Rubicon Limited

INDEPENDENT ADVISER'S REPORT

Prepared by

GRANT SAMUEL & ASSOCIATES LIMITED

Auckland ■ Sydney ■ Melbourne ■

25 September 2002

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25 September 2002

The Directors
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Dear Directors

Partial Takeover Offer by GPG

1. Introduction

On 28 August 2002, Guinness Peat Group plc through a wholly owned subsidiary GPG Forests Limited ("GPG") gave notice of its intention to make a partial offer under the provisions of the Takeovers Code to acquire an additional shareholding in Rubicon Limited ("Rubicon").

The offer is to acquire a further 32% of the fully paid ordinary shares of Rubicon for cash consideration of $0.75 per share ("the GPG Offer"). The GPG Offer is therefore an offer for 40% of the remaining shares as GPG already holds 19.99% of Rubicon's issued share capital. The GPG Offer is conditional upon GPG receiving acceptances to result in it holding more than 50% of all the issued shares of Rubicon.

The GPG Offer constitutes a partial takeover offer under Rule 9 of the Takeovers Code. Accordingly, the Independent Directors of Rubicon have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the GPG Offer to assist Rubicon shareholders in forming an opinion on the GPG Offer. Grant Samuel is independent of Rubicon and GPG and has no involvement with, or interest in, the outcome of the proposed acquisition of shares in Rubicon by GPG.

2. Evaluation of the GPG Offer

In assessing the merits of the GPG Offer, Grant Samuel considered the following:

- in Grant Samuel's opinion the full underlying value of Rubicon is in the range of $0.98 to $1.28 per share. This value is the aggregate of the estimated fair market value of Rubicon's businesses and investments, and other assets and liabilities at 23 September 2002. The valuation is on the basis of full value as a going concern in an open market over a reasonable period of time assuming potential buyers have full information.

This value is made up of:

Rubicon – Summary of Value ($million)		
	Value Range	
	Low	High
Fletcher Challenge Forests	147.6	172.3
Trees & Technology	18.0	23.0
ArborGen	49.4	98.8
FTSA	2.6	7.0
Genesis	1.4	1.4
Other assets and liabilities	2.0	5.0
Capitalised corporate overheads	(10.6)	(10.6)
Enterprise value	**210.4**	**296.9**
Cash as at 23 September 2002	64.1	64.1
Cash from exercise of directors options	3.2	3.2
Equity value	**277.7**	**364.2**
Number of shares outstanding diluted for directors' options (millions)	284.0	284.0
Equity value per share	**$0.98**	**$1.28**

The value is for 100% of Rubicon and includes a premium for control. As the GPG Offer of $0.75 is below the range it is considered not fair.

- in some takeovers there are factors that might suggest that even if an offer is not fair shareholders should consider accepting the offer. In this instance there does not appear to be any compelling reason for shareholders to accept a takeover offer that is significantly below full underlying value;

- GPG, in making its offer, has stated that it can "assist in some sensible consolidation of the forestry industry in New Zealand." GPG's intentions in seeking a controlling shareholding in Rubicon appears to be to put in a position where it can influence Fletcher Challenge Forests as a major stakeholder in that industry. This would be done through Rubicon's 17.6% shareholding in Fletcher Challenge Forests. GPG has stated that a consolidation of the forestry sector would involve the CNIFP assets, Carter Holt Harvey and Fletcher Challenge Forests. In the absence of any further detail from GPG on its consolidation strategy, Grant Samuel is of the view that influence through just the Rubicon shareholding alone would not be sufficient to initiate changes without the full support of Carter Holt Harvey shareholders and the Receivers of the CNIFP assets.

  In August 2002, GPG used its shareholding in Fletcher Challenge Forests to vote against the proposed purchase of the CNIFP assets by Fletcher Challenge Forests and SEAWI. In doing so it did not publicly provide any alternative plans. GPG also stated that it would use its Rubicon shareholding to vote against the linked Tahorakuri Forest Estate acquisition and disposal of Fletcher Challenge Forests shares by Rubicon. These transactions would have moved Rubicon's theoretical asset backing up to $1.06 per share;

- because the GPG Offer is only a partial offer to all shareholders, most Rubicon shareholders accepting the offer are likely to be left with approximately 60% of the Rubicon shares they currently own. As a consequence they will retain exposure to the business risks of any subsequent GPG plans for the consolidation of the forestry sector;

- GPG appears to have an interest in Rubicon, solely as a means of assisting in the consolidation of the domestic forestry sector. It has not stated any intentions for Rubicon's other businesses and investments. It is possible that it may use its control to have Rubicon sell these;

- the GPG Offer price of $0.75 is below Rubicon's current asset backing of approximately $0.82. It is reasonable to assume that an orderly realisation of Rubicon's assets could realise asset backing;

- the GPG Offer price of $0.75 is equivalent to the sum of Grant Samuel's low end valuation of the Fletcher Challenge Forests shareholding and Rubicon's cash. GPG's Offer implicitly places little or no value on Rubicon's investments in Trees & Technology, ArborGen, FTSA, and Genesis. Grant Samuel has valued these other investments at $73.3 million at the low end of the range;

- GPG has not stated that it would increase its offer price to allow for the effect of the Perry Corporation shareholding in Rubicon being forfeited and cancelled by Court order as one of the possible penalties under the Securities Act in respect of GPG's current legal action against Perry Corporation. If the Courts ordered cancellation of the whole Perry shareholding, the theoretical GPG Offer price should increase to approximately $0.89 per Rubicon share if shareholders are to receive the same relative value per share. Rubicon's net asset backing would move to approximately $0.98 per share and Grant Samuel's valuation range would move to $1.17 to $1.52 per share;

- Rubicon shares are a reasonably liquid stock. If GPG's Offer to acquire 40% of the remaining shares is successful, liquidity in Rubicon shares will contract and is likely to lead to less trading in the shares with some impact on market price;

- having achieved a 50% shareholding, the Takeovers Code allows GPG to acquire a further 5% in any 12-month period either on market or by private treaty. Such purchases are likely to be at market prices. In addition, Rubicon could give notice of a partial offer to acquire a portion of the outstanding shares. Such a partial offer would have to be made to all remaining shareholders but does not, in Grant Samuel's opinion, have to be at a price equivalent to the full underlying value as it is not a full takeover offer;

- the GPG Offer is conditional upon it receiving sufficient acceptances to take it over a 50% shareholding in Rubicon. The offer will lapse if this threshold is not reached. GPG is not seeking a shareholding of less than 50%, which it is able to do under the Takeovers Code with the approval of Rubicon's other shareholders;

- there are no significant shareholders in Rubicon other than GPG and Perry with 19.99% and 15.98% respectively. However, institutional shareholders collectively own approximately 50% of the outstanding shares in Rubicon and therefore their acceptance or rejection of the GPG Offer will materially impact on the success of the offer; and

- shareholders not accepting the GPG Offer face the risk that GPG does not increase its offer price and it does not receive sufficient acceptances to declare the offer unconditional. If the offer lapses, the share price of Rubicon may trade below current levels.

2.1 Acceptance or Rejection of the GPG Offer

Acceptance or rejection of the GPG Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

3. Other Matters

3.1 Limitations and Relevant Information

The report is based upon financial and other information provided by Rubicon. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Rubicon. However, in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Rubicon. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Rubicon. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Rubicon. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report are the opinions and judgement of the management of the relevant enterprise. Grant Samuel held discussions with the management of Rubicon and that information was also evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included forecasts of future revenues, expenditures, profits and cash flows of Rubicon prepared by the management of Rubicon. Grant Samuel has assumed that these forecasts were prepared fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such forecasts. It is assumed that the forecasts do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the forecasts of future profits and cash flows prepared by the management of Rubicon. Forecasts are inherently uncertain and this is particularly so in case of the intimate apparel sector. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

3.2 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 200 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA and John Mandeno, B.Com. Each has a significant number of years experience in relevant corporate advisory matters.

3.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Rubicon, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposed transaction. Grant Samuel had no part in the formulation of the proposed transaction. Its only role has been the preparation of this report and its summary.

Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the proposed transaction. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel's opinion is made at the date of this letter and reflects circumstances and conditions as at that date. This letter is a summary of Grant Samuel's opinion. The full report and appendices from which this summary has been prepared is attached and should be read in conjunction with and as an integral part of this summary.

This letter is for the benefit of the holders of Rubicon shares and employee share options (other than persons associated with GPG and its associated persons). The report should not be used for any other purpose other than as an expression of Grant Samuel's opinion as to the merits of the GPG Offer.

Yours faithfully

Grant Samuel + Associates

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1 Terms of the Takeover Offer

1.1 Summary of the Takeover Offer

On 28 August 2002, Guinness Peat Group plc ("GPG plc") through a wholly owned subsidiary GPG Forests Limited ("GPG") gave notice of its intention to make a partial offer under the provisions of the Takeovers Code to acquire an additional shareholding in Rubicon Limited ("Rubicon").

On 6 September 2002, the Takeovers Panel ruled that aspects of GPG's notice did not comply with the provisions of the Takeovers Code. Accordingly on 16 September 2002 GPG issued a revised notice of intention to make a partial offer to acquire additional shares in Rubicon, and requested Rubicon to approve the variation. The Takeovers Code permits GPG to vary the terms of the original takeover notice provided that the directors of Rubicon give their prior written approval to the changes. The new offer is to acquire a further 32% of the fully paid ordinary shares of Rubicon for cash consideration of $0.75 per share ("the GPG Offer"). The GPG Offer is therefore an offer for 40% of the remaining shares in Rubicon as GPG already indirectly holds 19.99% of Rubicon's issued share capital. The GPG Offer is conditional upon (inter alia):

- GPG receiving sufficient acceptances to result in GPG holding more than 50% of all the issued shares of Rubicon;
- no dividends, bonuses, other payments or distributions being declared or paid on or in respect of the shares of Rubicon during the term of the offer;
- no debentures, shares, options, convertible notes or other voting securities of Rubicon being issued or agreed to be issued by Rubicon;
- no rights, privileges or restrictions attached to Rubicon shares being altered;
- no shares in Rubicon being made the subject of an option or other right to subscribe;
- no alteration being made to the constitution of Rubicon;
- there being no decline in the NZSE40 Gross Index where the index is at any time during the offer period at a level equivalent to 20% or more below the closing level of the index on the day of the offer; and
- no material contracts or major transactions (as defined in section 129(2) of The Companies Act 1993) being entered into by Rubicon or any of its subsidiaries.

Unless GPG extends the offer, shareholders have until 5.00pm 24 October 2002 to accept the offer.

On 19 September 2002 a Special Committee of independent directors of Rubicon agreed to accept GPG's request for a variation. Acceptance was given on the basis that the GPG Offer now complied with the Takeovers Code and that the GPG Offer documentation, and Rubicon's target company statement be despatched to shareholders together on the same date. GPG appealed to the Takeovers Panel on 19 September on the basis that the Special Committee could not place time constraints on their consent to the variation. On 20 September the Takeovers Panel stated that the Special Committee had acted in accordance with the Code.

Acceptances

The Takeovers Code requires that the GPG Offer be made to all shareholders, even though it is not for all the shares in Rubicon. The Takeovers Code allows shareholders to accept a partial offer for all or a nominated number of shares held. If total acceptances are received for more than 40% of the remaining shares, GPG will purchase from each accepting shareholder the lesser of:

- 40% of the shares held; or
- the number of shares the shareholder has nominated for accepting the GPG Offer.

If acceptances taken up in this manner are less than 40% of the remaining shares, GPG can "top up" acceptances on a pro rata basis from shareholders who have accepted for more than 40% of their shareholding.

2 Scope of the Report

2.1 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the Companies Amendment Act 1963 and the New Zealand Stock Exchange ("NZSE") Listing Rule requirements governing the conduct of listed company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure, are able to make an informed decision as to whether to accept or reject an offer.

The Takeovers Code specifies the responsibilities and obligations for both GPG and Rubicon as "bidder" and "target" respectively. Rubicon's response to the GPG Offer, known as a "target company statement", must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof). If only a summary report is included within the target company statement, the full report must be available to Rubicon shareholders for inspection upon request.

2.2 Purpose of the Report

The GPG Offer constitutes a partial takeover offer under Rule 9 of the Takeovers Code. Accordingly, the Independent Directors of Rubicon have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the GPG Offer to assist Rubicon shareholders in forming an opinion on the GPG Offer. Grant Samuel is independent of Rubicon and GPG and has no involvement with, or interest in, the outcome of the proposed acquisition of shares in Rubicon by GPG.

Grant Samuel has been approved by the Takeovers Panel to prepare the Independent Adviser's Report. The report is for the benefit of the holders of Rubicon shares (other than GPG and its associated persons). The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the GPG Offer.

2.3 Basis of Assessment

Rule 21 of the Takeovers Code requires the Independent Adviser to assess "the merits of an offer". The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. The Takeovers Panel has not issued guidelines as to the interpretation of the term "merits".

Under the compulsory acquisition rules of the Takeovers Code, where the 90% threshold is reached as a result of a Takeovers Code offer and 50% of the shares not held by the offeror prior to the offer commencing have been acquired as a result of the offer, the price for the remaining shares is set at the price offered. In other circumstances the compulsory acquisition price is a cash price specified by the dominant owner and certified as "fair and reasonable" by an independent adviser. The Takeovers Code provides no guidance as to the definition of "fair and reasonable".

In Australia, the phrase "fair and reasonable" appears in legislation and the Australian Stock Exchange Listing Rules as a basis for assessing takeover and similar transactions. The terms "fair" and "fair and reasonable" are both widely used tests or frameworks for analysing corporate transactions. However, there is very little useful legal or regulatory guidance as to the meaning of these terms.

For the purposes of this report, Grant Samuel is of the opinion that an assessment of the merits of a transaction is a broader test than "fair and reasonable" and encompasses a wider range of issues associated with a takeover offer. Grant Samuel has assessed the merits of the GPG Offer after taking into consideration the following factors:

- the estimated value of Rubicon;
- the existing shareholding structure of Rubicon and GPG's shareholding in Rubicon;
- the likelihood of an alternative offer and alternative transactions and strategies involving the company that could realise fair value;
- the likely market price and liquidity of Rubicon shares in the absence of the GPG Offer;
- any disadvantages for Rubicon shareholders of accepting the GPG Offer;
- the likelihood of the GPG Offer being declared unconditional;
- the background to the GPG Offer;
- the circumstances surrounding the Perry Corporation shareholding in Rubicon;
- the attractions of the Rubicon business; and
- the risks of the Rubicon business.

Grant Samuel's opinions on the merits of the GPG Offer are to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

2.4 Approach to Evaluation of Fairness

The GPG Offer is for 40% of the outstanding shares in Rubicon that GPG does not already own. GPG already owns 19.99% of Rubicon's total issued share capital. The GPG Offer is a partial takeover offer that, if successful, will increase GPG's shareholding in Rubicon to 51.99%. This will give GPG control of Rubicon. In Grant Samuel's opinion the price to be paid under a partial takeover where the offeror will gain control should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro-rata basis. In other words, the minority shareholder is to receive the full underlying value. Grant Samuel believes that the appropriate test for fairness under a partial takeover offer where the offeror will gain control is the full underlying value, pro-rated across all shares; and

- under the old takeover provisions of the NZSE Listing Rules a controlling shareholding could have been transferred to another party without a full takeover offer being made to the remaining shareholders. Under the Takeovers Code it is now a requirement that the acquisition of more than 20% of the voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless target company shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context any available control premium is now available to all shareholders under a takeover offer regardless of the size of their shareholding, or the size of the offeror's shareholding at the time the offer is made. Accordingly, Grant Samuel is of the opinion that not only because shares acquired under compulsory acquisition will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under a takeover offer should be equal to or exceed the pro-rated full underlying value of the company.

Grant Samuel has considered whether the GPG Offer price is fair by comparing the consideration offered of $0.75 per Rubicon share with an assessment of the full underlying value of Rubicon shares. A takeover offer consideration that falls within or exceeds a valuation range estimated on this basis is fair. The estimated value was determined by:

- assessing the ungeared valuation of Rubicon's businesses and investments;
- adding the value of cash and other assets; and
- deducting provisions and other liabilities of Rubicon.

Rubicon has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. It is not a valuation that is based on a liquidation or premature divestment of assets. The analysis attributes the full control value to Rubicon. The aggregate therefore represents the full underlying value of Rubicon. The resulting value exceeds the price at which Grant Samuel expects portfolio interests in Rubicon would trade in the sharemarket.

2.5 Sources of Information

The following information was used and relied upon in preparing this report:

- the annual report for Rubicon for the year ending 31 March 2002;
- the investment statement and prospectus prepared for the issue of Rubicon shares in January 2001;
- the notice of special meeting of Rubicon in relation to the proposed acquisition of the Tahorakuri Forest Estate and sale of Fletcher Challenge Forests shareholding, prepared in August 2002; and
- various board papers and other confidential reports and papers prepared by Rubicon management containing (inter-alia) forecasts and other financial information for Rubicon's businesses and investments.

Grant Samuel has also had discussions with and obtained information from senior management of Rubicon.

2.6 Limitations and Reliance on Information

The opinion of Grant Samuel is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by Rubicon. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Rubicon. However, in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Rubicon. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Rubicon. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Rubicon. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

Important parts of the information base used in forming an opinion of the kind expressed in this report are the opinions and judgement of the management of the relevant enterprise. Grant Samuel held discussions with the management of Rubicon and that information was also evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included forecasts of future revenues, expenditures, profits and cash flows of Rubicon businesses and investments prepared by the management of Rubicon. Grant Samuel has assumed that these forecasts were prepared fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such forecasts. It is assumed that the forecasts do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the forecasts of future profits and cash flows prepared by the management of Rubicon. Forecasts are inherently uncertain and this is particularly so in case of Rubicon's forestry biotechnology activities. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Rubicon is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators, and that all required licences, rights, consents, or legislative or administrative authority from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Rubicon;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Rubicon, other than as publicly disclosed.

3 Profile of Rubicon

3.1 History and Background

Rubicon was formed as part of the restructuring of Fletcher Challenge Limited that occurred in early 2001. The restructuring involved the dismantling of the Fletcher Challenge targeted share structure and the separation of each division from the Fletcher Challenge Group. As part of the sale of Fletcher Challenge Energy, its shareholders received cash, an entitlement to Capstone Turbine Corporation ("Capstone") shares and one share in Rubicon for each Fletcher Challenge Energy share held.

Rubicon was established with two distinct roles – the first role was to acquire from Fletcher Challenge Energy those assets that Shell and Apache[1] did not acquire, and to support the capitalisation of Fletcher Challenge Forests needed in order for that company to operate on a standalone basis. The second role was to operate as a business development company.

The total issue price of the Rubicon shares was an amount equivalent to the value of Fletcher Challenge Energy assets not purchased or required by Shell and Apache, being a shareholding in New Zealand Refining Company, and the proceeds from the sale of 2.96 million Capstone Turbine Corporation shares held by Fletcher Challenge Energy.

The Fletcher Challenge Forests biotechnology assets acquired by Rubicon included rights to all related intellectual property and its South American forests operations comprising:

- a 31.67% interest in ArborGen LLC ("ArborGen"), a forest bio-engineering joint venture headquartered in the USA;
- the Trees & Technology business in the central North Island, including treestock production and tree improvement research facilities in the Bay of Plenty and their related intellectual property rights;
- rights to a comprehensive gene database (ie. DNA sequences) for commercial forestry species;
- 727,273 shares in Genesis Research and Development Corporation Limited ("Genesis"), a New Zealand based, publicly listed genomics company; and
- an interest in 50% of Forestadora Tapebicua SA, a eucalypt forest and timber processing business located in Argentina.

In addition Rubicon acquired a 17.6% interest in Fletcher Challenge Forests through the purchase of preference shares held by Credit Suisse First Boston as underwriter of an earlier Fletcher Challenge Forests preference share issue, and by subscription in the same share issue to $90 million of new preference and ordinary shares in Fletcher Challenge Forests.

Rubicon listed on the New Zealand and Australian stock exchanges on 26 March 2001 as a dedicated business development and investment company. Its activities since listing have focused on:

- bringing value to its energy assets;
- restructuring the capital base of the company;
- releasing value from its investment in FCF; and
- developing its forestry biotechnology portfolio.

Rubicon sold the following assets in its first year of operations:

- all of the Capstone shares in May 2002 for approximately $44 million;
- the Brisbane fuels terminal for A$20 million in June 2002; and
- the Challenge service station network for approximately $50 million in June 2002.

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[1] Shell Overseas Holdings Ltd and Apache Corporation separately purchased various assets of Fletcher Challenge Energy.

Following the completion of these energy asset sales, Rubicon undertook a capital restructuring through an on-market share buyback. The company repurchased 73.8 million shares (21% of the outstanding Rubicon shares at the time) at an average price of 81.25 cents per share, for a total cost of $60 million.

Rubicon is now focussing on realising value from its investment in Fletcher Challenge Forests, and developing its other forestry businesses and investments (collectively referred to as the "forestry portfolio").

3.2 Fletcher Challenge Forests

Rubicon is the holder of a 17.6% interest in Fletcher Challenge Forests. It is the largest shareholder in the company, which is listed on the New Zealand and Australian Stock Exchanges, and on the New York Stock Exchange in the form of an American Depository Receipt listing.

At the time of Fletcher Challenge Forests' formation as a targeted share in 1993, the assets assigned to Fletcher Challenge Forests consisted of all the solid-wood plantation forestry assets and the log trading activities of Fletcher Challenge. The other wood based businesses of Fletcher Challenge, including pulp and paper, wood panels, sawn timber and plywood were not included within the Fletcher Challenge Forests targeted share. Fletcher Challenge Forests later acquired the sawn timber and plywood operations of Fletcher Challenge Building for $93 million.

In 1996, Fletcher Challenge Forests acquired the business of Forestry Corporation of New Zealand ("Forestry Corporation"), and simultaneously transferred all of the assets into a joint venture, known as the Central North Island Forest Partnership ("CNIFP"), between Fletcher Challenge Forests, China International Trust and Investment Corporation ("CITIC") and Brierley Investments Limited "(BIL"). Ultimately both CITIC and Fletcher Challenge Forests bought out BIL, thus moving to ownership of 50% each. The acquisition included the cutting rights and related downstream solid wood processing activities of Forestry Corporation, but excluded the land on which the forest estate is situated. The syndicate of banks that provided debt financing to the CNIFP placed the partnership into receivership on 26 February 2001 after it failed to meet certain financial convenants under the banking syndicate's facilities.

The CNIFP assets continue to be managed by Fletcher Challenge Forests.

Fletcher Challenge Forests is considered to be a world leader in solid wood Radiata pine plantation forestry and the provision of solid wood based solutions to consumers in New Zealand, Australia, the United States and throughout Asia. However, the importance of New Zealand to the international wood market should be kept in perspective. Fletcher Challenge Forests' harvest volume for the year ending 30 June 2002 totalled 1.7 million m^3. In addition Fletcher Challenge Forests traded logs and chips totalling 2.1 million m^3 and managed the CNIFP harvest of 3.1 million m^3. In total Fletcher Challenge Forests' total volume of timber is only approximately 0.4% of total world production.

Fletcher Challenge Forests' annual harvest consists of:

- ***Pruned logs***: high quality larger logs, containing a substantial proportion of clearwood, used primarily in the veneer and plywood industries and in production of clearwood lumber for furniture, and interior and exterior finishing uses;
- ***Large sawlogs***: medium quality larger logs used in the lumber industry to produce construction, packaging and appearance grade lumber products and industrial plywood;
- ***Small sawlogs***: medium quality smaller sawlogs used in the lumber industry to produce construction and packaging grade lumber products;
- ***pulplogs***: low grade logs used as fibre input into the manufacture of pulp and paper and reconstituted wood products; and

- *thinnings*: by-products of forest thinning, generally used as fibre input in the manufacture of pulp and paper and reconstituted wood products.

The principal source of revenue for Fletcher Challenge Forests is from the sale of logs and processed solid wood products from its plantation forests. Plantation forestry is a term used to describe forests that are intensively managed and grown as a separate economic endeavour to supply wood to an open market. The trees are planted, thinned, pruned, sometimes fertilised and finally harvested on a regular cycle. Plantation forests include land over which Fletcher Challenge Forests has ownership rights in the trees growing thereon and land where Fletcher Challenge Forests manages or controls the tree resource on behalf of third parties. In addition, Fletcher Challenge Forests also trades logs and other wood products purchased from third parties in international markets. Fletcher Challenge Forests owns or has interests in a number of processing and manufacturing facilities located within or in close proximity to its plantation forest assets.

Fletcher Challenge Forests' forestry assets are concentrated in the central North Island. This area contains the largest concentration of Radiata pine plantation forests in New Zealand and the majority of New Zealand's and Fletcher Challenge Forests' wood processing infrastructure. The locality is widely regarded as providing an ideal blend of climate and soils, resulting in some of the fastest growth rates in the world for softwood and is in close proximity to ports, processing plant and distribution infrastructure.

Over the past few years, Fletcher Challenge Forests has adopted a strategy of becoming a customer driven supplier of high value solid wood products. To implement this strategy, Fletcher Challenge Forests has vertically integrated its downstream processing and distribution operations. In parallel, a number of marketing initiatives have been undertaken to stimulate demand for Radiata pine, Fletcher Challenge Forests' principal forest resource. Radiata pine is New Zealand's preferred softwood species due to its strong growth rate over a range of sites, its compatibility with New Zealand's climate and its suitability for both solid wood and fibre products. In solid wood applications, Radiata pine is used for the production of veneers, plywood, laminated and finger-jointed products and appearance, structural and industrial lumber. Radiata pine is also suited to the manufacture of high quality wood pulp and reconstituted wood products.

3.2.1 Proposed Restructuring of Fletcher Challenge Forests

In June 2002 Fletcher Challenge Forests announced that it had reached agreement with the Receivers of CNIFP to purchase all the operating assets of CNIFP, including 162,000 planted hectares of forest and associated processing facilities, for total consideration of approximately US$650 million.

As part of the complex funding arrangements for the proposed acquisition, Fletcher Challenge Forests agreed to sell its Tahorakuri Forest to Rubicon for US$64 million, with the consideration being 355 million Fletcher Challenge Forests ordinary and preference shares owned by Rubicon. This part of the proposed transaction implied a value of approximately $0.37 per Fletcher Challenge Forests share, although this value was in reality a function of the value ultimately realised for the Tahorakuri Forest if Rubicon was to sell it. In a separate but linked transaction, Rubicon intended to sell 131 million Fletcher Challenge Forests shares to South East Asia Wood Industries Holdings Limited ("SEAWI") for $48 million, also implying a value for its Fletcher Challenge Forests shares of $0.37 per share. Rubicon shareholders were to be asked at a special meeting to approve the acquisition of the Tahorakuri Forest in return for the exchange of Fletcher Challenge Forests shares.

GPG acquired its 19.9% shareholding in Rubicon during the period following the announcement by Fletcher Challenge Forests of the proposal to purchase the CNIFP assets and before the shareholder meeting to approve it.

In August 2002 Fletcher Challenge Forests shareholders (including GPG) voted not to approve the CNIFP acquisition and associated arrangements, and as a consequence the acquisition of the Tahorakuri Forest by Rubicon did not proceed. The board of directors of Rubicon had supported the proposed acquisition on the basis that it would improve net asset backing per Rubicon share to approximately $1.06 per share and accordingly could reasonably be expected to have a positive impact on Rubicon's share price. Rubicon has since stated that it intends to evaluate other alternatives that would bring value to the its 17.6% shareholding in Fletcher Challenge Forests.

Because the investment in Fletcher Challenge Forests is a relatively large proportion of Rubicon's total asset base (approximately 51% of book value at 31 March 2002), there has tended to be a correlation between movement in Fletcher Challenge Forests' share price and Rubicon's share price.

3.3 Trees & Technology

Trees & Technology is a world leading forestry biotechnology and tree improvement business and is a leader in the technology for the cloning of Radiata pine on a commercial scale. Trees & Technology's business entails:

- the production and sale of forest treestocks and seeds;
- provision of customised product development and advisory services to forestry customers;
- a research and development function to maintain and extend technical and operational capabilities; and
- the provision of scientific services to outside parties.

Trees & Technology is in the early-market development stage of commercialising its technology through the sale of advanced performance treestocks. It was operated by Fletcher Challenge Forests from 1984 until 2001, primarily as an internal service provider when it was transferred into Rubicon at the time of the Fletcher Challenge separation. The business now operates as an externally focused commercial stand alone operation and has production, research and nursery facilities at Te Teko in the central North Island and contract manages a further nursery (Te Ngae) owned by CNIFP in the same area. Trees & Technology has approximately 50 employees.

Trees & Technology operates at the first two levels of treestock development. At the "traditional" end of the treestock development spectrum, it uses conventional propagation techniques of breeding seeds or taking cuttings from "parents" with known superior qualities. The resulting higher quality "family" treestocks provide forest growers with intermediate levels of gain. In the year ending 31 March 2002 Trees & Technology produced and sold approximately 7.8 million Radiata pine seedlings (14% of the total non-clonal New Zealand Radiata pine market). This clonal technology has produced a 20% to 30% increment in volume gains for forestry growers when compared with normal seedling forestry.

At the next step-up in treestock development technology, Trees & Technology has pioneered the commercial process of cloning individual pines, and is now considered a leader in the production of clonal treestocks. The business is in the process of commercialising the results of 15 years of research.

Cloning allows many copies of a superior single tree to be grown, leading to material value gains for forest growers and downstream wood product manufacturers. For example, Trees & Technology has been able to produce clonal Radiata pine treestocks that are expected to improve the volume of wood at harvest by 30% to 40% over family treestocks. This has the ability to lift the value of a single rotation forest crop by as much as 300%, which compares with value uplifts of only 25% to 50% through performance improvement or cost cutting programmes.

More recently, the company has identified a number of Radiata clones that produce structural quality wood from the innermost growth rings – ie. from their earliest years of growth following planting. These clones not only have good wood quality characteristics but are also fast growing. A Radiata tree is not normally expected to produce structural quality wood until between 12 and 15 years of age. These clones could be harvested early and still give close to 100% conversion into structural specifications. They have the ability to lift the value of a single rotation forest crop by an estimated 600%. This approximates a return of nearly $3,000 per hectare compared to an estimated $427 per hectare for a rotation planted under a common family based mix.

Trees & Technology is currently the only commercial supplier of clonal Radiata pine treestock in New Zealand, and one of only a few in the world to have achieved clonal pine production on a commercial scale. In March 2001 it entered into a ten-year strategic relationship agreement with Fletcher Challenge Forests. Under this agreement each party conducts business with the other on a preferred supplier/preferred customer basis with financial penalties payable if there is any material diminution by either party in commitment to the agreement. The agreement also calls for Fletcher Challenge Forests to provide funding totalling up to $2.25 million to Trees & Technology for research and development over the first three years of the agreement.

Clonal treestocks currently sell for approximately 2.5 to 3 times the price of traditionally bred seedlings reflecting the fact that they are highly differentiated relative to family treestocks which tend to be sold on the market more as a commodity product. The incremental pricing for clones is based on sharing of a portion of the value uplift the forestry grower can expect to receive over a full forest rotation with the tree breeder.

Trees & Technology expects clonal treestocks to progressively displace family seedlings in New Zealand, and it is actively moving to introduce new customers over the next 2-3 years. Recent research and development expenditure has been directed at the development of tools to make assessments of the key wood quality traits of the tree at an early age as a predictor of the likely out-turn from a fully mature tree, thus allowing earlier selection of superior clones.

For the year ending 31 March 2002, Trees & Technology supplied Fletcher Challenge Forests with 1.6 million clonal treestocks for planting. Fletcher Challenge Forests annual clonal treestock planting requirements are anticipated to grow to 50% of total plantings over the next four years under the strategic relationship agreement with Rubicon. This would see Fletcher Challenge Forests' clonal requirement grow from the 2001 level of 1.6 million per annum to over 3 million by 2006.

Trees & Technology is actively developing export markets, focusing on the Australian and Chilean Radiata pine markets. Trials are underway in both countries with commercial sales expected to occur in 2004/5.

Trees & Technology also earns revenue from the provision of scientific services to ArborGen and enjoys a close working relationship with that company. The services provided are critical components of ArborGen's eucalyptus bio-engineering and wood-quality development activities.

3.4 ArborGen

Rubicon has a 31.67% interest in ArborGen, considered by the Rubicon Board to be the leading forestry bio-engineering organisation in the world. ArborGen's other shareholders are International Paper (31.67%), Mead-Westvaco (31.67%) and Genesis (5%). International Paper is the largest paper and forest company in the world, and is a 51% shareholder in Carter Holt Harvey. Mead-Westvaco is a USA pulp and paper company and Genesis is a New Zealand based listed genomics company.

ArborGen was established in February 2000. Each of the founding shareholders contributed intellectual property at the outset and the three major partners entered into a commitment to each contribute US$4 million of funding per year over the company's initial five years of life. Rubicon has a commitment of US$4 million per year, for another 2.5 years.

ArborGen's principal business is to develop and produce forestry treestocks using bio-engineering to introduce changes to the characteristics of a tree species that cannot be readily attained through the use of conventional tree breeding programmes. Bio-engineering is the term given to describe the modification and/or recombination of genes to produce more useful plants. Bio-engineering allows the transfer of desired traits to be achieved in one tissue culture cycle, rather than selection occurring over many generations. The changes being pursued are step changes above and beyond what can be expected through clonal forestry.

The underlying rationale for ArborGen's business proposition is that sustainable plantation forestry will continue to grow in importance for meeting global wood requirements as the use of natural forest resources declines due to environmental and economic pressures.

One of ArborGen's primary research areas is focused on improving the productivity of forest plantations. Forest plantations with improved productivity allow forest owners to grow more wood on less land to meet the ever-increasing demand for wood products such as paper and packaging.

Another area of ArborGen's research is looking at specific wood quality traits in plantation trees. By enhancing these traits, it will be possible to produce lumber that better meets manufacturing specifications. These traits will allow forest owners to grow trees that are straighter and more disease resistant, reducing environmental and cost impacts associated with harvesting and reforesting.

ArborGen is in a strong position as global leader in this area because each of its shareholders has contributed considerable complementary technologies and capabilities. None of the shareholders could have achieved ArborGen's dominant position on their own.

The rationale for forestry bio-engineering follows the revolution that bio-engineering has caused in agriculture. The first bio-engineered crops were planted approximately seven years ago. In 2002 the proportion of bio-engineered crops grown in the USA is:[2]

- 22% of corn;
- 68% of soybeans; and
- 56% of cotton.

The future of forestry bio-engineering is considered robust because of the role it can play in helping reduce the impact of factors negatively impacting the global forestry industry such as:

- increasing environmental regulation limiting the allowable cutting of non-plantation forests such as tropical rainforests;
- declining wood quality; and
- increasing demand for land for alternative uses.

ArborGen is initially concentrating on the development of four bio-engineered traits for the three species/geography combinations of:

- eucalypt in South America;
- loblolly pine in the southern USA; and
- Radiata pine in New Zealand.

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[2] Source: Fernandez-Cornejo and McBride 2002 "Adoption of Bio-engineered Crops" AER-810, Economic Research Service, USDA.

The traits being targeted initially are:

- herbicide tolerance in trees to allow more efficient weed control during the establishment phase of forests, but also to act as a marker to help assess the efficiency of ArborGen's transformation technology;
- reduced lignin content in trees. The removal of lignin from wood fibre in the manufacture of pulp is very energy intensive (and hence expensive) and environmentally unfriendly. Reducing lignin content will lead to economic and environmental benefits to the pulp and paper sector and consumers in general;
- faster growth rates which will lead to better returns on capital employed by forestry companies; and
- reproductive control for tree species.

Choosing the traits to be targeted involves a trade-off between their expected value to customers and the scientific difficulty of realising them. Examples of other traits that ArborGen believes can be developed include:

- greater insect resistance eg. resistance to the Asian Gypsy moth;
- wood quality traits such as increased stiffness to increase timber's suitability for structural uses in building;
- smaller branch size leading to reduced knot size and therefore increased value recovered; and
- greater environmental adaptability to factors such as salt, drought and temperature.

ArborGen's revenues will be derived from treestock supply agreements under which the price of bio-engineered seedlings is linked to the expected added value that is created for the forest company from its use, compared with a traditionally propagated seedling. For initial rotations where there is a risk that new biotechnology may not deliver the full increase in value predicted, ArborGen's revenues per seedling supplied may be staggered, with the delayed revenue payments related to the actual value uplift captured by the forest company.

The ability of bio-engineering to deliver revenues to the commercialising body is well illustrated in the agricultural area. Monsanto, the world's leading commercialiser of bio-engineered agricultural products, has, on average, captured approximately 30% of the economic benefits brought to the supply chain from the introduction of Roundup resistant soybeans and Bt cotton.[3]

ArborGen is well positioned in its marketplace. The marketplace itself is substantial with the three species that ArborGen is targeting accounting for approximately half of the world's fast growing plantation forests. Over one billion treestocks are currently planted annually. ArborGen has no significant competition in this area. This is largely because the pooled technologies of the four shareholders provide ArborGen with levels of competencies significantly in excess of other participants in the market. The ability to share risk between shareholders also allows ArborGen to take a more aggressive view on risk than potential competitors.

ArborGen's headquarters and research facilities are located in South Carolina in the USA where it employs over 90 scientists. The two lead roles are filled by people highly regarded in the biotechnology sector. Dr Barbara Wells, the Chief Executive Officer, previously worked for Monsanto including roles as leader of the global team commercialising Roundup, ready Soybean, and managing director of Monsanto's Brazilian business. The Chief Technical Officer for ArborGen, Dr Maud Hinchee, worked for Monsanto for 18 years with positions including Team Leader – Soybean Transformation, Director of Technology – Specialty Crops Strategic Business Team, and most recently Scientific Outreach Director for Monsanto.

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[3] Source: Falk-Zepeda, Traxler, and Nelson 2000 "Rent Creation and Distribution from Biotechnology Innovations: The Case of Bt Cotton and Herbicide Tolerant Soybeans in 1997".

Because of the time involved in taking a bio-engineering concept for a particular trait to be introduced to treestocks, ArborGen is not expected to generate its first revenues for some years. Nevertheless, it can be argued that value is being created during the lead times as a result of the build up of capability, valuable intellectual property and market relationships during this time. The gene modification technology and databases are expected to be of value in other agricultural biotechnology areas in addition to forestry.

ArborGen faces risks as it develops its business. There is the risk of increased regulation of genetic engineering technology and bio-engineered products in the markets in which ArborGen operates. Currently, the key North American market has a relatively low level of regulation compared with say, New Zealand. Rubicon's management views the risk of further regulation as likely to decrease over time as authorities become more comfortable with the existing controls over genetic modification in agriculture and the responsible attitude displayed by industry participants. The general speed of change in scientific advances in biotechnology could represent a risk to ArborGen were it not be able to gain access to a significant advance developed by outside parties. As ArborGen is the dominant player in the forestry biotechnology market, this risk will be mitigated to a degree by ArborGen being perceived as the logical party to bring related technological advantages to.

In late 2001 an external review of ArborGen's business directions and strategy was undertaken. The review confirmed the attractiveness of the market and laid out a set of findings that have since been used as the foundation for building a business model that focuses on building a bio-engineering platform to take genes and transform them into trees and ultimately to take them down a commercialisation path. ArborGen's strategy is to have the bio-engineering platform viewed by the market as the best in the world for trees. This will not only enable ArborGen to be seen as the natural channel to market for bio-engineered products with a commercial application in the forestry market, but also allow ArborGen to be seen as the company that technology providers will want to license to. The goal is to have this platform in place by the end of 2004. Rubicon management have indicated that good progress is being made against key milestones towards achieving the business model.

Key Success Factors for ArborGen

ArborGen believes its critical success factors are as follows:

- ***Access to high quality germplasm.*** To ensure a rapid uptake of bio-engineered trees occurs, the engineered traits need to be introduced into existing high quality treestock. Each of the ArborGen shareholders has major conventional tree improvement programmes and access to much better treestock than is available on the open market. However, it is intended that ArborGen forms partnership with other forestry companies that have advantages in particular species;

- ***Develop traits that are valuable to customers.*** Development of traits by ArborGen entails three parallel paths:
  - licensing-in of genes used in commercial plants eg. herbicide tolerance, insect resistance developed for crops. In this case ArborGen optimises gene expression for the particular species it is working on;
  - licensing-in of third party know-how for co-development of tree-specific genes by optimising existing gene concepts; and
  - discovery of genes unique to forest trees from its gene database;

- ***Ability to transform germplasm.*** ArborGen already has the capability to bio-engineer trees in specific ways, with trees now in field test;

- ***Regulatory and public approval.*** Genetic modification of crops and animals is highly regulated and is the subject of much public debate. Bio-engineered trees avoid the issues surrounding human food and health but have their own particular issues, particularly in terms of environmental impacts. Thus far, the regulatory process for forestry bio-engineering is relatively uncertain. However, this does offer ArborGen the opportunity to help shape the process;

- ***Requirement for mass clonal reproduction.*** Once a bio-engineered trait is successfully developed, there is a need for clonal reproduction to be able to deliver millions of seedlings with the trait engineered into them. ArborGen has a programme in place to lift success rates in this area whilst optimising cost and yield; and

- ***Commercialisation and distribution.*** ArborGen's shareholders were assembled in part because of their respective distribution programmes and channels to customers.

3.5 Forestadora Tapebicua SA

Forestadora Tapebicua SA ("FTSA") located in Argentina is a joint venture between Rubicon and an Argentinean partner, Aldanor. Rubicon's interest is currently held by Fletcher Challenge Forests on trust, pending receipt of various consents to enable a transfer to be made to Rubicon. FTSA's capital structure is shown in the table below:

FTSA – Capital Structure			
	Rubicon interest	Aldanor	Total
Ordinary shares	9.2m	9.2m	18.4m
Preference shares	10.2m*	-	10.2m

** Excludes inflation indexation and accrued dividends at 15% per annum*

The preference shares were originally denominated in US dollars, but a decree passed by the Government in February 2002 converting all US dollar denominated obligations held by Argentinean businesses into peso values may mean that they are now denominated in pesos (although there is some uncertainty about this), but benefit from inflation indexation. The preference shares are non-voting, have preference in the event of a liquidation and carry a cumulative preferred fixed annual dividend.

The preference shares resulted from several capital contributions made by Fletcher Challenge Forests to FTSA that were not matched by Aldanor. Aldanor had a two-year period from the date of each of the capital contributions to purchase 50% of the preference shares issued in respect of that contribution. Upon the expiry of the two-year period the preference shares may be converted into ordinary shares under a formula based on an independent assessed fair market value for FTSA. Aldanor has elected not to purchase its share of two out of the first three tranches of preference shares issued and is considered unlikely to exercise its rights on the final tranche. Because of this Fletcher Challenge Forests (as trustee for Rubicon) can be regarded as having effective control of FTSA.

FTSA grows, harvests, processes and markets eucalyptus solid wood timber and veneer panel products for appearance and industrial end-use markets. Its assets comprise plantation forests, timber and plywood plants, all located in the Corrientes region north of Buenos Aires. FTSA is the largest domestic supplier of plywood in Argentina, and markets under a well-established and recognised brand name.

FTSA currently owns approximately 1,400 hectares of net stocked plantation forests which it manages on a fully sustainable basis. Approximately 1,200 hectares of FTSA's net stocked area is eucalyptus (both mature and young), with the remainder being mostly mature pine. These forests supply approximately 25% of FTSA's log requirements for processing. The balance is available from other plantations within the region. FTSA has achieved certification by the internationally recognised Forest Stewardships Council for its sustainable forest management practices. This provides FTSA with preferred access to those North American and European customers who are tending to make purchasing decisions based on the sustainability of source wood supplies. To capitalise on this FTSA has undertaken a programme of product development to allow its output of processed product to include higher value products for furniture, flooring and millwork uses.

FTSA has had a focus on managing its eucalyptus plantations for solid wood production, as opposed to pulpwood, which has been the traditional use for South American eucalypt. The species can obtain very fast growth rates, and hence relatively low growing costs. FTSA has capitalised on this by developing its silvicultural understanding of the species with the aim of producing management programmes using clonal treestocks to produce logs suitable for solid wood and ply production in the most efficient way and shortest time period possible.

FTSA's decision to place a greater emphasis on export sales has been considerably helped by the economic restructuring that has taken place in Argentina over the last 18 months. In January 2002 Argentina dropped a long standing policy of pegging the value of the peso to the US dollar and subsequently the peso has devalued from being worth one US dollar to approximately 27 cents. This has had the effect of making FTSA's products cost competitive in offshore markets, offsetting to some extent the traditional consumer preferences for other species used in solid wood and veneer or ply products. Plywood exports by FTSA went from virtually nil to 1,400m^3 in the seven months to July 2002 and now total lumber and plywood exports account for over two thirds of FTSA's total sales by value. The effect of the increased export volumes has had a major impact on the overall revenues and operating profits of FTSA.

The impact of the export revenue growth is seen in FTSA's statement of financial performance (including management's forecasts for the year ending 30 June 2003) below:

FTSA - Statement of Financial Performance (Peso 000's)		
	Year ending 30 June	
	2002	**2003(f)**
Revenue	14,762	45,340
Gross Margin	5,550	20,050
%	38%	44%
Expenses	3,749	14,387
EBITDA	1,801	5,673

1 Peso = NZ$0.58

However, the economic problems in Argentina have had a negative impact on domestic sales with construction activity dropping substantially with a consequent impact on FTSA's domestic sales and debtor collection rates.

FTSA is currently negotiating with Banco de Galicia to refinance its bank loan, in order to rectify a breach of that loan that occurred in mid-2001. FTSA has ceased interest payments while these discussions are underway. At the time of writing this report FTSA has 1.9 million pesos of cash.

The outlook for FTSA is difficult to determine with either certainty or accuracy. The continuing uncertainty over the stability of the Argentinean economy makes it hard to predict the direction of the country's currency and inflation. Both of these variables are material to FTSA's export competitiveness and domestic sales. The company also faces some uncertainty about log supply over the medium term. Against this FTSA's plant is relatively modern and considered to be efficient and capable of producing quality product.

Rubicon is in a strong position, with effective shareholding control over FTSA, to determine how the company is managed going forward. The current uncertainties are likely to mean that FTSA's business operations will be managed to maximise debt reduction and cash accumulation in the near term. An outright sale of the business has been considered, as FTSA is likely to be viewed as a good strategic entry into the Argentinean/South American eucalyptus solid-wood market by larger international forestry players. However, it is likely that such investors would prefer to wait until more certainty returns to Argentina from both an economic and political viewpoint.

3.6 Genesis Research and Development Limited

Rubicon holds a 2.8% interest in Genesis, a biotechnology research company listed on the NZSE. Genesis is itself a 5% shareholder in ArborGen.

Genesis' core business is genomics and its focus is on the discovery and development of drugs and vaccines for the treatment of human disorders and innovative products for use in forestry, agriculture and horticulture. Genomics is the study of information carried within the genes of living organism (humans, animals and plants) for the purpose of understanding the relationship between gene structure and biological function. Genomics entails obtaining complete DNA sequences of organisms, identifying the genes within the sequence, and then discovering what functions individual genes are responsible for.

Genesis and Rubicon jointly own a gene database of the DNA characteristics of pine and eucalypts that has been licensed to ArborGen for its use. This database now contains over half a million DNA sequences, and is by far the largest in the world for any commercial tree species.

3.7 Financial Performance

The financial performance of Rubicon for the year ended 31 March 2002 is summarised below:

Rubicon Limited – Statement of Financial Performance ($ millions)	
For the year ended 31 March 2002	**$m**
Operating Revenue	70.2
Operating Expenses	(32.1)
EBITDA	38.1
Depreciation & Amortisation	(0.8)
EBIT	37.3
Interest Income	3.7
Earnings before Tax & Associates	**41.0**
Earnings Relating to Associates	(10.6)
Net Earnings after Taxation	**30.4**
Shares on issue (millions)	*279.0*
Earnings per share (cents)	*10.9*

The following notes should be considered when reviewing the financial performance of Rubicon:

- Rubicon's first 12 months performance was highly influenced by divestment transactions. Operating revenue therefore includes income from the sale of investment assets. In addition operating expenses includes changes in value of investments held;
- operating revenue includes a $53.0 million gain on sale from the divestment of the Brisbane fuels terminal business and the Challenge petrol retailing network;
- operating revenue includes $10.2 million representing the gain on sale from the sale of Rubicon's investment in Capstone Turbine Corporation;
- operating expenses includes $22.5 million representing a write down in value of Rubicon's holding in Fletcher Challenge Forests and Genesis to market value as determined by the last traded price on the NZSE on 31 March 2002. Applying the last traded price on the NZSE at 23 September 2002, Rubicon would incur a further diminution in value of $15.3 million relating to its holdings in these two companies; and
- earnings relating to associates, being a loss for the period of $10.6 million, includes results from Rubicon's holding a 31.67% interest in ArboGen LLC and an interest in 50% of FTSA.

3.8 Cash Flow

The cash flow for Rubicon for the period to 31 March 2002 is outlined below:

Rubicon Limited – Cash Flow ($ millions)	
for the year ended 31 March, 2002	**$m**
Net Earnings	30.4
Add back	
Depreciation, Amortisations and Revaluation of treestocks	1.9
Earnings Related to Associates	5.5
Revaluation of Listed Securities	22.5
(Gain)/Loss on Disposal of Investments included in EBIT	(63.2)
(Increase)/Decrease in Working Capital	7.8
Sale of Investments	116.8
Cash Available to finance Activities	**121.7**

The following should be considered when reviewing the cash flows of Rubicon:

- the cash flows above reflect the investment company nature of Rubicon's activities. In these circumstances cash realised on the sale of investments is available to finance ongoing activities;
- cash received from the sale of investments represents proceeds from the sale of Capstone ($44 million), Brisbane fuels terminal (approximately $23 million) and Challenge ($50 million); and
- of the total losses ($10.6 million) relating to associates, $3.4 million relates to costs incurred during the period by Rubicon in relation to those investments. These costs impact on the actual cash position of Rubicon, and are therefore not added back in the table above.

3.9 Financial Position

The statement of financial position for Rubicon as at 31 March 2002 is set out below:

Rubicon Limited – Statement of Financial Position ($ millions)	
as at 31 March, 2002	**$m**
Assets	
Cash and Liquid Deposits	66.8
Inventory	3.3
Debtors	0.6
Total Current Assets	**70.7**
Fixed Assets	9.4
Investments	178.0
Total Assets	**258.1**
Liabilities	
Creditors	(10.7)
Net Assets	**247.4**
Equity	
Capital	239.4
Reserves	8.0
Total Equity	**247.4**
No of Shares on issue (millions)	*279.0*
Net tangible asset backing per share (cents)	*88.7*

The following notes should be considered when reviewing the financial position of Rubicon:

- investments include investments in companies listed on the NZSE ($134.8 million) valued at market value and investments in associates ($43.2 million) valued at historical cost less any impairments in value written off;
- inventory represents treestocks, seed stock, pollen and consumable stores held at Trees & Technology's 55 hectare Te Teko nursery; and

- reserves includes a currency translation reserve ($22.3 million loss) in respect of Rubicon's interest in 50% of FTSA and its 31.67% shareholding in ArborGen.

3.10 Capital and Ownership Structure

The table below represents the capital structure of Rubicon as at 31 March 2002:

Rubicon Limited – Capital Structure		
	# of Shares (000's)	$ millions
Ordinary Shares issued on 23 March 2001	352,867	299.6
Less Shares repurchased and cancelled	(73,846)	(60.3)
Shares on issue at 31 March 2002	**279,021**	**239.4**

The following notes should be considered when reviewing the capital structure of Rubicon:

- On 23 March 2001 a total of 352.9 million ordinary shares were issued in Rubicon as a result of a High Court approved separation of Fletcher Challenge;

- between 30 July 2001 and 7 September 2001 a total of 73.8 million shares were repurchased and cancelled at an average of 81.25 cents per share using proceeds received from the sale of Rubicon's energy assets, being Capstone, Challenge and the Brisbane petroleum assets; and

- Rubicon has a contractual commitment to issue 5,017,000 options to non-executive directors in relation to their remuneration for the March 2002 financial year. These options have not yet been issued. Upon issue, they will carry the right to subscribe for ordinary Rubicon shares, at an exercise price of 63.7 cents per share. The options are not exercisable until 1 April 2004. However, exercise is triggered if there is a takeover of Rubicon.

Rubicon – Top 20 Shareholders		
as at 6 September 2002	**Number of Shares**	**% on issue**
ITHACA (Custodians) Ltd.	55,797,224	19.99
ANZ Nominees Ltd	54,709,600	19.61
Citibank Nominees (NZ) Ltd	30,697,682	11.00
AMP Investments Strategic Equity	13,703,724	4.91
Trustees Executors & Agency Co	9,758,206	3.50
AMP Life Ltd	6,018,903	2.16
National Nominees NZ Ltd	5,922,369	2.12
NZGT Nominees Ltd	5,408,957	1.94
Accident Compensation Corp	4,664,156	1.67
Deutsche Securities NZ Ltd	3,330,000	1.19
Cogent Nominees Ltd	2,810,800	1.01
Yarrow Consulting Ltd	2,161,015	0.77
AMP Superannuation Tracker Fund	1,906,143	0.68
Eltub Nominees Ltd	1,221,429	0.44
Westpac Banking Corp – Client Assets	1,213,836	0.44
Fletcher Brothers Ltd	1,079,412	0.39
Graeme Easton McKenzie	1,052,000	0.38
Tea Custodians Ltd	701,175	0.25
Eltub Nominees Ltd	550,000	0.20
Simon Luke Moriarty	507,879	0.18
Total	**203,214,510**	**72.8%**
Other	75,806,660	27.2%
Total shares issued	**279,021,170**	**100.0%**

Perry Corporation Shareholding

Perry Corporation ("Perry") of the United States holds approximately 44.6 million shares or 15.98% of the shares in Rubicon. On 12 August 2002 GPG filed proceedings in the High Court against Perry alleging a breach of section 20 of the Securities Amendment

Act. If the Court finds against Perry, one of the penalties that could be ordered by the Court is forfeiture of all or part of Perry's shareholding in Rubicon. Any shares that are forfeited as a result of a Court order are required to be cancelled by Rubicon, thereby reducing the overall number of shares on issue by a corresponding amount.

Cancellation of shares has the effect of increasing the value per share of the remaining shares on issue. It is possible but by no means certain that some or all of Perry's shares could be forfeited and cancelled during the period that the GPG Offer is open.

3.11 Share Price Performance

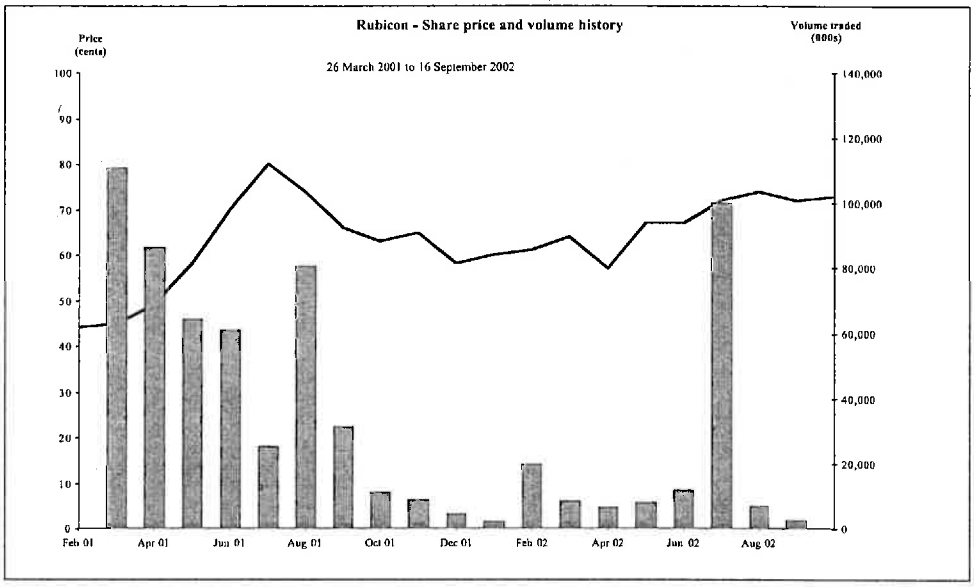
A summary of Rubicon's share price performance since its listing in March 2001 is set out in the following table:

Rubicon – Share Price and Trading Volume History

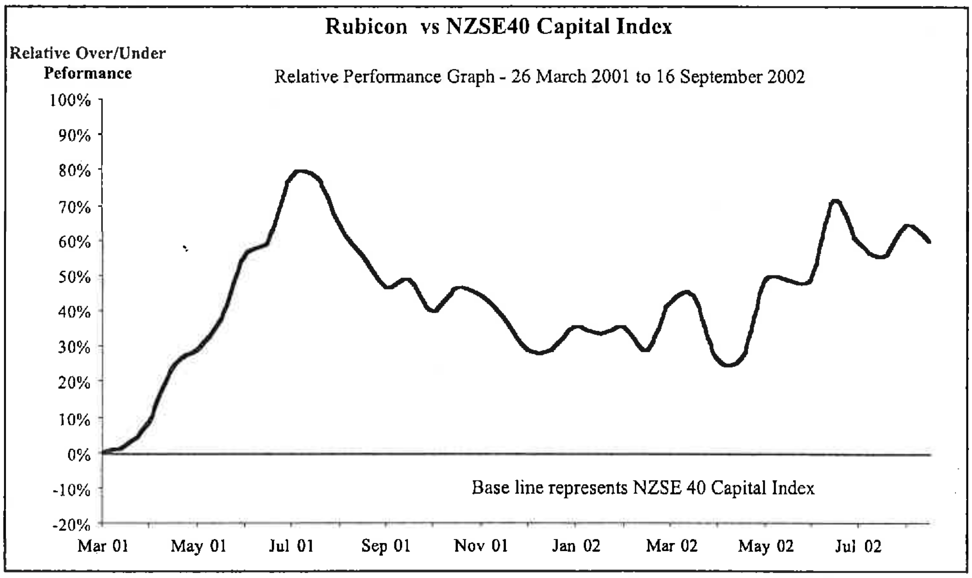
	Share Price ($)			Volume
	High	Low	Close	(000s)
2001 (month ended)				
March	49	40	45	110,950
April	49	41	49	86,136
May	60	48	58	64,421
June	71	57	70	60,991
July	81	71	80	25,486
August	84	74	74	80,388
September	75	59	66	31,268
October	68	62	63	11,048
November	70	64	65	9,012
December	66	55	58	4,775
2002 (month ended)				
January	61	57	60	2,160
February	66	58	61	19,832
March	65	58	64	8,495
April	68	57	57	6,500
May	69	55	67	8,151
June	70	65	67	11,987
July	77	65	72	100,038
August	74	68	74	6,789
September (week ended)				
September 6	74	71	72	3690
September 13	72	71	72	409
September 20	74	72	72	1728

Source: Datex

The following graph depicts movements in the share price and trading volumes since March 2001.



The relative performance of Rubicon over the period since listing compared to the NZSE40 Capital Index is shown below:



4 Valuation of Rubicon

4.1 Methodology

The most reliable evidence as to the value of a business is the price at which the business or comparable businesses have been bought and sold in an arms length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary methodologies used for valuing assets:

- capitalisation of earnings;
- discounting cash flows;
- industry rules of thumb; and
- estimate of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary factor in determining which methodology is appropriate is the actual practice adopted by potential purchasers of the type of business involved. Grant Samuel has adopted the discounted cash flows methodology to value the Fletcher Challenge Forests and ArborGen shareholdings and the Trees & Technology business. FTSA has been valued using the capitalisation of earnings methodology.

Capitalisation of Earnings

Capitalisation of earnings is the most commonly used method for valuation. It is most appropriate for industrial companies with a long history and consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not as suitable for a start-up business or businesses with erratic expenditure requirements or projects with a finite life. This methodology involves capitalising the earnings of a business at a multiple which reflects the risks of the business and the stream of income that it generates.

Discounted Cash Flows

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for the valuation of start-up businesses where earnings during the first few years can be negative and businesses have erratic earnings patterns. Estimated cash flows are discounted at a rate that reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and the valuer generally places great reliance on medium to long term projections prepared by management. Grant Samuel has adopted management's projections as the basis for its discounted cash flow analysis.

The discounted cash flow methodology requires a terminal or continuing value be calculated to take account of cash flows that will be derived from ownership of the business beyond the forecast period. A perpetuity framework is usually applied to cash flows for the final forecast period on the basis that these projections reflect a near steady state and sustainable result for the company going forward.

Even where cash flow forecasts are available for up to, say, ten years, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation.

In addition the financial projections are based on judgements and assumptions about a range of variables. The sensitivity of net present values ("NPVs") to relatively small changes in assumptions and high degree of uncertainty requires consideration of alternative scenarios and sensitivities. The range of NPV determined using assumptions which, individually are quite reasonable, can be very wide. It is therefore necessary to overlay commercial judgement to reflect the risks and to determine a value range that is narrow enough to be meaningful.

Notwithstanding these limitations, discounted cash flow valuations are commonly used in valuing start-up and high growth businesses not least because of the explicit and relatively detailed assumptions that need to be made in relation to future performance. In this case, a discounted cash flow approach captures some of the critical issues such as product development, future growth expectations, development of new markets, and distribution channels and future capital requirements. Grant Samuel has therefore adopted discounted cash flow analyses as its primary methodology for valuing Fletcher Challenge Forests, ArborGen, and Trees & Technology.

Industry Rules of Thumb

Industry rules of thumb are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings or by a discounted cash flows valuation. While used mainly as a "cross check" in most cases, industry rules of thumb can be the primary basis on which buyers determine price in some industries. This has proved to be the case with internet stocks, where multiples of annualised revenues and values per subscriber have been used to ascribe value to loss making start-up businesses and transactions have been undertaken on the basis of these value parameters. However, more recently there has been a strong move away from using these industry benchmarks and back towards more traditional valuation techniques as investors search for "real" value propositions in the new economy. In general, it must be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to loss making businesses. They effectively reflect the liquidation values and typically attribute no value to any goodwill associated with ongoing trading and other intangible assets. Grant Samuel used this methodology as a cross-check against the valuation of FTSA on the basis that any worsening of Argentina's unstable political and economic structures could render FTSA unattractive to outside purchasers.

4.2 Valuation Summary

Grant Samuel has estimated the equity value of Rubicon as at 25 September as being in the range of $277.7 million to $364.2 million or $0.98 to $1.28 per share. This value is made up as follows:

Rubicon – Summary of Value ($million)

	Value Range	
	Low	**High**
Fletcher Challenge Forests	147.6	172.3
Trees & Technology	18.0	23.0
ArborGen	49.4	98.8
FTSA	2.6	7.0
Genesis	1.4	1.4
Other assets and liabilities	2.0	5.0
Capitalised corporate overheads	(10.6)	(10.6)
Enterprise value	**210.4**	**296.9**
Cash as at 23 September 2002	64.1	64.1
Cash from exercise of directors options	3.2	3.2
Equity value	**277.7**	**364.2**
Number of shares outstanding diluted for directors' options (millions)	284.0	284.0
Equity value per share	**$0.98**	**$1.28**

Grant Samuel's valuation range per share would need to be adjusted upwards to allow for any forfeiture and cancellation of any or all of the Rubicon shares held by Perry as a result of any Court orders handed down during the time the GPG Offer was open. If the entire Perry shareholding was cancelled, the valuation range would increase to $1.17 to $1.52 per share. It is possible that only a portion, if any, of the shareholding may be forfeited under the Courts orders.

4.3 Valuation of Investment in Fletcher Challenge Forests

Grant Samuel has valued Rubicon's shareholding in Fletcher Challenge Forests in the range of $147.6 million to $172.3 million. This represents a range of 30 to 35 cents per Fletcher Challenge Forests share.

In July 2002, Grant Samuel was engaged by the independent directors of Fletcher Challenge Forests to prepare an independent adviser's report on the proposed acquisition of the CNIFP forestry assets and related transactions.

As part of the Independent Adviser's Report Grant Samuel assessed the value of Fletcher Challenge Forests shares in July 2002 in the range of 33.6 to 37.4 cents per share as shown in the table below. The valuation represents the full underlying value of Fletcher Challenge Forests shares assuming 100 per cent of the company was available to be acquired and includes a premium for control. Generally the market price of a company's share represents the value of a portfolio interest and does not incorporate the premium for control represented in the full underlying value.

Fletcher Challenge Forests – Existing Assets Valuation Summary (NZ$million)

	Methodology	Value Range	
		Low	High
Forests Estate	DCF	1,055	1,140
Processing Assets	Capitalisation of EBITDA	215	255
Corporate overheads	Capitalisation of costs	(120)	(145)
Other Investments	Capitalisation of earnings	35	40
Net Bank Debt as at 30 June 2002		(248)	(248)
Equity Value		**937**	**1,042**
Total shares on issue (million)		2,789	2,789
Value per FCF share (cents)		**33.6**	**37.4**

In preparing this report for Rubicon Grant Samuel has reviewed current market conditions and the valuation work undertaken in July 2002 and considers that there have been no material changes that would require a change to the methodology or outcome in valuing 100 per cent of Fletcher Challenge Forests.

The July 2002 valuation provides the basis for a valuation of Rubicon's 17.6% stake in Fletcher Challenge Forests. The stake held by Rubicon is a portfolio interest that does not offer a purchaser the opportunity to control Fletcher Challenge Forests where its existing holding is at or under the Takeovers Code threshold of 19.9%, over which a Code offer must be made. Whilst Rubicon's shareholding in Fletcher Challenge Forests gave it significant influence in determining the outcome of the proposed CNIFP acquisition, this was in circumstances where Rubicon was not prepared to suffer dilution at the hands of a new cornerstone shareholder. Grant Samuel does not believe that Rubicon has, by virtue of its 17.6% holding, a significant influence over the day-to-day control of Fletcher Challenge Forests.

For the purpose of this report it is appropriate to apply a discount to the full underlying value of Fletcher Challenge Forests to value the Rubicon shareholding. Although the Rubicon shareholding could be considered a portfolio interest, in Grant Samuel's opinion it carries a strategic attraction being the largest single shareholding in Fletcher Challenge Forests. It is likely that a buyer seeking to accumulate a strategic stake in Fletcher Challenge Forests would place a value on it above that for a portfolio interest. Accordingly Grant Samuel has valued the Rubicon parcel in the range of 30 to 35 cents per share. In assessing this value range, Grant Samuel has considered that:

- it is highly probable that if Rubicon sought to sell its stake on the open market it would have to accept a discount to the current market price to achieve a total, timely sale;

- whilst Rubicon had an offer of 37 cents per share from Fletcher Challenge Forests as part of the proposed acquisition of the CNIFP assets in July 2002, this offer is no longer available to Rubicon and is not likely to be offered again; and

- whilst Rubicon remains a shareholder in Fletcher Challenge Forests and there is the possibility that other third parties could make a full offer for all of the shares in Fletcher Challenge Forests, there is the consequent possibility that Rubicon could receive a price closer to the full underlying value of Fletcher Challenge Forests shares as a result.

As at 31 March 2002 the shares were listed in the annual accounts of Rubicon at a value of 27 cents each being the price of the last sale of Fletcher Challenge Forests shares at the close of the market on that date.

4.4 Valuation of Trees & Technology

Grant Samuel has valued Trees & Technology using the discounted cash flow methodology. The analysis took into account management's post-tax real operating cashflows projected out to the year 2012, adjusted by Grant Samuel to test sensitivity under probability weighted scenarios. A post-tax, real discount rate of 12% was applied to the cashflows. This reflects the relatively established nature of the technologies employed by Trees & Technology for the propagation of "family" and clonal treestocks and the existence of the ten-year strategic relationship agreement with Fletcher Challenge Forests which to some extent provides a guaranteed income base. Grant Samuel considers the discount rate to be representative of the levels of return that equity and debt providers would seek from an investment of this type. The results of the sensitivity analysis are summarised below:

Trees & Technology – Valuation Sensitivity

Post-Tax Real discount rate – 12%	**$m**
Managements' cash flow projections	29.2
85% probability weighted projections	22.6
80% probability weighted projections	20.3
75% probability weighted projections	18.1

Grant Samuel has assessed the value of Trees & Technology as being in the range of $18 million to $23 million. This asset is of considerable strategic importance to Fletcher Challenge Forests and is considered a leader in its sector by international forestry players. Under Rubicon's ownership, Trees & Technology has developed a greater emphasis on commercial revenue generating activity, whereas it was viewed as being more of an internal service provider under its previous Fletcher Challenge Forests ownership. As a result, expansion of the business in the New Zealand market and the development of export sales of seeds, treestocks, and scientific services show considerable potential. Trees & Technology has few restrictions on capacity and enjoys a relatively small fixed cost base. Because of this it enjoys strong operating margins that show good growth in the early years. There are several strategic options for Trees & Technology looking forward including linkages with one or more other forestry biotechnology players and the possibility of floating off an enlarged business by way of IPO.

4.5 Valuation of ArborGen

Value of ArborGen's Product Portfolio

The value of ArborGen's product portfolio is influenced by five principal factors:

- ***Number of tree seedlings planted.*** This number is assumed to remain relatively steady over time, with the increasing proportion of wood supply met from plantation forests being balanced out by the increasing amount of wood produced per bio-engineered tree planted. The market has been estimated as follows:

Treestock Market Estimate	
Species	**Seedlings planted per year**
Loblolly pine	1,150 million
Eucalypt	280 million
Radiata pine	180 million

- ***The value that engineered traits can add per seedling.*** Bio-engineered traits add value by increasing yield, reducing growing and harvesting costs, improving product mix, and adding utility for the end-user. The value added is calculated as being the net present value at the time of planting of each of these sources where value is captured along the industry chain;

- ***The value captured along the industry chain.*** Which industry participant captures the value created by bio-engineered forestry is determined by who holds the unique and defensible assets and capabilities in the value chain.

- ***Time until commercial product launch and uptake of bio-engineered traits.*** The long lead times for developing commercial products and the likely moderate pace of end-user adoption have a major impact on value. Most of the uncertainty in timelines is expected to be driven by regulatory and customer requirements, rather than by the science; and

- ***ArborGen's share of the bio-engineered treestock market.*** ArborGen has the advantage of being the leading player in the market.

Grant Samuel has valued Rubicon's 31.67% shareholding in ArborGen in the range of $49.4 million to $98.8 million. This was derived by assessing the full underlying value of 100% of ArborGen, using discounted cash flow methodology. ArborGen management projections of pre-tax operating cashflows were used as a base for the analysis. Cashflows have been projected out for a relatively long 50 year period, reflecting the duration to develop, test and commercialise gene modified products for the individual traits being targeted. A pre-tax real discount rate of 22.5% was used in the analysis reflecting the higher risk inherent in the bio-engineering business case compared with the less-complex technology used by Trees & Technology.

The valuation range is wide and falls below Rubicon management's own estimates of value. Grant Samuel considers that for the most part management's projections appear realistic. However, given the development nature of bio-engineering, Grant Samuel has applied a 50% probability weighting to management's projections to derive a low case valuation.

ArborGen Valuation Analysis ($m)		
	Valuation	
Pre-tax Real Discount Rate 22.5%	**Low**	**High**
Net present value of cashflows	156.1	312.1
Rubicon shareholding	31.67%	31.67%
Value of Rubicon shareholding	49.4	98.8
Rubicon's investment at book value (as at 23 September, 2002)	34.6	34.6
Premium on capital invested	43%	186%

The valuation range is wide and is representative of the difficulty in ascribing value to a high technology venture at the current stage of development. It also reflects an opinion that parties interested in investing in forestry biotechnology businesses will have quite varied views as to market value. For instance, major forestry players are likely to place a strategic value of an investment in excess of that placed on it by a financial investor. Moreover, it could be argued that their considerably lower cost of capital would implicitly lead to a higher valuation, and hence create options for Rubicon to extract further value from its investment in ArborGen.

The valuation of Rubicon's investment in ArborGen is, in common with the majority of discounted cashflow valuations, very sensitive to the discount rate used, as shown in the table below.

Rubicon's Share of ArborGen – Sensitivity to Discount Rate ($m)			
Discount Rate	**18%**	**20%**	**25%**
Low case	108.6	76.7	31.1
High case	217.1	153.4	62.2

The sensitivity results from a combination of negative cash flows in the early development years and the long term nature of the investment.

Grant Samuel's valuation range for ArborGen implies a premium over capital invested in the range of 43% to 186%. Appendix 1 shows premia over capital invested for a sample of listed companies in the biotechnology sector. The range is wide and is likely to reflect how advanced an individual company is in terms of successful commercial development of its biotechnology assets.

Although ArborGen is a relatively new business and will require further capital from its shareholders for several years, it has unchallenged intellectual property assets and strong market position. Each of the shareholders has passed on unique intellectual property since the formation of ArborGen making it the only company of its type in the world. ArborGen operates in a larger and substantially untouched market, being the global forestry industry, currently with little or no competition. The prospects of a serious competitor emerging are considered distant because of the number of years "advance start" that ArborGen has as a result of bringing together the proprietary knowledge of its shareholders.

4.6 Valuation of FTSA

Assessing the value of 100% of FTSA is problematic given the political and economic environment existing in Argentina. Although there are signs that the economy has stopped contracting and inflation is reducing, the government has not demonstrated that it has a coherent economic programme. As a consequence the International Monetary Fund has refused to provide relief funding which would allow the country to resume repayment of its debt.

Elections are scheduled for March 2003. However, there is a possibility that the elections may be brought forward on the back of public dissatisfaction with the current government paralysis. Observers consider that there are no strong leaders emerging to replace the current President and that there is a danger that any election may not produce a stable government. In such a scenario there are concerns that authority will devolve back to the provinces, potentially causing economic and political upheaval.

FTSA has been fortunate that it has products that have attracted substantially increased export demand following the recent peso devaluation. This has led to a turnaround in profitability and has countered the negative effects of the considerable dampening of domestic demand. Rubicon's strategy is to manage the business to maximise cash earnings and reduce debt. In Grant Samuel's view, there is unlikely to be a significant turnaround in the value of the peso in the medium term that could lead to FTSA's exports becoming uncompetitive. Accordingly Grant Samuel has used an EBITDA of 5.5 to 6 million pesos as maintainable earnings for valuation purposes.

Grant Samuel has valued Rubicon's investment in FTSA in the range of NZ$2.6 million to NZ$7.0 million, derived as follows:

Valuation of Rubicon Investment in FTSA		
Equity Value of FTSA (000 Pesos)	**Low**	**High**
EBITDA for valuation purposes	5,500	6,000
Capitalisation multiple	3.0x	4.0x
Enterprise value	16,500	24,000
Net debt	(12,000)	(12,000)
Equity value	4,500	12,000
Less Rubicon preference shares	(18,000)	(18,000)
Value of ordinary shares	Nil	Nil
Valuation of Rubicon Investment		
Ordinary shares (50%)	-	-
Preference shares	4,500	12,000
Rubicon investment - pesos	4,500	12,000
Exchange rate	NZ$1 = 1.7079 pesos	NZ$1 = 1.7079 pesos
Rubicon investment - NZ($000)	2,635	7,026

The preference shares rank ahead of the ordinary shares in the event of a winding up. Grant Samuel has assessed a worst-case break up value of FTSA's equity of 10.5 million pesos, which is within the range derived under the capitalisation of earnings approach used above.

Assessed Break Up Value of FTSA (million pesos)		
	June 2002 Recorded Value in FTSA's books*	**Break Up Valuation**
Forest assets, plant and equipment	43.6	20.8
Debtors and inventory	7.8	2.8
Cash	1.9	1.9
Other assets	4.0	0.0
Total assets	57.3	25.5
Creditors	(2.5)	(2.5)
Bank debt	(12.0)	(12.0)
Other liabilities	(2.3)	(1.0)
Total liabilities	(16.8)	(15.5)
Net equity (000 pesos)	40.5	10.0
Rubicon preference shares	(18.0)	(18.0)
Ordinary equity	22.5	0.0

In the Statement of Financial Position at 31 March 2002, Rubicon recorded its interest in FTSA at only NZ$7.6 million.

The break up analysis shows FTSA as having an ordinary equity value of zero and a preferred share redemption value of 10 million pesos (NZ$5.9 million).

4.7 Valuation of Genesis

Grant Samuel has valued the investment in Genesis at $1.36 million. Grant Samuel has used the current market price of Genesis shares on the NZSE to value Rubicon's shareholding in the company. Rubicon owns 2.81% of all Genesis' issued shares. A stake of this size does not carry any strategic premium as Genesis' shares are widely held. Market value is considered the appropriate valuation benchmark.

Valuation of Genesis Shareholding	
Market value of a Genesis share on NZSE at 20 September, 2002	$1.87
Number of shares held (000's)	727
Value of shareholding ($000)	**1,359.5**

4.8 Other Assets and Liabilities

Other assets and liabilities have been valued in the range of $2 - $5 million. Rubicon has several other assets and liabilities that are not included in the valuation of the individual business units. These include an investment in comprehensive expressed sequence tag ("EST") database of DNA sequences for the commercial forestry species of Radiata pine and eucalyptus, along with United States and international patents for genes controlling certain growth and fibre properties of these species. The database has been licenced for use to ArborGen. It is the largest database in the world for any commercial tree species, in either the forestry or horticulture sectors.

Other assets and liabilities include:

- capitalised research and development costs for potential new ventures; and
- provisions relating to the separation of Rubicon from Fletcher Challenge Energy.

4.9 Valuation of Corporate Overheads

Grant Samuel has deducted an amount of $10.6 million from the valuation of Rubicon to reflect the cost of corporate overheads of Rubicon. A multiple of 4 times was applied to budgeted sustainable post-tax corporate overheads (including bonus and incentive payments).

4.10 Cash

Rubicon has no debt at the corporate level. On 23 September 2002 the company had cash on deposit totalling $64.1 million.

5 Evaluation of the Merits of GPG Offer

5.1 The GPG Offer is not Fair

In Grant Samuel's opinion the full underlying value of Rubicon shares is in the range of $0.98 to $1.28 per share. The value is for 100% of Rubicon and includes a premium for control. As the GPG Offer of $0.75 per share is below the range it is considered not fair.

5.2 Other Merits of the GPG Offer

In assessing other merits of the GPG Offer, Grant Samuel considered the following:

- in some takeovers there are factors that might suggest that even if an offer is not fair shareholders should consider accepting the offer. In this instance there does not appear to be any compelling reason for shareholders to accept a takeover offer that is significantly below full underlying value;

- GPG, in making its offer, has stated that it can "assist in some sensible consolidation of the forestry industry in New Zealand." GPG's intentions in seeking a controlling shareholding in Rubicon appears to be to put in a position where it can influence Fletcher Challenge Forests as a major stakeholder in that industry. This would be done through Rubicon's 17.6% shareholding in Fletcher Challenge Forests. GPG has stated that a consolidation of the forestry sector would involve the CNIFP assets, Carter Holt Harvey and Fletcher Challenge Forests. In the absence of any further detail from GPG on its consolidation strategy, Grant Samuel is of the view that influence through just the Rubicon shareholding alone would not be sufficient to initiate changes without the full support of Carter Holt Harvey shareholders and the Receivers of the CNIFP assets.

  In August 2002, GPG used its shareholding in Fletcher Challenge Forests to vote against the proposed purchase of the CNIFP assets by Fletcher Challenge Forests and SEAWI. In doing so it did not publicly provide any alternative plans. GPG also stated that it would use its Rubicon shareholding to vote against the linked Tahorakuri Forest Estate acquisition and disposal of Fletcher Challenge Forests shares by Rubicon. These transactions would have moved Rubicon's theoretical asset backing up to $1.06 per share;

- because the GPG Offer is only a partial offer to all shareholders, most Rubicon shareholders accepting the offer are likely to be left with approximately 60% of the Rubicon shares they currently own. As a consequence they will retain exposure to the business risks of any subsequent GPG plans for the consolidation of the forestry sector;

- GPG appears to have an interest in Rubicon, solely as a means of assisting in the consolidation of the domestic forestry sector. It has not stated any intentions for Rubicon's other businesses and investments. It is possible that it may use its control to have Rubicon sell these;

- the GPG Offer price of $0.75 is below Rubicon's current asset backing of approximately $0.82. It is reasonable to assume that an orderly realisation of Rubicon's assets could realise asset backing;

- the GPG Offer price of $0.75 is equivalent to the sum of Grant Samuel's low end valuation of the Fletcher Challenge Forests shareholding and Rubicon's cash. GPG's Offer implicitly places little or no value on Rubicon's investments in Trees & Technology, ArborGen, FTSA, and Genesis. Grant Samuel has valued these other investments at $73.3 million at the low end of the range;

- GPG has not stated that it would increase its offer price to allow for the effect of the Perry Corporation shareholding in Rubicon being forfeited and cancelled by Court order as one of the possible penalties under the Securities Act in respect of GPG's current legal action against Perry Corporation. If the Courts ordered cancellation of the whole Perry shareholding, the theoretical GPG Offer price should increase to approximately $0.89 per Rubicon share if shareholders are to receive the same relative value per share. Rubicon's net asset backing would move to approximately $0.98 per share and Grant Samuel's valuation range would move to $1.17 to $1.52 per share;

- Rubicon shares are a reasonably liquid stock. If GPG's Offer to acquire 40% of the remaining shares is successful, liquidity in Rubicon shares will contract and is likely to lead to less trading in the shares with some impact on market price;

- having achieved a 50% shareholding, the Takeovers Code allows GPG to acquire a further 5% in any 12-month period either on market or by private treaty. Such purchases are likely to be at market prices. In addition, Rubicon could give notice of a partial offer to acquire a portion of the outstanding shares. Such a partial offer would have to be made to all remaining shareholders but does not, in Grant Samuel's opinion, have to be at a price equivalent to the full underlying value as it is not a full takeover offer;

- the GPG Offer is conditional upon it receiving sufficient acceptances to take it over a 50% shareholding in Rubicon. The offer will lapse if this threshold is not reached. GPG is not seeking a shareholding of less than 50%, which it is able to do under the Takeovers Code with the approval of Rubicon's other shareholders;

- there are no significant shareholders in Rubicon other than GPG and Perry with 19.99% and 15.98% respectively. However, institutional shareholders collectively own approximately 50% of the outstanding shares in Rubicon and therefore their acceptance or rejection of the GPG Offer will materially impact on the success of the offer; and

- shareholders not accepting the GPG Offer face the risk that GPG does not increase its offer price and it does not receive sufficient acceptances to declare the offer unconditional. If the offer lapses, the share price of Rubicon may trade below current levels.

5.3 Acceptance or Rejection of the GPG Offer

Acceptance or rejection of the GPG Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

6 Qualifications, Declarations and Consents

6.1 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 250 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, CA, and John Mandeno, BCom. Each has a significant number of years experience in relevant corporate advisory matters.

6.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion on the merits of the GPG Offer. Grant Samuel expressly disclaims any liability to any Rubicon shareholder that relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

6.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Rubicon or GPG, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposed offer.

Grant Samuel had no part in the formulation of the GPG Offer. Its only role has been the preparation of this report and its summary. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the GPG Offer. Grant Samuel will receive no other benefit for the preparation of this report.

Accordingly, Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

6.4 Information

Grant Samuel has obtained all information, which it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Rubicon and made available to the Directors. Grant Samuel confirms that in its opinion the information to be provided by Rubicon and contained within this report is sufficient to enable Rubicon shareholders to understand all relevant factors and make an informed decision, in respect of the GPG Offer.

6.5 Declarations

Rubicon has agreed that to the extent permitted by law, it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of the report. This indemnity will not apply in respect of the proportion of liability found by a court to be attributable to any conduct involving negligence or wilful misconduct by Grant Samuel. Rubicon has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct in which case Grant Samuel shall bear such costs.

Advance drafts of this report (and parts of it) were provided to Rubicon. Certain changes were made to this report as a result of the circulation of the draft report. However, there was no alteration to the methodology, conclusions or recommendations made to Rubicon shareholders as a result of issuing the drafts.

Grant Samuel's terms of reference for its engagement did not contain any term, which materially restricted the scope of the report.

6.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the information to be sent to Rubicon shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

6.7 Other

The accompanying letter dated 25 September 2002 and attached appendices form part of this report.

GRANT SAMUEL & ASSOCIATES LIMITED
25 September 2002

Grant Samuel + Associates

Appendix 1

The following table shows the premium or discount of market capitalisation to shareholders' funds that a sample range of biotechnology companies were trading at on the USA markets as at 20 September 2002.

Biotechnology Companies – Premium/(Discount) of Market Capitalisation to Equity	
Amgen Inc.	1,001%
Biopure Corp.	62%
Digene Corp.	304%
Enzo Biochem Inc.	263%
Gene Logic Inc.	(2%)
Martek Biosciences Corp.	180%
Sequenom Inc.	(54%)
Texas Biotechnology Corp.	52%
Transgenomic Inc.	10%

- Amgen Inc. discovers, develops, manufactures and markets human therapeutics based on cellular and molecular biology.
- Biopure Corp. develops, manufactures and markets oxygen therapeutic solutions.
- Digene Corp. develops, manufactures and markets DNA and RNA tests for the detection, screening and monitoring of diseases.
- Enzo Biochem Inc. researches, develops, and manufactures labelling and detection products for gene sequencing and genetic analysis.
- Gene Logic Inc. develops proprietary genomic information products, software, and research services.
- Martek Biosciences Corp. develops, manufactures, and sells products derived from microalgae.
- Sequenom Inc. is a genomics company that is able to determine the medical impact of genes and genetic variations with its technology.
- Texas Biotechnology Corp. discovers, develops, and commercialises novel drugs focussing on small molecule drug development.
- Transgenomic Inc. provides research tools for the understanding of variations in the human genetic code, or genome.

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