity of REL's shares further.

It is unlikely that an alternative offer will be received from a third party if the H&G Offer is successful and there is no certainty that H&G will pursue a subsequent full takeover offer given its level of control following a successful partial takeover offer. While the share price may remain at levels consistent with the current offer in anticipation of a full offer, the reduced liquidity may impact on this price.

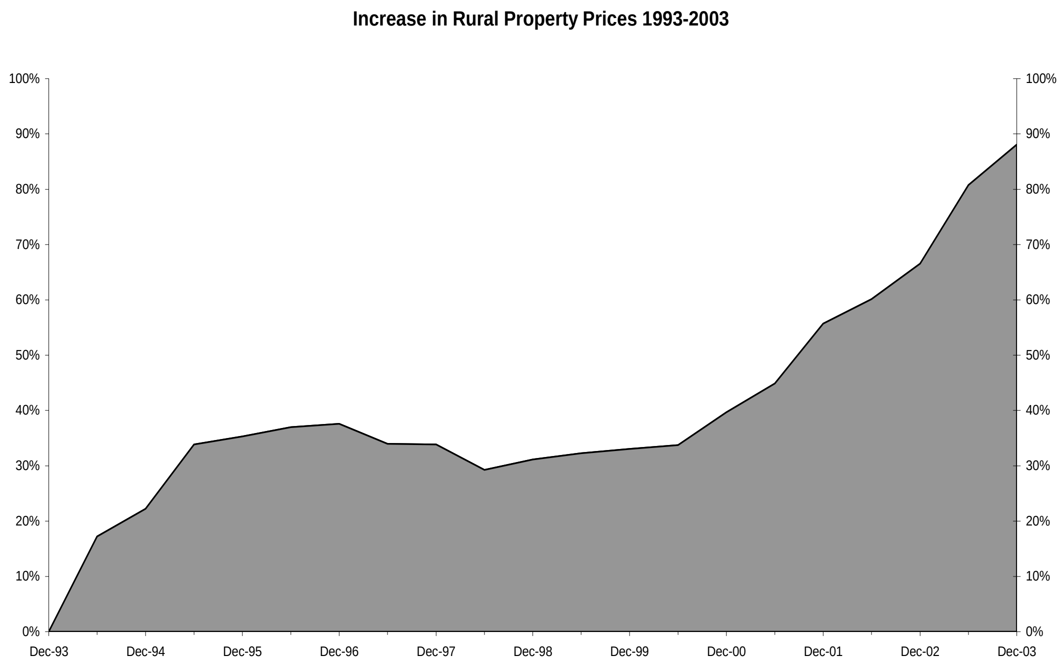
2.13 Acceptance or Rejection of the H&G Offer

Acceptance or rejection of the H&G Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, tax position and other factors. Shareholders will need to consider these factors and consult their own professional adviser if appropriate.

3. Overview of the Rural Property Sector

3.1 Recent Trends

Rural property prices have increased significantly in the past few years. Quotable Value New Zealand statistics show that rural land prices have increased by approximately 88% in the past ten years and approximately 20% in the two years to 30 June 2003.



Source: Quotable Value, Rural Property Sales Statistics, Half Year Ended Dec 2003

The rural economy was buoyant between 2000 and 2002 due to strong export demand, a low New Zealand dollar and good climatic conditions. However, more recently the New Zealand dollar has appreciated against the United States dollar from around US$0.40 in 2001 to around US$0.60 at the present time. This rise has made New Zealand primary exports less competitive and has, among other factors, caused a slowdown in the rural economy. Despite this slowdown in farm returns, rural property prices are currently stable.

3.2 Sector Value Drivers

The key drivers affecting the value of rural property assets and the security of their income streams are detailed below.

Economic Environment

Economic Growth – economic growth drives the level of demand for the various types of property. This includes both historic levels of growth as well as the level of confidence in the economy going forward.

Supply and Demand – the relatively fixed supply of rural properties for sale means the level of demand largely determines prices. This can result in property prices which are not reflective of their income generating capacity.

Investor Confidence – rural property is typically perceived as a safe investment. In times of economic uncertainty there can therefore be an increase in the demand for rural property. This is particularly the case when equity markets are seen as risky.

Dairy Farms – the milk-solid prices farmers receive from their dairy co-operatives affect their income greatly. Returns to farmers were high over the 2000 to 2002 period at over $5 per kilogram of milk-solids due to good international commodity prices and the low New Zealand dollar. However, the rise of the New Zealand dollar since then has caused the payout to drop. The falling returns are likely to cause some downward pressure on property prices.

Dry Stock Farms – the commodity prices received by farmers drive the return for dry stock operations. These commodity prices are determined on international markets. The prices New Zealand farmers receive are highly influenced by exchange rates. International commodity prices for wool, sheep, lamb and beef are relatively high currently with many of these prices achieving multi-year highs within the past year. Overall returns to farmers have suffered from the high New Zealand dollar and returns are expected to soften over the next year. This slowdown is likely to put some pressure on property prices.

Log Prices – log prices and shipping costs are key determinants of returns in the forestry industry. There has been a general downward trend in log prices over the last ten years. This is as a result of increased competition and rises in shipping costs. This has been further compounded by the recent appreciation of the New Zealand dollar.

Exchange Rates

Exchange rates have a significant influence on the value of rural property in two ways. The primary influence is through the effect the exchange rate has on farm produce prices. Increases in the value of the New Zealand dollar relative to its trading partners decreases the returns to farmers, thus theoretically having a flow-on effect in reducing property values. Secondly the exchange rate influences (to some degree) the level of demand by overseas investors for rural property.

Interest Rates

Low interest rates make property owning more affordable. A decrease in interest rates fuels demand throughout the property sector, pushing prices higher. Low interest rates over the past few years have contributed to the recent boom in the property market.

Farming Trends

There has been a recent trend in dairy farming towards farm amalgamation. Farm amalgamation can lead to economies of scale, thus increasing returns to dairy farmers. This trend has seen premium prices being paid for adjoining farms.

Overseas Investment

During 2003, the New Zealand Government announced a review of the Overseas Investment Act in order to provide better protection to sites of special historical, cultural and environmental significance. While the review has only begun recently, there have also been recent moves to increase the Overseas Investment Commission’s involvement in general. These changes are expected to impact demand for rural properties from overseas investors and demand in general.

Climate

Weather conditions can have a significant effect on the variability of returns to farmers. Extreme weather conditions can damage property, wipe out crops or kill livestock, which in turn can have a significant impact on farm returns.

3.3 Ownership / Management Structure

The vast majority of farms in New Zealand are owner/operated. This is particularly the case for dry stock and horticultural farms. In the dairy industry there is comparably more separation between owners and managers with share milking arrangements accounting for approximately 40% of dairy farms. The majority of these arrangements are 50/50 type splits where revenue is split evenly between the farm owner and share milker. Whilst there is a trend towards corporate ownership, particularly in the dairy industry, this form of ownership is still relatively limited.

3.4 Sector Expectations

The boom in rural property prices has recently plateaued. The outlook for farm returns has softened due to the strength of the New Zealand dollar. Forecast dairy payouts are lower and log prices are also expected to be relatively weak as a result of exchange rate pressures.

Despite this, the rural property market remains reasonably strong because of a shortage of good properties and the growing image of rural land as a good financial investment. The shortage of property is therefore holding prices up. While there is some speculation that there is a price bubble developing in rural property, the general consensus is that there will be a plateau effect for rural property prices rather than a downturn.

3.5 Critical Success Factors

Factors that are critical to the success of rural sector property portfolios include:

- asset management of the property portfolio. This includes the ability to effectively manage and develop existing properties by maintaining and growing the productive capacity of the property with a long term view. This also includes ensuring efficient resource allocation as well as ensuring there is an appropriate level of diversification of both farm types and geographical diversity to lower the risk profile of the portfolio;
- acquiring new properties with development potential;
- maintenance of appropriate gearing levels and financial risk management policies including foreign exchange risk management;
- management of portfolio lease profiles specifically focussed on smoothing the “lumpiness” of the lease expiry profile;
- maintenance of relationships with farm managers and leaseholders; and
- recruitment of qualified experienced managers or lessees to ensure the properties are operated on a best use basis whilst maintaining their value through farm maintenance, irrigation and fertilising programs.

4. Profile of Rural Equities Limited

4.1 Background

REL is an investment and management company focused on the New Zealand rural property sector. It was incorporated on 20 October 1989 as New Zealand Farmlands Limited and was established in its current structure as a result of a separation from its parent company Williams & Kettle Limited ("W&K") under a Scheme of Arrangement on 27 February 2004.

The separation of REL from W&K resulted in the establishment of a pure rural property investment and management company. The company's main assets following the Scheme of Arrangement were 13,727,716 units in the Trust and 100% of the shares in the Manager. The Manager holds the contract to manage the Trust (the "Management Contract"). The Manager also holds 1,020,313 units in the Trust.

REL does not have any employees. It contracts with W&K for the provision of the services necessary to operate REL and the Management Contract. The terms of this relationship were established in the Service Provision Agreement between REL and W&K dated 19 January 2004 (the "Service Provision Agreement").

The table below summarises the main events in REL's history.

REL History	
Date	**Event**
Oct 89	REL incorporated as New Zealand Farmlands Limited
Jan 92	REL lists on the New Zealand Stock Exchange
Jun 92	REL acquires the Manager from Ascot Management Corporation (NZ) Limited ("Ascot") for $2.45 million
Oct 96	W&K acquires approximately 72% of REL under a takeover offer
Mar 99	W&K acquires outstanding shares in REL and REL is delisted
1999 to 2001	REL divests its direct ownership interests in farms and livestock
Feb 04	REL is separated from W&K under a Scheme of Arrangement
Apr 04	H&G announces its intention to make a partial takeover offer for 2,303,551 shares in REL, aimed at increasing the interests of H&G and the H&G Associates to 50.1%

4.2 Management Contract

The Management Contract was acquired by REL from Ascot on 30 June 1992 through the acquisition of the Manager.

The terms and conditions of the Management Contract are set out in the Deed of Modification for the Trust (the "Deed") entered into as part of the restructuring of the Trust in October 1999.

The Deed includes the following terms in relation to the Management Contract:

- term – expires on 30 June 2067;
- Manager's role – administration and supervision of the investments of the Trust in the best interests of unitholders.

- removal of manager:
  - the passing of a special resolution by unitholders (75% majority); or
  - the Trustee certifies that it is in the best interests of unitholders that the manager should retire; or
  - the High Court orders that the manager be removed from office pursuant to section 19(1) of the Unit Trusts Act.
- management fees - the majority of the annual fee is payable in cash with a proportion satisfied by the issue of Trust units. The cash component of the current management fee is calculated on the following basis:
  - an amount equal to 1.50% of the Gross Value[3] of the Trust, or where the Gross Value is greater than $50 million, an amount of $750,000; plus
  - if the Gross Value of the Trust is greater than $50 million, an amount equal to 1.25% of the difference between $50 million and the Gross Value or, if the Gross Value is greater than $100 million, an amount of $625,000; plus
  - if the Gross Value is greater than $100 million, an amount equal to 1.0% of the difference between $100 million and the Gross Value.

  The unit based fee is equal to 0.5% of the Gross Value calculated on the last business day of the financial year to which the fee relates. The number of units subscribed for is determined by dividing the fee payable by the net asset value (“NAV”) per unit.

  Payment of the cash component of the Manager’s fee is made quarterly in arrears and the unit component is issued following the end of each financial year of the Trust.

The Gross Value and the annual management fee for 2001 to 2003 is set out below.

Management Fees

	30 June 2001 $m	30 June 2002 $m	30 June 2003 $m
Total Assets (Gross Value)	84.2	96.5	111.2
Cash Component	1.1	1.2	1.4
Units Component	0.4	0.5	0.5
Total Management Fee	1.5	1.7	1.9
Implied Management Fee as a % of Closing Gross Value	1.8%	1.8%	1.7%
Increase in Management Fee	1.7%	11.5%	13.8%

[3] *The Gross Value of the Trust is defined as the total value of investments and other assets in the Trust (including all accruals), before any deductions for borrowings or other liabilities. The Gross Value is calculated by reference to the Gross Value on the last business day of the financial year immediately preceding the financial year to which the fee relates.*

4.3 Service Provision Agreement

As part of the separation from W&K, REL entered into the Service Provision Agreement with W&K. Under the Service Provision Agreement, W&K provides the following services:

- property management, investment, administrative and other services to the Manager to enable the Manager to properly carry out its obligations as manager under the Deed; and
- administrative services to REL and the Manager including preparation of accounting records and reports, collection of debts, litigation in respect of REL or the Manager and negotiation and supervision of all financial indebtedness of the Manager and REL.

Under the Service Provision Agreement, REL pays $561,000 per annum to W&K. This fee will be adjusted on 1 July 2005 for the movement in the Consumer Price Index ("CPI") from 30 June 2003 to 30 June 2005 and on an annual basis thereafter.

The Service Provision Agreement may be terminated by either party if certain events, such as liquidation or receivership, occur. The Service Provision Agreement can also be terminated by REL if the Manager ceases to be the manager of the Trust or REL disposes of the Manager. In the absence of termination, the Service Provision Agreement expires on 30 September 2007.

Under the Service Provision Agreement, REL can renew the agreement upon expiry under new terms. If REL does not renew the agreement and proposes to enter into another agreement for the provision of the services covered by the Service Provision Agreement, W&K has the right to provide those services on the same terms.

4.4 Financial Performance

A summary of REL's recent financial performance is set out below.

REL Summary of Financial Performance

	Year 31 July 2001 (Audited) $m	Year 31 July 2002 (Audited) $m	Year 31 July 2003 (Audited) $m	8 Months 31 Mar 2004 (Unaudited) $m
Net Operating Income	2.4	1.8	2.1	1.5
Corporate Expenses	0.5	0.4	0.3	0.3
Operating Surplus	1.9	1.4	1.8	1.2
Gain on Sale of Assets	0.2	-	-	-
Operating Surplus	2.1	1.4	1.8	1.2
Less Taxation	0.4	0.5	0.6	0.4
Surplus After Taxation	1.7	0.9	1.2	0.8

Source: REL Annual Reports and March 2004 Management Accounts

REL's major source of revenue is from the Management Contract. This revenue is detailed in section 4.2.

Other income primarily relates to distributions from the Trust. Prior to REL's disposal of its direct investment in farms and livestock in the period leading up to 2001, it derived income from these operations. This income amounted to $0.8 million in 2001.

The historic level of expenses of REL does not represent a sustainable, stand-alone level of costs due to REL's historic relationship with W&K. Following the separation from W&K, and as a result of REL becoming an independent, stand-alone company, REL's costs will increase to approximately $0.8 million per annum, primarily representing the fees payable to W&K under the Service Provision Agreement.

4.5 Financial Position

A summary of REL's recent financial position is set out below.

REL Summary of Financial Position

	31 July 2001 (Audited) $m	31 July 2002 (Audited) $m	31 July 2003 (Audited) $m	31 Mar 2004 (Unaudited) $m
Cash and Short Term Deposits	0.5	1.2	1.3	-
Accounts Receivable	0.7	0.7	0.7	0.8
Restructuring Costs	-	-	-	0.5
Total Current Assets	1.2	1.9	2.0	1.3
Management Contract	2.1	2.0	2.0	2.0
Investments	0.5	0.8	1.9	22.3
Other Fixed Assets	0.2	0.2	0.2	-
Total Non Current Assets	2.8	3.0	4.1	24.3
Total Assets	4.0	4.9	6.1	25.6
Bank Overdraft	-	-	-	(0.2)
Accounts Payable and Accruals	(0.1)	(0.1)	(0.1)	(0.2)
Term Debt	-	-	-	(6.0)
Net Assets	3.9	4.8	6.0	19.2
Share Capital	14.2	14.2	14.2	29.6
Retained Earnings	(10.3)	(9.4)	(8.2)	(10.4)
Shareholders' Funds	3.9	4.8	6.0	19.2

Source: REL Annual Reports and March 2004 Management Accounts

REL's significant assets consist of the value of the Management Contract and its investment in the Trust. The carrying value of the Management Contract is cost ($2.45 million) less accumulated amortisation.

Following the Scheme of Arrangement, REL's investment in the Trust has increased as a result of the transfer of W&K's units to REL.

The other significant change following the Scheme of Arrangement was the introduction of $6.0 million in bank debt that was used to partially fund the acquisition of W&K's units in the Trust.

4.6 Capital Structure and Shareholders

REL currently has 14,825,260 ordinary shares on issue. The names, number of shares and percentage holding of the ten largest shareholders as at 25 May 2004 are set out below.

REL's Ten Largest Shareholders

Shareholder	No. Shares Held	%
H&G	3,749,300	25.3%
RECT Funds Management Limited	580,104	3.9%
Westpac Banking Corporation – Client Assets No 2 [1]	480,048	3.2%
David Cushing	357,948	2.4%
W&K Staff Pension Fund Limited	336,048	2.3%
National Nominees New Zealand[1]	250,000	1.7%
Jan and Joan Snijders	250,000	1.7%
Matthew Magill, Robert Burnside and Alex Burnside	222,500	1.5%
Brian Martin	208,580	1.4%
Sir Selwyn Cushing	203,876	1.4%
Subtotal	6,638,404	44.8%
Other	8,186,856	55.2%
Total	14,825,260	100%

1 Registered in the name of New Zealand Central Securities Depository Limited.

Source: REL

4.7 Share Price History

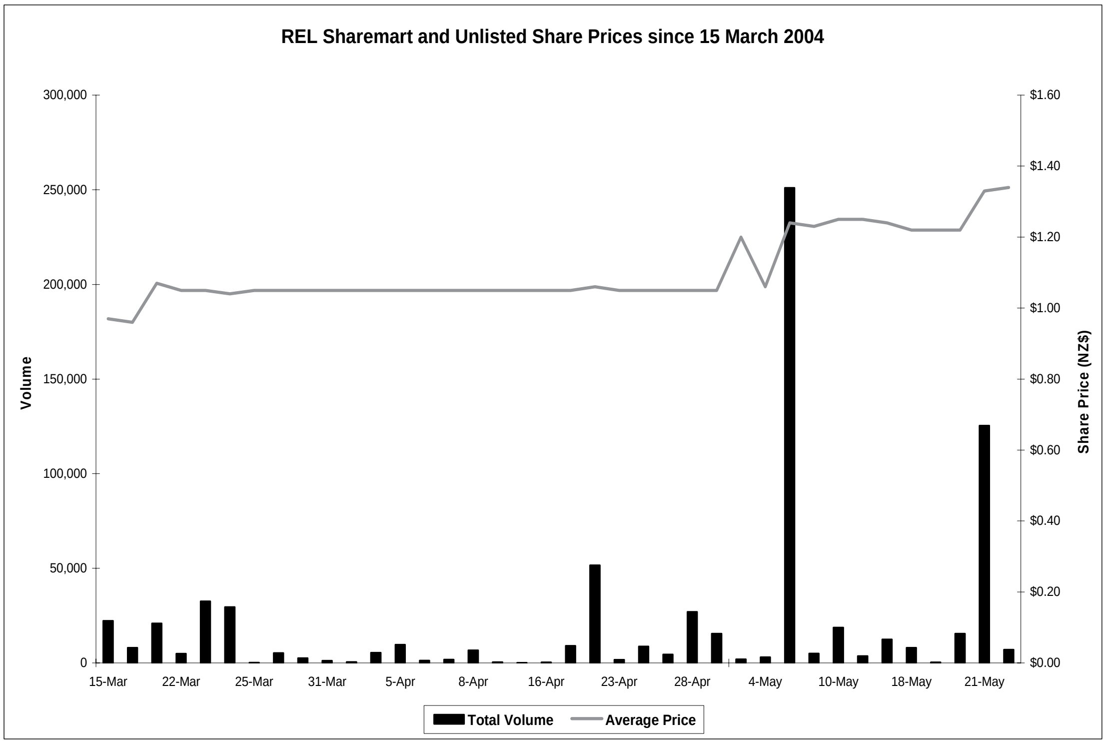
Set out below is a summary of REL's price history from 15 March 2004 (being the date that REL's shares began trading following the Scheme of Arrangement) to 25 May 2004 and a graph of the daily closing share price and the daily volumes of shares traded.

REL Share Price Movements

Month	Low ($)	High ($)	Volume
March 2004 [1]	0.85	1.10	127,420
April	1.05	1.06	144,180
May [2]	1.05	1.35	451,987

1 From 15 March 2004
2 To 25 May 2004

Source: REL



REL's shares have traded between $0.85 and $1.10 between 15 March 2004 and 23 April 2004. The VWAP for the period was $1.04. The average volume of shares traded each month over this period represented approximately 1% of the shares on issue.

Since the announcement of the H&G Offer and prior to the announcement of the St Laurence Offer, the shares have traded between $1.05 and $1.25. Following the announcement of the St Laurence Offer, the shares have traded between $1.26 and $1.35.

5. Profile of New Zealand Rural Property Trust

5.1 Background

The Trust was established under the Unit Trusts Act 1960 for the purpose of developing and holding a diverse portfolio of rural property assets. This purpose was expanded in 1995 to include investment in the forestry sector.

The Trust was initially an open trust which allowed new units to be issued at the Trust's NAV and unitholders to redeem their units at the same amount. This right of redemption was suspended at certain times by the Manager, pending the resolution of certain valuation, taxation and financing issues.

The suspension of redemption at NAV forced investors wishing to realise their investments to sell their shares on the secondary market, at a significant discount to NAV. This meant that following the lifting of the redemption suspension, large numbers of redemption requests were received, as unitholders sought to exploit the arbitrage opportunities that existed.

As a result of the redemption activity, the Manager submitted a proposal to unitholders to close the Trust and redefine its operating parameters. It was believed that by closing the Trust it would create a stable platform to pursue the investment in rural property assets. The Trust was closed by a vote of unitholders in October 1999.

5.2 Trust Deed

The key terms of the Deed are set out below.

Creation of Sale of Units

The Manager is able to invite offers, subscriptions or applications for units at any time, through the issue of a prospectus.

Net Asset Value

NAV is defined as:

- the market value of investments in real property (other than forests and crops), as determined by a Registered Valuer within a period not exceeding one year; plus
- the market value of other investments assessed by an appropriate stock exchange or Qualified Valuer; less
- all liabilities of the Trust; less
- all cost charges and other amounts incurred or accrued in holding the Trust investments; less
- an amount which the Manager may determine as representing the estimated cost that would be incurred if the Trust investments were realised and converted into cash; less
- any other amount the Manager and/or the trustee, The New Zealand Guardian Trust Company Limited (the "Trustee") thinks necessary to make provision for any liabilities, losses or contingent liabilities.

Valuation

The Trustee shall obtain a valuation report by a Registered Valuer for real property at least every twelve months and a valuation report prepared by a Qualified Valuer for any forest, crop or investment other than real property, at such time or times as the Manager and Trustee consider desirable.

Investments

The principal purpose of the Trust is to invest in rural property and forestry investments. The Deed states that the Trustee shall invest the Trust's funds in accordance with this policy so that any appreciation or diminution in value of a unitholder's investment shall primarily reflect the investment risk associated with this policy.

5.3 Investments

As at 31 December 2003, the Trust owned 31 properties with a net current value of $101.3 million. The Trust's properties are split as follows:

- 23 farms leased to experienced farmers;
- six dairy farms managed by resident sharemilkers;
- one large scale sheep and beef grazing operation; and
- an investment in a 865 hectare Ngaruawahia forestry property.

5.4 Financial Performance

A summary of the Trust's recent financial performance is set out below.

Trust Summary of Financial Performance

	Year 30 June 2001 (Audited) $m	Year 30 June 2002 (Audited) $m	Year 30 June 2003 (Audited) $m	6 Months 31 Dec 2003 (Unaudited) $m
Net Operating Income	3.6	4.7	2.4	1.8
Total Expenses	2.0	2.4	2.7	1.4
Operating Surplus (Deficit)	1.6	2.3	(0.3)	0.4
Revaluation of Assets	5.1	9.9	17.4	-
Realised Gain on Asset Sales	1.7	-	0.2	-
Surplus (Deficit) Before Taxation	8.4	12.2	17.3	0.4
Tax Expense / (Credit)	0.3	0.5	(0.3)	-
Surplus (Deficit) After Taxation	8.1	11.7	17.6	0.4
Distribution to Unitholders	0.8	1.5	1.7	-
Undistributed Income	7.3	10.2	15.9	0.4

Source: Trust Annual Reports and December 2003 Half Year Report

The operating revenue of the Trust is driven by leases from properties and returns on farms and forestry assets operated by the Trust. As such, revenue is impacted directly by the strength of the rural sector.

The costs of the Trust relate primarily to the Management Contract and Trustee's fees, with interest fluctuating with the Trust's debt levels.

The major driver of Trust income however is the revaluation of its property investments. The strength of the rural property sector over the past few years has seen a significant increase in the underlying value of the properties, offset only slightly by a weakening in forestry returns.

The Trust has a policy of distributing 100% of free cash flow (which is the cash available from net operating profit after taxation plus net forest proceeds less maintenance capital expenditure).

5.5 Financial Position

A summary of the Trust's recent financial position is set out below.

Trust Summary of Financial Position

	30 June 2001 (Audited) $m	30 June 2002 (Audited) $m	30 June 2003 (Audited) $m	31 Dec 2003 (Unaudited) $m
Current Assets	3.0	3.1	1.8	2.6
Property and Forest Assets	76.6	85.9	100.7	101.3
Investments	3.6	6.3	7.6	7.5
Other	0.9	1.2	1.1	1.0
Total Non Current Assets	81.1	93.4	109.4	109.8
Total Assets	84.1	96.5	111.2	112.4
Current Liabilities	(4.2)	(2.0)	(2.0)	(1.4)
Long Term Borrowings	-	(4.2)	(3.9)	(6.1)
Provision for Deferred Taxation	(3.1)	(2.8)	(1.4)	(1.5)
Total Non Current Liabilities	(3.1)	(7.0)	(5.3)	(7.6)
Total Liabilities	(7.3)	(9.0)	(7.3)	(9.0)
Net Assets	76.8	87.5	103.9	103.4
Issued Units	38.0	38.4	38.9	39.5
Revaluation Reserve	30.0	40.2	56.5	56.5
Retained Earnings	8.8	8.9	8.5	7.4
Total Unitholders' Funds	76.8	87.5	103.9	103.4

Source: Trust Annual Reports and December 2003 Half Year Report

Unitholders' funds have increased significantly since 2000 on the strength of the rural property market, with NAV increasing approximately 49% from June 2000 to December 2003.

Other significant assets include investments which are stated at their estimated market value. These are primarily shares in Fonterra Co-operative Group Limited ("Fonterra").

The provision for deferred taxation relates to future tax liabilities that are expected to arise primarily in relation to the Trust's forestry activities. The liability will crystallise at the time the forest is sold or harvested.

5.6 Contingent Liabilities

The Trust has been involved in ongoing discussions with the Inland Revenue Department ("IRD") in relation to income tax in respect of property sales between 1996 and 2000. The Trust and its tax advisors were of the opinion that the transactions were not taxable and had been treated correctly.

Following recent developments, the Trust has announced that it has reached a resolution of the dispute in relation to the 1996 and 1997 income tax years. The resolution of the dispute resulted in the Trust not having to pay any additional tax. In addition the IRD has agreed not to dispute the tax treatment of profits on any of the Trust's property sales through to the 2004 income tax year.

The implications of this outcome on the Trust's unit price has not been reflected at the time of this report, although our expectation is that the impact would be positive. However, it is important to remember that as per the 31 December 2003 half year report, the Trust had an unrealised asset revaluation reserve of approximately $56 million. As a result there is still a possibility of significant future tax liabilities following the disposal of the properties depending on the facts and circumstances surrounding each disposal. We are advised that at this point in time, the Trust has no intention to dispose of the properties held.

5.7 Capital Structure and Unitholders

The Trust currently has 46,279,587 units on issue. REL is the only entity holding or controlling more than 10% of issued units. The substantial unitholders of the Trust as at 31 March 2004 are shown below.

Trust Unitholders

	Number of Units 000s	% of Effective Fully Paid Units
REL	14,748	31.9%
Ashfield Farm Limited	2,674	5.8%
NZ Central Depository Limited	1,720	3.7%
WJ Greenwood	1,120	2.4%
Selba Holdings Limited	964	2.1%
Other Unitholders	25,054	54.1%
Total	46,280	100.0%

Source: REL

5.8 Unit Price History

Set out below is a summary of the Trust's unit price history from 4 January 2002 to 10 May 2004 and a graph of the weekly VWAP, trailing four weekly VWAP and the weekly volumes of units traded.

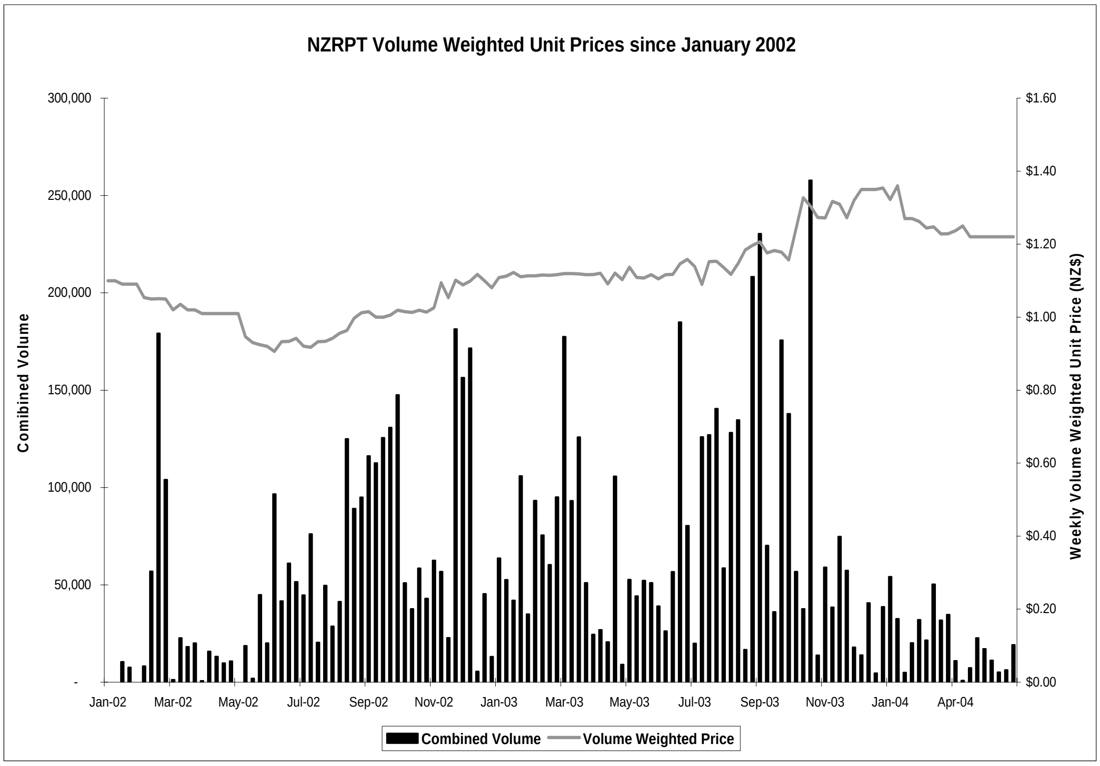
Trust Unit Price Movements

Month	ShareMart Low ($)	ShareMart High ($)	ShareMart Volume (000)	NZX USM / Unlisted [3] Low ($)	NZX USM / Unlisted [3] High ($)	NZX USM / Unlisted [3] Volume (000)
January 2002	1.09	1.10	18,077			
February	1.05	1.05	348,221			
March	1.02	1.03	62,069			
April	1.01	1.01	39,392			
May	0.92	1.01	76,151			
June	0.91	0.92	162,305	0.95	0.95	54,033
July	0.90	0.90	89,751	0.92	1.00	105,288
August	0.92	0.96	74,275	0.95	1.00	249,929
September	1.00	1.01	174,640	1.00	1.03	298,083
October	1.00	1.01	107,711	1.01	1.02	295,175
November	1.01	1.04	87,994	1.02	1.10	134,952
December	1.07	1.09	140,493	1.09	1.12	423,340
January 2003	1.08	1.11	58,565	1.10	1.13	187,734
February	1.10	1.11	132,603	1.12	1.13	158,421
March	1.10	1.12	238,805	1.12	1.12	218,167
April	1.11	1.11	56,255	1.12	1.12	171,507
May	1.07	1.10	37,300	1.12	1.16	231,691
June	1.07	1.11	69,841	1.12	1.14	99,820
July	1.07	1.10	151,853	1.12	1.16	358,176
August	1.10	1.14	263,655	1.14	1.20	228,639
September	1.11	1.14	102,332	1.15	1.21	587,787
October	1.13	1.24	326,603	1.21	1.35	182,282
November	1.21	1.24	132,742	1.30	1.35	321,791
December	1.23	1.27	81,924	1.30	1.35	148,044
January 2004	1.25	1.29	33,865	1.35	1.36	140,881
February	1.26	1.29	57,123	1.36	1.36	44,216
March[1]	1.22	1.25	115,364	1.22	1.30	46,735
April				1.22	1.25	58,329
May [2]				1.22	1.23	50,795

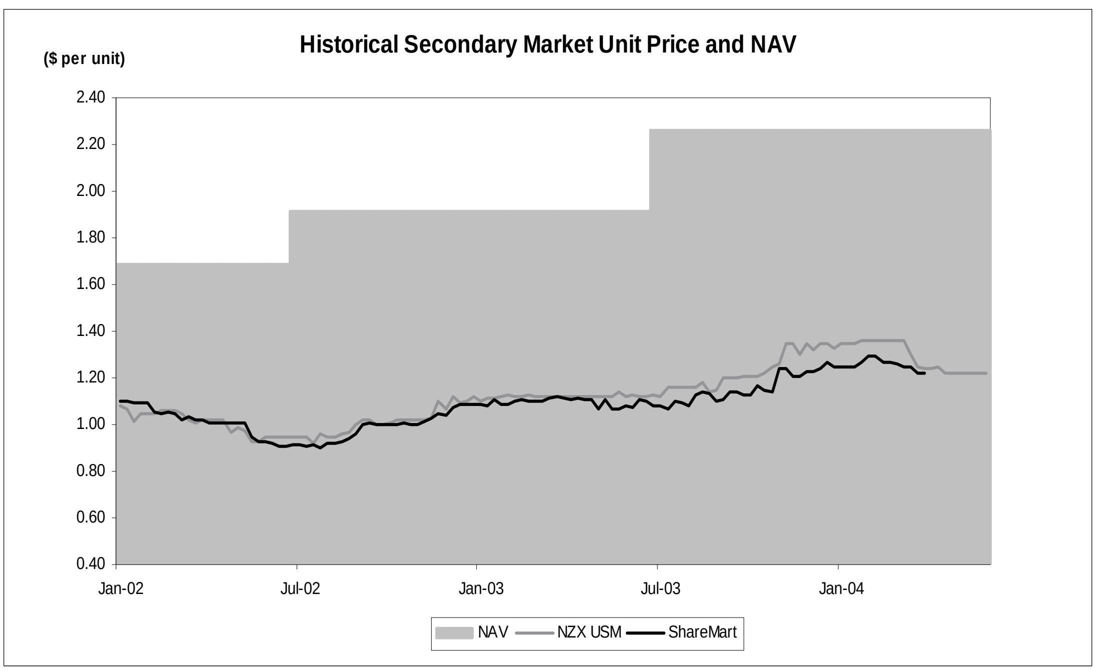
1 *Up to 25 March 2004*
2 *Up to 25 May 2004*
3 *The Trust ceased trading on the New Zealand Exchange Unlisted Securities Market ("NZX USM") during January 2004, at which time it traded on Unlisted.*

Source: REL

The Trust's units have traded between $0.90 and $1.36 since January 2002. The average volume of units traded each month over this period represented approximately 0.6% of the units on issue.



The graph below compares the performance of the Trust's unit price relative to NAV since 4 January 2002.



The analysis shows that the units have consistently traded at a discount of between 35% and 52% over the period. The reasons for the discount are varied and would likely include:

- the minority nature of the parcels of units traded;
- the lack of marketability of the units;
- an allowance for the ongoing operating costs of the Trust which are not reflected in NAV; and
- an allowance for contingent liabilities, especially in respect of possible tax exposures.

6. Valuation of Rural Equities Limited

6.1 Introduction

The H&G Offer is a partial takeover offer. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the H&G Offer is to compare the offer price with the assessed fair market value of a 50.1% controlling interest in REL.

The fair market value of a 50.1% controlling interest in REL is determined by firstly assessing the full underlying value of REL, then determining an appropriate discount to recognise that while a 50.1% interest provides the shareholder with a degree of control, such control is lower than that which a holder of 75%, 90% or 100% of the shares in a company can exercise.

We are of the view that the fair market value of a 50.1% interest in a company is, in most cases, lower (on a per share basis) than the fair market value of an interest of 75% or more. This is because the holder of a 75% interest can single-handedly pass special resolutions and a 90% shareholder can compulsorily acquire the remaining shares in the company and thus gain absolute control of the company.

We are of the view that the fair market value of a 50.1% interest will exceed the value that minority interests in a company would trade at. The difference in value is effectively a premium for control. In the case of a partial takeover offer, we consider it appropriate that the offeror would generally pay a premium for control. Such premium for control would be available to all shareholders who accept the partial offer. This approach is consistent with one of the Code's core foundations that all shareholders be treated equally.

6.2 Standard of Value

We have assessed the fair market value of 50.1% of the shares in REL. Fair market value is defined as the price (expressed in terms of money or money's worth) that a willing but not anxious buyer, with access to all relevant information and acting on an arms length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

6.3 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business undertaking.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flows ("DCF");
- capitalisation of earnings; and
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future cash flows, recognising the time value of money and risk. The value of an investment is equal to the value of future free cash flows arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

6.4 Valuation Approach

We have assessed the fair market value of 50.1% of REL by firstly assessing the full underlying value of REL then applying an appropriate discount to reflect the lower level of control that a holder of 50.1% of the shares in a company can exert over the affairs of the company.

The full underlying value of REL has been assessed by aggregating the values of the component assets and liabilities of REL:

- the Management Contract;
- its investment in the Trust;
- its other assets and liabilities; and
- the capitalised value of REL's corporate overheads.

The value of the Management Contract has been assessed by capitalising the maintainable earnings associated with the contract at an appropriate earnings multiple.

REL's investment in the Trust has been valued by assessing the full underlying value of the Trust then applying an appropriate discount to reflect that REL holds a minority interest (approximately 31.9%) in the Trust's units. The full underlying value of the Trust has been assessed based on its current NAV less the capitalised value of the Trust's overheads and after an allowance for contingent liabilities.

The value of REL's other assets and liabilities has been based on their realisable values.

REL's maintainable level of corporate overheads has been capitalised at an appropriate multiple.

6.5 Management Contract

We have assessed the value of the Management Contract by capitalising the estimated maintainable earnings associated with the Management Contract using market observed multiples.

Maintainable Earnings

We assessed the post-tax maintainable earnings associated with the Management Contract to be in the vicinity of $0.7 million.

Management Contract Maintainable Earnings

	$m
Management Fees - Cash	1.5
Management Fees – Trust Units[1]	0.3
Total Management Fees	1.8
Service Provision Fees	(0.6)
Maintainable Earnings – Pre-Tax	1.2
Tax [2]	(0.5)
Maintainable Earnings – Post-Tax	0.7

1 Management Fees – Trust Units based on fair market value of units (not NAV)
2 Tax on Management Fees – Trust units based on NAV

REL estimates the cash component of the management fees for the year ended 30 June 2004 to be $1.5 million. The unit component of the estimated management fees ($0.6 million) is based on the most recent NAV of units.

Based on these estimates and the level of stability in rural property prices since 30 June 2003, we have assessed the maintainable nominal management fees to be in the vicinity of $2.1 million.

In order to estimate the value of the fees received, we have adjusted the value of the units received to reflect the discount at which they could be realised for cash on the open market. We have based this on the recent minority traded value of the Trust’s units.

As per the Service Provision Agreement, the initial service provision fee is set at $0.6 million with adjustments made for CPI movements from 1 July 2005 onwards. Based on inflation expectations and the terms of the Service Provision Agreement, we have estimated the service provision fees at $0.6 million.

In determining the tax on this income, we have assessed the tax on the unit component of the management fees at the full NAV of the units.

Earnings Multiple

In assessing an earnings multiple, actual or indicative offers for a particular business can provide the most reliable support for the selection of an appropriate earnings multiple. However, in the absence of such information it is necessary to infer multiples from other evidence such as minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to REL or transactions involving businesses in the same industry.

The table below summarises historic transaction multiples that are considered relevant to the Management Contract. These multiples have been stated as either pre-tax or post-tax earnings multiples. We have assumed that the multiples are all on an ungeared basis.

Comparable Transaction Multiples

Purchaser	Target	Date	Transaction Value ($m)	Pre-tax	Post-tax
REL	Ascot	Jun 92	2.4	3.7 – 4.0[1]	5.5 – 6.0
Colonial First State Property	Kiwi Property Management Limited	Apr 02	57.7	6.5	9.7[2]
Ronin Property Group	AMP NZ Office Trust	Dec 03	9.0 (50%)	5.5	8.2[2]
Weighted Average				6.3	9.4

1 *Converted to pre-tax multiples using a tax rate of 33%*
2 *Converted to post-tax multiples using a tax rate of 33%*

Source: W&K Proposal for Scheme of Arrangement 19 January 2004, MergerStat, ASX announcement

We do not consider the observed earnings multiple for listed "comparable" companies to be directly relevant in this instance as the management operations of those companies are significantly larger and more diverse than REL.

Based on above, we have adopted a post-tax earnings multiple of 8.0 to 10.0.

Valuation Assessment

Based on the above, the assessed value of the Management Contract is in the range of $5.6 million to $7.0 million as at the present date.

Valuation of Management Contract

	Low	High
Maintainable Earnings ($m)	0.7	0.7
Multiple	x8.0	x10.0
Value ($m)	5.6	7.0

6.6 Units in the Trust

Valuation Approach

We have assessed REL's investment in the Trust by first assessing the value of 100% of the units in the Trust and then applying an appropriate discount to reflect the size of REL's interest.

We have assessed the full underlying value of the Trust by aggregating the values of the following component assets and liabilities:

- property investments;
- other investments;

- other assets and liabilities;
- capitalised operating costs; and
- contingent liabilities.

Property Investments

The carrying value of the Trust's property investments as at 31 December 2003 approximated $101.3 million. We have reviewed the basis upon which the carrying values have been determined and we consider the basis to be appropriate for the purposes of our assessment.

From this amount, we have made an adjustment to reflect the movement in forestry value due to growth, market movements and felling. We have also amended the disposal provision to reflect changes in the property values identified by the Manager. Overall these changes reduce the value of the properties by approximately $0.2 million.

We have also considered the likely movement in property values from 31 December 2003 to the current date. Based on discussions with various rural property participants, we have allowed for no significant movement in the property values. Based on the above, we have assessed the value of the Trust's property investments to be in the vicinity of $101.1 million.

Other Investments

The carrying value of the Trust's investments as at 31 December 2003 approximated $7.5 million. The most significant investment of the Trust is various Fonterra shares and notes. We have assessed the value of the Fonterra shares based on the price announcement issued by Fonterra on 26 May 2004. The Fonterra directors set the value of Fonterra shares at $4.69 each and peak notes at $30 each. The Trust's investment in Fonterra securities amounts to approximately $7.4 million.

We have valued the Trust's other significant investments at their current market values, which are based on recent market transactions.

Based on the above, we have assessed the value of the Trust's investments to be in the vicinity of $8.0 million.

Other Assets and Liabilities

We have assessed the aggregate value of the other assets and liabilities of the Trust based on their carrying values as at 31 December 2003 as set out below.

Trust Other Assets and Liabilities

	$m
Cash on Deposit and at Bank	0.4
Debtors and Prepayments	0.8
Livestock and Feed on Hand	0.9
Provision for Tax Refund	0.5
Plant and Machinery	1.0
Trade Creditors	(1.4)
Short Term Loans	(6.1)
Provision for Deferred Tax	(1.5)
Net Other Assets and Liabilities	(5.4)

Source: Trust 31 December 2003 Half Year Report

Capitalised Overheads

The assessment of the maintainable level of management fees is addressed in the valuation of REL in section 6.5. In addition to these costs, we have assessed the maintainable level of other operating costs incurred by the Trust.

Historically, these costs have consisted primarily of legal and professional fees and the Trustee's fees. We have assessed the maintainable level of these operating costs to be in the vicinity of $0.5 million.

Based on the above, we have deducted an amount of $11.2 million to $14.0 million from the value of the Trust to reflect the capitalised value of the Trust's overheads.

Trust Capitalised Overheads

	Low $m	High $m
Management Fees [1]	1.8	1.8
Operating Costs	0.5	0.5
Total Overheads	2.3	2.3
Tax [2]	(0.9)	(0.9)
Maintainable Overheads Post-Tax	1.4	1.4
Earnings Multiple	x8.0	x10.0
Value of Capitalised Overheads	11.2	14.0

1 Management Fees – Trust Units based on fair market value of units (not NAV)
2 Tax on Management Fees – Trust Units based on NAV

Source: Trust 31 December 2003 Half Year Report

Contingent Liabilities

Following recent developments, the Trust has announced that it has reached a resolution of the dispute with the IRD in relation to the 1996 and 1997 income tax years and that the IRD has chosen not to dispute the tax treatment of profits on any of the Trust's property sales through to the 2004 income tax year. However, a degree of uncertainty still exists over the likely tax treatment of any future disposal of properties by the Trust and any distributions by the Trust. Accordingly, investors are likely to apply a discount to the assessed NAV of the Trust to reflect this uncertainty.

Actual quantification of the liability that would arise upon disposal or distribution is extremely subjective. It involves assumptions about the timing of disposal, proceeds of the disposal, IRD's assessment of the profits on disposal and the likely method of distribution.

In order to reflect the range of possible outcomes, we have estimated a range of potential tax liabilities. At the low end of our valuation assessment we have estimated a contingent tax liability of $7.0 million, representing the tax liability on the unrealised property revaluations of approximately $56 million reduced for the combined likelihood of the IRD assessing tax on the profits and the time value of money associated with the potential realisation horizon. At the high end we have assessed a value of nil, reflecting the current settlement and intention of the Trust to continue to hold the properties long term.

Value of Contingent Liabilities		
	Low $m	**High $m**
Potential Future Tax Liabilities	(7.0)	-

We note that this is an extremely subjective assessment and any change in the Trust's disposal plans or the IRD's position may directly impact the conclusions. However, at this point of time it represents a range of potential outcomes that are considered reasonable.

Valuation of 100% of Units in the Trust

Based on the above, we assess the value of all the units in the Trust to be in the range of $82.7 million to $92.5 million ($1.79 to $2.00 per unit). This represents the full underlying value of the Trust on a going concern basis assuming 100% of the Trust was available to be acquired and as such includes a premium for control.

Valuation of 100% of Trust Units		
	Low $m	**High $m**
Property Investments	101.1	101.1
Other Investments	8.0	8.0
Other Assets and Liabilities	(5.4)	(5.4)
Capitalised Overheads	(14.0)	(11.2)
Contingent Liabilities	(7.0)	-
Value of 100% of Trust Units	82.7	92.5
Number of Units	46,279,587	46,279,587
Value per Unit	$1.79	$2.00

Valuation of REL's Unitholding in the Trust

Generally, the market price of a company's/trust's shares/units represents the value of a portfolio interest and does not incorporate the premium for control represented in the full underlying value.

REL currently holds 13,727,716 units (29.7%) in the Trust. In addition, the Manager currently holds 1,020,313 units (2.2%) in the Trust. Accordingly, REL controls 14,748,029 units (31.9%) in the Trust at the current time.

When valuing minority interests it is common practice for a discount to be applied to recognise the lack of control minority parcels are able to exert over the company's affairs. Discounts of up to 40% are often applied to minority interests to fairly reflect this lack of control. The amount of the discount applied is dependent upon the size of the parcel of shares being valued and other factors influencing control.

The situation for units in a trust is slightly different in that key operating decisions are undertaken by the trust manager and trustee. Accordingly, unitholders tend to have less influence (and hence control) over a trust's operations than shareholders have over a company's operations.

The 31.9% interest in the Trust provides REL with a degree of control in so far as it is able to single-handedly block an extraordinary resolution. However, REL's interest does not enable it to single-handedly pass ordinary or extraordinary resolutions and as such, it cannot be said to have significant control over the affairs of the Trust. A key factor regarding control is that REL cannot single-handedly effect the liquidation of the Trust's assets.

A further factor influencing the value of units in a trust is their liquidity. In general terms, investors will place a comparatively higher value on an investment that is freely tradeable on a secondary market and which can be readily converted into cash. As shown in section 5.8, the volume of Trust units traded is not significant. Approximately 0.6% of the Trust's units are traded each month, on average. This suggests that there is not a high level of liquidity in the Trust units. In our view, this is a key reason why the units have historically traded at a significant discount to NAV. The graph in section 5.8 shows that the discount has been in the range of 35% to 52% since January 2002.

In these circumstances, we are of the view that it is appropriate to apply a discount to the full underlying value of the Trust to assess the fair market value of REL's 31.9% unitholding in the Trust. We consider a discount of 20% to be appropriate to recognise the lack of control and illiquidity inherent in the unitholding.

On this basis, we assess the value of REL's 31.9% unitholding in the Trust to be in the range of $21.1 million to $23.6 million.

REL Investment in the Trust

	Low	High
Full Underlying Value of the Trust ($m)	$82.7 m	$92.5 m
Full Underlying Value per Unit ($)	$1.79	$2.00
Minority Discount	20%	20%
Value per Unit of REL Unitholding ($)	$1.43	$1.60
Units Held by REL	14,748,029	14,748,029
Value ($m)	$21.1 m	$23.6 m

REL's units in the Trust were acquired from W&K on 27 February 2004 at $1.49 per unit under the Scheme of Arrangement. The transaction price of $1.49 per unit is within our assessed range of the fair market value of that parcel of units.

The assessed value of $1.43 to $1.60 per unit represents:

- a premium of 17% to 31% over the closing unit price of $1.22 on 26 April 2004; and
- a premium of 12% to 25% over the VWAP over the three months to 26 April 2004 of $1.28.

Given the size of the REL unitholding, we consider these premia to be reasonable.

6.7 Capitalised Overheads

We have deducted an amount of $1.1 million to $1.3 million from the value of REL to reflect the capitalised value of REL's corporate overheads. This is based on the forecast of REL's corporate overheads for the current year amounting to $0.2 million before tax, capitalised at a post-tax earnings multiple of 8.0 to 10.0.

6.8 Other Assets and Liabilities

We have assessed the aggregate value of the other assets and liabilities of REL to be a net liability of $5.5 million. Our assessment is based on REL's management accounts as at 31 March 2004. The only adjustment we have made to the carrying values is to exclude the Restructuring Costs asset of $0.5 million which we have assessed as having no realisable value.

REL Other Assets and Liabilities

	$m
Debtors	0.8
Bank Current Account	(0.2)
Creditors	(0.1)
Bank Term Facilities	(6.0)
Net Liabilities	(5.5)

6.9 Value of 100% of REL Shares

Based on the above, we assess the fair market value of all the shares in REL to be in the range of $19.9 million to $24.0 million as at the present date. This equates to a value of $1.34 to $1.62 per share.

Value of 100% of REL Shares

	Low $m	High $m
Management Contract	5.6	7.0
Trust Units	21.1	23.6
Capitalised Overheads	(1.3)	(1.1)
Other Assets and Liabilities	(5.5)	(5.5)
Value of 100% of REL Shares	19.9	24.0
Number of Shares Currently on Issue	14,825,260	14,825,260
Value per Share	$1.34	$1.62

6.10 Value of 50.1% of REL Shares

A 50.1% shareholding in a company provides a significant level of control.

There are three critical levels of voting control in a company:

- 50%;
- 75%; and
- 90%.

A shareholding of greater than 50% enables the holder to pass ordinary resolutions including the appointment of directors. As such it gives a significant level of control including the ability to:

- select and decide on levels of compensation for directors, officers and employees;
- decide with whom to do business and enter into binding contracts, including contracts with related parties;
- decide whether to pay dividends and, if so, how much;
- repurchase outstanding shares or issue new shares;
- make acquisitions or divest subsidiaries or divisions;
- determine capital expenditures;
- change the capital structure;
- determine policy, including changing the direction of the business; and
- block any of the above.

The ability for shareholders to influence the above may be reduced by external factors such as the company's constitution, the Companies Act 1993 and the Code.

A shareholding of 75% or more enables a shareholder to pass special resolutions. Under the Companies Act 1993, a special resolution is required to:

- adopt, alter or revoke a company's constitution;
- approve a major transaction;
- approve an amalgamation of a company under section 221 of the Act; or
- put a company into liquidation

Conversely, a shareholding of greater than 25% can single-handedly block a special resolution.

A shareholding of greater than 90% enables a shareholder to compulsorily acquire the shares of the remaining shareholders. Following the acquisition of the remaining shares, the shareholder would thus hold 100% of the shares in the company and would therefore have the ability to realise the full underlying value of the company. Accordingly, under a full takeover offer, we consider it appropriate to assess the fairness of the offer based on the full underlying value of the target company. However, in circumstances such as this one where the offer is a partial one for 50.1%, we are of the view that the level of control is lower. Accordingly, we believe that the fair market value of the shares to be acquired is likely to be lower, reflecting the lower level of control.

Given the above, we consider it appropriate to apply a discount to the full underlying value of REL to determine the fair market value of 50.1% of REL's shares. We are of the opinion that a discount in the vicinity of 10% is appropriate. This results in a value of $1.21 to $1.46 per share.

Fair Market Value of 50.1% Interest in REL

	Low	**High**
Value per Share – Full Underlying Value	$1.34	$1.62
Discount	10%	10%
Value per Share – 50.1% Interest	$1.21	$1.46

The assessed value of $1.21 to $1.46 per share represents:

- a premium of 15% to 39% over the closing share price of $1.05 on 26 April 2004; and
- a premium of 16% to 40% over the VWAP over the two months to 26 April 2004 of $1.04.

Given the size of the 50.1% interest in comparison with the size of the minority parcels traded, we consider these premia to be reasonable.

6.11 Conclusion

We assess the fair market value of 50.1% of the ordinary shares in REL to be in the range of $1.21 to $1.46 per share as at the present date.

The valuation represents the fair market value of a 50.1% controlling interest in REL based on its current strategic and operational initiatives assuming 50.1% of the company was available to be acquired. As such it includes a premium for control but is less than the full underlying value of REL. The value exceeds the price at which we would expect minority interests in REL to trade at the present time in the absence of a partial or full takeover offer.

7. Sources of Information, Reliance on Information, Disclaimer and Indemnity

7.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the REL annual reports for the years ended 30 June 2001 to 2003;
- the REL management accounts for the eight months to 31 March 2004;
- the Trust's annual reports for the years ended 30 June 2001 to 2003;
- the Trust's half year report to 31 December 2003;
- the W&K Proposal for a Scheme of Arrangement dated 19 January 2004;
- the H&G Notice of Intention to Make an Offer dated 30 April 2004;
- the draft REL Target Company Statement;
- the St Laurence Notice of Intention to Make an Offer dated 20 May 2004;
- REL share price data provided by REL;
- The Trust's unit price data provided by REL; and
- information on the rural property industry and listed companies operating in the property industry including industry studies, financial reports and brokers' reports.

During the course of preparing this report, we have had discussions with and/or received information from REL's management, the Independent Directors and REL's legal / tax advisors.

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the H&G Offer that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the independent directors of REL and REL's shareholders to understand all the relevant factors and to make an informed decision in respect of the H&G Offer.

7.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to it by REL and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of REL. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

7.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we or the Independent Directors of REL guarantee or otherwise warrant that any projections or forecasts of future profits, cash flows or financial position of REL will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of REL and its directors and management. Actual results will vary from the projections and forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the Target Company Statement issued by REL in respect of the H&G Offer and have not verified or approved the contents of that Target Company Statement. We do not accept any responsibility for the contents of that Target Company Statement except for this report.

7.4 Indemnity

REL has agreed that to the extent permitted by law, it will indemnify Deloitte and its partners, employees and consultants in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. REL has also agreed to indemnify Deloitte and its partners, employees and consultants for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Deloitte or its partners, employees and consultants are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Deloitte shall reimburse such costs.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

Deloitte is one of the world's leading professional services firms. Deloitte Corporate Finance is the corporate finance practice of Deloitte, providing corporate advisory, mergers and acquisitions, valuations and transaction support services.

The persons in the firm responsible for issuing this report are Peter Simmons B.Com, DipBus (Finance), CA(PP), John Hagen M.Com (Hons), MBA, FCA, FAMINZ, FIOD and Carl Schrafft B.Com, CA.

Deloitte Corporate Finance, Mr Simmons, Mr Hagen and Mr Schrafft have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

8.2 Independence

Deloitte is not the auditor of REL, the Trust or H&G.

Deloitte Corporate Finance has not had any part in the formulation of the H&G Offer or any aspects thereof. Our sole involvement has been the preparation of this report.

Deloitte Corporate Finance will receive a fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the H&G Offer. We will receive no other benefit from the preparation of this report. We do not have any conflict of interest that could affect our ability to provide an unbiased report.

8.3 Declarations

Advance drafts of this report were provided to the Independent Directors and REL's executive management. Certain changes were made to the drafting of the report as a result of the circulation of the drafts. However, there was no material alteration to any part of the substance of this report, including the methodology or conclusions as a result of issuing the drafts.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

8.4 Consents

Deloitte Corporate Finance consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement in respect of the H&G Offer to be sent to REL's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

OFFER TO RURAL EQUITIES LIMITED SHAREHOLDERS BY H&G LIMITED