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8 June 2007

To the Shareholders of Rural Equities Limited

H&G LIMITED PARTIAL TAKEOVER OFFER

We refer to our letters to shareholders dated 15 May 2007 and 1 June 2007.

We now enclose the Target Company Statement including the Independent Adviser's Report prepared by KPMG setting out their assessment of the merits of the H&G Limited offer ("H&G offer").

Our advice and KPMG's report are focused on the H&G offer, but we note that there is always a possibility of a higher offer price being available on-market or otherwise for all or some of an REL shareholders' shares prior to the closure of the H&G offer.

KPMG have concluded that the H&G offer price of $2.75 per share is within their assessed fair value range of the full underlying value of Rural Equities Limited ("REL") which is between $2.45 to $3.70 per REL share.

We believe that individual shareholders will have different degrees of interest in retaining their REL shares and this will significantly affect their view on whether or not to accept the H&G offer. Accordingly our recommendation in respect of that offer is as follows:

- Shareholders whose circumstances are such that they may wish to sell their REL shares in the short to medium term should, in the absence of any higher offer being available before the closing date of the H&G offer, accept the H&G offer in respect of all or a proportion of their REL shares.
- Shareholders should retain their REL shares if they (a) have no foreseeable requirement to sell their REL shares in the short to medium term, and (b) wish to retain an investment largely exposed to rural land values.

Our full advice and commentary is contained in paragraph 14 of the Target Company Statement – please read this carefully.

The H&G offer closes on 3 July 2007 unless that date is extended by H&G in accordance with the provisions of the Takeovers Code. If the H&G offer is extended or varied in any way details will be provided to you in writing by H&G. The H&G offer documents were sent to you on 1 June 2007. Please urgently contact our office if you have not received those documents.

If you require further advice or clarification in relation to the offer or its implications we strongly recommend that you discuss the offer with your financial and legal advisers.

Roger Bonifant
CHAIRMAN OF THE COMMITTEE
OF INDEPENDENT DIRECTORS

Click to View Offer

Target Company Statement

Statement by the Directors of Rural Equities Limited

to Shareholders

including an Independent Adviser's Report by KPMG

in response to the Partial Takeover Offer

made by H&G Limited

Prepared in accordance with the Takeovers Code

8 June 2007

rural equities LIMITED

STATEMENT FROM RURAL EQUITIES LIMITED

1. Date

This Statement is dated 8 June 2007.

2. Offer

This Statement relates to a takeover offer ("Offer") by H&G Limited ("H&G") for 2,223,791 shares in Rural Equities Limited ("REL"). Notice of Intention to make the Offer was received on 14 May 2007.

H&G currently owns 40.83% of REL's shares and other Cushing Family Interests (those shareholders identified in the table in paragraph 5.2 by an*) own a further 9.27% of REL's shares (50.1% combined). The Offer is for sufficent shares to increase H&G's individual holding to 50.83% of REL's shares.

As the Offer is a Partial Offer in terms of the Takeovers Code, there are a number of calculations that apply to the Offer.

- The Offer is for 2,223,791 REL shares being 16.89985% of REL shares which H&G does not own or control (this proportion is referred to in the Offer as the "Specified Percentage").
- However, as noted in paragraph 7 below, some of the directors and their associates (including the Cushing Family Interests) have advised that they will not be accepting the Offer. Therefore the number of REL shares to be accepted under the Offer from accepting shareholders will be greater than the Specified Percentage.
- You can elect to participate in respect to all or any of your REL shares. However if H&G receives acceptances for more than the 2,223,791 REL shares that they are seeking under the Offer then the amount of your REL shares that will be accepted under the Offer will be scaled down proportionately.
- If H&G does not receive acceptances for at least the 2,223,791 REL shares they are seeking under the Offer by the closing date (3 July 2007 unless extended) then the Offer ceases and no REL shares will be acquired.

3. Target Company

The name of the target company is Rural Equities Limited.

4. Directors of Target Company

The directors of REL are:

- Sir Selwyn Cushing (Chairman)
- Roger Bonifant
- David Cushing
- Gerald Weenink
- Murray Gough (Deputy Chairman)
- Sir Ronald Carter
- Brian Martin

5. Ownership of shares in the Target Company

5.1 The only equity securities issued by REL are 22,237,923 ordinary shares ("REL shares").

5.2 The number, designation and percentage of REL shares held or controlled by the directors and senior officers of REL and their associates are set out in the following table:

Name of Shareholder		Associate of	Number of REL Shares	Percentage
H&G Limited		SC, DC & BM	9,079,277	40.82
Sir Selwyn Cushing	*	DC	305,814	1.38
David Cushing	*	SC	536,922	2.41
Brian Martin and Sir Selwyn Cushing (Graham Cushing Settlement Trust)	*	DC	138,960	0.62
Paul Clothier and Brian Martin (Ashfield Trust)	*	SC	71,394	0.32
Selba Holdings Limited – A/c 50	*	SC, DC & BM	219,300	0.99
Ashfield Farm Limited	*	SC, DC & BM	68,622	0.31
Ashfield Properties Limited	*	SC, DC & BM	148,800	0.67
Fairway Finance Limited	*	SC, DC & BM	51,570	0.23
Makowai Farm Limited	*	SC, DC & BM	174,138	0.78
Seajay Securities Limited	*	SC, DC & BM	261,354	1.18
Ben Cushing	*	DC	84,852	0.38
Glennis Webber		SC	10,500	0.05
Whakamarumaru Station Limited		SC	6,432	0.03
Brian Martin			312,870	1.41
Datastore Systems (NZ) Limited		BM	4,656	0.02
Suesyd Enterprises Limited		BM	15,750	0.07
Brian Martin, Jan Snijders, and Joan Snijders (Snijders Family Trust)			292,500	1.32
Miro Securities Limited		RB	50,000	0.22
Sir Ronald Carter			149,001	0.67
Sir Ronald Carter and William Matthew (R P Carter Family Trust Number 2)			77,597	0.35
Riddell Funds Management Limited		RC	63,000	0.28
ASB Nominees Limited		RC	56,060	0.25
Mary-Ellen Gough		MG	76,878	0.35
MGS Fund Limited		MG	103,528	0.47
Gerald Weenink, Julie Weenink and Alasdair McBeth (Weenink Family Trust)			56,106	0.25
Brian Burrough (Chief Executive Officer), Shona Burrough and Stuart Burrough (B&S Burrough Family Trust)			15,492	0.06
Owen Trimmer (Chief Financial Officer) and Margaret Trimmer			42,611	0.19
James Wright (Chief Operating Officer) and Anna Wright			50,000	0.22
Henry Wright, Lucy Wright and Ella Wright		JW	1,002	<0.01

Legend:
* = Cushing Family Interests who collectively hold 9.27% of REL's shares.
SC = Sir Selwyn Cushing   DC = David Cushing   BM = Brian Martin   RB = Roger Bonifant
RC = Sir Ronald Carter   MG = Murray Gough   JW = James Wright

5.3 To the knowledge of REL, the only persons who hold or control more than 5% of REL's shares are as follows:

- H&G Limited: 9,079,277 shares (40.83%)
- St Laurence Property and Finance Limited: 3,958,943 shares (17.80%).

5.4 In May 2005 REL made a non-renounceable pro-rata rights issue to all shareholders of new shares on a 1:2 basis at $1.00 per share, being a total of 7,412,663 REL shares. All the directors and officers, and their associates at that time, participated in the rights issue for their full entitlement of REL shares. The new REL shares were allotted on 10 June 2005. All other rights were taken up by the other shareholders at the time, or by the underwriter of the rights issue. Consequently, the rights issue did not affect the relative voting rights of any of the directors and senior officers or their associates.

6. Trading in the Target Company s shares

6.1 Other than the transaction which is detailed below no other REL shares were acquired, or disposed of, by any of the directors or senior officers of REL or their associates (as are detailed in paragraph 5.2) in the six month period prior to the date of this Statement.

- Mary-Ellen Gough (an associate of Murray Gough) acquired 7,500 REL shares on 22 February 2007 at $1.95 per share as part of the distribution of an estate.

7. Acceptance of Offer

7.1 Sir Selwyn Cushing and David Cushing have advised that the Cushing Family Interests (those shareholders identified in paragraph 5.2 by an *) will not be accepting the Offer. Sir Selwyn Cushing has advised that his other two associates, Glennis Webber and Whakamarumaru Station Limited will accept the Offer in respect of their total holdings.

Murray Gough's associates (as are detailed in paragraph 5.2) have advised that they will not accept the Offer.

Sir Ronald Carter (and also in relation to his associates as are detailed in paragraph 5.2) and Roger Bonifant's associate (as is detailed in paragraph 5.2) have advised that they will accept the Offer in respect of those total holdings.

As at the date of this statement Brian Martin, Gerald Weenink, Brian Burrough, Owen Trimmer and James Wright (and where applicable also in relation to their associates as are detailed in paragraph 5.2) have advised that they had not yet decided whether or not they will be accepting the Offer.

8. Ownership of shares in the Offeror

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

8.2 Sir Selwyn Cushing holds 40% of the shares in H&G. David Cushing owns 40% of the shares in H&G. Sir Selwyn Cushing and Brian Martin hold 20% of the shares in H&G as trustees for the Graham Cushing Settlement Trust.

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

9. Trading in shares in the Offeror

No shares in 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 the Offeror

13.1 No directors or senior officers of REL or their associates or any shareholder that holds more than 5% of REL's shares has an interest in any material contract to which H&G or any related company of H&G is a party.

13.2 As noted in paragraph 8.2 above, Sir Selwyn Cushing, David Cushing and Brian Martin hold or control shares in H&G.

14. Recommendation

14.1 The Independent Directors of REL, being Roger Bonifant, Sir Ronald Carter, Murray Gough and Gerald Weenink ("Independent Committee") have considered the Independent Adviser's Report from KPMG ("IA Report") on the merits of the Offer.

- **KPMG have concluded that the Offer price of $2.75 per share is within their assessed range of the full underlying value of REL shares which is between $2.45 to $3.70 per REL share.**
- The IA Report provides detailed comment and advice on the value of REL. REL's major asset is its 54.2% holding of units in the New Zealand Rural Property Trust ("NZRPT"). REL also has long-term ownership of the contract to manage NZRPT. NZRPT is a unit trust whose sole business is the ownership of a portfolio of New Zealand rural properties and a forest. After taking into account NZRPT's overheads and contingent liabilities, KPMG have assessed the full underlying value of NZRPT units (on the assumption of a liquidation) to be between $2.37 and $3.22. This range is above the market price at which NZRPT units traded during the past six months which has been between $2.00 and $2.25, having risen from a price of $2.10 since the Offer was made. The most recent reported sale was at $2.25.
- To coincide with the preparation of NZRPT's financial statements, its rural properties and forest are independently valued annually as at 30 June. The valuations as at 30 June 2007 have not yet been undertaken, but are due to be received in early July 2007 and will then be incorporated in NZRPT's 30 June 2007 financial statements and released to NZRPT's unitholders at the end of August 2007. In assessing the full underlying value of NZRPT, KPMG have assumed an increase of 3.0% (low valuation) and 5.5% (high valuation) since the properties were last valued as at 30 June 2006.

14.2 The Independent Committee believes that each shareholder should carefully consider his or her own circumstances before deciding whether to accept or reject the Offer:

(a) Shareholders whose circumstances are such that they may wish to sell their REL shares in the short to medium term should, in the absence of any higher offer being available before the closing date of the H&G offer, accept the H&G offer in respect of all, or a proportion of their REL shares.

Our reasons for this recommendation are:

- The Offer price of $2.75 per REL share represents a:
  - 31% premium to the market price of $2.10 per REL share prior to the announcement of the Offer.
  - 45% premium to the volume weighted average price of REL shares traded on Unlisted and ShareMart of $1.90 per REL share during the six months prior to the announcement of the Offer.
- REL shares have consistently traded at a substantial discount to REL's underlying net asset value (NAV). The Independent Committee believes that following the conclusion of the Offer (whether or not it is successful) the shares will continue to trade at a discount to NAV. The Committee is not able to assess whether the ongoing level of the discount will be higher or lower than the discount in the Offer price but believes it will largely reflect the following:

  Negative Factors
  - REL's directors have advised shareholders that it is not their intention to pay dividends in the foreseeable future.
  - Achieving full underlying value is dependent on NZRPT selling its farm assets; there is no expectation that this will occur in the short or medium term.
  - REL is an unlisted company and as such there is limited public awareness of and interest in its shares. While any party may purchase REL shares so long as their holding does not exceed 20%, no significant purchases have occurred in recent times.

  Positive Factor
  - If the Offer is successful, H&G will be able to use the "creep" provisions of the Takeovers Code to purchase up to 5% of REL's shares in any 12 month period (commencing 12 months after the Offer is declared unconditional). This could have a positive impact on the share price if H&G elects to exercise its right to "creep" (note that the Cushing Family Interests, as distinct from H&G, will not be able to purchase any further shares except pursuant to an offer under the Takeover Code, or pursuant to a shareholders' resolution. The creep provisions can only be exercised by H&G).

(b) Shareholders whose circumstances are such that they (a) have no foreseeable requirement to sell their REL shares in the short to medium term, and (b) wish to retain an investment largely exposed to rural land values, should reject the H&G offer and retain their REL shares.

The Independent Committee believes that under REL's existing investment strategy, its underlying value will continue to move largely in line with farm prices over time, and that an ongoing investment in REL represents a sound and diversified exposure to the rural property market in New Zealand.

14.3 Sir Selwyn Cushing, David Cushing, and Brian Martin are directors of H&G and for that reason they abstain from making a recommendation in respect of the Offer.

15. Actions of Target Company

15.1 Neither REL nor any related company of REL has entered into any material arrangements or agreements 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 to 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 shares by, or of, REL or any related company of REL; or

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

16. Shares of the Target Company

16.1 REL has 22,237,923 shares on issue. REL only has one class of shares. The shares rank pari passu and each share carries an equal right to vote and to any distribution including a capital distribution.

16.2 There are no options or rights to acquire REL shares.

17. Financial Information

17.1 Each shareholder to whom the Offer is made is entitled to obtain from REL a copy of its 2006 Annual Report ("Annual Report") being the most recent Annual Report of REL.

17.2 Since the date of the Annual Report REL has purchased units to the value of $4,000,000 in the REL – Pacific Equity Trust. This was funded through bank debt. On 1 August 2006 REL's loan facility with Westpac was increased from $17,500,000 to $21,500,000. As at 31 March 2007 REL's (parent company) debt was $20,350,000 compared to $16,150,000 as at 30 June 2006.

18. Independent Advice on Merits of Offer

KPMG 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. History of the sales of REL shares within the last 12 months

During the period 7 June 2006 to 13 May 2007 (the day before the Notice of Intention to make the Offer was received) REL shares traded on the Unlisted and ShareMart trading systems ("the Secondary Markets") at prices between $1.62 and $2.10 per REL share. Between 14 May 2007 and 7 June 2007 REL shares have traded on the Secondary Markets at prices between $2.40 and $2.70 per REL share. Full details of all REL shares traded on the Secondary Markets in the 12 month period ending 7 June 2007 are set out in Appendix 1.

20. Approval of the Target Company Statement

The contents of this Statement, with the exception of paragraph 14 have been approved by all the directors of REL. Sir Selwyn Cushing, David Cushing and Brian Martin abstained from making a recommendation in respect of the Offer (paragraph 14).

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.

Murray Gough *Director*	Roger Bonifant *Director*	Brian Burrough *Chief Executive Officer*	Owen Trimmer *Chief Financial Officer*

APPENDIX 1

Trading in REL shares in the 12 month period to 7 June 2007

Date	Number of Shares	Consideration $
7 June 2006	9,238	1.65
8 June 2006	9,976	1.65
14 June 2006	1,116	1.65
	4,980	1.62
27 June 2006	6,000	1.65
20 July 2006	2,214	1.65
21 July 2006	3,000	1.62
1 August 2006	6,500	1.70
2 August 2006	202	1.70
4 August 2006	1,031	1.70
17 August 2006	1,298	1.71
21 August 2006	2,000	1.70
4 September 2006	3,300	1.70
6 September 2006	2,500	1.85
	15,300	1.70
8 September 2006	4,010	1.83
21 September 2006	2,912	1.85
27 September 2006	3,088	1.84
28 September 2006	1,814	1.85
2 October 2006	500	1.85
	486	1.70
3 October 2006	5,564	1.85
5 October 2006	22,860	1.85
	354	1.70
6 October 2006	2,400	1.85
11 October 2006	744	1.82
17 October 2006	600	1.85
18 October 2006	2,012	1.85
20 October 2006	1,000	1.85
	1,050	1.70

Date	Number of Shares	Consideration $
25 October 2006	3,700	1.90
	1,500	1.70
8 November 2006	2,084	1.84
9 November 2006	1,366	1.84
10 November 2006	504	1.84
14 November 2006	550,000	1.90
22 November 2006	2,363	1.84
27 November 2006	1,500	1.71
29 November 2006	2,439	1.85
1 December 2006	1,532	1.90
4 December 2006	1,252	1.90
8 December 2006	2,080	1.90
12 December 2006	5,232	1.90
13 December 2006	3,087	1.90
18 January 2007	8,220	1.93
22 January 2007	813	1.93
23 January 2007	5,814	1.94
11 February 2007	1,108	1.71
14 February 2007	1,128	1.71
23 February 2007	3,000	1.71
27 March 2007	1,146	2.01
29 March 2007	1,950	2.01
30 March 2007	3,894	2.09
24 April 2007	1,200	2.10
14 May 2007	3,672	2.40
16 May 2007	1,500	2.70
18 May 2007	2,000	2.70
6 June 2007	2,000	2.69
	19,298	2.70

Rural Equities Limited

Independent Adviser's Report

7 June 2007
This report contains 72 pages
R020 Independent Advisers Report.doc

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The Independent Directors
Rural Equities Limited
120 Karamu Road
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Our ref L001 Report cover.doc

7 June 2007

Dear Sirs

Independent Advisers Report on the partial takeover of Rural Equities Limited by H&G Limited

The directors of Rural Equities Limited ("REL") have engaged KPMG to prepare an Independent Adviser's Report (the "Report") setting out an assessment of the merits of the H&G Limited offer ("H&G Offer") to assist REL shareholders to evaluate the proposed transaction and form their own opinion on whether or not to accept the H&G Offer. Our Report has been prepared in accordance with our engagement letter dated 23 May 2007.

Our Report considers the merits of the Offer. As each shareholder's circumstances and objectives are unique to themselves, it is not possible to report on the merits of the Offer in relation to each shareholder. Therefore this Report necessarily considers the general merits of the Offer.

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

Yours sincerely

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Glossary

Code	Takeovers Code
Creep Provisions	The process under the Rule 7 (e) of the Code which enables a holder of more than 50% of the voting rights in a Code company to purchase additional shares, provided the increase is not more than 5% in any one 12 month period.
DCF	Discounted cash flows
Deed	NZRPT's Trust Deed – last modified on 5 October 1999
Entitlement	A shareholder's entitlement to sell the Specified Percentage of their REL shares
Fonterra	Fonterra Co-operative Group Limited
H&G	H&G Limited
H&G Associates	Shares held by parties that are within the definition of associate under Rule 4 of the Code
H&G Offer or Offer	The partial takeover offer by H&G for 2,223,791 shares in REL
Independent Directors	The directors of REL not associated with H&G
IRD	Inland Revenue Department
Manager or Management Companies or Managers	New Zealand Rural Property Trust Management Limited and/or REL - Trust Management Limited
Management Contracts	The management contract between the Trustee and the Managers
MS	Milk solids
NAV	Net asset value
Non-associated shareholders	The REL shareholders other than H&G and H&G Associates
NZRPT	New Zealand Rural Property Trust
the Report	The Independent Advisers Report prepared by KPMG
REL - PET	REL - Pacific Equity Trust
REL	Rural Equities Limited
REL Group	REL and its subsidiaries
ShareMart	The ShareMart exchange
Specified Percentage	16.9%, 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 Properties and Finance Limited

Surplus REL Shares	Acceptances of the H&G Offer in excess of their Specified Percentage of shares
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" or the "Company") is a rural property investment and management company. REL owns all of the shares in New Zealand Rural Property Trust Management Limited which is the manager of New Zealand Rural Property Trust ("NZRPT"). REL also owns all the shares in REL – Trust Management Limited which manages the REL - Pacific Equity Trust ("REL - PET").

REL and NZRPTM together own approximately 54.2% of the units in NZRPT and REL owns 21.1% of the units in REL - PET.

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 $46.7 million on 13 May 2007 (based on the last trade before the Offer announcement) and total equity of approximately $71.8 million (unaudited) as at 31 December 2006.

NZRPT holds a portfolio of rural property and associated farmland assets and a forest. Its units are traded on ShareMart and Unlisted. It had a market capitalisation of approximately $98.8 million as at 13 May 2007 (based on the last trade before the Offer announcement) and total unitholders' funds of approximately $159.4 million (unaudited) as at 31 December 2006.

REL - PET was formed in July 2006 with the intention of accumulating an investment portfolio to include a mix of listed and unlisted securities in New Zealand and Australia.

H&G Limited ("H&G") is an investment company owned by Sir Selwyn Cushing and David Cushing. H&G currently holds 9,079,277 fully paid ordinary shares in REL, being approximately 40.83% of the REL shares currently on issue.

In addition other Cushing family interests who are within the definition of an "associate" under Rule 4 of the Code currently hold approximately 9.27% of the REL shares on issue.

1.2 H&G Offer

H&G announced on 14 May 2007 that it intended to make a partial takeover offer under the Takeovers Code for 2,223,791 fully paid shares in REL (the "H&G Offer" or the "Offer").

H&G sent a Notice of Intention to make a partial Offer for shares in REL on 14 May 2007.

The key terms of the H&G Offer are the cash consideration is $2.75 per REL share and the Offer is conditional on H&G receiving acceptances for 2,223,791 shares and therefore, when taken together with the REL shares already held by H&G, will mean they hold approximately 50.8% of the voting rights and shares in REL.

1.3 Implications of the Takeovers Code for the proposed transaction

H&G's offer is made pursuant to the Takeovers Code (the "Code"). The Code governs the conduct of takeover activity for companies that come within the definition of a "Code Company" in New Zealand. REL is a Code Company as it has 50 or more shareholders.

The Code seeks to ensure all shareholders are treated equally and are able to make an informed decision as to whether to accept or reject an offer.

The H&G Offer constitutes a partial takeover offer under Rule 9 and in compliance with Rule 10 of the Code.

The directors of REL are required by Rule 21 of the Code to obtain a report from an independent adviser on the merits of the offer.

1.4 Purpose of this report

The directors of REL have engaged KPMG to prepare an Independent Adviser's Report (the "Report") setting out an assessment of the merits of the H&G Offer to assist REL shareholders in forming an opinion on the Offer.

KPMG is independent of REL and H&G and has no involvement with, or interest in the outcome of the H&G Offer. The Takeovers Panel has approved KPMG and KPMG partners, Russell Florence and Tony McNaught, to prepare this report.

The purpose of KPMG's Report is to satisfy the requirements of the Code, and to assist the non-associated shareholders of REL to evaluate the proposed transaction and form their own opinion on whether or not to accept the H&G Offer.

Our Report considers the merits of the Offer. As each shareholder's circumstances and objectives are unique to themselves, it is not possible to report on the merits of the Offer in relation to each shareholder. Therefore this Report necessarily considers the general merits of the Offer.

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

1.5 Basis of assessment

Rule 21 requires an evaluation of the merits of the H&G Offer. Neither the Code nor the Takeovers Panel has defined the term "merits" and the term is not defined in any statute dealing with securities or commercial law.

The Takeovers Panel has stated that a report on the merits of a proposed offer is wider than a valuation report. It has also suggested "merits" includes both positive and negative aspects of a transaction.

We have assessed the merits of the H&G Offer after taking into consideration the following:

- Our estimated value range for the shares in REL and the consideration of the H&G Offer when compared with that estimated value range;
- The likelihood of an alternative offer;
- The implications of the conditions attached to the Offer;
- The likely share price for REL shares in the absence of the H&G Offer;
- The advantages and disadvantages of REL shareholders accepting the Offer;
- The timing and circumstances surrounding the H&G Offer;
- The risks and rewards of REL's business; and
- The implications for the shareholders of accepting or not accepting the H&G Offer.

1.6 Sources of information and reliance on information

In Appendix 1 are details of the information we have received and relied upon in preparing our Report.

1.7 Qualifications and declarations

Detailed in Appendix 2 are our statements regarding KPMG's qualifications, independence, limitations of the report and its reliance on information and declarations.

2 Terms of the Takeover Offer

2.1 Background

H&G sent a Notice of Intention to make a partial Offer for shares in REL on 14 May 2007. The partial offer is made under the Takeovers Code and is for 2,223,791 fully paid shares in REL. H&G currently hold and control 9,079,277 REL shares comprising approximately 40.8% of the REL shares on issue.

The key terms of the H&G Offer are:

- The cash consideration is $2.75 per REL share which is payable 7 days after this Offer becomes unconditional;

- H&G cannot accept more or less than 2,223,791 REL shares under the H&G Offer. The 2,223,791 REL shares sought by H&G represent approximately 16.9% of the REL shares not currently held 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. 16.9% of their REL shares) (the "Entitlement");

- A shareholder can accept this Offer in respect of all or any REL shares held by that holder;

- If H&G receives acceptances from a shareholder in excess of their Entitlement, and they also receive acceptances from other shareholders in excess of those sought under the Offer then H&G can scale down a shareholder's acceptance, but not so as to be reduced to less than each shareholders' Entitlement; and

- To the extent that REL shareholders do not accept the H&G Offer for 16.9% of their shares, H&G is entitled to accept acceptances from REL shareholders who wish to sell more than 16.9% of their REL shares ("Surplus REL Shares"). The number of Surplus REL Shares acquired from each such REL shareholder will be proportionate to the total number of Surplus REL Shares offered to H&G.

- The Offer closes at 11.00 a.m. on 3 July 2007 unless extended by H&G in accordance with the provisions of the Code.

Other Cushing family interests who are within the definition of an "associate" under Rule 4 of the Code ("H&G Associates") currently hold approximately 9.27% of the REL shares on issue. Accordingly, H&G and those H&G Associates, currently hold approximately 50.1% of the REL shares on issue. If the Offer is successful, and the H&G Associates do not accept the Offer, H&G and those H&G Associates will hold approximately 60.1% of the REL shares on issue.

Number of shares sought under the H&G Offer		
	No of shares	**%**
Current H&G shareholding	9,079,277	40.8%
Sought by H&G under the H&G Offer	2,223,791	10.0%
H&G Shareholding if Offer successful	**11,303,068**	**50.8%**
Current H&G Associates shareholding	2,061,906	9.3%
H&G plus H&G shareholding if Offer is successful	**13,364,974**	**60.1%**

The Target Company Statement discloses that the H&G Associates have advised the Company that they do not intend to accept the Offer.

2.1.1 Conditional Offer

The Offer is conditional on H&G receiving acceptances for 2,223,791 shares and therefore, when taken together with the REL shares already held by H&G, will mean they hold approximately 50.8% of the voting rights in REL.

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 subject to conditions in respect of the prohibition until such time as the Offer closes of:

- The payment by REL of dividends, bonuses and distributions;
- Share subdivisions, consolidations or buybacks of shares by REL;
- Changes in the manner in which the business of REL and its subsidiaries is carried on;
- Material adverse changes in the financial position, trading operations or assets of REL or any subsidiaries as compared with the position at and for the year ended 30 June 2006 and no events occurring which give or may give rise to such a material adverse change;
- Variations to the terms and conditions of employment and/or appointment of any director or officer of REL or any of its subsidiaries; and
- Alterations to REL's constitution.

2.1.2 Offer Dates

The record date for the Offer is 29 May 2007. H&G intends to date the Offer 1 June 2007 and then send its offer document to REL's shareholders. The Offer closes at 11.00 a.m. on 3 July 2007 (unless extended by H&G in accordance with the provisions of the Code).

The date by which time this Offer is to become unconditional must be no later than 14 days after the date the Offer closes.

2.2 H&G's 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. While H&G's motives for making the partial Offer are not fully apparent, it has been reported in the NZ Farmers Weekly (21 May 2007) that the Offer was being made to enable H&G to use the provisions in the Code which will enable H&G to purchase REL shares via private treaty, or through the ShareMart or Unlisted without shareholder approval, provided the increase is not more than 5% in any one 12 month period ("Creep Provisions"). This ability will effectively begin 12 months after the closure of the Offer. Thus H&G will not be able to purchase any shares for 12 months after this Offer has closed, unless it makes another partial or full takeover or uses one of the other exceptions provided by Rule 7 of the Takeovers Code.

3 Consideration of the merits of the H&G Offer

In this section we consider the various factors that might be considered by shareholders.

3.1 The H&G Offer price

Our view is that the appropriate test for the fair value under a full or partial takeover offer, where the offeror will gain control, is the full value of 100% of the company, pro-rated across all shares.

A partial takeover offer may include a premium for obtaining greater than a 50% interest and therefore the degree of control a majority shareholding provides, and also for the ability to use the Creep provisions of the Code, if the offer is successful. Conversely the premium under a partial takeover may be reduced as 100% control is not obtained and so the offeror does not have absolute rights to the cash flows and the power to pass special resolutions.

In KPMG's view, as H&G and H&G Associates already have a 50.1% holding the appropriate premium for control is likely to be small, although there should still be a premium for the ability to utilise the Creep Provisions. However the existence of St Laurence as a shareholder with 17.8% of the shares in REL means that even if the Offer is successful H&G will unlikely to be able to pass a special resolution without the support of St Laurence and/or other shareholders. This may reduce any premium.

The value that potential shareholders may gain through accepting a partial offer compared with what shareholders are giving up if they accept the partial offer, including the fact that H&G will increase its shareholding to 50.8% and effectively gain control, is discussed more fully in sections 3.2 to 3.10 of this Report.

In KPMG's opinion the full underlying value of REL is in the range of $2.45 to $3.70 per share. This value is for 100% of REL. The H&G Offer price of $2.75 per share is within our assessment of REL's fair value range.

Our fair value range for REL's shares is also based on the following:

- The value does not assess what a special purchaser might be prepared to pay for REL shares. A special purchaser is a party that might be willing to pay a premium for an asset over and above the price other purchasers may be prepared to pay;

- The value is not influenced by the identity of the purchaser;

- The value only takes into account synergies that would be common to a number of potential purchasers; and

- The value will be influenced by the highest and best alternative uses for the asset.

The Offer price of $2.75 per share represents a 31.0% premium over the closing share price of $2.10 on 24 April 2007, that being the last trade before H&G announced its intention to make a partial takeover offer, and a premium of 33.5% over the volume weighted average share price of $2.06 for REL shares in March and April 2007. This represents a premium towards the upper end of control premiums observed for successful takeovers of New Zealand companies.

In arriving at our fair value range for shares in REL we have assumed, inter-alia:

- REL's 54.2% stake (including units owned by the Manager) in NZRPT is valued at our assessment of the NZRPT's full underlying net asset value. To assess this full value we have adopted two approaches. The first approach is to assume NZRPT would be liquidated. Under this approach the value of REL's units in NZRPT reflects our assessment of the pro-rata value of an orderly wind up of NZRPT's assets less an allowance for liquidation costs, an adjustment to REL for the loss of income in respect of the Management Contract for NZRPT and under the low value scenario an allowance for a significant potential contingent tax liability in respect of the sale of property assets. The second approach is to assume NZRPT will continue to operate in a similar manner as in its recent past. Under this approach the value of REL's units in NZRPT would be its pro-rata share of NZRPT's full net asset value less an allowance for capitalised overheads and other costs. Under the low value scenario an allowance is made for the potential tax contingency that might arise over an extended period.

- The costs of any liquidation and the quantum of any potential contingent tax liability in the event NZRPT were to be liquidated, if any, are highly subjective and difficult to assess. Our relatively wide fair value range for REL largely reflects our uncertainty on the fair value of its investment in NZRPT.

- REL's value of the units in REL-PET are assessed at their fair market value; and

- REL's value in the Managers is assessed by capitalising our assessment of maintainable operating earnings.

3.2 What is the likelihood of receiving an alternative offer?

REL has not received an alternative offer.

The H&G shares combined with the shares held by other H&G Associates represent a majority interest in REL.

The largest shareholder after H&G is St Laurence Property and Finance Limited ("St Laurence") who owns 17.8% of the REL shares. St Laurence is only able to purchase additional shares provided its total shareholding after the purchase is not more than 20% of the shares in REL, unless it makes a full or partial takeover offer. In the case of the partial takeover offer it must be successful in gaining acceptances which will enable it to hold and control more than 50% of the shares in H&G. Thus for a full or partial takeover to be successful St Laurence, or another party, would need to receive acceptances from H&G and/or H&G Associates who together currently hold 50.1% of the shares in REL.

Therefore KPMG considers that unless H&G and/or H&G Associates decided they wish to exit their investment in REL, it is unlikely that an alternative offer will be received from another party.

Should the H&G Offer be successful, H&G by itself could prevent St Laurence or any other party from making a full or partial takeover. Therefore, if the H&G Offer is successful we consider, unless H&G decides it wishes to exit its investment in REL, it is the unlikely that a takeover offer from St Laurence or another party will be made, now or in the future.

3.3 How certain is the success of the Offer?

Individual shareholders will not know whether the H&G Offer has been successful until the closure 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 closed and they are aware of the number of shares they have sold, if any. This will be of particular importance if the Offer is unsuccessful or if the shareholder's acceptance is scaled down.

St Laurence owns 17.8% of the REL shares. This means that should St Laurence accept the Offer for at least 56.2% of their shareholding, the minimum number of shares criteria will be met, regardless of the acceptances of the other shareholders.

On the other hand, should St Laurence not accept the Offer, it will only require acceptances from the next six largest shareholders, other than H&G Associates and St Laurence, for the Offer to be successful.

We have received no indication of the intentions of St Laurence. However in all likelihood the H&G Offer will not require acceptances from many large shareholders, if they accepted the Offer in respect of all of their shares, for the Offer to be successful.

3.4 How many shares is a shareholder likely to sell?

The H&G Offer is a partial Offer and is conditional on H&G receiving acceptances for 2,223,791 shares, representing 16.9% of the outstanding shares of REL. H&G cannot accept more or less than 2,223,791 shares under the H&G Offer. Therefore, if it receives acceptances for less than 2,223,791 shares the Offer will lapse. If it receives acceptances for more than 2,223,791 shares, then the acceptances must be scaled down.

If the H&G Associates accept the H&G Offer, and all other shareholders also accept, each shareholder will sell approximately 16.9% of their shares. However The Target Company Statement discloses that the H&G Associates have advised the Company that they do not intend to accept the Offer.

Therefore if all other shareholders accept for all their shares, each shareholder will sell approximately 20.0% of their shares.

This will mean that shareholders accepting the Offer in respect of more than 16.9% 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.

3.5 How would the increase in shareholding change the control able to be exercised by H&G?

3.5.1 Increased control by H&G over REL and NZRPT

Currently H&G, together with the H&G Associates, hold 50.1% of the share in REL and acting together are able to pass ordinary resolutions. In the event that the H&G Offer is successful, H&G will directly control 50.8% of the shares in REL and will be able to pass ordinary resolutions by itself. Also H&G, together with the H&G Associates will control 60.1% of the voting rights in REL and acting together, their ability to pass special resolutions will have increased significantly.

However it is not certain that H&G and H&G Associates would act together in passing such resolutions as the H&G Associates are not controlled by H&G. Furthermore, if St Laurence does not accept the Offer they will continue to hold 17.8% and will be in a reasonably strong position to block a special resolution. If they accept the Offer their shareholding reduces and so their ability to block a special resolution decreases, however depending on their level of shareholding after the Offer closes, St Laurence may still make it difficult for H&G and H&G Associates to pass a special resolution without the support of other shareholders.

By virtue of its control of REL, H&G will have greater control over NZRPT in the event the Offer is successful. It will effectively control the Manager, which is wholly-owned by REL, as well as the 54.2% of the units in that trust owned by REL.

Finally, even though H&G and the H&G Associates have 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.

3.5.2 H&G becomes able to 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 50.8%. The Code prohibits a 50.8% 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;
- by the allotment of shares if the allotment is approved by an ordinary resolution; or

- if the increased shareholding is 5% or less in any 12 month period.

H&G is unable to vote on the ordinary resolution to approve an acquisition or allotment of shares under these provisions of the Code.

The major change that would occur if the H&G Offer was successful is that H&G's shareholding will increase above 50% and therefore H&G will be able to purchase REL shares via private treaty, or through the ShareMart or Unlisted without shareholder approval, provided the increase is not more than 5% in any one 12 month period. Thus H&G will not be able to purchase any shares for 12 months after this Offer has closed, unless it makes another partial or full takeover or uses one of the other exceptions provided by Rule 7 of the Takeovers Code.

The use of the Creep Provisions means that H&G would be able to purchase shares without:

- the shareholders receiving an independent advisers report discussing the merits of the offer which would be required by a full or partial offer;

- the shareholders, other than H&G and the H&G Associates, passing an ordinary resolution approving the acquisition or allotment of the shares. Such a resolution would involve the shareholders receiving material discussing the acquisition or allotment price and what the price may be if it were to contain a control premium.

Furthermore should H&G purchase the maximum number of shares they are able to under the Creep Provisions, they will have more than 75% of the shares and be able to pass special resolutions five years and one day after the Offer closes. Also they will be able to pass special resolution in conjunction with H&G Associates, assuming they continue to hold all their current shares, after 3 years.

Similarly should H&G purchase the maximum number of shares they are able to under the Creep Provisions, they will have more than 90% of the shares and be able to pass special resolutions eight years and one day after the Offer closes.

This is a change in H&G's options as a result of this Offer, which may decrease the likelihood of H&G making another partial or full takeover offer. As the price in a partial or full takeover offer is likely to require a higher price than purchasing small numbers of shares as they become available, this could be a disadvantage of the Offer to the shareholders receiving it in respect of those of their shares which are not sold under the Offer.

Conversely, the existence of a shareholder who is potentially a willing purchaser may support the share price in the absence of a partial or full takeover offer.

3.6 What are H&G's intentions and how might this change the business risks?

A partial offer is normally made to secure the ability to pass ordinary resolutions of the company and thereby control the composition of the company's board of directors and ultimately the management of the company. Currently three representatives of H&G and H&G Associates are REL directors. Further, acting together, H&G and H&G Associates can currently pass an ordinary resolution of the Company.

H&G have stated in their Offer that they do not currently intend to make any material change in respect of the business activities of REL and its subsidiaries.

H&G motives for making the partial Offer are not fully apparent, although it has been reported in the NZ Farmers Weekly (21 May 2007) that the Offer was being made to enable H&G to use the Creep Provisions of the Code, which allows it to acquire shares in REL other than by a takeover under the code or with the support of an ordinary resolution passed by the Non-associated shareholders of REL.

If the H&G Offer succeeds, shareholders are unlikely to face any material change in business risk unless and until H&G and/or H&G Associates were to subsequently obtain a 75% shareholding in REL through the Creep Provisions, thereby ensuring they could pass special resolutions that may change the nature of REL's business. As the Offer is a partial Offer, shareholders will still retain an interest in REL.

3.7 How would a successful Offer change the price of the shares in the future

3.7.1 Liquidity of REL shares is likely to decrease

REL shares are thinly traded. If the H&G Offer is successful, the size of the pool of shares held by holders other than H&G 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.

3.7.2 REL share price may trade below the Offer price

In KPMG's view it is unlikely that, at least in the short term, an alternative offer will be received from a third party and there is no certainty that H&G will pursue a subsequent takeover offer given its level of control, either currently or if this partial takeover Offer is successful. This combined with the reduced liquidity is likely to mean REL's price will trade below that of the H&G Offer, once that closes.

While we have assessed the value of the REL shares to be in the range of $2.45 to $3.70, this represents the pro-rata value of the Company as a whole. We expect that minority parcels of shares would likely trade at a discount to these values in the absence of another potential takeover offer. Thereafter in the absence of a future takeover offer or other sharemarket activity, if the price follows historical patterns, it is likely to reflect movements in, but at a discount to, the net asset value of the shares.

3.8 How would an unsuccessful Offer change the price of the shares in the future?

3.8.1 H&G's response is unknown

If the Offer is unsuccessful, H&G will either let its Offer lapse and continue to hold 40.8% 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.

Given the size of its present shareholding we believe the likelihood of H&G selling their shares in REL is remote, other than in response to a takeover offer from another party. Although a takeover offer from another party is unlikely at present, if the Offer is unsuccessful and H&G still wish to increase their shareholding in REL, they will need to make a new partial or full takeover offer which will likely be at a higher price. A new partial or full takeover will need to be in compliance with the Code and therefore the shareholders will receive a new independent advisers report discussing the merits of that new offer. Section 3.1 of this Report discusses in more detail differences between a partial and full takeover offer.

3.8.2 REL share price may trade below the Offer price

In the event that H&G is unsuccessful in gaining acceptances in respect of at least 2,223,791 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, the price for minority parcels of shares will most likely fall below the price in the Offer, following the expiry of the Offer.

However we consider in the event of the current takeover offer being unsuccessful there is a possibility that H&G may make another Offer in the future.

3.9 Advantages and implication of accepting the H&G Offer

3.9.1 Advantages

3.9.1.1 Shareholders will receive $2.75 per share for those shares sold if the Offer is successful

Acceptance of the H&G Offer will enable shareholders to realise cash of $2.75 per share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of Surplus REL Shares, if the H&G Offer is declared unconditional. As H&G Associates have indicated that they will not accept the Offer, in effect the Non-associated shareholders will be able to realise $2.75 per share for at least 20% of the shares in respect of which they accept the Offer, if the Offer is successful.

Depending on the size of the individual shareholder's parcel of shares, the ability to dispose of a percentage of shares represents an exit opportunity not currently available on the open market for REL's shares as they are presently thinly traded.

If the 50.8% threshold is not reached, then the H&G Offer will lapse and any accepting shareholders will continue to own their existing interest in REL.

3.9.2 Implications

3.9.2.1 Unsold shares

Accepting shareholders are not likely to be able to sell all their shares under the Offer and for the reasons explained above, the options for selling and the price likely to be received for the remaining shares is likely to be lower than the Offer price, at least in the short term.

3.9.2.2 Minimum shareholding

If as the result of accepting the Offer a shareholder is left with less than 1,000 shares in REL, the Company may at some time give notice and sell those shares under clause 9.6 of the Company's Constitution. In those circumstances the Company is required to sell the shares and pay the net proceeds, after deduction of reasonable sales expenses, to the shareholder. If REL decides to take such an action it must give the shareholder one months notice, during which time the shareholder can avoid the compulsory sale by purchasing more shares such that the number of shares they hold exceeds 1,000.

3.10 Disadvantages of accepting the H&G Offer

3.10.1 Reduction in interest in REL

If the H&G Offer is successful, accepting shareholders will hold smaller shareholdings in a company whose shares are then 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 any subsequent takeover offers at a higher price.

3.10.2 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.

3.11 Advantages and disadvantages of not accepting the Offer

Not accepting the H&G Offer will increase the likelihood of the Offer being unsuccessful. However as we have stated in all likelihood the H&G Offer will not require acceptances from many large shareholders to be successful.

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. We consider that, at least in the short term, minority parcels of shares may trade at a discount to the H&G Offer price in the absence of another takeover offer.

3.12 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.

4 Profile of the Rural Equities Group

4.1 Background

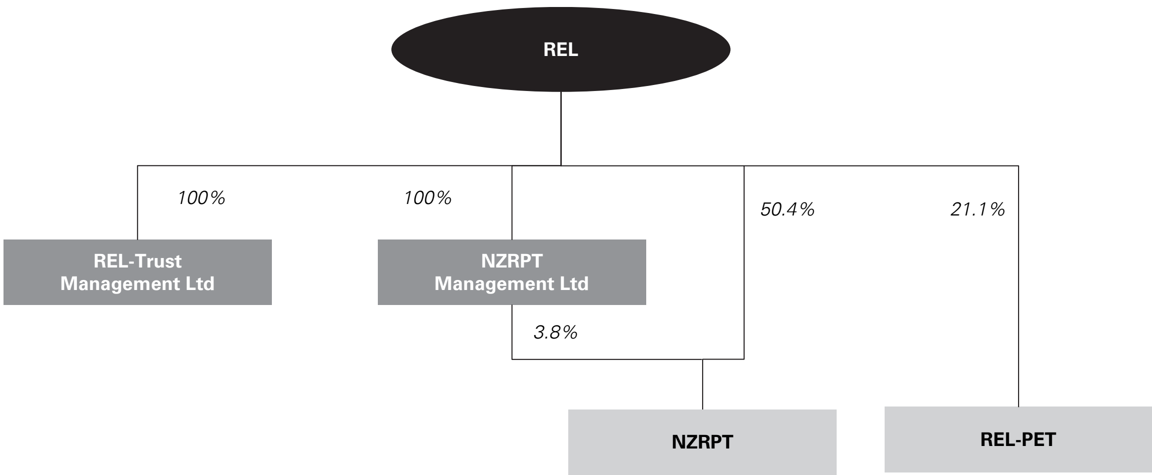
REL is an investment and management company. REL was formed in 1989 as New Zealand Farmlands Limited and was formerly a listed company on the New Zealand Stock Exchange. The company changed its name to New Zealand Rural Properties Limited in 1992. Williams & Kettle Limited ("W&K") made a share takeover offer for the company in 1996, pursuant to which it acquired approximately 72% of the shares in New Zealand Rural Properties Limited. The remainder of the shares were subsequently acquired for cash.

In February 2004 W&K carried out a court approved Scheme of Arrangement in which it transferred the units it owned in NZRPT to REL in return for further shares in REL and $6 million in cash. W&K then made a distribution of shares in REL to W&K shareholders pro-rata to their shareholding in W&K.

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 are now 54.2% of NZRPT and 21.1% of REL - PET plus 100% of the two Managers of those trusts ("Management Companies"). The Managers hold the contracts to manage NZRPT and REL - PET (the "Management Contracts").

REL has three employees, being a Chief Executive, a Chief Operating Officer and a Chief Financial Officer.

The "REL Group" comprises REL and its subsidiary companies. The group structure is:



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

REL History

Date	**Event**
Apr 04	H&G announces its intention to make a partial takeover offer at $1.25 per share for 2,303,551 shares in REL, aimed at increasing the interests of H&G and the H&G Associates to 50.1%.
May 04	St Laurence announces a share takeover for 100% of REL at $1.50 cash per share.
June 04	St Lawrence announces an end to their formal takeover bid for REL, concentrating instead on gaining a stake of up to 19.9% in the Company through a market stand.
June 04	H&G announces it has varied its offer and now offers a price of $1.50 per share.
June 04	St Laurence increases its price in endeavouring to obtain a 19.9% shareholding to $1.60 per share.
June 04	H&G announces it has varied its offer and now offers a price of $1.60 per share.
July 04	H&G announces it has received shareholder approval to take effective control of REL.
Nov 04	St Laurence renews its attempt to take its stake in REL from 15% up to 19.9%. Its offer remains open in an endeavour to achieve this stake.
Mar 05	REL announces an offer to all unitholders in the NZRPT seeking to increase REL's holding in the Trust from 43% to approximately 50.1%. The offer price is $1.84 cents per unit payable in cash.
Apr 05	REL successfully acquires an additional 9% in NZRPT to increase its shareholding to 52.43% of Trust units.
May 05	REL announces a one for two pro-rata non-renounceable rights issue of ordinary shares at $1.00 per share.
July 06	REL forms and acquires 21.1 % of REL – PET.
May 07	H&G announces its intention to make a partial offer for 2,223,791 shares in REL at $2.75 per share payable in cash, aimed at increasing H&G's individual holding to approximately 50.8%.

4.2 Financial Performance

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

REL Group Summary of Financial Performance				
$000s	**11 Months 30 June 2004 Audited**	**Year 30 June 2005 Audited**	**Year 30 June 2006 Audited**	**6 Months 31 Dec 2006 Unaudited**
Net operating income	2,055	4,185	5,952	3,299
Corporate expenses	(923)	(2,131)	(3,712)	(2,190)
Operating surplus/ (deficit) before interest and tax	1,132	2,054	2,240	1,109
Less interest expense	(134)	(1,132)	(1,762)	(1,175)
Operating surplus/ (deficit) before tax	998	922	478	(66)
Share of associate's surplus	16,150	177	-	-
Revaluation movements	-	29,557	18,418	-
Adj. to management contract on consolidation	-	(1,024)	-	-
Operating surplus/ (deficit)	17,148	29,632	18,896	(66)
Less taxation (expense)/ credit	(427)	(511)	(193)	43
Less (surplus)/ deficit attributable to minority interests	-	(10,483)	(8,217)	69
Surplus attributable to parent interests	**16,721**	**18,638**	**10,486**	**46**

Source: REL annual reports, unaudited management report to 31 December 2006

The structure of the Group's financial performance changed in the year ended June 2005 when NZRPT became a subsidiary and was consolidated into REL's financial accounts, rather than being treated as an associate company. As an associate company, REL's share of NZRPT's earnings and property revaluations were included in its statement of financial performance as their "Share of associate's surplus". Subsequently all NZRPT's operating profits are included in the operating surplus, all property revaluations are disclosed as a line item and the minorities' share of NZRPT's operating profit is deducted as the "Surplus attributable to minority interests".

The REL Group's consolidated results are heavily dependent on the level of annual property revaluations. NZRPT's policy is to revalue properties at 30 June each year and therefore no revaluations are included in the interim results.

REL has not paid its shareholders a dividend since the year ended 30 June 2004, and the directors stated in the 2006 Annual Report that they do not expect that dividends will be paid in the foreseeable future.

4.3 Financial Position

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

REL Group Summary of Financial Position				
$000s	**30 June 2004 Audited**	**30 June 2005 Audited**	**30 June 2006 Audited**	**31 Dec 2006 Unaudited**
Cash and bank	-	280	134	297
Accounts receivable	1,298	1,003	838	659
Livestock and feed on hand	-	973	862	1,936
Total current assets	1,298	2,256	1,834	2,892
Investment properties	-	132,934	150,592	151,131
Forest	-	4,714	5,905	6,235
Property, plant & equipment	2	740	1,409	1,390
Management contract	1,976	925	882	866
Prepaid taxation	-	529	518	410
Investments	38,542	9,250	9,912	13,929
Total non current assets	40,520	149,092	169,218	173,961
Total assets	41,818	151,348	171,052	176,853
Bank overdraft	302	132	195	487
Accounts payable and accruals	190	1,617	1,592	867
Provision for taxation	152	-	-	-
Term loans	6,000	20,400	23,750	30,650
Provision for deferred taxation	-	248	320	1
Total liabilities	6,644	22,397	25,857	32,005
Net assets	**35,174**	**128,951**	**145,195**	**144,848**
Comprising				
REL shareholders' equity	35,174	61,225	71,711	71,757
Minority interests		67,726	73,484	73,091

Source: REL annual reports, unaudited management report to 31 December 2006

The major asset is the investment properties, which is consistent with the fact that the major determinant of the Group's results is the revaluation of these properties held by NZRPT.

The majority of the investments at June 2004 of $38.5 million was the investment in NZRPT, which in subsequent years has been consolidated on a line by line basis. The investments at June 2005 and June 2006 of $9.3 million and $9.9 million respectively comprised other company shares, primarily shares in Fonterra Co-operative Group Limited ("Fonterra"), which are included at their fair value as determined by Fonterra. The increase at December 2006 relates to REL's investment in REL – PET.

4.4 Capital Structure and Shareholders

REL currently has 22,237,923 ordinary shares on issue. The names, number of shares and percentage holding of the twenty largest shareholders as at 25 May 2007 are set out below.

REL's 20 largest shareholders		
Shareholder	**No of shares**	**%**
H&G Limited	9,079,277	*40.8%*
St Laurence Property & Finance Limited	3,958,943	*17.8%*
Rotorua Perpetual Capital Fund Limited	966,446	*4.3%*
BD Cushing	536,922	*2.4%*
NZ Central Securities Depository Limited	451,852	*2.0%*
BJ Martin	312,870	*1.4%*
SJ Cushing	305,814	*1.4%*
JA & JE Snijders & BJ Martin	292,500	*1.3%*
Seejay Securities Limited	261,354	*1.2%*
Selba Holdings Limited	219,300	*1.0%*
RGH Holdings Limited	200,000	*0.9%*
Makowai Farm Limited	174,138	*0.8%*
CRN & PH Hickson & MWP Lloyd	158,989	*0.7%*
RP Carter	149,001	*0.7%*
Ashfield Properties Limited	148,800	*0.7%*
BJ Martin & SJ Cushing	138,960	*0.6%*
BA Thomas	106,861	*0.5%*
MGS Fund Limited	103,528	*0.5%*
RG Goodrick	100,000	*0.4%*
Masfen Farms Limited	100,000	*0.4%*
	17,765,555	*79.9%*
Other shareholders	4,472,368	*20.1%*
Total shares	**22,237,923**	***100.0%***

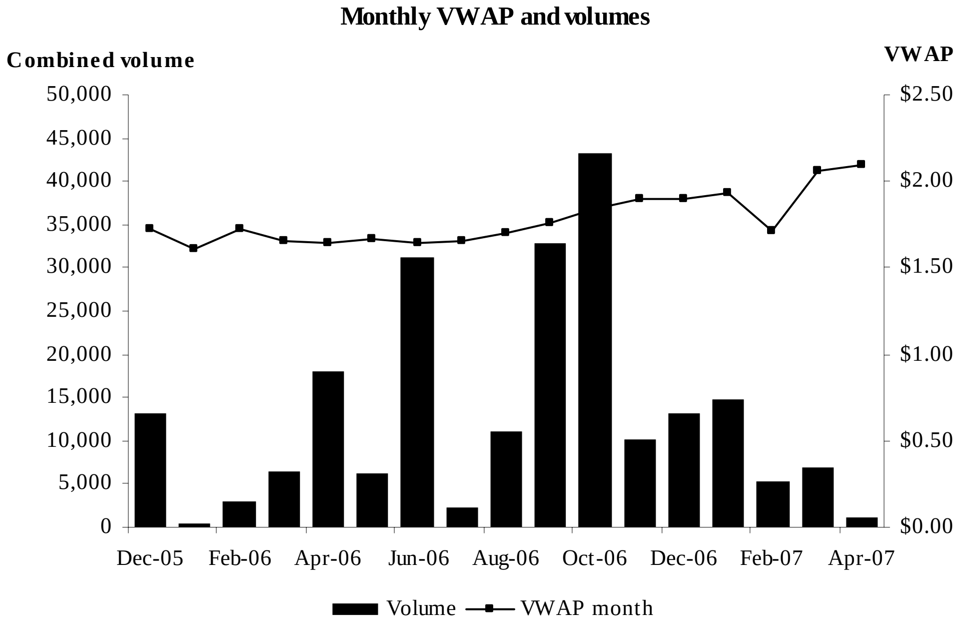
4.5 Share Price History

The table below summaries REL's share price history from 13 December 2005 to 13 May 2007.

REL Price Movements						
		Sharemart			**Unlisted**	
	Low ($)	**High ($)**	**Volume**	**Low ($)**	**High ($)**	**Volume**
December 2005 [1]	1.60	1.60	282	1.65	1.73	12,992
January 2006	1.60	1.60	492	1.65	1.65	72
February	-	-	-	1.70	1.75	3,106
March	-	-	-	1.65	1.65	6,552
April	1.60	1.60	4,718	1.65	1.67	13,450
May	-	-	-	1.67	1.67	6,200
June	1.62	1.62	4,980	1.65	1.65	26,330
July	1.62	1.62	3,000	1.65	1.65	2,214
August	-	-	-	1.70	1.71	11,031
September	1.70	1.70	15,300	1.70	1.85	17,624
October	1.70	1.70	3,390	1.82	1.90	39,880
November	1.71	1.71	1,500	1.84	1.90	558,756
December	-	-	-	1.90	1.90	13,174
January 2007	-	-	-	1.93	1.94	14,847
February	1.71	1.71	5,236	-	-	-
March	-	-	-	2.01	2.09	6,990
April	-	-	-	2.10	2.10	1,200
May [2]	-	-	-	-	-	-

1 From 13 December 2005
2 Up to 13 May 2007
Source: REL

The graph below shows the trailing monthly volume weighted average price ("VWAP") for REL and the volumes of shares traded on both ShareMart and Unlisted.



This table does not include unusually large trades of 550,000 shares on 14 November 2006.

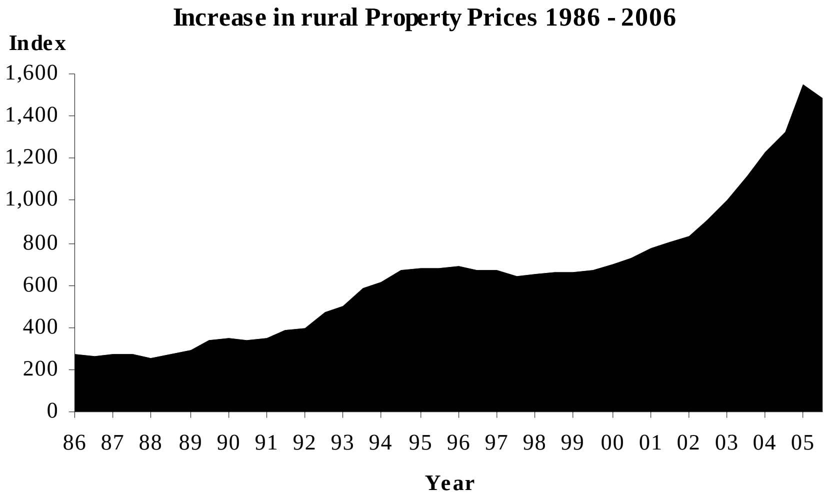
REL's shares have traded between $1.60 and $2.10 between 13 December 2005 and 13 May 2007. The VWAP for the period was $1.86 and the VWAP for the trades on Unlisted for March and April 2007 was $2.06 per share. The last sale before the takeover was announced was on 24 April 2007 at a price of $2.10. The average volume of shares traded each month over this period represented less than 0.1% of the shares on issue.

5 Overview of the Rural Property Sector

5.1 Recent Trends

5.1.1 Rural property prices

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 116% in the past ten years and approximately 64% in the three years to 30 June 2006, with year on year increases being 23%, 19% and 12% respectively.



Source: Quotable Value Rural Price Index

The indexed price for dairy farms has increased at an annual compound growth rate of 14.9% between June 2001 and June 2006[1]. The number of farms sold has been steady at between 704 and 800 between 2002 and 2005[2].

The latter half of the financial 2006 saw a softer market with reduced demand for rural land, although there was no evidence of any significant reduction in land values. The NZRPT interim report to December 2006 notes that there is reduced activity in rural real estate markets with fewer buyers meaning fewer farm property sales. However, values for good quality farm land continued to be firm.

[1] QV – Price Index to June 2006
[2] LIC – Dairy Statistics – 2005/6

5.1.2 Rural economy

Positive factors in the rural economy include a strong performance in the volume of exports, high commodity prices (both in world index and New Zealand index terms) although for some commodities more than others, and strong international demand.

On the other hand, negatives include the high NZ dollar which has dampened the effects of the high commodity prices, several rises in interest rates and slower farm sales amidst concerns that farms are over priced in relation to the returns possible.

5.1.3 Climate

Climatically the 2005-6 season was generally favourable, although the availability of irrigation water in parts of Canterbury was significantly restricted throughout the summer and autumn. The South Island winter in 2006 was particularly harsh, with significant snow falls.

5.1.4 Confidence indicators

Farmer confidence has staged a recovery, buoyed by optimism among the dairy sector, despite an elevated NZ dollar. However, in relative terms, confidence remains at low levels, with only 22% of farmers expecting the economy to improve[3]. There is some polarity of confidence between dairy farmers and beef and sheep farmers, with the dairy farmers being more optimistic.

5.1.5 Exports

Export revenue for dairy products in the year to January 2007 was $6.3 billion, up 23.3% on the previous year, with export volumes up 14% in the year to December 2006. The results for meat exports was not as strong, with export revenue up only 3.1% in the year to January 2007, and volumes up only 1.0% in the year to December 2006.

[3] Rabobank – Rural Confidence Survey – 10 May 2007

5.1.6 Commodity prices

Recent commodity prices have been particularly strong in dairy and have fallen slightly for meat, skins and wool products. Forestry prices remain depressed, although are recently off their historic lows. The table below shows the relative performance of each commodity type, from an international perspective and New Zealand perspective.

Commodity price indices

% movement for the 12 months to February 2007	World Index	NZ Index
Meat, skins, wool	-2.9%	-2.6%
Dairy products	29.5%	25.7%
Forest products	3.8%	1.2%

Source: BERL forecast – March 2007

The increase in world dairy prices has been dominated by increases in milk powder.

World dairy prices

	Apr-06	Apr-07	*% incr*	Apr-06	Apr-07	*% incr*
	USD/tonne	*USD/tonne*		*NZD/tonne*	*NZD/tonne*	
Butter	1,800	2,200	*22.2%*	2,842	2,978	*4.8%*
Skim milk powder	2,075	4,000	*92.8%*	3,276	5,414	*65.3%*
Whole milk powder	2,100	4,000	*90.5%*	3,315	5,414	*63.3%*
Cheddar	2,650	3,100	*17.0%*	4,184	4,196	*0.3%*

Source: Rabobank Agribusiness Review - May 2007

5.2 Sector Value Drivers

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

5.2.1 Economic Environment

Driver	Description
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	There have been a number of new funds and opportunities for investors (mainly private investors) recently, especially in the dairy sector, indicating strong investor confidence in the rural industry. Notable opportunities include the PGG Wrightson sponsored NZ Farming Systems Uruguay Ltd offer, the establishment of Dairy Trust Ltd and subsequent takeover for Open Country Cheese Company Ltd, and the AGRI Private Capital Fund issue sponsored by BT Financial Group.
Dairy farm performance	The milk-solid prices farmers receive from their dairy co-operatives affect their income greatly. The level of returns is linked to the general sentiment for dairy farm properties, although the correlation between income and asset values has diverged over the past couple of years.
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.
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 appreciation of the New Zealand dollar.
Exchange rates	Exchange rates have a significant influence on the value of rural property. 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.

Driver	Description
Interest rates	Low interest rates make property ownership more affordable. However, despite rising interest rates over the last four years, the rural property market has performed well. This is likely to be due to a combination of factors, including a strong overall economy allowing farms to absorb higher interest costs, and other more dominant drivers increasing demand compared to supply.
Input costs	Farm input costs affect the overall level of profitability, which in turn impacts on farm property prices. Certain inputs such as fuel, wages and fertilizer (urea) are currently putting pressure on farm profitability.

5.2.2 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.

In addition, there is expected to be an increased number of dairy conversions from dry stock and forests to dairy farms to take advantage of the stronger commodity prices and the expected increase in the availability of export quota of finished dairy goods such as cheese from 2007 to 2012.

This trend is particularly prevalent in Southland where 30 new dairy units are expected to be converted in Spring 2007.

5.2.3 Climate

Extreme weather conditions can damage property, wipe out crops or kill livestock, which in turn can have a significant impact on farm returns.

5.2.4 Regulation

The consequences of changes in regulation, particularly relating to environmental matters represents a risk to the rural sector.

5.3 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 sharemilker. Whilst there is a trend towards corporate ownership, particularly in the dairy industry, this form of ownership is still relatively limited.

While there is interest from overseas parties wishing to invest in rural property, sales are problematic due to regulations concerning the sale of land to foreign interests.

5.4 Sector Expectations

5.4.1 General rural property market

The outlook for farm returns has softened due to the strength of the New Zealand dollar and higher input costs, although dairy farms will benefit from the increased Fonterra pay-out next season, which is forecast to be $5.53 per kg of milk solid ("kgs/MS").

The rural property market remains robust because of a shortage of good properties and the improvement in outlook for certain commodities. The availability of credit and the introduction of equity schemes provided by the National Bank, for example, suggests that funding will support the current level of activity. Finally, in some districts, portions of land are effectively valued as lifestyle blocks rather than productive dry stock farms, which draws the value of adjoining farms towards the higher value lifestyle blocks.

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. In particular, the improved outlook for dairy commodity prices should ensure that property prices are to some extent supported going forward, depending on key factors such as the exchange rate, future profitability of farms and climate.

After clearing a back-log of deferred farm maintenance in the sector in recent years, farm land in general is more productive than five or ten years ago and this has been built into the general price of land and its improvements.

5.4.2 Economic outlook

The markets are currently factoring in a 20-30% probability of a further increase in the Official Cash Rate in June. Any increase will largely depend on housing market movements and domestic demand, which have remained persistently strong[4]. Recent economic data on retail sales, fiscal stimulus, and a significantly increased Fonterra pay-out for next season indicate that interest rates are unlikely to reduce in the short term.

The NZ dollar has benefited from the continuing interest rate spread versus other developed countries such as the United States, and Japan. It reached a new high of almost US$0.75 early in May 2007. Although the New Zealand currency is widely regarded to be overvalued, the timing and extent of any fall is unknown. Much depends on the current conditions of global liquidity being maintained. This liquidity is driven by a surplus of savings relative to investment in East Asian and oil-producing countries, and the inclination of international investors (including national banks) to employ the "carry trade" where these savings are recycled into the global economy, normally towards the developed countries including the US, UK, Australia and New Zealand.

5.4.3 Dairy farms

Fonterra has recently announced a forecast dairy payout for the 2007/8 season of $5.53 per kg/MS, compared to the current forecast for the 2006/7 season of $4.35 per kg/MS, which is as a result of high commodity prices, business improvements and cost efficiencies. The higher commodity prices have been driven by the Australian drought, reduced stock piles and lower EU subsidies.

With reforms of the EU subsidy system, Europe's farmers are producing less milk and the enlarged EU is relinquishing its position as a dominant force on the world market.

New Zealand will still be in competition with the US, South America and other low-cost producers such as the Ukraine. However, the future of the world dairy market remains positive with market expansion in developing nations in Asia, Africa and the Middle East[5].

5.4.4 Dry stock farms

International beef prices reached historically high levels in 2005. In the short term, international beef prices are likely to remain relatively high because BSE and Foot & Mouth Disease are expected to constrain the supply of beef on international markets, especially the north east Asian markets[6].

Beef prices in the US are expected to rise moderately in the medium term due to drought conditions and slow-building of the US herd. The increased demand for grain for bio-fuel production has raised the costs of animal feed and this will likely push up prices.

[4] Rabobank Agribusiness Review – May 2007
[5] BERL March 2007 forecasts.
[6] Situation and outlook for NZ agriculture and forestry (p.7) – MAF – July 2006.

The New Zealand animal slaughter is expected to be 7% higher this year, although the North Island cow slaughter is currently 10% ahead of this time last year, as is the North Island bull slaughter[7].

The outlook for sheep and wool prices are largely dependent on the exchange rate and offshore stock movements, in particular in the UK where de-stocking is increasing the supply of meat onto the market following the de-coupling of common agricultural policy payments from production in the European Union. A modest recovery of sheep and wool prices is forecast from mid-2007 onwards[8].

5.4.5 Forestry

A 2006 MAF publication predicts average export prices to fall 6% between 2005 and 2010 as a result of growing competition for wood products in New Zealand's traditional export markets[9].

More recent data from Agri-Fax, however, indicates that log prices are at ten year highs, with sawn timber prices up 11.6% in the month of April and log prices up 5.6% in the same month.

The overall outlook is mixed however, since forestry values come from a depressed base after years of low prices, and as a persistently high dollar keeps NZ dollar denominated commodity prices contained. In addition, transport costs remain high following an increase in freight charges of about 300% in the last two years[10].

5.4.6 Summary

Overall, the outlook for the rural economy as a whole is reasonably positive, with dairy widely expected to perform well over the next few years, and sheep and beef expected to provide acceptable returns in the medium term.

This environment is likely to support rural land prices in the short to medium term.

5.5 Critical Success Factors

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

- Asset management of the property portfolio, including:
  - The ability to effectively manage and develop existing properties by maintaining and growing the productive capacity of the property with a long term view;
  - Ensuring efficient resource allocation; and

[7] Rabobank – Agribusiness Review – May 2007
[8] Situation and outlook for NZ agriculture and forestry (p.8) – MAF – July 2006.
[9] Situation and outlook for NZ agriculture and forestry (p.14) – MAF – July 2006.
[10] NZ Herald – "Is forestry out of the woods?" – 21 May 2007.

- 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;
- 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.

6 Profile of Rural Equities Limited

6.1 Background to the parent company

REL is an investment company whose main assets are now 50.4% of the units in NZRPT and 21.1% of REL – PET. REL also wholly owns the Management Companies, that is New Zealand Rural Property Management Limited and REL - Trust Management Limited. They hold the contracts to manage NZRPT and REL - PET (the "Management Contracts"). New Zealand Rural Property Management Limited also holds a further 3.8% of NZRPT.

6.2 Management Contract with NZRPT

The NZRPT Management Contract was acquired by REL from Ascot Management Corporation (NZ) Limited on 30 June 1992 through the acquisition of the manager.

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

- The contract expires on 30 June 2067;
- The Manager's role is to administer and supervise the investments of NZRPT in the best interests of unitholders.
- The Manager can be removed:
  - By the passing of a special resolution by unitholders (75% majority); or
  - If the trustee certifies that it is in the best interests of unitholders that the Manager should retire; or
  - If the High Court orders that the Manager be removed from office pursuant to section 19 of the Unit Trusts Act.
- The majority of the annual management fee is payable in cash with a proportion satisfied by the issue of units in NZRPT.
- The cash component of the current management fee is calculated from figures for the first business day of the financial year, on the following basis:
  - an amount equal to 1.50% of the Gross Value[11] of NZRPT, or where the Gross Value is greater than $50 million, an amount of $750,000; plus
  - if the Gross Value of NZRPT 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

[11] Gross Value is defined as the total value of investments and other assets in NZRPT before any deductions for borrowing and liabilities.

- 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 component of the management 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 NZRPT.

6.3 Management Contract with REL - PET

The REL - PET Management Contract is held by REL – Trust Management Limited.

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

- The contract is of no fixed term however REL - PET must be wound up by 2086 or can be wound up by a special resolution of the unitholders;

- The Manager's role is to administer and supervise the investments of REL - PET in the best interests of unitholders.

- The Manager can be removed:

  - By the passing of a special resolution by unitholders (75% majority); or

  - By the Court, the trustees or unitholders in accordance with section 19 of the Unit Trusts Act.

- On the change of control of the Manager an ordinary resolution must be put to the unitholders that REL - PET be terminated (with the Manager and any Associate of the Manager not being entitled to vote).

- The annual management fee is payable in cash and is calculated from figures on the last day of the financial year, on the following basis:

  - an amount equal to 1.0% of the net asset value of REL - PET, plus

  - in relation to complex acquisitions of an asset, a transaction fee in an amount approved by the trustee.

6.4 Management of REL and Management Contracts

Prior to 30 September 2005, when a service agreement was terminated, W&K provided the following services:

- Property management, investment, administrative and other services to the Manager of NZRPT to enable the Manager to properly carry out its obligations as manager under the Deed; and

- Administrative services to REL and the Manager of NZRPT 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.

These functions are now performed in-house by the three employees of REL.

6.5 Financial Performance

A summary of REL's recent financial performance for the parent company is set out below.

REL parent Finance Performance				
$000s	**11 Months 30 June 2004 Audited**	**Year 30 June 2005 Audited**	**Year 30 June 2006 Audited**	**9 Months 31 Mar 2007 Unaudited**
Net operating income	2,031	3,132	3,629	2,793
Corporate expenses	(835)	(1,163)	(818)	(647)
Operating surplus before interest and tax	1,196	1,969	2,811	2,146
Less interest expense	(134)	(1,018)	(1,176)	(1,174)
Operating surplus before tax	1,062	951	1,635	972
Less taxation	(482)	(478)	(539)	(321)
Surplus after taxation	**580**	**473**	**1,096**	**651**

Source: REL annual reports, unaudited management report to 31 March 2007

The net operating income comprises distributions from NZRPT plus management fees from the Management Companies which in turn earn their income from the Management Contracts and in the case of New Zealand Rural Property Trust Management Limited, distributions from NZRPT.

6.6 Financial Position

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

REL parent Financial Position				
$000s	**30 June 2004 Audited**	**30 June 2005 Audited**	**30 June 2006 Audited**	**31 March 2007 Unaudited**
Accounts receivable	257	33	23	59
Receivable from subsidiary	2,374	3,193	4,121	4,826
Total current assets	2,631	3,226	4,144	4,885
Property, plant and equipment	2	-	65	59
Investments	22,986	39,236	40,336	44,336
Total non current assets	22,988	39,236	40,401	44,395
Total assets	**25,619**	**42,462**	**44,545**	**49,280**
Bank overdraft	302	132	195	9
Accounts payable and accruals	190	569	232	216
Provision for taxation	152	-	10	96
Term loans	6,000	14,900	16,150	20,350
Provision for deferred taxation	-	-	1	1
Total liabilities	6,644	15,601	16,588	20,672
Net assets	**18,975**	**26,861**	**27,957**	**28,608**

Source: REL annual reports, unaudited management report to 31 March 2007

REL's significant assets consist of its investments in New Zealand Rural Property Management Limited, REL – Trust Management Limited, NZRPT and REL – PET.

7 Profile of New Zealand Rural Property Trust

7.1 Background

NZRPT was established under the Unit Trusts Act 1960 in 1987 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.

NZRPT was closed by a vote of unitholders in October 1999, having previously been an open trust that allowed new units to be issued and redeemed at NAV. NZRPT has performed well since June 1999, when the NAV was $1.26. The current NAV per unit is $3.41, based on NAV of $159,460,000 and total units of 46,785,430 as at 30 June 2006. This represents an annual compound growth rate of 15.3% over approximately 7 years.

At the time of the closure, the Manager undertook to commission an independent report on NZRPT's future on the fifth anniversary of the closure.

An independent report was prepared by PricewaterhouseCoopers ("PwC") in September 2004 that considered the future of the NZRPT under various scenarios, including the status quo, a potential listing on the NZX or NZAX, or an orderly wind-down of NZRPT and distribution of the proceeds. This noted the effective control by the Manager, the persistent discount to NAV, the high management costs as a proportion of income, low levels of distributable income, and limited appeal to investors seeking an income stream. PwC concluded that the options to be considered were a partial wind-down followed by either a buy-back or redemption of units (which could assist in reducing the price to NAV discount), or a listing to improve liquidity. It was further noted that a full wind-down of the trust was unlikely given the major shareholder's stated intention of keeping the trust operating. After considering the PwC report the unitholders strongly endorsed the continuation of the trust under the existing structure.

REL and the Manager have increased their holdings in NZRPT to 54.2% from 31.9% at the time of the separation from W&K (via the Scheme of Arrangement) through numerous offers. The most recent offer for trust units was made at $1.84 per unit in April 2005. Through the offer REL successfully acquired 4,370,270 units from 604 unitholders.

7.2 Trust Deed

The key terms of the Deed are set out below.

7.2.1 Creation of Units

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

This would normally be a method of increasing the scale and diversity of the fund. However, where the consideration is for cash, each unit must be issued for an amount not less than the NAV per unit. Where the consideration is other than cash, each unit must be issued for an amount not less than 90% of the NAV. In practical terms, this has prevented the Manager from issuing units to external parties for cash or assets.

7.2.2 Borrowing powers

NZRPT is theoretically able to borrow up to 25% of the Gross Value of NZRPT. NZRPT is limited from a practical point of view by its ability to service that debt.

Historically, the long term borrowings have been between 3.7% and 6.5% of the value of property investments and other investments.

7.2.3 Net Asset Value ("NAV")

NAV is defined in the NZRPT trust deed as:

- The market value of investments in real property, as determined by a Registered Valuer within a period not exceeding one year; plus
- The market value of forests and crops as determined by a Qualified Valuer from time to time; plus
- The market value of other investments assessed by an appropriate stock exchange or Qualified Valuer; less
- All liabilities of NZRPT; less
- All costs, charges and other amounts incurred or accrued in holding NZRPT investments; less
- An amount which the Manager may determine as representing the estimated cost that would be incurred if NZRPT investments were realised and converted into cash; less

- Any other amount the Manager and/or the trustee thinks necessary to make provision for any liabilities, losses or contingent liabilities.

7.2.4 Valuation

The Trustee is required to 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.

7.2.5 Investments

The principal purpose of NZRPT is to invest in rural property and forestry investments. The Deed states that the Trustee shall invest NZRPT'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.

7.3 Investments

As at 31 December 2006, NZRPT owned 31 properties. The Trust's properties are split as follows:

- 22 farms leased to experienced farmers;
- six dairy farms managed by resident sharemilkers;
- two large scale sheep and beef grazing operations; and
- one forestry investment in an 865 hectare site at Ngaruawahia.

At 31 December 2006, the farms have a book value of $151.1 million and the forest has a book value of $6.2 million.

7.3.1 Farm descriptions

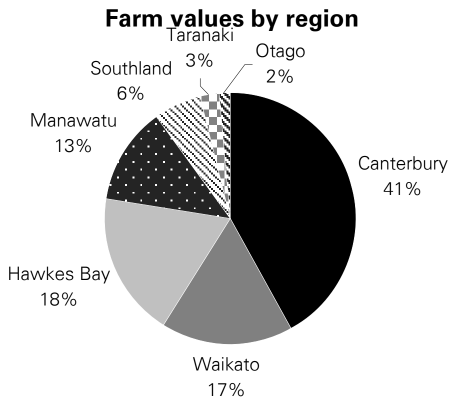
The Trust's farms are diverse, both by region and by type.

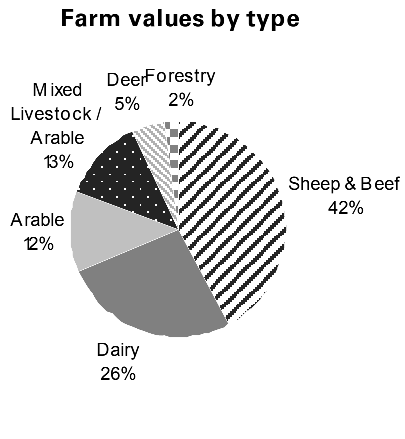
Farm description matrix	Canterbury	Otago	Hawke's Bay	Manawatu	Southland	Taranaki	Waikato	Total
Arable	5							5
Dairy	2			1	2	1		6
Dairy grazing	1			1				2
Deer breeding / finishing	1		1					2
Intensive Sheep/Beef finishing				1			1	2
Sheep/beef finishing	3		3				1	7
Sheep/beef grazing	3						1	4
Sheep/Beef/Deer finishing			1					1
Sheep/Beef/Deer grazing		1						1
	15	1	5	3	2	1	3	**30**

Source: Annual report FY06

The six dairy farms are operated under 50:50 sharemilker contracts and produced over 1.4 million kilograms of milk solids in the 2005/6 season.

Outlined below is the relative values of the farms based on the registered valuations as at 30 June 2006.





7.4 Financial Performance

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

NZRPT Summary of Financial Performance				
$000s	**Year 30 June 2004 Audited**	**Year 30 June 2005 Audited**	**Year 30 June 2006 Audited**	**Half Year 31 Dec 2006 Unaudited**
Operating income				
Lease rentals and premiums	2,018	2,226	2,322	1,096
Interest	29	13	20	40
Forest growth	463	328	440	460
Farm income	3,351	3,742	3,134	1,586
Total income	5,861	6,309	5,916	3,182
Total expenses	(4,577)	(5,120)	(5,626)	(3,232)
Operating surplus/ (deficit)	1,284	1,189	290	(50)
Other income	-	250	-	-
Operating surplus/ (deficit) before interest and taxation	1,284	1,439	290	(50)
Less interest expense	(341)	(462)	(586)	(397)
Operating surplus/ (deficit) before taxation	943	977	(296)	(447)
Less tax (expense)/ credit	(77)	24	346	300
Operating surplus/ (deficit) after taxation	866	1,001	50	(147)
Revaluation of assets	17,031	21,402	17,788	-
Surplus after taxation	**17,897**	**22,403**	**17,838**	**(147)**
Distribution to unitholders	1,619	1,544	705	N/A
Distributions in excess of operating surplus after tax	753	543	655	N/A

Note: The distributions to shareholders are actually paid and recognised in the financial statements one year later than they are disclosed in the summary. They have been brought forward a year in the summary to correspond to the year to which they relate.
Source: NZRPT annual reports & interim report

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

The costs of NZRPT include the costs of the farms and forestry operations plus the costs of running the trust, including the Management Contract and trustee's fees.

7.4.1 Commentary on financial performance

Rental income from leased farms has shown an increase of 7.3% per annum between 2004 and 2006. Although lease income has grown over this period, it has not grown at the same rate as the property values themselves, leading to lower yields. The pressure of higher farmer input costs somewhat limits the ability to increase rents at the same rate as property values. We also note that the lease income will be lower for the current year to 30 June 2007 following the cessation of rental from the Waikoha Station, which is now directly farmed by NZRPT.

The farm income and operating income have remained stable over the period, with 2005 being the stand-out year in terms of income on the back of strong commodity prices. The 2006 financial year reflected a weaker rural environment with prices for sheep meats and wool as well as milk solids payout from Fonterra being reduced significantly, whilst beef prices remained stable. Given the fact that the farms produced circa 1.4 million kilograms of milk solids in the year to June 2006, we estimate that the recent increase in the Fonterra forecast pay-out for the 2007/8 season may add an additional $0.8 million in farm income to NZRPT in the next financial year, after allowing for the sharemilkers' share of the milk receipts..

The forestry contribution has improved significantly in the half year to December 2006 as a result of a higher forest growth component arising from higher export log prices.

The major driver of NZRPT's income 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.

7.5 Financial Position

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

NZRPT Summary of Financial Position				
$000s	**Year 30 June 2004 Audited**	**Year 30 June 2005 Audited**	**Year 30 June 2006 Audited**	**Half Year 31 Dec 2006 Unaudited**
Current assets	2,157	2,751	1,810	2,834
Property assets	110,399	132,934	150,592	151,131
Forestry assets	7,456	4,714	5,905	6,235
Investments	8,299	9,250	9,912	9,929
Plant & machinery	926	740	1,344	1,328
Prepaid taxation	-	-	528	542
Total non current assets	127,080	147,638	168,281	169,165
Total assets	129,237	150,389	170,091	171,999
Current liabilities	1,921	2,247	2,712	1,719
Long term borrowings	5,100	5,500	7,600	10,800
Provision for deferred taxation	1,269	248	319	-
Total non current liabilities	6,369	5,748	7,919	10,800
Total liabilities	8,290	7,995	10,631	12,519
Net assets	**120,947**	**142,394**	**159,460**	**159,480**

Source: Trust annual reports

Unitholders' funds have continued to increase on the strength of the rural property market, with NAV per unit increasing 30% from June 2004 ($2.61) to June 2006 ($3.41).

Other significant assets include investments which are stated at their estimated market value. These are primarily shares in Fonterra. Fonterra has recently announced the value of the Fair Value Shares to be $6.79, an increase of 3.5% on the prior year.

7.6 Contingent Liabilities

NZRPT was involved in a dispute 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.

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

The NZRPT interim report at 31 December 2006 notes that the trust had an unrealised asset revaluation reserve of $112.6 million. There remains a possibility of significant future tax liabilities following any disposal of NZRPT's properties depending on the facts and circumstances surrounding each disposal.

We note that NZRPT has not sold any properties since 2002.

7.7 Capital Structure and Unitholders

NZRPT currently has 47,041,495 units on issue. REL is the only entity holding or controlling more than 10% of issued units. The profile of unitholders of NZRPT as at April 2007 is shown below.

Trust Unitholders - April 2007	Number of Units 000s	% of Effective Fully Paid Units
REL	23,699	50.4%
Ashfield Farm Limited	2,874	6.1%
National Nominees New Zealand Limited	1,855	3.9%
NZ Rural Property Trust Management Limited	1,782	3.8%
Tepler Nominees Limited	1,356	2.9%
Rotorua Trust Perpetual Capital Fund Limited	1,337	2.8%
Other Unitholders	14,138	30.1%
Total	**47,041**	**100%**

Source: REL

7.8 Unit Price History

Set out below are a summary of NZRPT's unit price history from December 2005 to 10 May 2007 and a graph of the trailing monthly VWAP and the volumes of units traded on ShareMart and Unlisted.

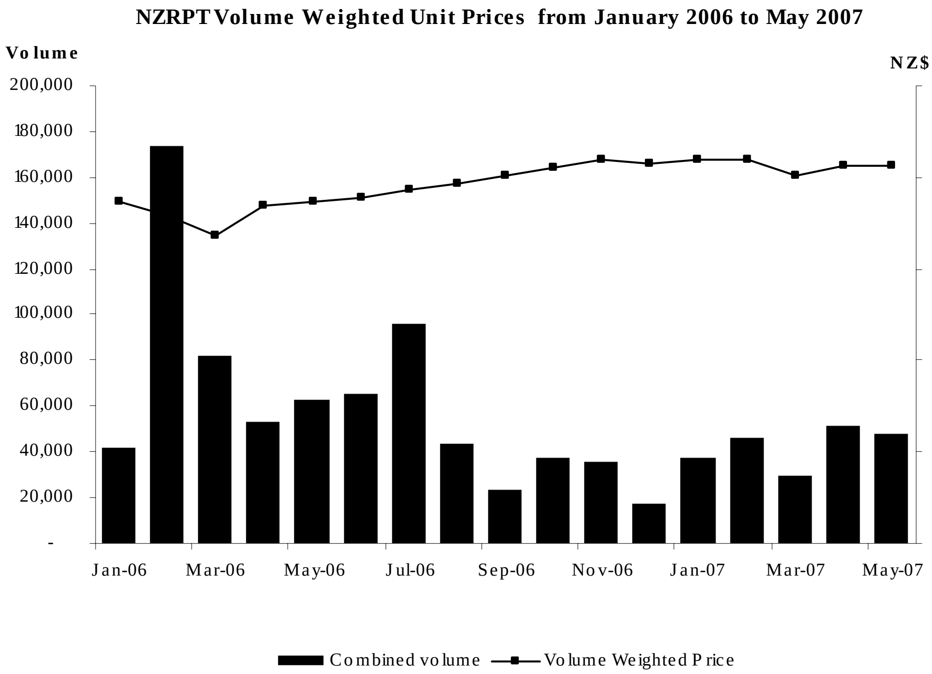
Trust Unit Price Movements

	Sharemart			Unlisted		
	Low ($)	**High ($)**	**Volume**	**Low ($)**	**High ($)**	**Volume**
December 2005	-	-	-	1.95	1.95	10,000
January 2006	1.85	1.85	19,162	1.85	1.95	22,889
February	1.80	1.83	87,495	1.74	1.80	86,704
March	-	-	-	1.65	1.74	81,669
April	1.65	1.80	26,838	1.86	1.91	26,314
May	1.70	1.80	22,234	1.90	1.93	40,688
June	1.71	1.75	16,674	1.93	1.95	48,763
July	1.75	1.83	36,628	2.00	2.00	63,757
August	1.85	1.85	14,022	2.00	2.04	29,886
September	2.00	2.00	20,517	2.04	2.10	2,650
October	2.05	2.05	13,534	2.05	2.06	23,963
November	2.07	2.10	35,657	2.10	2.10	221
December	2.07	2.10	14,142	2.06	2.06	6,349
January 2007	2.10	2.10	8,904	2.08	2.09	28,872
February	2.08	2.10	16,094	2.09	2.14	30,386
March	2.00	2.00	27,241	2.08	2.08	2,205
April	2.00	2.05	21,122	2.08	2.11	30,638
May [1]	2.00	2.05	17,936	2.10	2.10	30,029

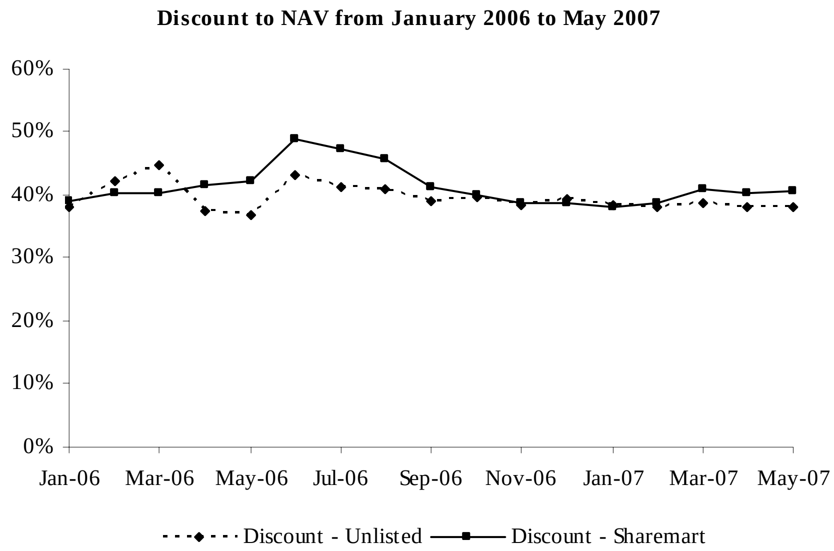
1 Up to 10 May 2007
Source: REL

NZRPT's units have traded between $1.65 and $2.14 between December 2005 and 10 May 2007 (being the date of the last trade prior to the date of the Offer announcement), with a volume weighted average price of $1.92 over this period. The average volume of units traded each month over this period represented approximately 0.12% of the units on issue.

The graph below shows an analysis of volumes and prices for trading in NZRPT units on ShareMart and Unlisted between January 2005 and 10 May 2007.



The graph below compares the performance of NZRPT's unit price relative to NAV between January 2006 and 10 May 2007.



The analysis shows that the units have consistently traded at a discount to NAV of between 37% and 45% on the Unlisted share market and 38% to 49% on ShareMart over the period to 10 May 2007. 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 NZRPT which are not reflected in NAV; and
- an allowance for contingent liabilities, especially in respect of possible tax exposures.

8 Profile of REL - Pacific Equity Trust

8.1 Background

REL - Pacific Equity Trust ("REL - PET") was established under a Trust Deed dated 3 July 2006 and units were issued under a private placement memorandum dated 5 July 2006. REL - PET is managed by REL - Trust Management Limited and it has been formed to invest in listed and unlisted investments in New Zealand and Australia which the Manager believes represent good fundamental value with sound long term prospects.

8.2 Trust Deed

The key terms of the Deed are set out below.

8.2.1 Creation or Sale of Units

The Trust Deed allows the Manager to issue additional units, although it is not intended that unitholders subscribe for Units by regular instalment.

There are limitations on the Manager's ability to issue Units in exchange for investments.

8.2.2 Investments

The Manager's discretion for making investments is reasonably wide, and the Manager can vary that policy from time to time as long as the Unitholders are informed.

8.2.3 Net Asset Value

The Manager must determine the NAV of REL - PET each twelve months.

8.2.4 Withdrawal

It is not intended that the Manager will redeem Units in REL - PET.

8.3 Financial Position and Financial Performance

There is no publicly available information relating to the detail of investments made to date. However the NAV calculation shows that the NAV per unit was $1.06 at 31 December 2006 and $1.05 at 31 March 2007.

At 31 March 2007 REL - PET had $6.6 million invested in bank securities plus $13.5 million of other investments. Given REL – PET's stated investment policy we consider the other investments are likely to be a mixture of listed and unlisted securities in New Zealand and Australia.

8.4 Capital Structure and Unitholders

Details of individual unitholders of REL - PET are not available. However REL - PET currently has 19 million units on issue of which 4 million are held by REL.

8.5 Unit Price History

There has been one trade of 2,000,000 units at $1.06 earlier this year.

9 Valuation of Rural Equities Limited

9.1 Introduction

Rule 21 of the Takeovers Code requires an evaluation of the merits of the H&G Offer. While an assessment of merits is broader than the assessment of the fair value, an essential element of that merits assessment is a comparison between the offer price and the Independent Adviser's assessment of the fair value range for the shares. Where the offer includes a transfer of control, an important issue is the value placed on control and how it should be reflected in the valuer's assessment of fair value. Our view is that the appropriate test for fairness under a full or partial takeover offer, where the offeror will gain control, is the full value of 100% of the company, pro-rated across all shares.

9.2 Standard of Value

We have assessed the fair market value of the shares in REL. Fair market value is defined as the price 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.

9.3 Basis of Valuation

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 affect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

9.4 Valuation Approach

We have assessed the fair market value shares in REL by firstly assessing the full underlying value of REL and then pro-rating that value across the shares on issue.

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

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

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

REL's investment in NZRPT has been valued by first assessing the full underlying value of NZRPT. We have considered more than one approach to valuing NZRPT.

REL's investment in REL - PET has been valued by estimating the full underlying value of REL – PET, then applying an appropriate discount to reflect that REL holds a minority interest (approximately 21.1 %) in REL - PET's units and the price of the single trade that has occurred since allotment of the units.

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

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

9.5 Valuation of Management Contracts

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

9.5.1 Maintainable Earnings

The following table indicates the level of fees the Manager has earned from the Management Contract with NZRPT.

Management fees from NZRPT	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2006	Six months ended 31 December 2006
	$000	$000	$000	$000
Gross Assets of the Fund	132,602	154,314	174,549	
Cash component		1,701	1,918	1,060
Unit component		772	873	437
Total management fee		**2,473**	**2,791**	**1,497**
No. of units in unit component		252,147	256,065	

Note: The unit component is calculated on the net asset value at the end of the financial year and therefore the figure for the period to December 2006 is an estimate based on the previous period.
Source: REL Management

The unit component of the management fees for the six months to December 2006 is based on the NAV of units as at 30 June 2006, although when finally calculated it will be calculated on the June 2007 NAV. Based on the level of increase in rural property prices since 30 June 2006, we have assessed the maintainable unit management fees for the year ended 30 June 2007 at $0.9 million. This is in addition to the expected cash management fee for that period of $2.1 million.

In order to estimate the value of the fees received, we need to consider the value of the units received. On the one hand one could argue that the units are only worth the amount they could be sold for in the market, and that the price would be at a significant discount to their NAV. On the other hand, since the units are being received by a wholly owned subsidiary of REL, which has a majority interest in the NZRPT, they could be worth a value to REL which could be as high as the NAV. In our valuation of the Management Contracts we have used those two options as our lower and upper range of earnings.

REL management estimate that the portion of the operating costs that can appropriately be allocated to the income from the NZRPT Management Contract is approximately $0.65 million per year.

The Manager of REL - PET earns a management fee of 1% of the NAV of REL – PET, which at current net asset levels is expected to be approximately $0.2 million per year. REL management estimate that the portion of the operating costs that can appropriately be allocated to the income from the REL – PET Management Contract is currently approximately $0.15 million, however they advise that they consider the costs are likely to increase.

Therefore the current level of net income earned from this Management Contract is marginal. Furthermore, unlike NZRPT, REL – PET can be terminated by an ordinary resolution of unitholders should the direct or indirect control of the Manager change (with the Manager and any Associate of the Manager not being entitled to vote).

Therefore we consider at this stage any value in this Management Contract is not material to this valuation and so has been ignored.

Our assessment of maintainable earnings after tax from the NZRPT Management Contract is:

Maintainable earnings for Managers	**Lower $000**	**Upper $000**
Management fee from NZRPT:		
Cash component	2,120	2,120
Unit component	540	900
	2,660	3,020
Operating expenses	(650)	(650)
Maintainable earnings before tax	2,010	2,370
Tax	(711)	(711)
Maintainable earnings after tax	**1,299**	**1,659**

Note: Tax is calculated on the NAV for the unit component of the management fee at the rate of 30%
Source: KPMG Analysis

9.5.2 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 transactions involving businesses in the same industry.

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.

We note that when REL purchased the NZRPT management contract in 1992 they paid a price earnings multiple of 5.5 to 6.0. In PricewaterhouseCoopers valuation of the management contract for the purpose of the W&K Scheme of Arrangement they considered an earnings multiple applied to the operating earnings after tax of 8.0 to 10.0 was appropriate. Subsequently in 2004 Deloitte, in their Independent Advisers Report for the May 2004 partial takeover, also used an earnings multiple range of 8.0 to 10.0.

We consider the range used by PricewaterhouseCoopers and Deloitte is still appropriate and therefore we have adopted an earnings multiple of 8.0 to 10.0.

9.5.3 Valuation Assessment of NZRPT Management Contract

Based on the above, the assessed value of the NZRPT Management Contract is in the range of **$10.4 million to $16.6 million** as at the present date.

Valuation of Management Contracts		
$000s	**Low**	**High**
Maintainable earnings	1,299	1,659
Multiple	8.0	10.0
Value	**10,392**	**16,590**

Source: KPMG Analysis

9.6 Valuation of Units in NZRPT

9.6.1 Valuation Approach

We have assessed REL's investment in NZRPT by first assessing the value of 100% of the units in NZRPT and then considering what allowances or discounts are appropriate.

We have assessed the full underlying value of NZRPT 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.

9.6.2 Valuation of Property Investments

The carrying value of NZRPT's farm investments as at 31 December 2006 was $151.1 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.

We have considered the likely movement in property values from 30 June 2006 to the current date.

Our analysis of the portfolio of farm properties is based on our discussion with a property valuer, who provided a general commentary on rural land prices by region and by type of property. We have not received information on the current values of the actual properties held by NZRPT.

Overall, the property valuer advised that the past year has seen a levelling out of demand following a strong period of price increases from 2000 to 2006. The present conditions are as follows:

- Weaker properties with deficiencies in land capability, location, or structural improvements may come under some pressure; and
- Well located and maintained properties across all sectors are forecast to hold current value levels with some upside possible in the case of stronger dairy units and irrigated arable land.

NZRPT's portfolio is skewed towards Canterbury (by hectares) and sheep and beef at circa 40% of the June 2006 value and dairy at circa 25% of the June 2006 value.

On balance, we have assumed an increase of between 3.0% and 5.5% for the farm properties since the last valuation date of 30 June 2006. This provides an estimated value of the farms to be between $155.7 million and $159.4 million.

We have assumed that the value of the forestry asset is likely to maintain its carrying value in the short term. This view is shared with the valuer who assesses demand as being flat. Although the Agri-Fax Log Price Index is at its highest since April 1996, shipping costs, over-supply of wood and continued elevated exchange rate considerations negatively impact the outlook and therefore the value.

Based on the above, we have assessed the value of NZRPT's property investments, including the forestry assets, to be between **$161.9 million and $165.6 million.**

9.6.3 Valuation of Other Investments

The carrying value of NZRPT's other investments as at 31 December 2006 were $9.93 million. We understand the most significant other investment is Fonterra Fair Value Shares.

We have assessed the value of the Fonterra shares based on the price announcement issued by Fonterra on 23 May 2007. The Fonterra directors set the value of Fonterra shares at $6.79 each, an increase of 3.5% from $6.56 in the previous year.

The exact number and carrying value of the Fonterra shares within NZRPT's investments is not separately disclosed, however we understand the majority of the value relates to Fonterra shares. Therefore we have applied the 3.5% increase to the entire investment carrying value of $9.93 million. Accordingly, we have assessed the value of NZRPT's other investments at **$10.3 million**.

9.6.4 Valuation of Other Assets and Liabilities

We have assessed the aggregate value of the other assets and liabilities of NZRPT based on their carrying values as at 31 December 2006 as set out below. This includes bank debt of $10.8 million and cash of $297,000. We consider any profit or loss earned between 31 December 2006 and the date of this report is not material to the valuation.

Trust Other Assets and Liabilities	
$000s	**31-Dec-06**
Cash on deposit and at bank	297
Prepaid taxation	542
Debtors and prepayments	601
Livestock and feed on hand	1,936
Plant & machinery	1,328
Trade creditors	(1,719)
Bank loans	(10,800)
Net other assets and liabilities	**(7,815)**

Source: Trust December 2006 interim accounts

We have assessed the value of NZRPT's other assets and liabilities to be **negative $7.8 million**.

9.6.5 Valuation of Contingent Liabilities

NZRPT reached a resolution of the dispute with the IRD in relation to the 1996 and 1997 income tax years and the IRD has chosen not to dispute the tax treatment of profits on any of NZRPT'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 NZRPT and any distributions by NZRPT. Accordingly, investors are likely to apply a discount to the assessed NAV of NZRPT 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 on the unrealised property revaluations of approximately $112.5 million plus our estimated revaluation for the period since 30 June 2006 of $4.6 million to $8.3 million. The potential tax at a 30% tax rate exceeds $35 million. We have considered the time value of money associated with the potential realisation horizon. At the low end of our value range we have assumed a liquidation value under the assumption of an orderly wind up, over say three years. We consider this assumption might increase the allowance a purchaser is likely to require to cover the tax contingency and so we have estimated the value of the full contingent tax liability at $30.5 million. At the high end of our range we have assumed no allowance.

Value of Contingent Liabilities		
$000s	**Low**	**High**
Potential future tax liabilities	30,500	-

Source: KPMG Analysis

Thus we have assessed the value of the contingent tax liabilities of NZRPT at between **zero and negative $30.5 million.**

We note that this is an extremely subjective assessment and any change in NZRPT'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 possible.

9.6.6 Valuation of 100% of Units in NZRPT

Generally, the traded market price of NZRPT's units represents the value of a small minority parcel and does not incorporate the premium for control represented in the full underlying value.

REL currently holds 23,698,817 units (50.4%) in NZRPT. In addition, the Manager currently holds 1,782,221 units (3.8%) in NZRPT. Accordingly, REL controls 25,481,038 units (54.2%) in NZRPT at the current time.

We have previously stated that the appropriate test of fairness under a partial or full takeover where the offeror will gain control, is the full value of 100% of the company, or trust, pro-rated across all the shares or units.

In our opinion there are two approaches to determining the value of a 100% interest in NZRPT.

Orderly wind up

The first approach is to consider the value if NZRPT was liquidated. A decision to liquidate the Trust would require a special resolution and be supported by 75% of the unitholders. Thus REL's 54.2% holding could not force a liquidation. However the units are trading at a significant discount to their NAV and we consider it likely that sufficient other unitholders would see the potential gain from liquidating the trust to make the passing of the necessary special resolution a possibility.

If NZRPT was to be liquidated it would incur various selling and liquidation costs but would cease to incur ongoing overheads. The most likely approach would be an orderly wind up of the Trust. The costs of liquidation are uncertain and difficult to quantify, and therefore we have assessed a valuation range under this wind up assumption.

In PwC's review of September 2004, the Manager of NZRPT considered a minimum of 36 months would be required to dispose of the properties in an orderly value-maximising manner. In 1999 the Manager of NZRPT obtained an independent property valuer's assessment of the discount which would apply if they were to realise the properties within a three year timeframe.

At the time a 5% discount was considered likely. PwC used a 20% worse case scenario in their review.

The valuation of NZRPT under this approach should also recognise the risks that the resolution to liquidate the trust was not successful.

We understand the carrying value of NZRPT's properties includes an allowance for disposal costs. However the level of actual disposal costs that are likely to be incurred will depend on the strength of the rural property during the period of the orderly wind up. For our high value we have assumed the market will remain strong and therefore additional disposal costs will be minimal and trading results and increases in property prices will cover the additional operating cost of liquidation and provide an acceptable return for the time taken to complete the wind up.

For our low value we have recognised the risk that properties may not realise their carrying value and trading results will not cover the additional operating cost of liquidation. We consider a reasonable discount to reflect all these costs of an orderly wind up, in addition to those already deducted in the calculation of property carrying values at 30 June 2006, would represent between 5% and 10% of the value of NZRPT's assets. For the purpose of our low range we have used the mid point estimate of 7.5% and applied it to the value of property.

One effect of an orderly wind up of NZRPT would be the loss of the income from the Management Contract by REL and its subsidiary which holds that Management Contract. Thus we have assumed the cost of the wind up would include some compensation to REL for that loss. We have previously valued the NZRPT Management Contract at between $10.4 million and $16.6 million.

We have therefore included an additional allowance of $10.4 million at the low end and $16.6 million at the high end of our valuation range for the costs of an orderly wind up. The reason we have included the higher (lower) value as a compensation deduction in determining the high (lower) end of our value range is to ensure consistency with the inclusion of those values in the valuation of REL in section 9.10.

Our assessment of total realisation costs is between **$16.6 million and $22.5 million.**

Ongoing hold

The second approach we have examined is to assume that NZRPT will continue to hold its investments and operate in a similar manner as it has in the recent past. In that case we consider the value would be the full underlying value of the Trust's assets similarly based on their net realisable value, adjusted for overheads costs which would continue to be incurred to manage NZRPT.

Our valuation range of NZRPT under this approach falls within the low and high values under the orderly wind up approach.

Our low and high value range which is determined by the orderly wind up approach is:

Valuation of 100% of NZRPT		
$000s	**Low**	**High**
Property investments	161,900	165,600
Other investments	10,300	10,300
Other assets and liabilities	(7,815)	(7,815)
Contingent liabilities	(30,500)	-
Less the notional realisation costs	(22,535)	(16,590)
Value of 100% of trust units	111,351	151,495
% of units held by REL and Manager	54.2%	0.0%
Value of units held by REL and Manager	**60,352**	**-**
Number of units	47,041	47,041
Value per unit ($)	**2.37**	**3.22**

Source: KPMG Analysis

We consider the full underlying value of NZRPT is in the range of $111.4 million to $151.5 million ($2.37 to $3.22 per unit).

The assessed value of $2.37 to $3.22 per unit represents:

- a premium of 12.9% to 53.3% over the closing unit price of $2.10 on 9 May 2007 (Unlisted market); and
- a premium of 14.5% to 55.6% over the VWAP from January 2007 to 9 May 2007 of $2.07.

9.7 Valuation of the units in REL - PET

9.7.1 Valuation Approach

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

9.7.2 Investments

As we have stated, at 31 March 2007 REL – PET had $6.6 million invested in bank securities plus $13.5 million of other investments. Given the stated policy we consider the other investments are likely to be a mixture of listed and unlisted shares in New Zealand and Australia. However we are unable to obtain any information on the investments held by REL – PET and the current market value of those investments.

In order to estimate the increase in the value of REL – PET since 31 March we have assumed the following:

- Bank securities are invested at the 90 day bank bill rate, which has averaged 8.0 % during the period 1 April 2007 to 25 May 2007;
- Other investments are in shares that performed in line with the New Zealand share market which increased by approximately 5% in that period.

In the table below we have developed two scenarios:

- In scenario one, we have assumed the bank securities at 31 March are invested in 90 day bank bills and the other investments retain their market value at that date.
- In scenario two, we have assumed the bank securities at 31 March are invested in 90 day bank bills and the other investments move in value at an average rate for New Zealand listed shares.

Increase in the net asset value of REL - PET

Scenario	**Scenario one**	**Scenario two**
Bank securities	6,610,169	6,610,169
Other investments	13,481,106	13,481,106
Return if invested in liquid securities based on the 90 day bank bill rate	8.0%	8.0%
Return if invested in NZ listed shares based on NZX50 index	0%	5.0%
No. of days invested	61	61
Increase in value of bank securities	88,377	88,377
Increase in value of other investments	-	674,055
Tax	(29,164)	(29,164)
Increase in value of fund after tax	59,213	733,268
Net assets at 31 March 2007	20,036,881	20,036,881
Estimated net asset value of fund at 31 May 2007	**20,096,094**	**20,770,149**
Number of units on issue	19,000,000	19,000,000
Estimated net asset value per unit	**$ 1.06**	**$ 1.09**

Note: Management fees have been ignored
Source: KPMG analysis

The table above shows that the net asset value of REL – PET at 31 May 2007 is likely to be in the range of $1.06 to $1.09 per unit.

9.7.3 Capitalised Overheads

The Manager of REL - PET is entitled to a management fee equal to 1% of the NAV of REL – PET as at the end of the financial year which would be approximately $0.2 million.

In addition to these costs, we have assessed the maintainable level of other operating costs incurred by REL - PET. These costs have consisted primarily of legal and professional fees and the trustee's fees.

9.7.4 Valuation of REL's Unitholding in REL - PET

Generally, the market price of a trust's 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 4,000,000 units (21.1%) in REL - PET.

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.

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 21.1 % interest in REL - PET provides REL with a degree of control. 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 REL - PET. A key factor regarding control is that REL cannot single-handedly effect the liquidation of REL - PET'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. In the case of REL - PET there has only been one trade of 2 million units in the ten months since REL - PET was formed.

In these circumstances, we are of the view that it is appropriate to apply a small discount to the net asset value of REL - PET to assess the fair market value of REL's 21.1% unitholding in REL - PET.

Taking into account the range of possible values as calculated, the reasons for applying a discount to the net asset value of the units and the price of the single trade to date, we assess the value of REL's 4,000,000 units in REL - PET to be in the range of **$4.0 to $4.2 million**, which equates to between $1.00 and $1.05 per unit.

9.8 Valuation of Capitalised Overheads of REL

We have deducted an amount of **$1.1 million to $1.4 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 which have been allocated to REL for the current year amounting to $0.2 million before tax or $0.14 million after deducting tax at 30%. We have capitalised this assessment of after tax corporate overheads at a earnings multiple of 8.0 to 10.0.

9.9 Valuation of Other Assets and Liabilities

We have assessed the aggregate value of the other assets and liabilities of REL to be their book values at 31 December 2006. However we have adjusted that by the profit that might have been earned by the parent company and the two management companies since that date. We estimate that retained profit to be **$0.4 million**.

9.10 Valuation of 100% of REL

In determining the value of 100% of the REL shares we started with the net tangible assets of the sub group comprising REL and the Management Companies, based on their management accounts to 31 December 2006. We then revalue certain assets held by that sub group to the values we have earlier assessed.

Value of 100% of REL	**Low $000**	**High $000**
Net assets of REL and Manager subsidiaries at 31 December 2006	28,393	28,393
Estimated increase in value to 31 May 2007	400	400
Plus compensation for loss of Management Contracts	10,392	16,590
Less carrying value of Management Contracts	(1,897)	(1,897)
Plus assessed value of units in NZRPT	60,352	82,110
Less carrying value of units in NZRPT	(41,994)	(41,994)
Plus assessed value of units in REL - PET	4,000	4,200
Less carrying value of units in REL - PET	(4,000)	(4,000)
Less allowance for capitalised overheads	(1,400)	(1,100)
Value of 100% of REL	**54,246**	**82,702**

Based on the above, we assess the fair market value of all the shares in REL to be in the range of $54.2 million to $82.7 million as at the present date.

9.10.1 Value of 50.8% of REL Shares

There are three critical levels of voting control in a company, 50%; 75%; and 90%. Each provides the holder with slightly different levels of control. In our opinion the price to be paid under a partial takeover option where the offeror will gain control, that is pass the 50% level, should reflect the full underlying value of the company.

Given the above, we consider it not appropriate to apply a discount to the full underlying value of REL to determine the fair market value of REL's shares. Therefore in our opinion the fair value of the shares in a partial takeover offer is the fair value of the company prorated across all shares.

The following table shows KPMG's assessment of the fair value of a share in REL for the purpose of assessing the merits of the H&G Offer.

Fair Market Value of REL		
	Low	**High**
Value of 100% of REL ($000)	54,246	82,702
Number of shares issued	22,237,923	22,237,923
Fair market value per share	**$2.44**	**$3.72**

Source: KPMG Analysis

Accordingly we consider the fair market value of REL is between $2.45 and $3.70 per share (rounded to the nearest 5 cents).

The costs of any liquidation and the quantum of any potential contingent tax liability in the event NZRPT were to be liquidated are highly subjective and difficult to assess. Our relatively wide fair value range for REL largely reflects our uncertainty over these factors, which impact on the fair value of REL's investment in NZRPT.

The Offer price of $2.75 per share represents a premium of 31.0% over the closing share price of $2.10 on 24 April 2007. It is also represents a premium of 33.5% over the VWAP of $2.06 for the trades in March and April 2007. Given the size of the minority parcels traded, we consider these premia to be reasonable.

The Offer price is within KPMG's assessment range for the fair market value of REL's shares.

10 Appendix 1 - Sources of information and reliance on information

10.1 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 2004 to 2006;
- the REL management accounts for the nine months to 31 March 2007;
- NZRPT's annual reports for the years ended 30 June 2004 to 2006;
- NZRPT's half year report to 31 December 2006;
- the W&K Proposal for a Scheme of Arrangement dated 19 January 2004;
- the H&G Notice of Intention to Make an Offer dated 14 May 2007;
- the draft REL Target Company Statement;
- REL share price data provided by REL;
- NZRPT'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 and financial reports.

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

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, other than H&G to understand all the relevant factors and to make an informed decision in respect of the H&G Offer.

10.2 Reliance on information

The financial and non financial information set out within our report has been provided by the management of Rural Equities Limited. We have prepared our report on the basis of that information and nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the information for the purpose of this report. Accordingly we do not accept responsibility for the accuracy or completeness of such information.

This report is prepared solely for the use of the shareholders of Rural Equities Limited, other than H&G Limited.

We note that the forecasts and projections as supplied to us are based on assumptions about events and circumstances which have not yet transpired. The realisation of the prospective financial information is dependent on the continuing validity of the assumptions on which it is based. The assumptions will need to be reviewed and revised to reflect changes in trading patterns, cost structures or the direction of the business as they emerge. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.

KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular we have not tested the assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to the prospective information. We accept no responsibility for the realisation of the prospective financial information.

The valuation is based on prevailing market, economic and other conditions at the valuation date. Conditions can change over relatively short periods of time. Any subsequent changes in conditions could impact on the value, either positively or negatively. There is no requirement for KPMG to update the valuation for information that may become available after the valuation date.

11 Appendix 2 – KPMG's statement of qualifications, independence, limitations, and declarations

11.1 Qualifications

This Report has been prepared by KPMG. KPMG's Corporate Finance division provides advisory services in relation to mergers and acquisitions, independent advisers reports, valuations and other corporate advisory services.

The partners responsible for preparing the Report were Russell Florence M.Com, CA and Tony McNaught B Com, CA, both partners in KPMG. Each has significant experience in corporate finance advisory assignments.

11.2 Independence

KPMG is independent in terms of the Takeovers Code. KPMG's appointment was approved by the Takeovers Panel.

The authors of this Report do not have at the date of this Report, and have not had any shareholding in or other relationship with H&G Limited or Rural Equities Limited that could reasonably be regarded as capable of affecting their ability to provide an independent opinion on the transaction being considered.

KPMG will receive a fee for the preparation of this Report based on the time taken in its preparation. The fee is not contingent on the outcome of the proposed transaction and KPMG will receive no other benefit for the preparation of this Report.

11.3 Limitation of liability and Indemnity

KPMG will accept liability to pay for damage suffered as a direct result of breach of contract or negligence on our part in connection with this engagement but, to the maximum extent permitted by law, KPMG's liability for any and all loss or damage shall be limited to three times the amount of professional fees paid to KPMG for services.

Rural Equities Limited have agreed that, to the extent permitted by law, it will indemnify KPMG and its partners, employees and consultants in respect of any liability suffered or incurred as a result or in connection with the preparation of the Report. This indemnity will not apply in respect of any negligence, wilful misconduct or breach of law by KPMG. Rural Equities Limited has also agreed to indemnify KPMG and its partners and employees for time incurred and any costs in relation to any inquiry or proceedings initiated by any person. Where KPMG or its employees and consultants are found liable for or guilty of negligence, wilful misconduct or breach of law or terms of reference, KPMG will reimburse such costs.

11.4 Declarations

KPMG has prepared the Report at the request of the Independent Directors of Rural Equities Limited. The Report meets the requirements of the Takeovers Code in relation to the partial takeover offer from H&G Limited to purchase shares in Rural Equities Limited. The Report has been provided for the benefit of the non-associated shareholders of Rural Equities Limited. It is not intended for the Report to be used for any other purpose.

KPMG provided drafts of this Report to the Independent Directors of Rural Equities Limited to confirm the factual accuracy of the Report. There was no alteration to the valuation methodology or conclusion as a result of issuing the draft Report.

11.5 Consents

KPMG consents to the issuing of this Report in the form and context in which it is to be included in the Target Company Statement to be sent to the shareholders of Rural Equities Limited. Neither the whole nor any part of the report, nor any references thereto may be included in any other document without our prior written consent as to the form and context in which it appears.