REID FARMERS LIMITED

The Rural Servicing Company

Merger Proposal

REIDFARMERS LIMITED *The Rural Servicing Company*

MERGER PROPOSAL

This information memorandum outlines the proposal to merge Reid Farmers Limited and Pyne Gould Guinness Limited and contains the formal documents required to enable shareholders to consider and vote on the necessary resolutions.

CONTENTS

Please read all the information provided carefully. If you wish to seek advice on how you should vote you should contact a professional adviser.

TO OUR SHAREHOLDERS

31 July 2001

Dear Shareholders

MERGER WITH PYNE GOULD GUINNESS LIMITED

INTRODUCTION

Reid Farmers Limited ("Reid Farmers") gave notice to the New Zealand Stock Exchange on 13 June 2001, that it was involved in discussions about a merger of our business with Pyne Gould Guinness Limited ("Pyne Gould Guinness").

On 16 July 2001, we announced that we had reached agreement with Pyne Gould Corporation Limited ("Pyne Gould Corporation") on the terms of the merger. The purpose of this letter is to set out the factors that the Independent Directors believe to be relevant to Reid Farmers' shareholders in their consideration of the merger proposal and in particular the proposed issue of shares to Pyne Gould Corporation as payment for the acquisition of 100% of the share capital of Pyne Gould Guinness. Given that Pyne Gould Corporation currently holds a 44% shareholding in Reid Farmers, and has two representatives on the Reid Farmers Board, the Independent Directors comprise those directors who are not related or associated with Pyne Gould Corporation.

The matters set out in this letter include:

- Background to the Merger.
- Reid Farmers' Approach to the Merger Proposal.
- Profile of Pyne Gould Guinness.
- Rationale for Merger.
- Key Merger Terms.
- Impact on Reid Farmers' Shareholders.
- Independent Adviser and Appraisal Reports.
- Shareholder Approval.
- Independent Directors' Recommendation.

BACKGROUND TO THE MERGER

Last year, we celebrated Reid Farmers' first 100 years as a rural servicing firm trading as a limited liability company. The past century (and the earlier years as a partnership) has witnessed significant growth in the business. While the shape of the business has changed greatly over this period, our commitment to servicing the needs of our farmer clients has remained constant.

Much of our growth in this period has been based upon expansion of services and geographic representation through a series of amalgamations and acquisitions including the stock and station businesses of Stringer & Co Ltd (Oamaru) and R.F Sim (Heriot) in 1962, Preece & McLeod Ltd (Gore) in 1964, the merger with Otago Farmers Co-operative Association Ltd in 1974, the acquisitions of the Otago, Northern and Eastern Southland rural business of Elders Pastoral in 1991 and selected businesses of Southland Farmers Co-op Limited in 1997 and obtaining full ownership of R F Woolscour in 2000.

The most significant recent acquisition was that of the finance book and principal rural assets of Southland Farmers Co-operative which allowed us to provide total coverage of Otago and Southland for all services. This merger has been well received by Southland clients and the businesses have been successfully integrated - all in all a very successful investment for Reid Farmers and its shareholders.

Given the market positions Reid Farmers now occupies, future growth opportunities within Otago and Southland are obviously limited. In light of that, Directors and executives commenced a review of growth alternatives late in 2000. We recognised early on that given Pyne Gould Guinness's market position in the remaining South Island regions and the presence of its parent company as a major shareholder in Reid Farmers, it made sense to receive input from Pyne Gould Corporation as to its aspirations in the rural sector.

Arising from those discussions, we agreed to form a Joint Working Group of executives from both companies to identify and quantify the benefits which might be derived from a merger of the businesses of Pyne Gould Guinness and Reid Farmers. The Joint Working Group's findings were presented to each Board for their separate consideration in May 2001.

The Reid Farmers Board concurred with the findings of the Joint Working Group that a merger with Pyne Gould Guinness offered immediate synergies and cost savings and substantial strategic benefits over time. Further, the Board took the view that this opportunity, in principle, represented the best option available to grow the value of shareholders' investment in the Company.

Pyne Gould Corporation also endorsed the findings of the Joint Working Group and resolved to seek a merger of Pyne Gould Guinness and Reid Farmers. To that end, Pyne Gould Corporation developed and tabled a merger proposal with the Board of Reid Farmers on 14 June 2001.

REID FARMERS' APPROACH TO THE MERGER PROPOSAL

The Independent Directors, being all Directors other than Messrs Elworthy and Martin, reviewed the proposal and alternative growth strategies and re-confirmed that in their view a merger with Pyne Gould Guinness represented the best growth alternative available for the company and its shareholders, provided it could be achieved on acceptable commercial terms.

The risks relating to implementing the merger were carefully reviewed and the conclusion reached that these were readily manageable.

A sub-committee comprising Messrs Baylis and Brown was formed to oversee due diligence investigations and undertake negotiations with Pyne Gould Corporation.

PricewaterhouseCoopers was employed to undertake the financial due diligence and assist the Board's merger sub-committee and members of our executive in undertaking commercial due diligence.

Gallaway Cook Allan was retained to provide legal advice on the transaction.

KPMG was appointed to undertake an independent appraisal report in accordance with New Zealand Stock Exchange rules and an independent adviser report in accordance with the Takeovers Code.

PROFILE OF PYNE GOULD GUINNESS

Pyne Gould Guinness is a wholly-owned subsidiary of Pyne Gould Corporation. It was established in 1919 and has focussed on servicing its farmer clients throughout the Canterbury, Marlborough, Westland and Nelson regions.

The company employs in excess of 320 people and in the 12 months to 30 June 2001 it is forecast to earn Net Profit After Tax of $5.6 million on turnover of $147 million.

The company has a broad spread of earnings across 8 principal activities and occupies market leadership positions in most of these activities.

Like Reid Farmers, Pyne Gould Guinness has developed and continues to enjoy very strong loyal relationships with its farmer clients. This results from its commitment to the consistently high standards of its services, and the skills, experience and integrity of the staff who deliver those services.

A detailed profile of the business is included on page 7.

RATIONALE FOR MERGER

The principal strategic reasons for merging the two companies are:

- **Geographically Complementary Businesses**
  - The businesses operate in separate but contiguous catchment areas of the South Island. They also consist of a different mix of agri-service activities.
  - The enlarged company's earnings will be less exposed to the vagaries of any specific adverse change in climatic, seasonal, or specific market fluctuations.
  - The geographic configuration also allows the merger to be implemented without any rationalisation of frontline operational staff and consequently without disruption or any adverse impact on existing customer relationships.
  - Significant cost savings can be generated by removing some of the duplication in personnel and overhead costs related to back office and senior management functions.

- Increased Scale

  The enlarged company will have, on the basis of forecast figures for the 2001 year, turnover of approximately $255 million and Net Profit after Tax of $12.8 million, an increase of approximately 80% by comparison to Reid Farmers' stand-alone position. This increased scale of activity will allow us to achieve a number of benefits that neither company can access on a stand-alone basis, including:
  - An enhanced and complete range of client services.
  - Economies of scale in procurement which will provide an increased ability to meet client and end user needs in areas such as supply management contracts.
  - Improved returns through increased volumes in areas which have significant fixed costs including Wool and Finance operations.
  - The ability to undertake certain technology-based initiatives that might otherwise have been uneconomic.

- Complementary Strengths

  We are confident that our relative strengths in Real Estate, Wool and Dairying can be leveraged in the Canterbury, Marlborough, Westland and Nelson regions. Equally, we believe there is significant opportunity to expand Pyne Gould Guinness's Grain and Seed and Insurance businesses into Otago and Southland.

  Moreover, we believe both businesses will benefit from the pooling of our respective management talent and applying it to the enlarged business through the adoption of best practice principles.

- Similar Cultures

  The two companies share very similar philosophies in their approach to client servicing and commitment to the wider rural community. Both parties understand that this culture represents the heart of each business. Both parties are concerned to ensure that those qualities which have been fundamental to their success in the past are retained. The fact that the companies operate similarly now will make this much easier than it would otherwise have been.

KEY MERGER TERMS

The merger has been contracted by way of two agreements, being a Sale and Purchase Agreement whereby Reid Farmers acquires Pyne Gould Guinness by way of the acquisition of shares, and a Share Subscription Agreement under which Reid Farmers issues its shares to Pyne Gould Corporation in consideration for the shares in Pyne Gould Guinness.

In summary, the key merger terms are as follows:

- Reid Farmers will be the vehicle for merger.
- Reid Farmers will issue 44,010,006 shares to Pyne Gould Corporation in consideration for the acquisition of all shares in Pyne Gould Guinness.
- The shares will be issued at an equivalent price of $1.10 per share, reflecting the market value of Reid Farmers shares immediately prior to the announcement of merger discussions on Wednesday 13th June 2001.
- The new shares will <u>not</u> qualify for the final dividend in respect of the financial year ended 30th June 2001.
- The issue of these shares is subject to Reid Farmers' shareholder approval.

The above will result in Reid Farmers' Stock Exchange listing and negotiability being retained with the likelihood that its increased size will attract greater investor interest.

The number of shares to be issued reflects the outcome of the negotiations between the parties and our agreement that Reid Farmers represents 56% of the enlarged company on a comparative stand-alone valuation basis. The task of evaluating and negotiating relative valuations has been one of the central roles of the sub-committee.

We examined various different valuation and merger approaches but placed primary emphasis on earnings to determine the relative position of the two companies. Many elements of the two businesses are common. However, having regard for the fact that the companies have differing business mixes and are subject to different seasonal influences, we evaluated earnings relativity by analysing a five-year average of normalised earnings to take account of the variety of factors that impact on each business.

Both Reid Farmers and Pyne Gould Corporation committed considerable effort to ensure the process of earnings normalisation was completed on a consistent, commercial and comparable basis. The process took into account abnormal or non-recurring trading and non-trading influences on each company's profit and loss statements in the financial periods from 1998 to 2002 (Budget). In addition, although the businesses comprise separate operating divisions, we agreed that each business should be valued as one entity due to the inter-locking nature of the services offered by those separate divisions.

The relative earnings position of the two companies, taken from the agreed five-year normalised earnings (1998 – 2002 Budget), are summarised as follows;

	Relative Earnings %	
	Reid Farmers	Pyne Gould Guinness
1998	56	44
1999	60	40
2000	54	46
2001	56	44
2002	54	46
Average	56	44

In addition, Pyne Gould Guinness has three surplus non-operating properties which could be divested for an estimated $3.2 million. The benefits of that realisation will be shared by all Reid Farmers shareholders.

On the basis of the 56:44 relativity agreed, Reid Farmers will issue 44,010,006 shares to Pyne Gould Guinness.

Taken at the market price for Reid Farmers immediately pre-announcement of $1.10 per share, this translates into values of $48.4 million for Pyne Gould Guinness and $61.6 million for Reid Farmers. Based upon the 2001 NPAT latest forecast for each company, normalised as agreed between the parties, these valuations reflect the following PE multiples:

	PE Multiple
Pyne Gould Guinness	8.96
Reid Farmers	8.86

We have elected to use scrip as consideration, principally because we wish to ensure the enlarged company has a strong financial structure from the outset which will assist our ability to service existing customer needs, to expand the range of services available, and to maintain a high level of dividend payment. Shareholders will appreciate the critical importance of financial strength in meeting the demands created by farmers' seasonal working capital needs. This consideration is not necessarily obvious from a review of year end accounts which reflect short term liquidity at the other end of the seasonal cycle.

IMPACT ON REID FARMERS' SHAREHOLDERS

The strategic merits of combining our activities with Pyne Gould Guinness are in our view compelling. We believe that shareholders will receive the benefits of this merger as the factors referred to in our rationale for merging come to fruition.

The Joint Working Group readily identified cost savings from the integration of back office and corporate and administration functions, and the more obvious rationalisation opportunities, which would conservatively add 15% - 20% to the combined businesses' stand-alone earnings based on their forecast 2001 year results. This, together with the revenue gains anticipated from combining the two operations gives us confidence that total shareholder returns will be significantly enhanced. Associated restructuring costs will impact on the first year's savings.

The identified and immediately attainable synergies, without taking into account any revenue enhancement opportunities, amount to increased incremental earnings of 2 cents per share on an annualised basis. This should provide confidence to shareholders in the potential of the enlarged company to continue to pay dividends at or above the levels which would be possible for Reid Farmers as a stand-alone company.

In respect of operations, the merged company will be renamed Pyne Gould Guinness Reid Farmers Limited. Its Head Office will be in Dunedin. It will be business as usual for the clients and the vast majority of staff of both companies. Their areas of operation are compatible and the combined business will continue under both the Reid Farmers and Pyne Gould Guinness brands.

Pyne Gould Corporation has been a major shareholder since 1988. At Board level, it has made a supportive and positive contribution throughout and has been committed to the best long-term interests of our company. The merger of our businesses will allow it to extend its relationship with Reid Farmers on a basis which is driven by a cohesive, common purpose. Consistent with the fact that its shareholding will increase to 68.5%, 3 additional Pyne Gould Corporation nominees will be invited to join the Board on completion of the merger. The parties have requested, and I have agreed, to continue in the role of Chairman.

INDEPENDENT ADVISER AND APPRAISAL REPORT

KPMG's reports are on pages 10 to 18 and 19 to 44 respectively. KPMG's work has been undertaken separately and subsequent to the due diligence investigations, discussions and negotiations carried out by Reid Farmers and Pyne Gould Corporation.

The purpose of the Independent Adviser Report required by the recently enacted Takeovers Code is to discuss the merits of the proposed purchase of Pyne Gould Guinness by Reid Farmers for an allotment of shares and to assist the shareholders of Reid Farmers other than Pyne Gould Corporation to evaluate the proposed transaction. KPMG conclude that;

"The transaction to purchase Pyne Gould Guinness is fair within a range".

"There are a number of benefits associated with the merger that could enhance the value of the non-allottee shareholders' shares".

The purpose of the Independent Appraisal Report required by the New Zealand Stock Exchange Listing Rules is to provide an independent assessment as to whether or not the proposed transaction is fair to the shareholders of Reid Farmers other than Pyne Gould Corporation. In focusing on the immediate financial implications of the merger, KPMG concludes;

"...the proposed offer will also result in synergy benefits arising for the existing shareholders of Reid Farmers".

Most importantly, in its overall assessment, KPMG concludes;

"...based on our assessment of the offer, in our opinion the proposed offer is fair to the non-associated shareholders of Reid Farmers".

SHAREHOLDER APPROVAL

In order to implement the transaction, the Company's Constitution, the Companies Act, New Zealand Stock Exchange Listing Rules and the Takeovers Code require the company to obtain shareholder approval for the following:

- The acquisition of all of the shares in Pyne Gould Guinness (under Rules 9.1.1 and 9.2.1 of the NZSE Listing Rules and the Constitution).
- The confirmation of a Major Transaction (under section 129(2) of Companies Act 1993).
- The issue of Reid Farmers shares to Pyne Gould Corporation (under Rules 7.3 and 7.5 of the NZSE Listing Rules, the Constitution and Rule 7 of the Takeovers Code).

The text of these resolutions and accompanying explanatory notes is set out in the Notice of Meeting on pages 45-47.

A meeting of Reid Farmers shareholders has been called for 5 September 2001 to consider and vote on these resolutions.

If you are unable to attend the meeting, we would encourage you to complete a Proxy Form and return it to reach us by not later than 10.30 am on 3 September 2001.

INDEPENDENT DIRECTORS' RECOMMENDATION

The merger of these two companies represents an opportunity to create a strong entity capable of servicing all the requirements of any rural customer in the South Island. The Independent Directors support this merger because of its compelling strategic advantages for the Company, our clients and shareholders.

We consider the terms upon which the merger has been agreed are favourable to Reid Farmers shareholders and in their best interests. We therefore recommend that shareholders approve the merger by voting for the various resolutions required to give effect to the transaction.

Yours sincerely

A. W. (Bill) Baylis

On Behalf of INDEPENDENT DIRECTORS OF REID FARMERS LIMITED

PYNE GOULD GUINNESS LTD

COMPANY PROFILE

HISTORY

Pyne Gould Guinness Limited ("Pyne Gould Guinness"), 100% owned by Christchurch based Pyne Gould Corporation Limited ("Pyne Gould Corporation") is a rural servicing business that was established in 1919 through the merger of three separate rural servicing businesses: Pyne & Co., Gould Beaumont & Co. and Guinness & Le Cren Limited. Those businesses were already well established and complementary to each other enabling the merged company, with its enhanced financial strength, to offer a wide range of rural services throughout Canterbury.

Since its inception, and throughout its long history, Pyne Gould Guinness has remained focused on servicing the rural interests of its farmer clients throughout the Canterbury and Marlborough regions and, more recently, Westland and Nelson.

DISTINCT SUBSIDIARY OF PYNE GOULD CORPORATION

Although Pyne Gould Guinness is a wholly-owned subsidiary, it operates quite distinctly and separately from its parent company and has its own head office, board of directors, management team, audited financial accounts and banking arrangements.

PYNE GOULD GUINNESS'S BUSINESS ACTIVITY

Pyne Gould Guinness generates earnings from a wide range of rural services. In addition to the traditional livestock, wool and grain and seed sectors, Pyne Gould Guinness has a significant business servicing viticulture, horticulture, specialist seed, process crop and dairying.

Pyne Gould Guinness operates through eight distinct divisions. It occupies market leadership positions in a number of those activities.

OPERATING DIVISIONS

PGG's operating divisions are as follows:
(Note: The figures in brackets show each division's contribution to 2001 forecast net profit before tax)

Rural Finance (16%) - PGG offers term and seasonal finance facilities to its clients. Such finance and banking services, designed to meet the needs of rural clients, enhance the relationship between the company and its clients and facilitate the packaging of the company's portfolio of services. In addition the offering of deposit facilities attracts considerable support.

PGG Country (28%) - PGG Country is the brand for PGG's merchandise sales and service. A network of 20 stores throughout Canterbury and Marlborough offers a wide range of agricultural inputs to the pastoral, arable, horticultural, viticulture and dairy sectors. This service is backed by field representatives who provide specialist advice in key areas such as chemical application and animal health.

Seeds (17%) - PGG seeds is an Australasian business, with broader international interests. PGG Seeds places strong emphasis on research, using its Ceres research centre and international affiliations to identify new plant cultivars to achieve improved plant performance. The division has established markets and specific seed cultivars for feed and food cereals, turf and amenity grasses, and for a wide range of forage products. Over the last five years, the business has moved away from exposure to the volatility of international grain and seed commodity prices to concentrate on building customer relationships backed by the company's own proprietary cultivars, with targeted production supported by technical agronomy programmes.

Livestock (19%) - Services include on-farm sales, regular auctions for all classes of livestock together with specialist deer, dairy and stud stock services. New marketing and contractual options for both clients and end-users are offered with the assistance of modern technology and computer systems. PGG is a major exporter of studstock and has a broad international client base.

Bloodstock (5%) – PGG's bloodstock activity centres around auction and private selling services to the New Zealand standardbred industry, including national yearling sales in Auckland and Christchurch.

Insurance (11%) – Through its attorneyship with Royal & Sun Alliance and agencies with other insurers, PGG Insurance is a leading participant in the rural insurance market. Specialist insurance cover provided by PGG Insurance includes farm, crop, livestock, vehicle, marine as well as domestic and commercial.

Wool (-3%) – PGG offers wool growers a complete wool selling and marketing service which spans procurement, warehousing, auction and contract sales. A specialist team of field representatives provides advice and marketing options tailored to individual needs.

Real Estate (3%) – PGG is a key participant in the rural real estate market, providing a range of marketing options through the company-wide network of consultants.

Each operating division is supported by the four branches at Christchurch, Blenheim, Ashburton and Timaru and the extensive network of country stores.

STAFF

Pyne Gould Guinness's senior executive, consisting of the managers of each division and branch, is overseen by the General Manager and supported by the Finance Manager. The management structure across each division is decentralised, with significant authority devolved to divisional and branch managers to ensure the company is as responsive to client needs as possible. Divisional managers, each of whom are specialists in their particular field, are responsible for operations and possess a high degree of autonomy, while branch managers focus on client support in their respective geographic areas. Pyne Gould Guinness has approximately 320 staff.

FINANCIAL

Summarised Statement of Financial Performance

Year ended 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
Revenue	130,020	134,342	147,358
Net profit before tax	2,803	7,430	8,276
Tax	798	1,533	2,646
Net profit after tax	2,005	5,897	5,630

Note: The 2000 result includes a non-recurring gain on the sale of properties of circa $2m.
Source: KPMG Report

Summarised Statement of Financial Position

As at 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
Assets			
Current assets	63,489	74,151	86,032
Non-current assets	12,918	14,494	23,717
	76,407	88,645	109,749
Liabilities			
Current liabilities	49,397	60,909	73,418
Non-current liabilities	430	1,259	1,193
	49,827	62,168	74,611
Net Assets	26,580	26,477	35,138

Source: KPMG Report

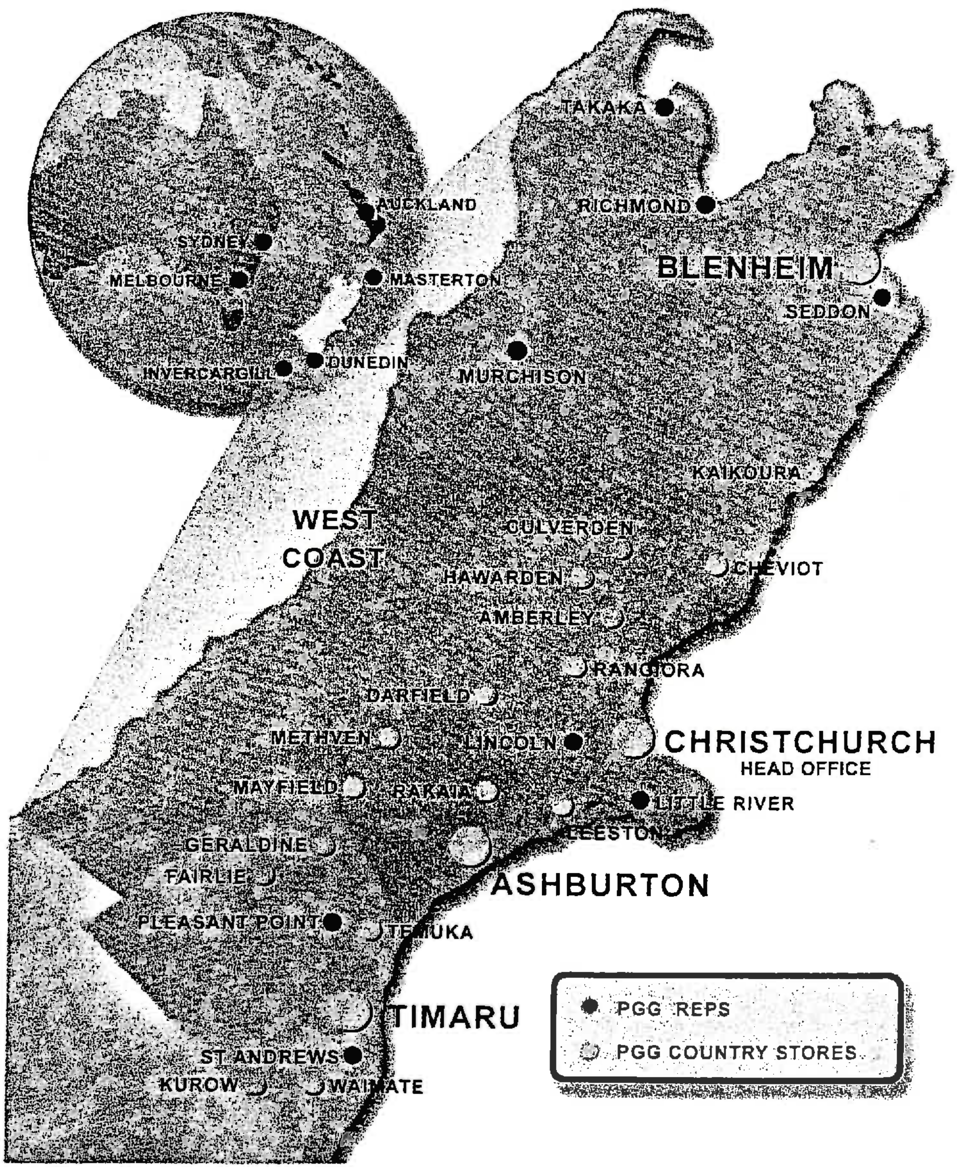
IMPORTANT CHARACTERISTICS OF PYNE GOULD GUINNESS

By remaining focused on its core business of rural servicing and by taking a long term approach to customer relationships, Pyne Gould Guinness now enjoys enviable customer loyalty and goodwill. It is well known and highly regarded throughout Canterbury, Marlborough, Nelson and Westland and will not be unfamiliar to many Reid Farmers clients and shareholders in Otago and Southland.

As with Reid Farmers, the strength of client relationships derives from the range of services, the manner in which services are delivered, and the knowledge and expertise of staff. The result is a mutually-beneficial partnership with clients which, from the company's point of view, provides a base for strong earnings.

In addition, diversity of farming and agricultural activities and development of new, more intensive land uses provides both a spread of earnings and growth opportunities. Together with the significant proportion of earnings derived from the more stable financial services business (finance and insurance), this ensures a significant degree of consistency in the Company's earnings.

Overall Pyne Gould Guinness's operations demonstrate a depth and quality of rural service that augurs well for further enhancements in customer relationships and hence financial returns in the years ahead.



INDEPENDENT ADVISER'S REPORT

Report on the Merits of the Proposed Purchase of Pyne Gould Guinness Limited by Reid Farmers Limited

CONTENTS

KPMG

The Directors
Reid Farmers Limited
Private Bag 1961
Dunedin

30 July 2001

Dear Sirs

REPORT ON THE MERITS OF THE PURCHASE OF PYNE GOULD GUINNESS LIMITED BY REID FARMERS LIMITED

We have prepared the following report for the Directors of Reid Farmers Limited in accordance with our engagement letter dated 16 July 2001.

1 INTRODUCTION

1.1 BACKGROUND

On 16 July 2001 the Directors of Reid Farmers Limited ("Reid Farmers") signed a conditional agreement ("the Agreement") for the sale and purchase of the entire issued share capital of Pyne Gould Guinness Limited ("Pyne Gould Guinness"). The Agreement proposes:

- Pyne Gould Corporation Limited ("Pyne Gould Corporation") sell its wholly owned subsidiary, Pyne Gould Guinness, to Reid Farmers.
- The consideration for this transaction will be the issuance of 44,010,006 new shares by Reid Farmers.

We further advise:

- The new shares issued will result in Pyne Gould Corporation's shareholding in Reid Farmers increasing from 43.73% to 68.49%.
- Reid Farmers is a Dunedin based company whose shares are currently traded on the New Zealand Stock Exchange.
- This transaction is considered "material" and "related" for the purposes of the New Zealand Stock Exchange Listing Rules and therefore an Independent Appraisal Report is required.
- The writer has completed this Report and it forms part of the reporting package being sent to all "affected" shareholders.
- The transaction is also subject to scrutiny by the Takeovers Code, as Reid Farmers is a code company.

1.2 IMPLICATIONS OF THE TAKEOVERS CODE

The following are the implications of the Takeovers Code for the proposed transaction:

- Rule 7(d) of the Takeovers Code allows for a person, company or other entity to become the holder or controller of an increased percentage of the voting rights in a code company by an allotment of the voting securities in this code company if this allotment has been approved by ordinary resolution of the code company's shareholders.
- To enable the shareholders eligible to vote on this transaction, the Directors must furnish them with a report prepared by an independent adviser on the merits of this particular transaction (Rule 18(1)). This report must concentrate on the position of the shareholders considering this transaction.
- Eligible voters are defined by Rule 17(2), as not the allottee and its associates ("the non-allottee shareholders").

1.3 PURPOSE OF THE REPORT AND METHODOLOGY

The purpose of this report is to discuss the merits of the proposed purchase of Pyne Gould Guinness by Reid Farmers for an allotment of shares to the ultimate owner, Pyne Gould Corporation. This will satisfy the requirements of the Takeovers Code Rule 7(d) and 18(1) and assist the non-allottee shareholders of Reid Farmers to evaluate the proposed transaction.

Neither the Takeovers Code nor its controlling body, the Securities Commission, has defined what "merit" means for the purposes of this report. KPMG has therefore considered:

- The literal interpretation of the word "merit"
- The legal interpretation of the word "merit"

and concluded that "merit" means the opportunities and risks associated with this particular transaction and whether or not these opportunities and risks will enhance or detract from the value of the non-allottee shareholders' shares.

To do this KPMG considers it necessary to discuss the value and fairness of the offer, the relative strengths and weaknesses of the parties contributing to this merger, the opportunities and risks derived from merging these strengths and weaknesses, before concluding on the likelihood of value being created or eroded in the hands of the non-allottee shareholders.

While KPMG considers it appropriate to comment on the value of the offer, we do not determine how much value could be created or eroded as a result of the opportunities or risk identified (unless otherwise stated by the merging companies) because the strategic direction of the merged entity has yet to be determined.

1.4 CONTENT OF REPORT

Because KPMG has completed the Independent Appraisal Report as required by the New Zealand Stock Exchange ("the Independent Appraisal Report") and because we understand this report will be issued to all voting shareholders who, for the purposes of this transaction, are the same group as the non-allottee shareholders determined by the Takeovers Code, we do not consider it appropriate to discuss both companies in detail again. However, the contents of the Independent Appraisal Report are essential when considering the conclusions of this document and therefore both documents need to be read together. Specific sections in the Independent Appraisal Report form part of this report.

1.5 REPORT RESTRICTION

This report has been prepared for the Directors of Reid Farmers and is based upon information that has been supplied to us by the Directors and Management of Reid Farmers.

In forming our opinion, we have relied upon forecasts and assumptions about future events which are not able to be verified. As the achievement of any prediction of the results of subsequent operation is dependent on future events, the outcome of which cannot be assured, the actual results may vary from those projected. In the circumstances, KPMG can give no guarantee as to the achievement of actual results.

Therefore, in accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility to any entity or person for any variance to the projected results of the business, or any statement made by the management of the company which is subsequently found to be untrue, but is relied upon by KPMG in reaching our opinion.

We reserve the right but not the obligation to amend this opinion should any further relevant information come to hand. Nothing in this report may be extracted or reprinted without our express prior written consent.

We advise that we have not audited or independently verified the information we have received and this Report should not be construed as an audit or verification of the businesses.

We stress that our advice in respect of the proposed transaction is limited to the non-allottee shareholders of Reid Farmers.

1.6 QUALIFICATIONS, DECLARATIONS, INDEPENDENCE AND INFORMATION RELIED UPON

Detailed in Appendix 1 are our statements regarding qualifications, independence, declarations, and information relied upon.

2 REPORT BACKGROUND

2.1 THE SALE AND PURCHASE AGREEMENT

The Sale and Purchase Agreement is summarised in the Independent Appraisal Report, section 1.6.

This particular section not only discusses the transaction being considered but also the conditions to be met and the actions to be taken prior to settlement.

Section 1.6 of the Independent Appraisal Report forms part of this report.

2.2 REID FARMERS LIMITED (AN OVERVIEW)

The business of Reid Farmers is summarised in the Independent Appraisal Report, section 2.

Contained within this section is a discussion about the general business of Reid Farmers, its shareholding and capital structure, financial position, financial performance, a brief overview of each division, the material risks facing the business, its earnings per share and its net tangible asset backing per share.

Section 2 of the Independent Appraisal Report forms part of this report.

2.3 PYNE GOULD GUINNESS LIMITED (AN OVERVIEW)

The business of Pyne Gould Guinness is summarised in section 3 of the Independent Appraisal Report.

Contained within this section is a discussion about the general business of Pyne Gould Guinness, its shareholding and capital structure, financial position, financial performance, a brief overview of each division, the material risks facing the business, its earnings per share and its net tangible asset backing per share.

Section 3 of the Independent Appraisal Report forms part of this report.

2.4 THE MERGED ENTITY

A general overview of the merged entity is given in section 4 of the Independent Appraisal Report.

Contained within this section is a discussion about the merged entities' shareholding and capital structure, possible financial position, financial performance, earnings per share and net tangible asset backing per share.

This section also gives a summary of the potential merger benefits. These benefits are discussed in greater detail later in this report.

Section 4 of the Independent Appraisal Report forms part of this report.

2.5 THE VALUE OF PYNE GOULD GUINNESS AS IT RELATES TO THE CONSIDERATION PROPOSED

Sections 5, 6 and 7 of the Independent Appraisal Report refer to KPMG's assessment of the "fairness" of the transaction proposed. In discussing that which we consider to be fair, we have formed an opinion as to the value of Pyne Gould Guinness and the consideration being offered.

Our conclusions detailed in section 7 of the Independent Appraisal Report state:

> *In our opinion, the proposed offer will increase the net tangible asset backing per share of Reid Farmers' shares, will immaterially decrease the Reid Farmers' EPS based on the forecast for the year ended 30 June 2001, and will increase Reid Farmers' EPS based on the budgets for the year ended 30 June 2002. These amounts have been calculated before taking into account the forecast synergy benefits of the proposed merger. Based on our relative valuation, the proposed offer will also result in synergy benefits arising for the existing shareholders of Reid Farmers.*
>
> *Therefore, based on our assessment of the offer, in our opinion the proposed offer is fair to the non-associated shareholders of Reid Farmers.*

Sections 5, 6 and 7 of the Independent Appraisal Report form part of the report.

3 THE TRANSACTING PARTIES' STRENGTHS AND WEAKNESSES

3.1 REID FARMERS

Further to discussion contained within the Independent Appraisal Report, we advise KPMG considers the business of Reid Farmers to have the following business strengths:

- A conservatively managed balance sheet with a heavy emphasis on "liquid" assets.
- A clear separation of the trading and finance businesses allowing for close scrutiny and management of the risks associated with each part of these businesses.
- A sizeable wool brokering business.
- Expertise in assisting farmers in the dairying sector.
- A finance division that co-ordinates well with the stock and station business of Reid Farmers.
- A wool processing business positioned to take advantage of the withdrawal of a number of key industry participants.
- Widespread market presence in Otago and Southland.
- An established real estate business that has gained momentum transacting significant volumes of rural property in an efficient and effective manner.
- An established livestock trading division with a sizeable market presence in Otago and Southland.
- Loyal clients (this is closely associated with the brand of Reid Farmers).
- Loyal long serving staff.
- Strong brand identification by all business stakeholders.
- Easily transferable shares.

KPMG considers the business of Reid Farmers to have the following weaknesses:

- A restricted ability to expand its operating area because of the significant shareholders' influence.
- Limited growth opportunities in the existing marketplace.
- Limited success with the Reid Farmers insurance model.
- The real estate business is reliant on continued land use change to drive activity at high levels.
- The size of the business does not warrant a heavy technological investment that could significantly enhance the business.
- The "conservative" nature of the balance sheet is at risk of being deemed "inefficient" if suitable growth opportunities are not found.
- World commodity prices and the strength of the New Zealand dollar have a significant indirect (through farmer spending) and direct (through imports) effect on the business.

3.2 PYNE GOULD GUINNESS

Further to discussion contained within the Independent Appraisal Report, KPMG considers the business of Pyne Gould Guinness to have the following strengths:

- An established insurance business.
- A significant investment in a seeds business infrastructure and intellectual property.
- A sizeable wool division.
- A sizeable and loyal client following.
- Strong brand recognition from all the business's stakeholders.
- Loyal and long serving staff.

- An owner with long term investment objectives.
- Widespread geographic representation in the upper South Island.
- A significant pool of surplus assets.
- An established finance relationship with the business's client base.
- An established bloodstock presence.
- A sizeable and established livestock business.
- A real estate presence of some significance.
- Future growth potential from the opportunities that could eventuate from the continued development of irrigation schemes on the Canterbury plains.
- The international seed export business that, to a certain extent, acts as a natural hedge for some of the business's import foreign exchange exposure.
- A business that is not wholly confined to the upper South Island marketplace through the development of an international seeds business which could be used to leverage more Pyne Gould Guinness product in the future.

KPMG considers the business of Pyne Gould Guinness to have the following weaknesses:

- A less liquid balance sheet than Reid Farmers with a heavier emphasis on stock because of the investment required in the seeds business.
- No great depth to the finance portfolio because another subsidiary of the parent company transacts some of this business on behalf of Pyne Gould Guinness.
- Less certainty of business risk because of the difficulty in defining the demarcation between the stock and station and finance portfolios.
- The size of the business does not warrant the heavy investment in technology that could significantly enhance it.
- Much of the business is exposed to the seasonal fluctuation in the weather associated with the upper South Island.
- World commodity price and foreign exchange movements have an impact on the performance of this business.
- Generally less transferable shares than Reid Farmers.

4 MERGER OPPORTUNITIES AND RISKS

4.1 OPPORTUNITIES

The following have been identified as the potential opportunities of the merger and could therefore enhance the value of the shares held by the non-allottee shareholders:

- The opportunity to promote Reid Farmers' traditional strengths in wool and dairying into the upper South Island.
- The opportunity to extend the Pyne Gould Guinness seed and insurance business into the southern half of the South Island.
- The opportunity to extend the Reid Farmers' mortgage portfolio into the finance business of Pyne Gould Guinness to "round out" the farming finance package offered in the upper South Island.
- The opportunity to strengthen the real estate business of Pyne Gould Guinness with the experience of Reid Farmers' real estate business into an area of potentially higher growth.
- The opportunity to take advantage of the economies of scale that exist when merging two businesses into one, for example:
  - Lower administration costs as a proportion of turnover.
  - Greater buying power.
  - Critical mass to justify new technology and research investments.
- The opportunity to mitigate the climate risk to the business by having a wider area to spread the risk (the possibility of a drought over the whole of the South Island is less likely than a localised problem).

- The opportunity to apply best practice solutions to all the business by using the best of both companies to the advantage of the whole.
- Enhancing the size of the listed company with the merged company capitalising to over $100 million. This could make the shares more attractive to other potential investors.

4.2 RISKS

The major potential risks of this transaction which could, in turn, impact on the value of the shares held by the non-allottee shareholders in the company are:

- Failure to achieve the merger in a manner that delivers on the opportunities identified.

  More specifically, failure to manage the change process so that:
  - Valued Reid Farmers and Pyne Gould Guinness staff leave.
  - The customers of both companies feel disenfranchised and take their business elsewhere.
  - The merged product and service range does not find favour within the customer base.
  - The opportunities for best practice and other economies of scale are not captured even though significant cost is incurred.
- The transaction exposes Reid Farmers to new business areas (eg seeds) which carry their own inherent business risks.

NB: The company remains exposed to the general risks of the farming sector. This transaction does little to mitigate or increase this exposure.

4.3 RISK MITIGATION

The key features of any merger success appear to be:

- The quality of the team empowered to capture the benefits.
- The ease at which these benefits can be captured.
- The similarity of the merging businesses and the "comfort" each has with the other.

In relation to this transaction:

- The non-competitiveness of the two businesses means the core revenue stream of the two firms should not be eroded.
- The "customer relationship teams" of both businesses should not be compromised.
- With Pyne Gould Corporation's shareholding in Reid Farmers already substantial, a certain amount of comfort with each other already exists.
- Recently Reid Farmers successfully merged with Southland Farmers Limited and understand the issues associated with such a process.

5 REPORT SUMMARY

5.1 SUMMARY OF MERITS

In summary:

- The Independent Appraisal Report as completed by KPMG and enclosed in the package of information supplied to shareholders, indicates:
  - The net tangible asset backing of the merged company is enhanced by 4.4 cents per share before merger synergies are considered, therefore value is enhanced based on the forecasts supplied.
  - The forecast 2001 earnings per share of the merged company decreases the non-allottee shares by 0.3 cents before merger synergies are considered under this assessment measure.
  - The forecast 2002 earnings per share of the merged company enhances the non-allottee shareholders' shares by 3 cents before merger synergies are considered under this assessment measure.
  - The value paid for Pyne Gould Guinness through the allocation of Reid Farmers' shares is fair within a range.

- The synergies identified in the Independent Appraisal Report as calculated by the management working group of Reid Farmers and Pyne Gould Guinness only relate to quantified cost savings and there may be other "non-quantified" cost saving opportunities to enhance value.
- There appear to be opportunities for both businesses to take advantage of the marketplace in which each participates without directly competing or damaging the existing revenue flows of said businesses, therefore again potentially enhancing value.
- There are opportunities for the merged business to achieve significant economies of scale in many parts of its operations without interrupting the customer supply relationship critical to ensure the ongoing success of this business. Because of this it is reasonable to conclude that should these things be achieved the core value of the shares held by Reid Farmers' non-allottee shareholders should not decline and may be enhanced significantly.
- As with all mergers, however, there is a danger that if the team empowered to achieve the merger outcomes fails to do so for whatever reason, then the value of the shares of Reid Farmers' non-allottee shareholders' could be eroded.
- There is also the potential for the value of Reid Farmers' non-allottee shares to be eroded by the exposure of new business risk (eg the Pyne Gould Guinness seeds business).
- Mitigating many of these concerns is the success of Reid Farmers in achieving a successful merger with Southland Farmers Limited as well as the familiarity Pyne Gould Guinness and Reid Farmers have with each other through a long association in shareholding.
- Further mitigating this is the strength of the ultimate owner, Pyne Gould Corporation, and its history of investing for the long term.

5.2 CONCLUSIONS

KPMG conclude the following:

- The transaction to purchase Pyne Gould Guinness is fair within a range.
- There are a number of benefits associated with the merger that could enhance the value of the non-allottee shareholders' shares.
- Careful management of the merger will be needed to capture these benefits.
- Because Reid Farmers is familiar with the merger process and both companies have had a long and intimate relationship, the likelihood of a successful outcome to the merger is increased.

Yours faithfully

Bruce Gemmell
Managing Partner, Christchurch

APPENDIX 1

QUALIFICATIONS

This report has been prepared by KPMG Corporate Finance. KPMG Corporate Finance provides advisory services in relation to mergers and acquisitions, independent appraisal reports, valuations and other corporate advisory services.

The partner responsible for preparing the report is Bruce Gemmell, who is the Managing Partner of KPMG's Christchurch office. Bruce Gemmell has experience in valuations, preparing independent appraisal reports and advising on mergers and acquisitions. Bruce Gemmell holds a Batchelor of Business Studies from Massey University and is a Member of the Institute of Chartered Accountants of New Zealand.

DECLARATIONS

KPMG has prepared the report at the request of the Independent Directors of Reid Farmers. The report meets the Takeovers Code Rule 7(d) and 18(1) in relation to the Agreement for Reid Farmers to purchase the entire issued share capital of Pyne Gould Guinness.

It is not intended for the report to be used for any other purpose.

The report has been provided for the benefit of the non-allottee shareholders of Reid Farmers.

KPMG will receive a fixed fee for the preparation of this report. The fee is not contingent on the outcome of the proposed transaction.

KPMG consents to the issuing of this report to the shareholders of Reid Farmers.

KPMG provided drafts of this report to the Directors of Reid Farmers to confirm the factual accuracy of the report.

KPMG consider that they have had access to all relevant information.

The terms of reference for completing this report were issued by the Directors of Reid Farmers and in no way restricted our ability to act.

INFORMATION RELIED UPON

In completing the report we have received and relied upon the following information:

- Audited financial statements for Reid Farmers and Pyne Gould Guinness for the financial years ending 30 June 1996, 1997, 1998, 1999 and 2000
- Forecast financial statements for Reid Farmers and Pyne Gould Guinness for the year ended 30 June 2001
- Budgeted financial statements for Reid Farmers and Pyne Gould Guinness for the year ended 30 June 2002
- The agreement for sale and purchase of the entire issued share capital of Pyne Gould Guinness
- Pyne Gould Guinness's 2002 Business Plans
- Reid Farmers' 2001 Business Plans
- Details of surplus assets for Reid Farmers and Pyne Gould Guinness
- Details of banking facilities for Reid Farmers and Pyne Gould Guinness
- Constitution of Reid Farmers and Pyne Gould Guinness
- Unaudited financial statements for Reid Farmers and Pyne Gould Guinness for the 11 months ended 31 May 2001
- Bloomberg information on comparable companies and comparable transactions
- Annual Reports for comparable companies
- Pyne Gould Corporation due diligence report on Reid Farmers
- Gallaway Cook Allan legal due diligence report on Pyne Gould Guinness
- Lane Neave report on current Pyne Gould Guinness litigation
- Joint working group report on the merger
- Discussions with management and Directors of the respective companies associated with this transaction.

INDEPENDENT APPRAISAL REPORT

In Relation to the Purchase of Pyne Gould Guinness Limited by Reid Farmers Limited

CONTENTS

KPMG

KPMG

The Independent Directors
Reid Farmers Limited
Private Bag 1961
Dunedin

31 July 2001

Dear Sirs

INDEPENDENT APPRAISAL REPORT IN RELATION TO THE PURCHASE OF PYNE GOULD GUINNESS LIMITED BY REID FARMERS LIMITED

We have prepared the following report for the Independent Directors of Reid Farmers Limited in accordance with our engagement letter dated 28 June 2001.

1 INTRODUCTION

1.1 BACKGROUND

On 16 July 2001 the Directors of Reid Farmers Limited ("Reid Farmers") signed a conditional agreement for sale and purchase of the entire issued share capital of Pyne Gould Guinness Limited ("PGG") ("the Agreement"). The Agreement proposes:

- Pyne Gould Corporation Limited ("Pyne Gould Corporation") will sell its wholly owned subsidiary, PGG, to Reid Farmers.
- The consideration for this transaction is to be the issuance of 44,010,006 new shares by Reid Farmers.
- The new shares issued will result in Pyne Gould Corporation's shareholding in Reid Farmers increasing from 43.73% to 68.49%.

1.2 TRANSACTING PARTIES

1.2.1 Pyne Gould Corporation

Pyne Gould Corporation is a Christchurch-based organisation whose shares are reasonably widely owned but not traded on the New Zealand Stock Exchange.

At 30 June 2000 the group comprised 100% ownership of PGG, 43.73% of Reid Farmers' shares, and subsidiaries offering financial services.

The Directors of Pyne Gould Corporation are Mr S R Maling, Mr R F Elworthy, Mr S L Astor, Mr R N Francis, Mr G A C Gould, Mr S D Martin, Mr T E C Saunders, Mr J W Gould and Mr S C Montgomery.

1.2.2 Reid Farmers

Reid Farmers is a Dunedin-based company whose shares are currently traded on the New Zealand Stock Exchange. At the date of the announcement that Reid Farmers were engaged in transaction discussions with Pyne Gould Corporation, the shares of the company were trading at $1.10, giving a total market capitalisation of approximately $61 million.

The Directors of Reid Farmers are Mr A W Baylis, Mr L J Brown, Mr R F Elworthy, Mr S D Martin, Mr I O Baker, Mr G F Dowling and Ms S A Staley.

The Directors common to both Pyne Gould Corporation and Reid Farmers are Mr R F Elworthy and Mr S D Martin. The remaining Directors can be considered Independent for the purposes of this proposed transaction.

1.3 IMPLICATIONS OF THE NEW ZEALAND STOCK EXCHANGE LISTING RULES FOR THE PROPOSED TRANSACTION

The following are the implications of the New Zealand Stock Exchange Listing Rules for the proposed transaction:

- Under Listing Rule 9.2.1, Reid Farmers shall not enter into a material transaction if a related party is a direct or indirect party to the material transaction, unless the material transaction is approved by an ordinary resolution of Reid Farmers.

  The proposed transaction is a material transaction as defined under Listing Rule 9.2.2 because the proposed transaction acquires assets that have an aggregate gross value in excess of 5% of the lesser of shareholders' funds or the average market capitalisation of Reid Farmers. Pyne Gould Corporation is a related party as defined under Listing Rule 9.2.3 because Pyne Gould Corporation is a substantial security holder of Reid Farmers.

  Therefore the proposed transaction requires the prior approval of an ordinary resolution of Reid Farmers under Listing Rule 9.2.1.

  Under Listing Rule 9.2.5, the text of any resolution to be put to a meeting for the purposes of Rule 9.2.1 shall be set out in the notice of the relevant meeting. The notice shall be accompanied by an Appraisal Report.

  Therefore an Appraisal Report is required for the proposed transaction.

- Before the transaction, Pyne Gould Corporation is entitled to exercise more than 1% of the total votes attaching to the securities of Reid Farmers and the proposed transaction will cause Pyne Gould Corporation to increase their shareholding in Reid Farmers from 43.73% to 68.49%. Therefore, under Listing Rule 7.5, an ordinary resolution of Reid Farmers is required to approve the issue of the securities. Under Listing Rule 6.2.2(a), the notice of the resolution shall be accompanied by an Appraisal Report.

- Under Listing Rule 6.2.2(b), an Appraisal Report is required as the issue of Securities is intended or is likely to result in more than 50% of the securities to be issued being acquired by associated persons of directors of Reid Farmers.

1.4 PURPOSE OF THE REPORT

The purpose of KPMG's Independent Appraisal Report (the "Report") is to satisfy the requirements of the New Zealand Stock Exchange Listing Rules 9.2.5, 6.2.2(a) and 6.2.2(b), and to assist the non-associated shareholders of Reid Farmers to evaluate the proposed transaction. For the purposes of this report, the non-associated shareholders relate to all shareholders of Reid Farmers, other than Pyne Gould Corporation.

Our Report considers whether or not the proposed transaction is fair to the non-associated shareholders of Reid Farmers.

The Institute of Chartered Accountants of New Zealand states on fairness that *"the expression of an opinion as to fairness will generally involve an assessment as to whether a proposal is just, impartial and equitable"* in their guidance note 10 "Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders".

1.5 CONCLUSIONS

In our opinion, the proposed offer will increase the net tangible asset backing per share of Reid Farmers' shares, will immaterially decrease the Reid Farmers' EPS based on the forecast for the year ended 30 June 2001, and will increase Reid Farmers' earnings per share ("EPS") based on the budgets for the year ended 30 June 2002. These amounts have been calculated before taking into account the forecast synergy benefits of the proposed merger. Based on our relative valuation, the proposed offer will also result in synergy benefits arising for the existing shareholders of Reid Farmers.

Therefore, based on our assessment of the offer, in our opinion the proposed offer is fair to the non-associated shareholders of Reid Farmers.

1.6 KEY POINTS IN THE AGREEMENT

The following are the key points of the sale and purchase agreement signed between Reid Farmers and Pyne Gould Corporation:

- Pyne Gould Corporation will sell 100% of its shares in the business PGG to Reid Farmers free of any encumbrance;
- The consideration for PGG will be 44,010,006 fully paid shares to be issued by Reid Farmers; and
- The shares issued by Reid Farmers to Pyne Gould Corporation will rank pari passu (i.e. have the same rights) as other ordinary shares in respect of all matters other than the right to receive a dividend of up to 7 cents per share in respect of the year ended 30 June 2001.

1.6.1 Settlement Requirements

The settlement requirements of the agreement include:

- All indebtedness and guarantees between PGG and the Pyne Gould Corporation group being discharged;
- Reid Farmers passing a Board resolution appointing three Pyne Gould Corporation nominee directors to its Board;
- If required, clearance under the provisions of the Commerce Act and Commerce Amendment Act 2001 being granted by 13 August 2001;
- Shareholder approval of the transaction as required by Rules 9.1.1, 9.2, 7.3 and 7.5 of the Listing Rules of the New Zealand Stock Exchange and Rule 7 of the Takeovers Code being obtained;
- Effective assignment (or agreement to assign) of all leases and contracts required by Reid Farmers by 13 August 2001;
- Board approval being granted by the Reid Farmers Board;
- Reid Farmers undertaking the necessary steps to effect the change of its name to Pyne Gould Guinness Reid Farmers Limited; and
- The conditions in the share subscription agreement having been fulfilled.

1.6.2 Further Conditions

Further conditions of the offer include:

- Reid Farmers agreeing to ensure the continuation of the superannuation plan of the employees of PGG;
- PGG agreeing not to write any general insurance business in contravention to the terms of the major underwriter, Royal & Sun Alliance Insurance Group; and
- Pyne Gould Corporation running the business as normal until settlement.

The agreement includes a restraint of trade restricting Pyne Gould Corporation from re-entering the market of Reid Farmers and PGG for as long as Pyne Gould Corporation owns more than 44% of the issued capital in Reid Farmers. If Pyne Gould Corporation's shareholding falls below this 44%, then a further three year restriction applies. However, this restraint ceases to apply in the event Reid Farmers withdraw from the stock and station business.

The restraint of trade does not apply to the provision of financial and insurance services other than seasonal financing to farmers.

Pyne Gould Corporation agrees it will not interfere with the lending business carried on by Reid Farmers and PGG to the extent that it will not seek to influence this business to be undertaken by Pyne Gould Corporation or its subsidiaries.

The agreement makes provision for transitional services to be supplied by Pyne Gould Corporation for a period of six months so that there can be an effective transition.

Pyne Gould Corporation have provided several warranties to Reid Farmers.

1.7 INFORMATION RELIED UPON

In completing the Report we have received and relied upon the following information:

- Audited financial statements for Reid Farmers and PGG for the financial years ending 30 June 1996, 1997, 1998, 1999 and 2000
- Forecast financial statements for Reid Farmers and PGG for the year ended 30 June 2001
- Budgeted financial statements for Reid Farmers and PGG for the year ended 30 June 2002
- The agreement for sale and purchase of the entire issued share capital of PGG
- PGG 2002 Business Plans
- Reid Farmers' 2001 Business Plans
- Details of surplus assets for Reid Farmers and PGG
- Details of banking facilities for Reid Farmers and PGG
- Constitution of Reid Farmers and PGG
- Unaudited financial statements for Reid Farmers and PGG for the 11 months ended 31 May 2001
- Bloomberg information on comparable companies and comparable transactions
- Annual Reports for comparable companies
- Pyne Gould Corporation due diligence report on Reid Farmers
- Gallaway Cook Allan legal due diligence report on PGG
- Lane Neave report on current PGG litigation
- Joint working group report on the merger
- Discussions with management and Directors of the respective companies associated with this transaction.

1.8 REPORT RESTRICTION

This report has been prepared for the Independent Directors of Reid Farmers and is based upon information that has been supplied to us by the Directors and management of Reid Farmers.

In forming our opinion, we have relied upon forecasts prepared by Reid Farmers and Pyne Gould Guinness which are not able to be verified. As the achievement of any prediction of the results of subsequent operation is dependent on future events, the outcome of which cannot be assured, the actual results may vary from those projected. In the circumstances, KPMG can give no guarantee as to the achievement of actual results.

Therefore, in accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertake responsibility to any entity or person for any variance to the projected results of the business, or any statement made by the management of the company which is subsequently found to be untrue, but is relied upon by KPMG in reaching our opinion.

We reserve the right but not the obligation to amend this opinion should any further relevant information come to hand. Nothing in this opinion may be extracted or reprinted without our express prior written consent.

We advise that we have not audited or independently verified the information we have received and this Report should not be construed as an audit or verification of the businesses.

We stress that our advice in respect of the proposed transaction is limited to the non-associated shareholders of Reid Farmers.

1.9 QUALIFICATIONS, DECLARATIONS AND INDEPENDENCE

Detailed in Appendix 1 are our statements regarding qualifications, independence and declarations.

2 REID FARMERS LIMITED

2.1 OVERVIEW

Reid Farmers is a stock and station agency servicing Otago and Southland's rural industry. Its rural servicing activities involve rural finance, farm merchandise, livestock, wool, real estate and insurance. The company's head office is in Dunedin.

The company was originally founded in 1900 as Donald Reid & Co Limited, having previously traded as a partnership since 1878. In March 1962, Reid Farmers acquired the stock and station agent business of Stringer & Co Ltd in North Otago and the Heriot stock and station business of R F Sim. The stock and station agent business of Preece & McLeod Limited in Gore was acquired in 1964. The company merged with Otago Farmers Co-op Association of New Zealand in 1974 and formed a new company – Donald Reid Otago Farmers Limited. The company was renamed Reid Farmers Limited in October 1979.

RF Woolscour was opened in 1980, which was a partnership between Robert Ferrier Ltd and Reid Farmers. In 1981 a wholly-owned subsidiary, Reid Farmers Finance (Otago) Limited ("Reid Farmers Finance"), was formed to provide additional financial services. RF Woolscour took full control of its wool dumping and container packing operations in April 1987.

In July 1991, the company acquired the rural business of Elders Pastoral Limited in Otago and parts of Southland. In June 1997 the company acquired the finance book and rural assets of Southland Farmers Co-op in Invercargill. RF Insurance Brokers Limited was formed in August 1998, which is a joint insurance broking partnership with Insurance Brokers Alliance Limited.

Reid Farmers acquired all of the remaining shares in RF Woolscour in April 2000, and restructured all of their wool operations in June 2000.

Reid Farmers is listed on the New Zealand Stock Exchange.

2.2 SHAREHOLDING AND CAPITAL STRUCTURE

2.2.1 Major Shareholders

Detailed below is a list of the five major shareholders in Reid Farmers as at August 2000, along with the number of shares issued. There have been no substantial security notices since the Reid Farmers 2000 annual report was published.

Figure 1: Reid Farmers' Shareholding Structure

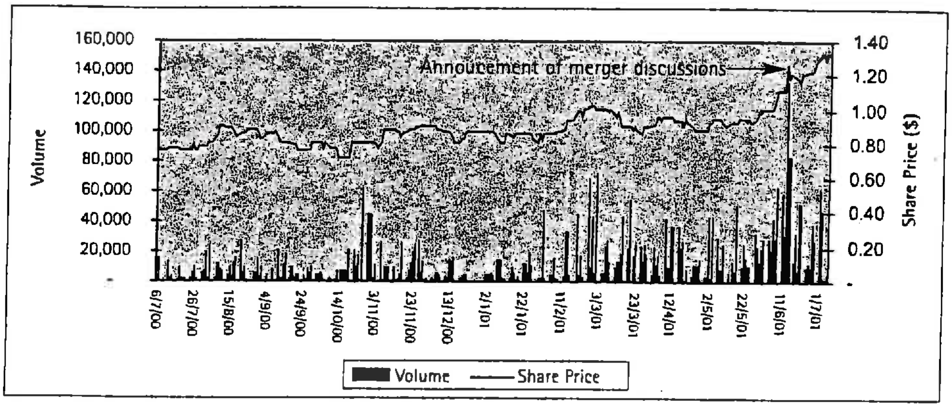
Five Largest Shareholders	Number of Shares	% of Quoted Shares
Pyne Gould Corporation Ltd	24,495,779	43.73
J M Rose	1,375,967	2.46
Estate F H Burns	1,126,699	2.01
University of Otago	486,000	0.87
B F Bagley	415,692	0.74
Total top 5	27,900,137	49.81
Balance (approximately 2,350 shareholders)	28,112,598	50.19
Total	**56,012,735**	**100.00**

Source: Reid Farmers' 2000 Annual Report

2.2.2 Share Price

The Reid Farmers' share price and trading volumes for the last 12 months are detailed in the graph below:

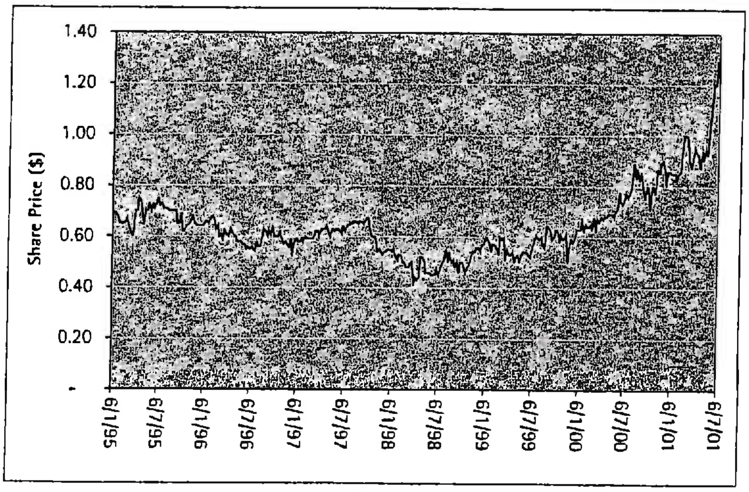
Figure 2: Reid Farmers' Share Price and Volumes



Source: Bloomberg

The Reid Farmers' share price for the last six years is detailed in the graph below:

Figure 3 : Reid Farmers' Share Price



Source: Bloomberg

2.3 FINANCIAL POSITION

Detailed below is Reid Farmers' financial position as at 30 June 1999, 2000 and 2001:

Figure 4 : Reid Farmers' Financial Position

As at 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
ASSETS			
Current assets			
Trade and sundry debtors	6,631	4,980	9,434
Advances - Chattel securities and mortgages	35,105	38,478	45,493
Clients' advance accounts	42,670	43,468	35,382
Inventories	7,013	7,088	8,000
Total current assets	**91,419**	**94,014**	**98,309**
Non-current assets			
Deferred tax	1,419	1,343	1,351
Investments in other companies	226	184	184
Investments in associated companies	99	110	119
Fixed assets	11,850	12,224	12,700
Total non-current assets	13,594	13,861	14,354
Total assets	105,013	107,875	112,663
LIABILITIES			
Current liabilities			
Bank overdraft	5,156	2,339	(18,038)
Secured debenture stock	14,043	21,411	21,381
Clients' unsecured deposits and current accounts	25,061	27,728	39,041
Trade and sundry creditors	7,660	9,125	10,095
Taxation payable	162	6	174
Provision for rebate	285	322	-
Provision for dividend	2,330	2,586	3,941
Total current liabilities	**54,697**	**63,517**	**56,594**
Non-current Liabilities			
Bills of exchange	-	-	11,000
Secured debenture stock	15,380	8,997	6,047
Total Non-current liabilities	15,380	8,997	17,047
Net assets	34,936	35,361	39,022
EQUITY			
Share capital	16,989	16,989	16,989
Reserves	1,857	1,378	1,379
Retained earnings	14,981	16,994	20,654
	33,827	35,361	39,022
Minority interest	1,109	-	-
Total equity	34,936	35,361	39,022
Equity/Total assets	33.3%	32.8%	34.6%
Debt/Equity	170.7%	171.0%	152.3%
NTA per share (cents)	60.4	63.1	69.7

NB: The forecast accounts for June 2001 include a provision for a $0.07 dividend.
Source: Reid Farmers Annual Reports and forecast accounts for June 2001

2.4 FINANCIAL PERFORMANCE

Detailed below is Reid Farmers' historic and forecast financial performance for the years ended 30 June 1999, 2000 and 2001:

Figure 5 : Reid Farmers' Financial Performance

Year ended 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
Revenue	74,959	86,274	107,419
Net profit before tax	5,505	6,512	10,399
Tax	1,500	1,910	3,252
Net profit after tax	4,005	4,602	7,147
Earning per share (cents)	7.2	8.2	12.8

NB: The forecast for the 2001 year includes 11 months of actual results.
Source: Reid Farmers Annual Reports and the 2001 forecast.

The 1999 results include a circa $0.75 million net gain on the sale of Reid Farmers' Crawford Street property in Dunedin. Included in the 2000 results is pre-tax non-recurring income of circa $0.7 million, which relates to income earned on managing the development on the Crawford Street property. The increase in net profit after tax for the 2001 year reflects the general improvement in the rural sector.

2.4.1 Review of operations

The company operates its activities through the following divisions and subsidiaries:

- Financial Services;
- Trading;
- Livestock;
- Wool Marketing;
- Wool Processing;
- Real Estate;
- RF Insurance Brokers; and
- Reid Farmers Finance.

Each of these divisions and subsidiaries is briefly reviewed below.

2.4.1.1 Financial services

The rural finance division provides a range of financial services, including seasonal finance, stock loans and deposits.

2.4.1.2 Trading

Through a network of 21 locations throughout Otago and Southland, the Reid Farmers trading centres offer farm merchandise including animal health, animal nutrition, pasture improvement and crop seed products.

2.4.1.3 Livestock

The livestock division acts as agents for the buying and selling and auctioning of livestock. The division is also involved in the procurement of livestock for meat freezing companies.

2.4.1.4 Wool marketing

The wool marketing division provides a complete wool brokering and wool sale service.

2.4.1.5 Wool processing

This division's operations include warehousing, technical services, scouring and dumping. Reid Farmers has wool stores in Dunedin and Invercargill.

2.4.1.6 Real estate

The real estate division operates as a real estate agent that offers a complete range of services in Otago and Southland.

2.4.1.7 RF Insurance Brokers

Reid Farmers offers insurance products through its 50% owned subsidiary, RF Insurance Brokers.

2.4.1.8 Reid Farmers Finance

Reid Farmers offers mortgages and issues debentures through its subsidiary Reid Farmers Finance.

In addition to the divisions and subsidiaries outlined above, Reid Farmers also has a 50% stake in Velpool Holdings Limited ("Velpool Holdings") with PGG. Velpool Holdings is involved in the grading and marketing of deer velvet.

2.5 MATERIAL RISKS

The future financial performance of Reid Farmers will be linked with the performance of the South Island rural sector. The following factors may have a material impact on the company's future financial performance:

- Climate risks
  Unfavourable weather conditions such as drought can lead to lower rural productivity which may reduce the volume of livestock and wool handled by Reid Farmers and will reduce discretionary rural expenditure.
- Global commodity prices
  Reid Farmers' financial performance is sensitive to changes in global commodity prices, especially livestock and wool.
- Competition
  Reid Farmers operates in a competitive environment. Detailed below are some of Reid Farmers' major competitors:

Division	Competitors
Financial services	Trading banks
Rural trading	Wrightson Limited CRT
Livestock	Wrightson Limited CRT AnchorMart
Wool marketing & processing	Wrightson Limited Southland Woolbrokers Limited Clifton Wool Scour Limited
Real Estate	Wrightson Limited Southern Wide Real Estate Real Estate Agents

- Wool industry
  The New Zealand wool industry is currently dealing with the outcomes of the McKinsey Report. The outcomes of the wool industry reforms are uncertain; this could impact on the future performance of Reid Farmers' wool division.

- Fertiliser sales
  Reid Farmers acts as an agent for fertiliser companies in the sale of fertiliser to farmers. Fertiliser companies could cease using agents such as Reid Farmers as a distribution network for fertiliser; these fertiliser sales are therefore at risk.

3 PYNE GOULD GUINNESS LIMITED

3.1 OVERVIEW

PGG is a stock and station agency servicing New Zealand's rural industry. Its rural servicing activities involve rural finance, farm merchandise, wool, livestock, insurance, real estate, seeds and bloodstock. The company's head office is in Christchurch with branches in Blenheim, Ashburton, Christchurch and Timaru. Its traditional area of business is in Canterbury, Marlborough, Nelson and the West Coast and it also has representatives in the North Island and overseas.

The company was formed from the merger of Pyne & Co, Gould Beaumont & Co and Guinness & Le Cren Ltd in 1919. The three had traded as stock and station agents in Canterbury and South Canterbury since 1851, 1887 and 1891 respectively. In 1947 the company acquired W E Clouston & Co Limited, based in Marlborough, and in 1991 the rural business of Elders Pastoral Limited in Canterbury.

3.2 SHAREHOLDING AND CAPITAL STRUCTURE

PGG is a wholly-owned subsidiary of Pyne Gould Corporation, a Christchurch-based unlisted company with investments in rural and financial services.

PGG has share capital of 21,500,000 fully paid ordinary shares.

3.3 FINANCIAL POSITION

Detailed below is PGG's financial position as at 30 June 1999, 2000 and 2001:

Figure 6 : PGG financial position

As at 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
ASSETS			
Current assets			
Cash, bank and deposits	19	18	21
Trade and sundry debtors	14,918	21,412	26,504
Advances	32,664	37,799	36,600
Inventories	12,915	13,138	18,420
Properties intended for sale	1,985	98	3,188
Owing by related parties	107	12	-
Tax refund due	-	375	-
Deferred tax	881	1,299	1,299
Total current assets	63,489	74,151	86,032
Non-current assets			
Term Advances to clients	-	1,714	8,000
Investments in unlisted companies	259	107	107
Investments in associated companies	245	237	237
Fixed assets	12,414	12,436	15,373
Total Non-current assets	12,918	14,494	23,717
Total assets	76,407	88,645	109,749
LIABILITIES			
Current liabilities			
Bank overdraft	3,257	1,680	4,435
Credit current accounts	10,203	12,482	13,725
Call & short term deposits	24,168	24,342	37,657
Trade and sundry creditors	8,492	13,077	15,573
Taxation payable	777	-	(292)
Proposed dividend	800	500	-
Owing to related companies	1,700	8,828	2,320
Total current liabilities	49,397	60,909	73,418
Non-current liabilities			
Unsecured term deposits	430	1,259	1,193
Total Non-current liabilities	430	1,259	1,193
Net assets	26,580	26,477	35,138
EQUITY			
Share capital	18,119	18,119	21,619
Reserves	6,196	5,511	11,512
Retained earnings	2,265	2,847	2,007
Total equity	26,580	26,477	35,138
Equity/total assets	34.8%	29.9%	32.0%
Debt/equity	150%	184%	169%
NTA per share (cents)	60.4	60.2	79.8

NB: The forecast 2001 balance sheet includes a revaluation of land and buildings to current market value. NTA per share is calculated based on the number of Reid Farmers shares to be issued under the proposed transaction.

Source: PGG Annual Reports and unaudited forecast for 2001.

3.4 FINANCIAL PERFORMANCE

Detailed below is PGG's historic and forecast financial performance for the years ended 30 June 1999, 2000 and 2001:

Figure 7 : PGG financial performance

Year ended 30 June	Audited 1999 $000	Audited 2000 $000	Forecast 2001 $000
Revenue	130,020	134,342	147,358
Net profit before tax	2,803	7,430	8,276
Tax	798	1,533	2,646
Net profit after tax	2,005	5,897	5,630
Earning per share (cents)	4.6	13.4	12.8

NB: The forecast for the 2001 year includes 11 months of actual results. EPS is calculated based on the number of Reid Farmers shares to be issued under the proposed transaction.

Source: PGG Annual Reports and the 2001 forecast.

The 2000 results include a non-recurring gain on the sale of properties of circa $2 million and an after tax loss of circa $0.55 million on the write down of stock relating to the seeds division. The 2001 results reflect the general improvement in the rural sector.

3.4.1 Review of operations

The company operates its activities through the following divisions:

- Rural Finance;
- PGG Country;
- Seeds;
- Livestock;
- Bloodstock;
- Wool;
- Insurance; and
- Real Estate.

Each of these divisions is briefly reviewed below.

3.4.1.1 Rural Finance

The Rural Finance division provides a comprehensive range of financial services including seasonal finance, livestock trading accounts, wool and crop advances, machinery finance, investments, deposits and term loans. The division operates from branch offices at Ashburton, Blenheim, Christchurch and Timaru.

3.4.1.2 PGG Country

Through its network of 20 locations throughout the South Island, from Blenheim to Kurow, PGG Country merchandises farming consumables, grain and seed, and product for the arable, pastoral and viticultural industries. The division also acts as an agent for direct sales of fertiliser and other products.

3.4.1.3 Seeds

PGG Seeds operates in Australasia and other international markets. The division consists of four broad groups:

- Research & Development - based at the Ceres Research Centre in Christchurch;
- Proprietary product marketing groups - cereals, turf, pasture, forage and embryonic integrated cereal supply;
- Common trading of seeds and grains; and
- Seed production and processing - processing plants are located in Ashburton and Timaru.

The seeds division has an office in Australia and an international distribution network.

3.4.1.4 Livestock

PGG Livestock acts as agents for the buying, selling and auctioning of livestock. The division also procures livestock for export and meat freezing companies.

3.4.1.5 Bloodstock

PGG Bloodstock conducts the auction of standardbreds in Auckland and Christchurch.

3.4.1.6 Wool

PGG Wool is involved in the auctioning, classing and marketing of wool. The division operates centralised facilities in Christchurch and the premises include the South Island wool selling centre.

3.4.1.7 Insurance

PGG Insurance provides a wide range of specialist insurance covers to farm, commercial and domestic clients. The division has an attorneyship with Royal & Sun Alliance and acts as an agency for other insurers.

3.4.1.8 Real Estate

PGG Real Estate operates a real estate agency business that offers a complete range of marketing options. The division markets a range of property including lifestyle blocks, vineyards, fine wool runs, high country stations and extensive cropping land.

3.5 MATERIAL RISKS

The future financial performance of PGG will be linked with the performance of the South Island rural sector. The following factors may have a material impact on the company's future financial performance:

- Climate risks
  Unfavourable weather conditions such as drought can lead to lower rural productivity which may reduce the volume of livestock, wool, grain and seed handled by PGG and will reduce discretionary rural expenditure.
- Global commodity prices
  PGG's financial performance is sensitive to changes in global commodity prices, especially livestock, wool and seed prices.
- Competition
  PGG operates in a competitive environment. Detailed below are PGG's major competitors:

Division	Competitors
Rural finance	Trading banks
Livestock	Wrightson Limited Rural Livestock Limited
Insurance	Farmers Mutual Insurance Wrightson Insurance Brokers Insurance companies
Real Estate	Wrightson Limited Real Estate Agents
PGG Country	Wrightson Limited CRT Fruitfed AnchorMart ATS Greenfields
PGG Seeds	Wrightson Limited Canterbury Seed Company Peter Cates Limited Cropmark Agriseeds Agricom

- Wool industry
  The New Zealand wool industry is currently dealing with the outcomes of the McKinsey Report. The outcomes of the wool industry reforms are uncertain, this could impact on the future performance of Pyne Gould Guinness wool division.

- Fertiliser sales
  Pyne Gould Guinness acts as an agent for fertiliser companies in the sale of fertiliser to farmers. Fertiliser companies could cease using agents such as Pyne Gould Guinness as a distribution network for fertiliser, these fertiliser sales are therefore at risk.

4 MERGED ENTITY

4.1 SHAREHOLDING AND CAPITAL STRUCTURE

Detailed below is a list of the five major shareholders and the number of shares issued for the merged entity on the completion of issuing 44,010,006 shares to Pyne Gould Corporation under the proposed transaction:

Figure 8 : Merged entity shareholding structure

Five largest shareholders	Number of shares	% of quoted shares
Pyne Gould Corporation Ltd	68,505,785	68.49%
J M Rose	1,375,967	1.38%
Estate F H Burns	1,126,699	1.13%
University of Otago	486,000	0.48%
B F Bagley	415,692	0.41%
Total Top 5	71,910,143	71.89%
Balance (approximately 2,350 shareholders)	28,112,598	28.11%
Total	100,022,741	100.00%

4.2 MERGED STATEMENT OF FINANCIAL POSITION

Detailed below is the potential pro-forma statement of financial position for the merged entity as at 30 June 2001:

Figure 9 : Merged entity pro-forma financial position

As at June	Forecast 2001 $000
ASSETS	
Current assets	
Trade and sundry debtors	35,938
Advances - Chattel securities and mortgages	53,493
Clients' advance accounts	71,982
Properties intended for sale	3,188
Inventories	26,420
Total current assets	191,021
Non-Current assets	
Deferred tax	2,650
Investments in other companies	291
Investments in associated companies	356
Fixed assets	28,073
Total non-current assets	31,370
Total assets	222,391
LIABILITIES	
Current liabilities	
Bank overdraft	(13,624)
Secured debenture stock	21,381
Clients' unsecured deposits and current accounts	90,423
Trade and sundry creditors	25,668
Taxation payable	(118)
Owing to related companies	2,320
Provision for dividend	3,941
Total Current liabilities	129,991
Non-current liabilities	
Bills of exchange	11,000
Secured debenture stock	6,047
Unsecured term deposits	1,193
Total non-current liabilities	18,240
Net assets	74,160
EQUITY	
Share capital	38,608
Reserves	12,891
Retained earnings	22,661
Total equity	74,160
Equity /Total assets	33.3%
Debt/Equity	160.1%
NTA per share (cents)	74.1

Source: Reid Farmers and PGG forecast accounts for June 2001

MERGED STATEMENT OF FINANCIAL PERFORMANCE

Detailed below is the pro-forma statement of financial performance for the merged entity for the year ended 30 June 2001.

Figure 10 : Merged entity pro-forma statement of financial performance

Year ended 30 June	Forecast 2001 $000
Revenue	254,777
Net profit before tax	18,675
Tax	5,898
Net profit after tax	12,777
Earning per share (cents)	12.8
Earning per share before abnormals (cents)	12.5

NB: The forecast for the 2001 year includes 11 months of actual results.
Source: Reid Farmers and PGG 2001 forecast.

The pro-forma statement of financial performance is a combination of the forecast statements of the two individual companies and excludes the impact of any synergies that may result from the proposed transaction.

4.4 BENEFITS OF THE MERGER

Discussed below are the potential benefits that could occur as a result of the proposed offer.

4.4.1 Cost savings

The management of both companies have conservatively estimated that within one year of the merger, the proposed transaction could result in cost savings of circa $2.5 million per annum. These cost savings would lead to an improved profitability for the merged entity if the merger process is managed effectively.

The management of both companies have forecast that one-off costs of circa $1.5 million will be incurred in attaining these cost savings.

4.4.2 Revenue opportunities

The management of both companies are confident that the merger will result in potential revenue enhancements. These include:

- Enhanced and complete range of client services which will be offered;
- Economies of scale in livestock;
- Wool, grain and seed procurement;
- Improved returns through increased volumes in the areas that have significant fixed costs;
- Complementary strengths that can be leveraged in each company's region;
- The pooling of management talent; and
- The adoption of best practice principles.

The revenue enhancements have not been quantified at this stage. However, if any revenue enhancements are achieved, this will result in an additional increase in shareholder value.

4.4.3 Increase in market size and liquidity of the merged entity

The market capitalisation of the merged entity will be over $100 million. This may make the company more attractive to investors, including institutional investors, and may lead to greater equity research being performed on the company. This has the potential to add further value to the share price.

Additionally, if Pyne Gould Corporation was to sell down some of their holding in the merged entity this would increase the number of freely traded shares available to retail and institutional investors. This could increase the liquidity of Reid Farmers' shares which may further improve its share price performance.

4.4.4 Restructuring opportunities for PGG

In the past, due to PGG's association with Pyne Gould Corporation, PGG's finance division has not been active in directly providing mortgages to farmers. This is because Pyne Gould Corporation provided mortgages to farmers through its subsidiary Perpetual Trust Limited. Freed from this restraint PGG may be able to increase the size of its mortgage book which may generate additional income (refer to sale and purchase agreement).

Currently PGG is supplied services such as IT systems by Pyne Gould Corporation. We understand that the costs charged for these services are in some instances above what the company could acquire the services for elsewhere. After the merger PGG can obtain these services from wherever it chooses, which may improve the profitability of PGG. The only such material savings that have been identified at this stage are savings of circa $0.5 million in IT costs. These savings have been taken into account in our assessment of the fairness of the proposed transaction.

4.4.5 Reduction in volatility of earnings

The merged company's geographic spread will cover the entire South Island. In the past it has been less likely that a drought would impact on all regions in the South Island at one time. Therefore, the increased geographic spread of the merged entity will reduce the volatility in earnings due to adverse climatic conditions in the different geographic regions.

5 BASIS FOR ASSESSING THE PROPOSED TRANSACTION

5.1 INTRODUCTION

Our approach to assessing the proposed transaction has been to:

- consider the impact of the offer on the net tangible assets of Reid Farmers' shares at 30 June 2001;
- consider the impact of the offer on the earnings per share of Reid Farmers for the year ended 30 June 2001; and
- consider the relative value of Reid Farmers and PGG using Reid Farmers' market capitalisation as a benchmark.

5.2 IMPACT ON NET TANGIBLE ASSETS ("NTA")

The pro-forma NTA backing per share of the merged entity at 30 June 2001 is $0.741, as detailed in Section 4.2. This compares to an NTA backing per share of Reid Farmers prior to the proposed offer of $0.697, as detailed in Section 2.3. The proposed offer therefore increases the pro-forma NTA backing per share of Reid Farmers' shares at 30 June 2001 post merger by $0.044.

5.3 IMPACT ON EARNINGS PER SHARE ("EPS")

The pro-forma EPS (before abnormals) of the merged entity for the year ended June 2001 is $0.125, as detailed in Section 4.3. This compares to an EPS for Reid Farmers for the year ended 30 June 2001 prior to the proposed transaction of $0.128, as detailed in Section 2.4.

Without any forecast synergy benefits being taken into account, the proposed transaction decreases the EPS of Reid Farmers for the year ended 30 June 2001 by $0.003.

Synergy savings of circa $2.5 million pre-tax represent an increase in EPS of circa $0.02.

Both Reid Farmers and PGG have provided us with projections for the year ended 30 June 2002. The proposed transaction increases the forecast EPS on the existing Reid Farmers' shares by $0.03. These projections are before taking into account forecast synergies.

5.4 RELATIVE VALUATION OF PGG

In considering any valuation issues there are five methodologies commonly used. We detail these as:

- Capitalisation of future maintainable earnings.
- Capitalisation of future maintainable dividends.
- Discounted cashflow.
- Valuation of net tangible assets (on a going concern basis).
- Realisation of assets under a notional liquidation.

The most appropriate method reflects both the purpose of the valuation and the nature of the businesses concerned.

Ideally we would consider the discounted cashflow methodology the most appropriate, however the seasonality of the business and the risks associated with managing the ongoing cashflow (as well as determining an appropriate terminal value), have led us to question the reliability of such an approach in these circumstances.

We have elected to use the capitalisation of future maintainable earnings to assess the relative value of PGG.

The most commonly used technique when considering the capitalisation of future maintainable earnings is to consider earnings before interest and taxation ("EBIT") and earnings before interest, taxation, depreciation and amortisation ("EBITDA"), however the existence of finance divisions (which are an integral part of both businesses' operations) makes a valuation based on each group's EBIT less robust. Therefore, we have preferred a relative analysis of value based on the group's profit after tax, after making allowance for different funding structures.

5.4.1 PGG and Reid Farmers' relative value assessment

To assess the fairness of the proposed transaction, we have considered the relative values of PGG and Reid Farmers. We have undertaken an assessment of the relative values of both companies, because under the terms of the proposed transaction Reid Farmers is offering Pyne Gould Corporation shares as consideration for PGG rather than cash. Therefore, the relative number of shares that are offered is important in determining the fairness of the proposed transaction. Our assessment of relative value is made as at the date of this report.

Detailed below is the process we have undertaken in assessing the relative values of PGG and Reid Farmers:

5.4.1.1 Separation of the Reid Farmers Finance balance sheet from the Reid Farmers balance sheet at June 2001 to ensure that Reid Farmers' business is more comparable with PGG

The finance divisions of both companies form an integral part of their operations. PGG's finance division is not structured or funded as a separate finance subsidiary. The majority of PGG's finance advances are made up of seasonal advances rather than mortgages.

Reid Farmers' financing activities consist of both Reid Farmers Finance and a finance division which focuses on providing seasonal finance. Reid Farmers Finance is a wholly-owned subsidiary of Reid Farmers and provides mortgages. Separate financial accounts are prepared for Reid Farmers Finance. The finance division focuses on seasonal finance and is not structured or funded as a separate finance subsidiary.

We have considered the value of Reid Farmers Finance and the balance of Reid Farmers separately. This ensures that the finance divisions of PGG and Reid Farmers (excluding Reid Farmers Finance) are more comparable in terms of the nature of financing they offer and the relative size of the finance book.

5.4.1.2 Notional adjustment of Reid Farmers' gearing to ensure funding structures are comparable with PGG

When assessing the relative values using price earnings ("PE") multiples, it is important to ensure that both companies have comparable gearing levels. This is because PE multiples are sensitive to different gearing ratios.

To ensure that the gearing ratios of PGG and Reid Farmers (excluding Reid Farmers Finance) are comparable, we have assumed a notional repayment of capital by Reid Farmers of $10 million.

5.4.1.3 Allocation of Reid Farmers' market capitalisation between Reid Farmers Finance and the balance of Reid Farmers

Under the terms of the proposed transaction, the shares issued to Pyne Gould Corporation as consideration for PGG are not entitled to Reid Farmers' 2001 dividend. Therefore, to determine the market capitalisation of Reid Farmers, we have used an ex-dividend share price.

The 2001 dividend for Reid Farmers is to be not more than $0.07 per share. Reid Farmers' closing share price on the day prior to the announcement to the New Zealand Stock Exchange that Reid Farmers was in discussion with Pyne Gould Corporation regarding a merger with PGG was $1.10. This price is at the high end of the range of share prices Reid Farmers traded at during the 12 months prior to that announcement.

Assuming that the market anticipated a dividend of $0.07 per share, the ex-dividend share price is $1.03. We have based this assumption on the fact that Reid Farmers had reported improved results for the half year to December 2000 and the general upturn in the rural sector would have led shareholders to anticipate an increased dividend over the $0.05 dividend paid for the 2000 year. It is possible that the market may have anticipated a dividend of less than $0.07 per share, however, sensitivity analysis shows that this would have little impact on our relative valuation of both companies.

We have assessed the value of Reid Farmers Finance based on the value of its net tangible assets, which was $6.88 million as at 30 June 2001 and its level of profitability. In determining what is an appropriate multiple to apply to Reid Farmers Finance's net tangible assets, we have analysed recent comparable transactions involving finance companies. After taking into account differences in the size of the finance receivables, the quality of the finance book and the return on equity on the finance book, we believe that a multiple of 1.2 is appropriate to value the equity of Reid Farmers Finance. This results in an equity value of $8.25 million.

Detailed below is the allocation of Reid Farmers' market capitalisation between Reid Farmers Finance and Reid Farmers (excluding Reid Farmers Finance) after taking into account the notional repayment of capital.

Figure 11 : Market capitalisation calculation

	$000
Number of shares outstanding	56,013
Ex dividend share price at 12 June 2001	$1.03
Market capitalisation	57,693
less market value of Reid Farmers Finance	8,254
	49,439
less notional capital repayment	10,000
Market capitalisation of Reid Farmers excluding Reid Farmers Finance and after notional dividend	39,439

5.4.1.4 Calculation of adjusted PE multiple for Reid Farmers

Detailed below is the calculation of our adjusted PE multiple for Reid Farmers, excluding Reid Farmers Finance, based on the 2001 forecast net profit after tax and the restructured balance sheet, including the impact of the interest cost on the notional capital restructuring.

Figure 12 : PE ratio calculation

	$000
Market capitalisation of Reid Farmers excluding Reid Farmers Finance	39,439
NPAT for Reid Farmers, excluding the results of Reid Farmers Finance and including the estimated interest cost arising from the notional borrowings required for the capital repayment	5,823
Implied PE multiple	6.77

5.4.1.5 Assessment of an appropriate PE for PGG

In our opinion, we consider an appropriate range of PEs for PGG is between 6.5 and 7.5. In determining this range, we have used as a benchmark the implied PE multiple for Reid Farmers detailed in Section 5.4.1.4, and have also considered PE's of other comparable listed companies and comparable transactions.

We have taken into consideration the following factors when reviewing comparable PE multiples when determining the appropriate multiple for PGG:

- Differences in the business mix of each company and the relative contribution of each division compared to the total performance of the company;
- Projected earnings growth;
- An analysis of each company's operations including business strengths, weaknesses, risks and competitive position;
- Relative size of each company;
- Specific risks facing each separate division of the company;
- The competitive position of each company; and
- The historic performance of each company.

5.4.1.6 Determination of the range of relative values for PGG

We have calculated the relative value range using the assessed range of PE multiples for PGG of between 6.5 to 7.5 and a normalised 2001 NPAT for the year ended 30 June 2001 of $5.643 million. At the assessed PE multiple range applied to the historical earnings of PGG (plus realisable value of surplus assets), the range of relative values for PGG is:

Figure 13: PGG valuation range

	Low $000	High $000
Normalised 2001 NPAT	5,643	5,643
Assessed PE multiple range	6.5	7.5
	36,680	42,323
Plus surplus assets	3,188	3,188
Equity value of 100% of PGG	39,868	45,511

Surplus assets

The management of PGG have indicated PGG has three properties that are surplus to their requirements and that the intention is for these properties to be sold. The estimated realisable value of these properties is circa $3.188 million. We have treated the properties as surplus assets in calculating the relative value of PGG.

Normalisation of NPAT

We have made the following adjustments to normalise PGG's 2001 NPAT:

- Deducted the abnormal revenue item of $0.258 million which relates to the sale of surplus land;
- Increased the NPAT for cost savings that would occur if PGG paid market rates for its IT systems and services. We understand PGG's IT systems and services are currently provided by Pyne Gould Corporation at above market rates. We have been advised that a conservative estimate of the cost savings if PGG paid market rates is $0.534 million; and
- Reduced the NPAT by the additional annual costs that would be incurred due to the sale of certain surplus land and warehouses at Blenheim Road, Christchurch. The additional cost after tax is circa $0.087 million. This cost relates to the rental of the seed store and the loss of the rental income received on the surplus warehouse at Blenheim Road.

The calculation of the normalised NPAT for the 2001 year is detailed below:

Figure 14 : PGG Normalised NPAT

	$000
NPAT	5,630
Adjusted for:	
- Abnormal items	(258)
- After tax costs arising from the sale of surplus land & buildings	(87)
- Cost savings after tax from paying market rates for IT systems	358
	13
Normalised 2001 NPAT	5,643

5.4.1.7 Valuation of proposed synergies

We have also considered the value of the forecast synergies that may be achieved by the merger. The synergies have been forecast by the management of Reid Farmers and PGG. As discussed, the synergies relate to cost savings and do not include any potential increase in revenue as a result of the merger.

To achieve the forecast synergies, the management have advised that one-off after tax costs of circa $0.99 million (pre-tax costs $1.5 million) will be incurred.

In determining the value of the synergies, we have applied the assessed PE multiple range of 6.5 to 7.5 as detailed in Section 5.4.1.5. On that basis the net value of the merger synergies is in the range of $9.9 million to $11.6 million.

Figure 15: Valuation of synergies

	Low $000	High $000
Forecast annual merger synergies (after tax)	1,679	1,679
Assessed PE multiple range	6.5	7.5
	10,914	12,593
Less one-off costs to obtain the synergies	991	991
Net value of merger synergies	9,923	11,602

The following risks are associated with achieving the forecast synergies:

- The risk that the management of the merged entity are not able to achieve the forecast cost savings when merging both companies;
- The risk that the merger of both companies takes longer than the forecast timeframe; and
- The risk that the one-off costs incurred to achieve the forecast synergies are greater than forecast.

5.4.1.8 Comparison of the resulting relative value range with the terms of the proposed transaction and value of synergies

We have compared the value ascribed to PGG under the proposed transaction to the relative value range for PGG and the value of the synergies relating to the merged entity.

Figure 16 : Relative value range

	Low $000	High $000
Notional value ascribed to PGG by the offer based on 44,010,006 shares	45,330	45,330
Relative value range of PGG as determined by KPMG (excluding value of synergies)	39,868	45,511
Therefore, the value of synergies to be allocated to Pyne Gould Corporation in establishing the ratio under the proposed offer	5,462	-
Total value of synergies relating to the merged entity	9,923	11,602
Remaining value of synergies for the benefit of both the existing and new shareholders of Reid Farmers	4,461	11,602

Under the terms of the offer, 44,010,006 shares are to be issued to Pyne Gould Corporation in consideration for PGG. Based on an ex-dividend share price of $1.03, this ratio ascribes a notional value to PGG of $45.3 million. The relative value range for PGG determined by KPMG is in the range of $39.868 million to $45.511 million.

At the low end of our value range the relative value of PGG is less than the value ascribed to the shares issued as consideration. Therefore, at that end of the range some of the value of the synergies is being paid to Pyne Gould Corporation as part of the consideration of the proposed transaction. In these circumstances the existing shareholders are not sharing in all the benefit of the synergy savings that have been identified for the purpose of this Report, only those that remain after the transfer to Pyne Gould Corporation.

At the upper end of our range all the benefit of synergies are shared by existing and new shareholders in the ratio of the share issue, that is 44:56.

5.4.1.9 Comments on why synergies should be allocated at a different ratio than 44:56

At the low end of our value range, the value of the synergies allocated to Pyne Gould Corporation is greater than the ratio of 44:56.

A ratio of greater than 44:56 for the allocation of synergies could be justified for the following reasons:

- Reid Farmers is acquiring 100% of PGG, therefore it could be argued that Reid Farmers should pay a premium to access the forecast synergies;
- The restraint of trade required by Reid Farmers of Pyne Gould Corporation provides continued access to these synergies and potentially increased revenues;
- Even at the low end of KPMG's value range there is still circa $4 million of synergy value attributable to the existing and new shareholders of Reid Farmers, and the existing shareholders will benefit by more than $2 million from these benefits.

5.4.1.10 Forecast earnings

We have also applied the above valuation approach to the 2002 forecast earnings for both companies. Based on the 2002 forecast earnings the relative value of PGG increases slightly when compared to Reid Farmers. Therefore, this reduces the value of synergies that is allocated to Pyne Gould Corporation under the offer.

6 OTHER VALUATION AND INVESTMENT CONSIDERATIONS

In considering whether the proposed transaction is fair we have taken into account the following further investment considerations:

- Reid Farmers is acquiring 100% of PGG so it is arguable that they would need to pay a premium for access of the benefits and control;
- The business of PGG is of a size that it would be attractive to other purchasers who may be willing to pay a premium for strategic benefits;
- The merger increases Pyne Gould Corporation's shareholding from 43.73% to 68.49%. However, we consider any applicable control premium would be small as Pyne Gould Corporation already has effective control with its existing 43.73% shareholding, particularly as there are no other significant shareholders; and
- Pyne Gould Corporation gain liquidity for their investment in PGG should they wish to sell down. If this occurs there is potential for benefits to all shareholders as the liquidity of the stock may increase as a greater number of shares would be available to trade.

7 CONCLUSION

In our opinion, the proposed offer will increase the net tangible asset backing per share of Reid Farmers' shares, will immaterially decrease the Reid Farmers' EPS based on the forecast for the year ended 30 June 2001, and will increase Reid Farmers' EPS based on the budgets for the year ended 30 June 2002. These amounts have been calculated before taking into account the forecast synergy benefits of the proposed merger. Based on our relative valuation, the proposed offer will also result in synergy benefits arising for the existing shareholders of Reid Farmers.

Therefore, based on our assessment of the offer, in our opinion the proposed offer is fair to the non-associated shareholders of Reid Farmers.

Yours faithfully,

Bruce Gemmell
Managing Partner, Christchurch

8 APPENDIX 1

8.1 QUALIFICATIONS

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

The partners responsible for preparing the Report were Bruce Gemmell, who is the Managing Partner of KPMG's Christchurch office, and Russell Florence, who is the Partner in Charge of KPMG Corporate Finance in Auckland. Bruce Gemmell and Russell Florence have experience in valuations, preparing independent appraisal reports and advising on mergers and acquisitions. Bruce Gemmell holds a Batchelor of Business Studies from Massey University and is a Member of the Institute of Chartered Accountants of New Zealand. Russell Florence holds a Master of Commerce from the University of Auckland and is a Member of the Institute of Chartered Accountants of New Zealand.

8.2 DECLARATIONS

KPMG has prepared the Report at the request of the Independent Directors of Reid Farmers. The Report meets the NZSE Listing Rules 9.25 and 6.2.2(a) and (b) in relation to the Agreement for Reid Farmers to purchase the entire issued share capital of PGG.

It is not intended for the Report to be used for any other purpose.

The Report has been provided for the benefit of the non-associated shareholders of Reid Farmers.

KPMG will receive a fixed fee for the preparation of this report. The fee is not contingent on the outcome of the proposed transaction.

KPMG consents to the issuing of this Report to the shareholders of Reid Farmers.

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

The contents of this report in its entirety are enough for the security holders of Reid Farmers to determine whether the proposed transaction is fair.

KPMG consider that they have obtained all information desirable for the purposes of preparing this report, including all relevant information which is, or should have been, known to any Director of the issue, and made available to the Directors.

The assumptions we have relied on to form our opinion are clearly indicated within the body and appendices of the Report.

The terms of reference for completing this report were issued by the Independent Directors of Reid Farmers and in no way restricted our ability to act or restricted the scope of the required report.

8.3 INDEPENDENCE

KPMG is independent in terms of the NZSE Listing Rules. KPMG's appointment was approved by the NZSE Market Surveillance Panel.

KPMG advised the NZSE Market Surveillance Panel of the following:

"KPMG Christchurch do not have a current relationship with Pyne Gould Corporation Limited or Reid Farmers Limited.

KPMG Christchurch office (a financially independent office of KPMG) has not completed any work for either organisation except for:

A review of an independent appraisal report for South Eastern Utilities Limited once an offer made by Pyne Gould Corporation Limited for all of the shares in South Eastern Utilities Limited had been accepted by over 90% of the shareholders and Pyne Gould Corporation Limited sought to acquire the residual shares outstanding.

You will be aware that KPMG Christchurch completed the independent appraisal report for the independent directors of South Eastern Utilities Limited and the senior management of Pyne Gould Corporation Limited considered it appropriate and efficient to request KPMG to review their original assessment rather than appoint a new appraiser.

We point out the offer by Pyne Gould Corporation Limited remained unchanged as did the business of South Eastern Utilities Limited.

The KPMG Wellington office has completed a review of a small number of loans for Front Line Finance which is a subsidiary of Allied Finance which, in turn, is a subsidiary of Pyne Gould Corporation Limited.

We are advised that Front Line Finance is no longer writing business.

We are further advised there is a possibility of the Wellington practice of KPMG completing a regular review of this business (one week every six months for as long as these loans exist)."

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that a SPECIAL GENERAL MEETING of Shareholders of Reid Farmers Limited will be held at the Carisbrook Lounge, Carisbrook Hospitality Complex, Murrayfield Street, Dunedin on 5th September 2001 at 10.30 am in connection with the PROPOSED MERGER OF PYNE GOULD GUINNESS LIMITED AND REID FARMERS LIMITED

SHAREHOLDERS ARE INVITED TO JOIN THE DIRECTORS FOR MORNING TEA AT 10.00 AM PRIOR TO THE MEETING.

Proxies

A member entitled to attend and vote may appoint a proxy to attend and vote on his/her behalf. The proxy need not be a member of the Company. An instrument appointing a proxy must be received at the Registered Office of the Company not less than 48 hours before the time for holding the meeting. A Proxy Form is enclosed for the convenience of members.

SPECIAL BUSINESS

1 **Acquisition of all the shares in Pyne Gould Guinness Limited**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That the shareholders, subject to the passing of the following resolutions 2 and 3, approve the acquisition from Pyne Gould Corporation Limited of all of the issued share capital of Pyne Gould Guinness Limited in consideration for shares to be issued by the Company to Pyne Gould Corporation Limited."

Resolution 3 relates to those shares that the Company intends to issue as consideration for the Pyne Gould Guinness Limited shares.

2 **Major Transaction Confirmation**

To consider and, if thought fit, pass the following resolution as a special resolution:

"That the shareholders (for the purposes of compliance with the Companies Act 1993) subject to the passing of resolutions 1 and 3, approve the transaction referred to in resolution 1 as a major transaction (as defined in section 129(2) of the Companies Act)."

3 **Issue of Reid Farmers Limited shares to Pyne Gould Corporation**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That the shareholders, subject to the passing of resolutions 1 and 2, approve the issue of 44,010,006 shares in the Company (credited at $1.10 per share) to Pyne Gould Corporation Limited. The shares to be issued shall rank pari passu with the existing ordinary shares in the Company except for the dividend of seven cents per share to be declared in respect of the year ended 30 June 2001."

By Order of the Board
31 July 2001

B T P Bilas
Chief Executive

ADDITIONAL INFORMATION AND EXPLANATORY NOTES

BACKGROUND

The resolutions, if passed, will authorise Reid Farmers Limited to acquire all of the shares in Pyne Gould Guinness Limited and to issue 44,010,006 shares as consideration for the acquisition. The shares issued shall rank pari passu with the existing ordinary shares in the Company, except for the dividend of seven cents per share to be declared in respect of the year ended 30 June 2001.

The letter to Shareholders from the Independent Directors of Reid Farmers Limited dated 31 July 2001 provides further information to which you may wish to refer, including:

- The merger terms — page 4
- The potential name change — page 5
- Consequences for the Shareholders of the merger — page 5
- A profile of PGG — page 3
- Rationale for the merger — page 3
- The Independent Directors' recommendation — page 6

In order to implement the merger, the Company's Constitution, the Companies Act, the New Zealand Stock Exchange Listing Rules, and the provisions of the Takeovers Code, require Reid Farmers to obtain shareholder approval to certain aspects of the transaction. The text of the resolutions set out above complies with those requirements. The following explanatory notes in respect of each resolution set out an explanation of each resolution and include certain required additional information.

RESOLUTION 1 – ACQUISITION OF ALL THE SHARES IN PYNE GOULD GUINNESS LIMITED

The Company proposes to issue 44,010,006 shares (credited at $1.10 per share) as the consideration for all the issued shares in Pyne Gould Guinness Limited. The effective purchase price of the Pyne Gould Guinness Limited shares is $48,411,006, relative to the value of Reid Farmers Limited.

As the value of the issued share capital of Pyne Gould Guinness to be acquired by Reid Farmers will be more than 50% of the average market capitalisation of Reid Farmers, the Constitution and Rule 9.1.1 of the Listing Rules require the shareholders of Reid Farmers to approve the acquisition by ordinary resolution.

As Pyne Gould Corporation Limited ("PGC") presently holds 43.7% of the shares in Reid Farmers the Listing Rules deem PGC to be a related party of Reid Farmers. Under the Constitution and Rule 9.2.1 of the Listing Rules a transaction of the size contemplated by the merger, and entered into with a related party, must be approved by the shareholders of Reid Farmers by ordinary resolution. Under Listing Rule 9.3.1 Pyne Gould Corporation ("PGC") and any associated persons of PGC are prohibited from voting in respect of this resolution.

The Listing Rules also require an appraisal report to be provided to the shareholders of Reid Farmers (other than PGC). The purpose of the appraisal report is for the shareholders of Reid Farmers to receive an opinion from an independent appropriately qualified person regarding the terms and conditions of the transaction. The appraisal report prepared by KPMG is set out at page 19 of this Merger Proposal.

RESOLUTION 2 – APPROVAL AS A MAJOR TRANSACTION

As the transaction is a major transaction (as defined in section 129(2) of the Companies Act 1993) a special resolution (75% majority) is required to approve the transaction to comply with the Companies Act.

RESOLUTION 3 – ISSUE OF REID FARMERS LIMITED'S SHARES TO PYNE GOULD CORPORATION

As outlined in the Chairman's letter, Reid Farmers is proposing to issue 44,010,006 shares in consideration for the shares in Pyne Gould Guinness. As the number of shares to be issued by Reid Farmers is in excess of 10% of the total number of Reid Farmers shares presently on issue, the Constitution and Rule 7.3 of the Listing Rules require the share issue to be approved by ordinary resolution of the shareholders of Reid Farmers. It is proposed that the shares be issued immediately following the Special General Meeting on 5th September 2001.

In addition, Rule 7.5 of the Listing Rules requires approval of the terms and conditions of the issue where PGC, as an "Associated Person" of Reid Farmers, is significantly likely to materially increase its ability to exercise effective control of Reid Farmers. While PGC already has effective control through its existing 43.7% shareholding, the requirement for this resolution arises because PGC's shareholding in Reid Farmers will increase to 68.5%.

As with Resolution 1, the Listing Rules prohibit Pyne Gould Corporation Limited and any associated persons of PGC from voting in respect of this resolution.

As with Resolution 1, the Listing Rules require this resolution to be accompanied by an appraisal report. The appraisal report is set out on page 19 of this Merger Proposal.

The Takeovers Code was introduced into New Zealand with effect from 1 July 2001. It applies to the issue of the 44,010,006 Reid Farmers shares to PGC. In order to comply with the requirements of the Takeovers Code, the share issue must be approved by the Reid Farmers shareholders (except for PGC). The Directors of Reid Farmers are required to obtain a report from an independent adviser on the merits of the issue of the Reid Farmers shares to PGC. The independent adviser is KPMG and their report is set out on page 10 of this Merger Proposal.

The Directors of Reid Farmers are also required to provide a statement to shareholders pursuant to Rule 19 of the Takeovers Code. The Directors' statement approving of the issue of shares to PGC is set out on page 48 of this Merger Proposal. As Messrs R F Elworthy and S D Martin are Directors of both Reid Farmers Limited and Pyne Gould Corporation Limited, they have abstained from participating in this Directors' Statement.

The following information is provided to comply with the Takeovers Code:

(a) The percentage of the aggregate of all existing voting securities and all voting securities being allotted, that the number of shares to be issued represents, is 44%.

(b) The percentage of all voting securities that will be held or controlled by Pyne Gould Corporation Limited after completion of allotment is 68.5%.

(c) The reasons for the allotment are to effect the merger of Pyne Gould Guinness Limited and Reid Farmers Limited.

(d) The allotment, if approved, will be permitted under Rule 7(d) of the Takeovers Code as an exception to Rule 6 of the Takeovers Code.

(e) On page 49 of this Merger Proposal is a statement from Pyne Gould Corporation Limited confirming that there is no agreement or arrangement (whether legally enforceable or not) that has been or is intended to be, entered into between it and any other person (other than between it and the Company in respect of the matters referred to above) relating to the allotment, holding or control of voting securities to be allotted or to the exercise of any voting rights in the Company.

REID FARMERS LIMITED *The Rural Servicing Company*

DIRECTORS' STATEMENT

REQUIRED BY RULE 19 OF THE TAKEOVERS CODE

We, the undersigned, being all except two of the directors of Reid Farmers Limited, recommend approval of the allotment of shares in the Company to Pyne Gould Corporation Limited in accordance with resolution 3 of the accompanying notice of meeting.

Our reasons for the recommendation are (a) the merger of Reid Farmers Limited and Pyne Gould Guinness Limited represents an opportunity to create a strong entity capable of servicing all the requirements of any rural customer in the South Island and (b) the further reasons set out under the heading "Rationale for Merger" in the letter from the Chairman on page 3 of this Merger Proposal.

DATED 31 JULY 2001

I O Baker

A W Baylis

L J Brown

G F Dowling

S A Staley

Messrs R F Elworthy and S D Martin abstained from the recommendation as they are also directors of Pyne Gould Corporation.

Pyne Gould Corporation

31 July 2001

TAKEOVERS CODE – RULE 16(g) STATEMENT

We refer to the Merger Proposal to be provided to the shareholders of Reid Farmers Limited. We also refer to the requirements of Rule 16(g) of the Takeovers Code.

Pyne Gould Corporation Limited confirms that there is no agreement or arrangement (whether legally enforceable or not) that has been or is intended to be, entered into between it and any other person (other than between it and Reid Farmers concerning the issue of shares referred to in Resolution 3 of Special Business) relating to the allotment, holding or control of voting securities to be allotted or to the exercise of any voting rights in Reid Farmers.

PYNE GOULD CORPORATION LIMITED

Richard Elworthy
Managing Director

REID FARMERS LIMITED *The Rural Servicing Company*

PROXY FORM

I/WE ______________________________

of (address) ______________________________

(occupation) ______________________________ being a member/members

of Reid Farmers Limited, hereby appoint ______________________________

of ______________________________ or failing him/her

____

of ______________________________ as my/our proxy to vote for me/us on my/our behalf at the Special General Meeting of the company to be held on 5 September 2001 at 10.30 am and at any adjournment thereof.

DATED THIS ______________ day of ______________ 2001

SIGNATURE: ______________ SIGNATURE: ______________

This form is to be used in accordance with the following instructions.
Unless these instructions are completed the proxy will vote as he/she thinks fit.

AGENDA ITEM	FOR	AGAINST
1. Acquisition of all the shares in Pyne Gould Guinness Limited To consider and, if thought fit, pass the following resolution as an ordinary resolution: *"That the shareholders, subject to the passing of the following resolutions 2 and 3, approve the acquisition from Pyne Gould Corporation Limited of all of the issued share capital of Pyne Gould Guinness Limited in consideration for shares to be issued by the Company to Pyne Gould Corporation Limited."* Resolution 3 relates to those shares that the Company intends to issue as consideration for the Pyne Gould Guiness Limited Shares.	☐	☐
2 Major Transaction Confirmation To consider and, if thought fit, pass the following resolution as a special resolution: *"That the shareholders (for the purposes of compliance with the Companies Act 1993) subject to the passing of resolutions 1 and 3, approve the transaction referred to in resolution 1 as a major transaction (as defined in section 129(2) of the Companies Act)."*	☐	☐
3. Issue of Reid Farmers Limited shares to Pyne Gould Corporation To consider and, if thought fit, pass the following resolution as an ordinary resolution: *"That the shareholders, subject to the passing of resolutions 1 and 2, approve the issue of 44,010,006 shares in the Company (credited at $1.10 per share) to Pyne Gould Corporation Limited.* *The shares to be issued shall rank pari passu with the existing ordinary shares in the Company except for the dividend of seven cents per share to be declared in respect of the year ended 30 June 2001."*	☐	☐

CORPORATE SHAREHOLDERS
A company, or other body corporate, may appoint a representative to attend the meeting in the same manner as that in which it could appoint a proxy. Shareholders who are body corporates who wish to have a representative at the meeting should pass an appropriate resolution to appoint a representative, and complete and lodge the proxy form with the word "proxy" where it appears deleted and "representative" substituted, and the person or persons signing should add their capacity, eg. director.

ADVICE OF CHANGE OF ADDRESS
Should the address to which this notice was sent be incorrect, please complete both panels below:

Previous Address: ______________________________

____

New Address: *Block Letters Please* ______________________________

____

Any instrument appointing a proxy, and the power of attorney, if any, under which it is signed, must be deposited at the Registered Office of the Company not less than forty-eight hours before the time for holding the meeting, or adjourned meeting, as the case may be, at which the person named in such instrument proposes to vote.

BPR Authority No. 980

BUSINESS
reply paid

REID FARMERS LTD
PRIVATE BAG 1961
DUNEDIN