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To the Shareholders of Rural Equities Limited
from the Committee of Independent Directors

ADVICE TO SHAREHOLDERS

Our Target Company Statement sent to you on 31 May 2004 advised shareholders to do nothing in respect of either the H&G Limited (“H&G”) partial takeover offer or the proposed St Laurence Equities Limited (“St Laurence”) full takeover offer until we were in a position to provide advice on the merits of each.

Since 31 May 2004 –

- St Laurence has advised that it is seeking offers from shareholders to enable it to purchase up to 19.9% of Rural Equities Limited (REL) shares;
- St Laurence has advised that it does not intend to proceed at this stage with its full takeover offer for 100% of REL’s shares; and
- H&G has advised that it has extended the closing date of its partial takeover offer until 8 July 2004, and that it intends to decide whether or not to increase its offer price at a meeting of H&G directors to be held on 18 June 2004.

General Comment on Value of REL

H&G’s offer and the proposed (now withdrawn) St Laurence offer were both within the relevant value ranges assessed by Deloitte. The price now being offered by St Laurence for a 19.9% stake is slightly above the Deloitte range for a 50.1% interest. Given the level of this offer and the competitive bidding situation that has developed, and recognising that some shareholders may be inclined to seek the certainty of an early cash sale, we have given consideration to the likelihood of a higher price being offered for REL than the current offers.

The report by our Independent Adviser, Deloitte Corporate Finance (“Deloitte”), provides detailed comment and advice on the value of REL. In summary, Deloitte values a 50.1% interest in REL at between \$1.21 and \$1.46, and 100% of REL between \$1.34 and \$1.62.

REL’s major asset is its 31.9% holding of New Zealand Rural Property Trust (NZRPT) units. REL also has long-term ownership of the contract to manage NZRPT. NZRPT is a unit trust whose sole business is ownership of a portfolio of New Zealand rural properties. After taking into account NZRPT’s overheads and contingent liabilities, Deloitte has assessed the full underlying value of NZRPT units to be between \$1.79 and \$2.00. In valuing REL’s investment in NZRPT, Deloitte has used a range of \$1.43 - \$1.60 per NZRPT unit - a 20% discount (approx 40c per REL share) to its assessment of the full

underlying value because REL owns less than a controlling parcel. This range is above the market price of NZRPT units during the past six months which has been between \$1.20 and \$1.36, and is currently around \$1.28.

We consider that the approach Deloitte has taken to the valuation is appropriate. At the same time we believe it is possible that a bidder could see value in REL above the Deloitte ranges. REL's position in NZRPT (as the largest unit holder, and owner of the NZRPT management contract) could be seen as providing a relatively secure long-term investment exposure to the benefits of a diversified portfolio of rural properties. A bidder seeking access to such an investment may be prepared to place a higher value on REL's NZRPT units than the Deloitte range.

We note that we have no knowledge of the long-term strategies of either H&G or St Laurence, and - other than St Laurence's \$1.50 offer - we have no indication as to the likelihood of either party (or any other party) making a bid above the Deloitte ranges.

St Laurence 19.9% offer

St Laurence is, and always has been, free to buy up to 19.9% of REL's shares without restriction. There are no requirements for an independent report or target company statement with respect to such purchases.

Recommendation on H&G Offer

REL shareholders have received their shares only very recently through the restructure of Williams & Kettle Limited in February 2004, and it is likely that many have yet to form a view as to what to do with them. We believe there will be a number who are not particularly committed to their REL holding and who are accordingly inclined to sell if a fair offer is available. There will be others who wish to retain their shares unless they are offered close to the full underlying value of the assets involved.

Deloitte's report concludes that the fair market value for 50.1% of REL is between \$1.21 and \$1.46 per share, and that H&G's current \$1.25 per share offer is fair.

We concur with this view, but we note that –

- ***the offer is at the low end of Deloitte's fair value range,***
- ***it is below the \$1.50 price at which St Laurence is currently offering to acquire shares, and***
- ***H&G has indicated that its offer price may be increased.***

Shareholders currently have before them –

- ***H&G's \$1.25 partial offer and the indication that that price may be increased,***
- ***St Laurence's 19.9% bid at \$1.50, and***
- ***the possibility of further moves by both H&G and St Laurence.***

The complex and evolving nature of the bidding situation, together with the different attitudes which we believe individual shareholders will have to their REL investment, have led us to the decision that we should make no recommendation at this stage in respect of the H&G offer.

We do however provide advice which is set out in the section headed “Comment and Advice” below.

Approval of H&G’s Offer

H&G’s offer is for approximately 20.8% of REL’s shares. If its offer is successful, H&G’s direct shareholding in REL will increase to 40.8% and together with its associates it will control 50.1%. Under the Takeovers Code H&G needs approval of its offer by the majority of shareholders (excluding H&G itself and its Associates) because the offer is for a number of REL shares which will result in H&G directly controlling less than 50.1% of REL’s shares.

Shareholders accepting H&G’s offer will presumably give their approval. All other shareholders need to give careful consideration to whether or not they wish to approve the H&G offer. Deloitte’s report comments on a number of implications for continuing shareholders (see sections 2.5 to 2.13) and we advise shareholders to carefully consider the points made by Deloitte before deciding how to vote.

Comment and Advice

Unless you are attracted to selling your shares with certainty now, ***our fundamental advice is to take no action until H&G indicates whether or not it will increase its offer.***

For those shareholders who are attracted to selling their shares with certainty now, the most attractive options are either via St Laurence’s 19.9% offer, or on market. For shareholders contemplating this course of action we advise that careful consideration should be given to the following -

Risks of Selling Now

- H&G has advised that it may increase its current price. If you sell your shares now you will not be able to accept the H&G offer.
- If you sell on the market (as opposed to accepting the St Laurence offer) you will miss out on any higher price that St Laurence or H&G (or any other buyer) may offer. (Note that St Laurence has indicated that if it pays a higher price for REL shares before 30 September 2004, it will increase the payment to shareholders who accept its current offer; and note also that H&G is required to pay shareholders who accept its current offer any increase that may be made to its offer.)

- If you decide to sell to St Laurence, its documents require you to offer your shares. St Laurence then has a period of three days from receipt of your offer to decide whether to accept it. During this period you cannot take any other action with respect to your shares.

Risks of not selling now

- St Laurence may decide at any time to stop purchasing REL shares and the market price may fall as a result.
- If St Laurence reaches its 19.9% target the market price may then fall because St Laurence will be unable to acquire any more shares unless it makes a new offer in accordance with the Takeovers Code. (Note that the Code requires that any such new offer must result in St Laurence achieving a total of at least 50.1% of REL; H&G and its Associates hold 34.56% of REL and may be able, with others, to prevent St Laurence achieving 50.1%).
- H&G's offer requires acceptances for at least 2,303,551 shares. Also, a majority of the shareholders who vote must agree to H&G making the offer (H&G and its associates are not able to participate in this vote). There is a risk that one or other of these conditions may not be met, and H&G's offer may be unable to proceed as a result.
- H&G's offer is a partial offer and subject to scaling. If its offer is successful the future market price for the proportion of your shares H&G does not accept may be lower than H&G's offer price.

Once H&G has advised the outcome of its 18 June 2004 meeting we will consider whether we are able to provide further advice which may be of assistance to shareholders.



R M Gough
CHAIRMAN OF THE COMMITTEE
OF INDEPENDENT DIRECTORS

REL now has its own website - <http://www.ruralequities.co.nz>.
By accessing the *Takeover Announcements* page on this site shareholders can view all historical documents relating to the offers and any new documents, which will be posted onto the site immediately following their release.