



INVESTMENT STATEMENT AND PROSPECTUS

Dated 23 October 2009

FOR AN OFFER OF
SHARES IN RURAL EQUITIES LIMITED
IN EXCHANGE FOR UNITS IN THE
NEW ZEALAND RURAL PROPERTY TRUST

This Offer Document is prepared in accordance with
the Securities Act 1978 and the Securities Regulations 1983

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IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.¹

¹ This is the wording required by Schedule 3D to the Securities Regulations 1983 which contemplates a separate investment statement and prospectus. For this offer the two documents have been combined and accordingly the prospectus available on request is identical to this document.

Engaging an investment adviser

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by one or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, and adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

CHAIRMAN'S LETTER

23 October 2009

To : The Unitholders
New Zealand Rural Property Trust

Dear Unitholders

The Directors of Rural Equities Limited (REL) are pleased to offer you the opportunity to exchange your units in the New Zealand Rural Property Trust (NZRPT) for shares in REL. REL has determined to offer NZRPT unitholders one share in REL for every 1.15 NZRPT units held.

The Directors believe the merger is a logical and positive step that will result in the merged entity having unified ownership and an internalised management structure. In our view, the Group's assets represent a portfolio of high quality farming assets that is unquestionably the best large-scale diversified rural property investment available in New Zealand.

The Directors believe that the merger will provide material benefits to both NZRPT unitholders and REL shareholders including:

- Fully aligning the interests of unitholders in NZRPT and shareholders in REL.
- Cost savings by eliminating duplicated activities.
- Greater transparency and liquidity - the merger will result in one entity on the Unlisted and ShareMart share trading platforms rather than the present two.
- An expected reduction in the discount between REL's market price and its net asset value as a result of internalised management, cost savings and a less confusing structure.
- An enhanced ability to pay fully imputed dividends.

The Trustee has commissioned two independent reports from reputable advisors with respect to the offer:

- An Independent Report assessing whether the terms of the offer are fair and reasonable.
- A report on the key legal differences from an investor's perspective between ownership of a unit in a unit trust and the ownership of a share in a company.

Both reports are enclosed separately with the meeting material provided to NZRPT unitholders. The transaction requires the approval of NZRPT unitholders at a Special Meeting that will be held in Wellington on Tuesday 24 November 2009. The merger also requires the approval of REL shareholders at their Annual Meeting in Hastings on 27 November 2009.

For the reasons outlined above we encourage you to support the proposed merger by voting in favour of the resolution at the NZRPT unitholders' meeting or submitting a proxy if you can not attend the meeting.

On behalf of the Directors of REL.



Sir Selwyn Cushing
CHAIRMAN

OFFER SUMMARY

The Offer

This Offer Document is for an offer of ordinary shares in Rural Equities Limited ("REL") in exchange for all the Units in the New Zealand Rural Property Trust ("NZRPT") not held by REL. The purpose of the offer is to give effect to the proposed merger of REL and NZRPT. Accordingly, the offer is only being made to persons who hold Units in NZRPT (other than REL).

Acceptance of this offer will result in the merger of REL with NZRPT, with:

- (a) Unitholders (other than REL) holding shares in REL (by virtue of the exchange of their Units in NZRPT for shares in REL); and
- (b) REL holding all the Units in NZRPT.

Acceptance of the offer by Unitholders will occur, if Unitholders pass the Extraordinary Resolution, as more particularly described on page 4.

Offer Timetable

Date of Unitholders' meeting to approve merger proposal*	24 November 2009
Date of REL shareholders' meeting to approve the issue of Shares*	27 November 2009
Issue of REL shares and transfer of Units*	30 November 2009
Notification of shares issued*	4 December 2009

*REL may amend these dates at its discretion.

Combined document

This Offer Document is an investment statement for the purposes of the Act and Regulations. It is prepared as at and dated 23 October 2009. This document is also a prospectus for the purpose of the Act and Regulations. The information required to be contained in the investment statement is set out above under the heading Important Information and under the heading Investment Statement Information - Answers to Important Questions on pages 8 to 11.

This Offer Document has been registered after 1 October 2009 but before the close of 30 June 2010. In accordance with Regulation 52 of the Securities Regulations 2009, the Company has elected that the Securities Regulations 1983 apply to the offer contained in this Offer Document.

Registration of Offer Document

A copy of this Offer Document signed by or on behalf of REL and all the directors of REL has been delivered to the Registrar of Companies for registration under section 42 of the Act together with copies of the documents required by section 41 of the Act to accompany this Offer Document (being the consent of PwC to the inclusion of the Valuation Report in this Offer Document and the consent of Ernst & Young to this inclusion of their auditor's report in this Offer Document).

References to legislation

This Offer Document refers to various New Zealand legislation. All legislation referred to in this Prospectus may be viewed online at www.legislation.govt.nz.

Defined terms

Words identified by capital letters in this Offer Document are identified in the Glossary on page 18.

MAIN TERMS OF OFFER

Proposed Merger

This Offer Document relates to a proposed merger of REL with NZRPT. At the date of this Offer Document REL's primary asset is its 62.76% holding of Units in NZRPT and its primary business operation is the management of NZRPT, through its wholly owned subsidiary, NZRPTML.

Shares in REL are being offered to each person who is a Unitholder in NZRPT (other than REL) in exchange for the transfer to REL of all the Units held by that Unitholder in NZRPT at the Exchange Value of 1 Share in REL for 1.15 Units in NZRPT (rounded to the nearest whole number).

The merger would in the opinion of REL provide material benefits to both Unitholders and REL shareholders, which would include:

- fully aligning the interests of Unitholders and shareholders in REL;
- cost-savings by eliminating duplicated activities;
- greater transparency and liquidity as the merger will result in one entity on the unregistered securities trading facilities, Unlisted* and ShareMart* rather than the present situation of two entities (which is confusing for investors);
- an expected reduction in the discount between REL's market prices and its net asset value as a result of internalised management, cost-savings and a less confusing structure; and
- an enhanced ability to pay fully imputed dividends.

How will the proposed merger be effected?

Under the NZRPT Trust Deed Unitholders have the power to authorise the exchange of Units in NZRPT for shares in a company, by passing an extraordinary resolution of each interest group of Unitholders.

There are two interest groups of Unitholders in relation to the proposed merger, with the first interest group being REL and the second interest group being all Unitholders other than REL. This is because REL is being treated in the proposed merger differently to other Unitholders in that REL will retain its Units in NZRPT, and will not be issued Shares in REL.

Accordingly, in order to effect the merger the two interest groups will each be asked separately by the Extraordinary Resolution to authorise the exchange of all the Units in NZRPT that are not already held by REL for ordinary Shares in REL at the Exchange Value.

The Extraordinary Resolution placed before the two interest groups to approve the merger proposal will also ask Unitholders to approve the appointment of NZRPTML (as the manager of NZRPT) as agent of the Unitholders to sign all necessary documents to give effect to the transfer

of the Units in NZRPT to REL, except those Units already held by REL. This will include the transfer of the Units to REL and the subscription of the appropriate number of Shares based on the Exchange Value, on behalf of Unitholders (other than REL). This is to enable the transfer of the Units in NZRPT to REL to occur contemporaneously with the issue of the Shares in REL to Unitholders (other than REL). The Extraordinary Resolution placed before Unitholders will record the merger is contingent on REL shareholders by ordinary resolution authorising the issuing of the Shares to Unitholders (other than REL), as required under the REL constitution.

How has the Exchange Value been determined?

The Exchange Value was determined by REL having regard to the Valuation Report prepared by PwC dated 10 September 2009. A copy of PwC's Valuation Report is included within this Offer Document as Schedule 1. Unitholders should read this Valuation Report to ascertain the factors REL had regard to in determining the Exchange Value. The method of valuation that has been used in the Valuation Report is referred to in Section 5 of the Valuation Report.

A separate Independent Report addressing whether the offer is fair and reasonable to Unitholders has been commissioned by the Trustee. The Independent Report will be finalised following this Offer Document being registered and, accordingly, does not form part of this Offer Document. The Independent Report will be provided to Unitholders with the notice of special meeting of Unitholders of NZRPT that is to be held to consider the Extraordinary Resolution.

Change of legal structure

NZRPT is a unit trust established under the UTA. If Unitholders approve the merger proposal, Unitholders (other than REL) will exchange the Units they hold in NZRPT for Shares in REL i.e. Unitholders (other than REL) will become the holders of shares in a limited liability company rather than the holder of units in a unit trust.

Limited liability companies and unit trusts have different instruments relevant to the protection of investor's interests. The key legal instruments relevant to the structure of NZRPT and a Unitholder's rights and protections are the UTA, the NZRPT Trust Deed and the role of the Trustee. In contrast the key legal instruments relevant to the structure of REL and a shareholder's rights and protections are the Companies Act, REL's constitution and the Takeovers Code (as REL is a code company).

Both unit trusts and companies are commonly used in New Zealand as investment entities. There are opinions held on the advantages and disadvantages of either type of entity in comparison with the other. Unit trusts are often used as the investment vehicle where there is external

* Neither Unlisted nor ShareMart are registered or authorised securities exchanges, or regulated under New Zealand securities exchanges law. Unlisted and ShareMart accepts no responsibility for any statement made in this Offer Document.

management and the appointed trustee has an important monitoring role on the external manager. If the merger occurs, all shareholders in REL will be entitled to vote on the appointment of directors of REL. Each Unitholder will need to form their own opinion as to whether they are comfortable in exchanging units in a unit trust for shares in a limited liability company. The Trustee, independent of REL, has commissioned a report for Unitholders on the implications for Unitholders in exchanging units in a unit trust for shares in a limited liability company. This report does not form part of this prospectus as it has been independently commissioned by the Trustee and is not available to be included within this prospectus. However, this report will be provided to Unitholders with the notice of special meeting of Unitholders of NZRPT that is to be held to consider the Extraordinary Resolution. Unitholders may also wish to consult their financial advisor if they have any questions regarding the implications of exchanging their investment in a unit trust for shares in a limited liability company.

Offer is conditional

The offer of Shares in REL under this Offer Document is conditional on:

- (a) each interest group of Unitholders in NZRPT authorising the exchange of all Units in NZRPT, not held by REL, for Shares in REL at the Exchange Value by the Extraordinary Resolution; and
- (b) the shareholders in REL authorising the issue of up to 15,484,379 Shares in REL to the Unitholders in NZRPT (other than REL) (in proportion to the Units held by the Unitholders), in accordance with the Exchange Value,

in each case, on or before 28 November 2009.

Each Unitholder's entitlement

Each Unitholders Share entitlement is based on the Exchange Value. The number of Shares which each Unitholder (other than REL) is entitled to, will in the case of fractional entitlements, be rounded to the nearest whole number.

Acceptance or renunciation of offer

Unitholders, in the Extraordinary Resolution referred to above, will vote as to whether to approve the merger and, if approved, giving NZRPTML the power to sign a transfer of their Units and subscribe for their entitlement to Shares. Please note if the Extraordinary Resolution is passed and a Unitholder either abstains or votes against the Extraordinary Resolution, NZRPTML (as manager) will still be entitled to, and intends to, execute the necessary documentation to effect the merger on behalf of all Unitholders, subject to REL shareholders approving the merger. Accordingly, if the Extraordinary Resolution is passed all the Units in NZRPT held by each

Unitholder (other than REL) will be exchanged for Shares in REL at the Exchange Ratio.

It is therefore important all Unitholders exercise their right to vote on the Extraordinary Resolution.

Overseas shareholders

Any person outside New Zealand who participates in the offer will be deemed to represent and warrant to REL that they are a person to whom an offer may lawfully be made in their jurisdiction pursuant to this Offer Document and that they may lawfully participate in the offer. Neither REL nor any of its Subsidiaries, officers, employees or advisers accepts any responsibility to determine whether a Unitholder is able to participate in the offer.

Important Document

If you are in any doubt as to how to deal with this Offer Document, please immediately contact an accountant or a financial advisor.

ABOUT REL

Background

REL is a company which primarily invests in and manages rural property in New Zealand for long term capital growth and income.

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

In February 2004 W&K carried out a court approved scheme of arrangement under Part XV of the Companies Act 1993 pursuant to which it transferred the Units it owned in NZRPT to REL in return for further shares in REL and \$6,000,000 in cash. W&K then made a distribution of shares in REL to each W&K shareholder pro-rata to their shareholding in W&K.

H&G Limited ("H&G"), an investment company of Sir Selwyn and David Cushing, currently holds 55.83% of the shares on issue in REL. Other entities directly associated with the Cushing Family, hold an additional 9.27% of REL's shares.

As at the date of this Offer Document, REL has 26,685,612 shares on issue. Details of REL's 10 largest shareholders as they appear on the share register as at the date of this Offer Document are shown in the table below:

REL Shareholders	Number of shares	Shareholding %
H&G Limited	14,897,870	55.83
RotoruaTrust Perpetual Capital Fund Limited	3,500,000	13.12
RGH Holdings Limited	917,293	3.44
David Cushing	644,307	2.41
New Zealand Central Securities Depository Limited	535,552	2.01
Brian Martin	375,444	1.41
Sir Selwyn Cushing	366,977	1.38
Seajay Securities Limited	313,625	1.18
Selba Holdings Limited	263,160	0.99
Riddell Funds Management Limited	220,000	0.82
Other (501 shareholders)	4,651,384	17.43

Total **26,685,612**

None of the above persons guarantees the Shares being offered under this Offer Document.

REL's primary asset is a holding of 62.76% of the Units on issue in NZRPT and 100% of the shares in NZRPTML, who is the manager of NZRPT. NZRPTML previously held 5.34% of the Units on issue in NZRPT. These Units were transferred to REL on 13 October 2009, as it is not permissible at law for REL to issue Shares to its subsidiary company. Further details about NZRPTML are contained in the sections Management of NZRPT and Profile of NZRPT below.

In July 2006 REL expanded its funds management business with the formation of the REL-Pacific Equity Trust, a trust established to take advantage of investment opportunities, principally in New Zealand and Australia. Initial investment capital raised through a Private Placement Memorandum was \$19,000,000. Around this time REL formed another wholly owned subsidiary, REL-TML, to act as the manager of the REL-Pacific Equity Trust.

A resolution to wind up the REL-Pacific Equity Trust was passed on 26 June 2009. REL-TML's primary purpose and business activity was to act as manager of the REL-Pacific Equity Trust. As the REL-Pacific Equity Trust is in the final stages of being wound up, REL-TML's management agreement of the REL-Pacific Equity Trust will then be at an end. As at the date of this Offer Document it is intended that REL-TML will be amalgamated into REL.

REL also provides funds management and other administrative services to external companies. Further information about these activities is set out in the Valuation Report from PwC and these activities have been taken into account by PwC in preparing such report.

Corporate Governance

The Board of REL meets approximately eight times during the year for scheduled meetings, with additional meetings held if necessary to consider urgent issues. The Board has a constituted Audit Committee. The Audit Committee is chaired by an independent director and is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing the external audit, liaison with REL's auditor and making recommendations to the Board as to their appointment and their remuneration.

REL's financial statements

A copy of REL's 2009 Annual Report containing the audited financial statements of REL to 30 June 2009 can be obtained by contacting the registered office of REL (refer to the Directory for contact details) or from REL's website, www.ruralequities.co.nz.

Management of NZRPT

The terms and conditions governing the management of NZRPT are embodied within the NZRPT Trust Deed. The NZRPT Trust Deed (and NZRPT) terminates in 2067.

Essentially, NZRPTML's role as manager under the NZRPT Trust Deed is to administer and supervise the investments of NZRPT in the best interests of Unitholders and to ensure developments are carried out in a proper manner. With regard to acquisitions and disposals, investment proposals are prepared by NZRPTML and are subject to the approval of the Trustee.

In consideration for the management services provided by NZRPTML it receives a management fee calculated on a sliding scale based on the gross value of NZRPT. This fee basis was last reviewed in 1999 and is made up as follows:

- (a) a cash component calculated on the gross value of the assets of NZRPT on the first business day of each year as follows:

Total gross asset value

First \$50,000,000 1.50%

Second \$50,000,000 1.25%

Over \$100,000,000 1.00%

- (b) a unit component, calculated at 0.5% of the gross value of the assets of NZRPT on the last day of the financial year.

All Units issued to NZRPTML as part of its management fee (being 2,553,648 Units or 5.34% of the Units in NZRPT) were transferred to REL on 13 October 2009.

Profile of NZRPT

NZRPT is registered under the UTA. It was established in 1987 for the express purpose of holding a diverse long-term portfolio of prime rural property assets.

NZRPT now operates as a closed unit trust, whereby Unitholders seeking to purchase or sell Units effect their transaction via secondary markets.

As at the date of this Offer Document, NZRPT had 47,812,922 Units on issue. The substantial Unitholders of NZRPT as they appear on NZRPT's register as at the date of this Offer Document are shown in the table below:

NZRPT Unitholders	Number of Units	Unitholding %
Rural Equities Limited	30,007,131	62.76
Ashfield Farm Limited	2,896,304	6.06
National Nominees New Zealand Limited	1,941,500	4.06
H & G Limited	1,405,832	2.94
RotoruaTrust Perpetual Capital Fund Limited	1,340,567	2.80
Selba Holdings Limited – a/c 12238	964,232	2.02
WJ Greenwood, IS Roberston and AJ Mansell	675,919	1.42
Other (1082 Unitholders)	8,581,437	17.94

Total 47,812,922

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

NZRPT owns 30 rural properties throughout New Zealand as well as a forest property near Ngaruawahia. Four of the farms are directly managed, six are share-milked dairy farms, and 20 are leased to farmers who undertake a wide range of rural activities. On the dairy farms approximately 3,700 cows are milked in conjunction with 50/50 sharemilkers. Further details of the activities of NZRPT are set out in the Valuation Report from PwC in Schedule 1.

Group facility arrangements

As at the date of this Offer Document, both REL and NZRPT have separate financial facility arrangements with Westpac New Zealand Limited. If the merger of REL and NZRPT proceeds, REL intends to endeavour to restructure these facilities into an all in one group facility arrangement.

INVESTMENT STATEMENT INFORMATION - ANSWERS TO IMPORTANT QUESTIONS

1. WHAT SORT OF INVESTMENT IS THIS?

Each Unitholder in NZRPT (other than REL) is being offered the opportunity to acquire Shares in REL in exchange for all the Units held by that Unitholder in NZRPT, at the Exchange Value. If the merger proposal is authorised, Unitholders (other than REL) will hold Shares in REL, a limited liability company, rather than units in a unit trust. No person or entity guarantees the Shares offered.

The Shares offered will rank equally in all respects with all the existing shares on issue in REL. Each Share gives the holder the right to:

- (a) attend and vote at a meeting of REL, including the right to cast one vote per Share on a poll on any resolution, including but not limited to a resolution to:
 - appoint or remove a director or auditor;
 - adopt or alter REL's constitution;
 - approve a major transaction;
 - approve the amalgamation of REL; or
 - put REL into liquidation;
- (b) dividends paid by REL in respect of that Share;
- (c) an equal share with other Shares in the distribution of surplus assets in any liquidation of REL;
- (d) be sent certain information about REL; and
- (e) the other rights as a shareholder conferred by the Companies Act and REL's constitution.

Under the terms of REL's constitution, if a shareholder holds less than the Minimum Holding, that shareholder can be required to sell those Shares or acquire more Shares, so as to hold at least the Minimum Holding. Also, REL is a code company for the purposes of the Takeovers Code. Consequently, the rights of shareholders in REL are subject to the Takeovers Code.

The above is a simplified and general description of some of the rights of shareholders. All terms of the offer, and the Shares, except those rights and obligations implied by law, are set out in this Offer Document and REL's constitution, both of which are available for public inspection on the Companies Office website at www.companies.govt.nz or at the registered office of REL (refer to the Directory for contact details). Copies may also be obtained by telephoning the Companies Office Contact Centre on 0508 266 726. A prescribed fee may be charged for a requested document.

2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

Rural Equities Limited is the issuer and promoter of the Shares. The registered office of REL is at Level 1, 120 Karamu Road North, Hastings, New Zealand.

The principal activities of REL is its investment and management of rural property in New Zealand. REL has been carrying out such activities since its incorporation. REL's primary asset is its holding of 62.76% of the Units on issue in NZRPT and the management of NZRPT through its wholly owned subsidiary NZRPTML.

Further details of the activities carried on by REL and its history are set out under the heading About REL on pages 6 to 7.

3. How Much Do I Pay?

The purpose of this offer under the Offer Document is to effect a merger of REL with NZRPT by Unitholders (other than REL) exchanging all the Units that they hold in NZRPT for Shares in REL. The Exchange Value is 1 Share in REL for 1.15 Units in NZRPT (rounded to the nearest whole number). If this offer becomes unconditional, Unitholders (other than REL) will transfer all their Units in NZRPT to REL, with NZRPTML completing and signing the necessary documentation on behalf of each Unitholder for their respective entitlement of Shares in REL under the Exchange Value. There is no actual payment required as the merger will be effected by Unitholders (other than REL) exchanging their Units in NZRPT for Shares in REL.

4. WHAT ARE THE CHARGES?

Unitholders are not required to pay any charges to REL in relation to the offer.

The estimated amount of expenses of this offer is \$260,000. This amount comprises the following:

- (a) Accounting and audit fees, legal fees and other fees associated with the offer, registry expenses, printing and distribution of this Offer Document. These expenses will be paid by REL.
- (b) The cost of the Valuation Report, 50% of which will be paid by REL and 50% of which will be paid by NZRPT.
- (c) The costs of the Independent Report commissioned by the Trustee and the report commissioned by the Trustee on the implications for Unitholders of exchanging units in a unit trust for shares in a limited liability company. These costs will be paid by NZRPT.

No commissions are payable in respect of this offer.

5. WHAT RETURNS WILL I GET?

Nothing contained in this Offer Document should be construed as a promise of profitability, and REL can give no assurance about the level of dividends, if any. Nor can any assurances be given as to the level of imputation credits or the level of supplementary dividends. No amount of returns is promised by REL or any other person.

Shareholders in REL will be entitled to receive any dividends that may be paid in the future. Shareholders will also be entitled to any other returns attaching to the Shares. Shareholders may also benefit from any increase in the market price of their Shares if they sell them. The price of Shares may also decline.

The key factor that will determine returns will be the financial performance of REL (which will reflect the financial performance of the underlying assets held by REL). REL may elect to establish or enhance reserves or retentions, reducing the amount available to be distributed to shareholders.

New Zealand taxes may also affect the return to investors. Unitholders are recommended to seek their own taxation advice in relation to their personal taxation position.

The information set out in this section should be read in conjunction with the information set out in the section entitled *What are my risks?* on pages 9 to 10. The factors described in that section could reduce or eliminate returns intended to be derived from holding the Shares.

In the event that any dividends are declared, REL will be legally liable to pay such dividends on the Shares. If a shareholder in REL sells Shares, the purchaser of those Shares and not REL will be legally liable to pay the purchase price for those Shares. Returns on the Shares are not payable on fixed dates.

The Shares are not listed on a registered exchange and are not frequently traded. Reduced liquidity in the trading of the Shares may impact on the returns of shareholders in REL, depending upon the conditions applying at the time the shareholder wishes to sell their Shares. There is currently an established market for such sales on two unregistered securities trading facilities, Unlisted* and ShareMart*.

The Shares in REL issued to Unitholders will rank equally in all respects with all existing shares on issue in REL.

6. WHAT ARE MY RISKS?

Equity Risk

The principal risks to Unitholders who receive REL Shares as part of the merger, are that they might not be able to recoup their original investment

or might not receive the returns that they expect. This could happen in a number of circumstances, including that:

- (a) REL may not have the funds available to pay dividends or may choose not to pay dividends during a particular period.
- (b) The market prices for Shares may be affected by interest rate movements, supply and demand for the Shares and for other reasons.
- (c) The price at which REL's Shares trade may be lower than the price Unitholders effectively paid for them (by the exchange of Units in NZRPT for Shares in REL).
- (d) There may be no ready market for the Shares in REL.
- (e) REL may become insolvent or be placed into receivership or liquidation.
- (f) The operational and financial performance of REL may be unsatisfactory.
- (g) In the event of changes in company tax rates, individual income tax rates, or the way existing rates affect investors' taxable income, such changes may impact on the return to investors.

Risk of REL Share price movement

Holders of Shares in REL will face general risks associated with equity investments. The price of the Shares in REL on the two unregistered securities trading facilities used by REL (being Unlisted* and ShareMart*) may rise or fall due to numerous factors, which may affect the performance of REL, including:

- (a) General economic conditions, including New Zealand dollar performance on world markets, inflation rates and interest rates;
- (b) Variations in the general market for unlisted stocks, internationally, or for New Zealand unlisted stocks, particularly;
- (c) Changes to government policy, legislation or regulations;
- (d) General operational and business risks;
- (e) World economic conditions;
- (f) World political events;
- (g) Accounting policies or treatments; and
- (h) Natural disasters, social upheaval, terrorism or war in New Zealand or overseas.

No assurances can be made that the performance of Shares in REL will not be adversely affected by any such market fluctuations or factors.

* Neither Unlisted nor ShareMart are registered or authorised securities exchanges, or regulated under New Zealand securities exchanges law. Unlisted and ShareMart accepts no responsibility for any statement made in this Offer Document.

Liquidity and realisation risk

There can be no guarantee that the market in the Shares in REL will continue or that their price will increase. There may be relatively few or many potential buyers of Shares in REL at any time. This may increase the volatility of the price of the Shares in REL. It may also affect the prevailing price at which the holders of REL Shares are able to sell their Shares. This may result in holders of Shares receiving a price for their Shares that is less or more than the price effectively paid for those Shares by Unitholders (by the exchange of Units in NZRPT for Shares in REL).

Further risk factors are specific to the merger, or specific to REL's business activities while some are more of a general nature. These risks may, individually or in a combination, affect the future operating performance of REL and the value of an investment in Shares in REL (by the exchange of Units in NZRPT for Shares in REL).

Economic, Sectoral and Business Risks

The future performance of REL's business activities will generally depend on the prospects for the New Zealand rural sector from both a domestic and an international perspective. In particular, the following trade factors and risks can have a material impact on REL's business activities by impacting on the profitability of the farms directly managed by REL or share-milked by REL, the value of farm land and/or the ability of lessees of properties leased by REL to pay their rentals.

Climatic Conditions

The rural sector is exposed to variations in climatic conditions in the regions in which they operate which can potentially have either beneficial or adverse impacts on REL's business activities.

Commodity Prices and Volume

Prices for agricultural commodities such as lamb, beef, wool and dairy products are key determinants of the general level of farm revenues and farm expenditure, and are subject to fluctuation.

Regulatory changes

Changes to the regulatory structure of the New Zealand rural economy may affect REL's business activities.

Animal Health and Crop Conditions

A widespread outbreak of some form of animal or crop disease (such as foot and mouth disease) could dramatically reduce production or restrict the ability of REL or farmers who lease properties from REL to sell their stock or production on domestic and international markets.

International Trade Barriers

Barriers in the form of foreign government subsidies and quota restrictions

can restrict New Zealand's ability to sell its agricultural commodities in international markets and can also affect the price at which such commodities are sold.

Environmental Factors

Changes in the environmental legislation and resultant compliance burden on REL or farmers could adversely impact on REL's future financial performance.

The inability to renew resource consents, particularly for irrigation water, or legislative changes governing the management of water resources, could impact on arable crop yields and milk production on irrigated farms.

Agriculture produces approximately half of New Zealand's carbon emissions and implementation of the Emissions Trading Scheme and the inclusion of agriculture within the Scheme is likely to impose additional costs on farmers.

Funding Risk

The availability of Bank funding for rural companies may vary from time to time and could result in REL in the future having to replace existing facilities or reduce existing facilities. REL intends to negotiate an "all in one" group facility upon completion of the merger. There is no guarantee this will necessarily be available and REL may then need to seek to negotiate a renewal of the existing NZRPT facilities due for repayment on 30 September 2011.

Exchange Rates

The relative strength of the New Zealand dollar against other currencies affects the profitability of the rural sector and hence affect REL's business activities.

Loss of Key Personnel

REL relies upon, and will continue to rely on its key personnel. If REL loses the services of key individuals this could have a short-term adverse effect on its financial performance.

Consequences of insolvency

In the event of REL being put into liquidation, claims by secured creditors and other creditors will rank ahead of claims by shareholders, as will any prior ranking shares (no such shares are on issue in REL at the date of this Offer Document). The holders of Shares will rank equally with each other in a liquidation of REL.

NZRPT Unitholders, on becoming shareholders in REL, will not have any liability in the event of the insolvency of REL to pay money to any person as the Shares that will be issued to you pursuant to the offer will be issued fully paid.

7. CAN THE INVESTMENT BE ALTERED?

Full terms of the offer are set out in this Offer Document. The terms of this offer may be altered by an amendment to this Offer Document by REL. Details of any such amendment must be filed with the Companies Office.

The rights attaching to the Shares are governed by REL's constitution. That constitution may only be altered by a special resolution of shareholders subject to the rights of interest groups under the Companies Act or in certain circumstances by court order. Section 117 of the Companies Act requires that a company must not take any action that affects the rights attached to shares unless that action has been approved by a special resolution of each interest group (as defined in the Companies Act).

8. HOW DO I CASH IN MY INVESTMENT?

Shareholders in REL may sell their Shares in REL. There is currently an established market for such sales on two unregistered securities trading facilities, Unlisted* and ShareMart*. No charges are payable to REL on the sale of Shares, however, brokerage may be payable by shareholders in respect of any sale. REL does not guarantee liquidity and share trading is limited. There may be a delay in selling Shares in an illiquid market.

9. WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Enquiries in relation to the Shares may be made to:

James Wright
Chief Operating Officer
Rural Equities Limited
Level 1
120 Karamu Road
Hastings North
New Zealand
Ph: 06 – 870 4672
Fax: 06 – 870 4673
Email: enquiries@ruralequities.co.nz

10. IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints about the investment can be made to:

James Wright
Chief Operating Officer
Rural Equities Limited
Level 1
120 Karamu Road
Hastings North
New Zealand
Ph: 06 – 870 4672
Fax: 06 – 870 4673
Email: enquiries@ruralequities.co.nz

There is no ombudsman to whom complaints about the investment can be made.

11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Information about the investment and REL is contained in this Offer Document and in the financial statements of REL.

A copy of this Offer Document and of the most recent financial statements of REL can be obtained free of charge from the registered office of REL (refer to the Directory for contact details) during normal business hours or from REL's website <http://www.ruralequities.co.nz>.

Those documents, and other documents of or relating to REL, are also available for public inspection on the Companies Office website at www.companies.govt.nz. Copies may also be obtained by telephoning the Companies Office Contact Centre on 0508 266 726. A prescribed fee may be charged for a requested document. Holders of Shares will receive an annual report of REL, incorporating the most recent audited financial statements, in accordance with the requirements of the Companies Act.

Shareholders in REL will be provided annually with a copy of the most recent annual report of REL and a copy of the most recent financial statements of REL.

In addition, shareholders in REL may request the following documents from REL:

- A copy of the most recent annual report of REL.
- A copy of the most recent financial statements of REL.
- A copy of this Offer Document.
- A copy of the constitution of REL.

Those documents will be provided free of charge.

Shareholders in REL may also request from REL the information required to be made available under sections 215 and 216 of the Companies Act, section 52(1) of the Act and regulation 23A of the Regulations. Pursuant to section 218 of the Companies Act, a reasonable copying and administration fee may be charged for these documents.

Any request for the above documents should be made to the Chief Operating Officer at the registered office of REL (refer to the Directory for contact details).

* Neither Unlisted nor ShareMart are registered or authorised securities exchanges, or regulated under New Zealand securities exchanges law. Unlisted and ShareMart accepts no responsibility for any statement made in this Offer Document.

SUMMARY OF FINANCIAL STATEMENTS

Rural Equities Limited Group

Five Year Financial Summary

	NZ GAAP	NZ GAAP	NZ GAAP	NZ IFRS	NZ IFRS	NZ IFRS
	30 June	30 June	30 June	30 June	30 June	30 June
	2005	2006	2007	2007	2008	2009
	\$000	\$000	\$000	\$000	\$000	\$000
Total operating revenue	4,185	5,952	7,259	8,099	11,721	13,378
Total interest expense	(1,132)	(1,762)	(2,419)	(2,419)	(2,820)	(3,276)
Asset revaluations	21,422	17,788	3,319	4,516	46,977	(30,236)
Discount on acquisition of units in New Zealand Rural Property Trust	8,135	630	-	-	2,659	-
Net surplus (deficit) before tax & extraordinary items	29,455	18,896	3,721	4,381	50,422	(31,600)
Tax expense (credit)	511	193	13	97	(30)	(192)
Net surplus (deficit) before extraordinary items	28,944	18,703	3,708	4,284	50,452	(31,408)
Extraordinary items (net of taxation)	-	-	-	-	-	-
Net surplus (deficit) after extraordinary items	28,944	18,703	3,708	4,284	50,452	(31,408)
Share of associate's surplus (deficit)	177	-	225	225	(26)	(199)
Net surplus (deficit) including associates	29,121	18,703	3,933	4,509	50,426	(31,607)
Net surplus (deficit) attributable to minority interests	10,483	8,217	1,517	1,785	18,034	(11,771)
Dividends	-	-	-	-	-	-
Net surplus (deficit) retained in the Group	18,638	10,486	2,416	2,724	32,392	(19,836)
Total assets	151,216	171,062	181,584	185,625	234,988	201,851
Total tangible assets	150,291	170,180	180,722	184,763	234,292	201,170
Total liabilities	22,265	25,867	32,779	33,738	31,725	33,540
Total equity	128,951	145,195	148,805	151,887	203,263	168,311
Net tangible asset backing per share (\$/share) - see note 4 below	\$5.76	\$6.49	\$6.65	\$6.79	\$7.59	\$6.28
Number of shares on issue	22,237,923	22,237,923	22,237,923	22,237,923	26,685,612	26,685,612

The amounts stated above have been extracted from audited financial statements.

Notes:

- 1) The Group adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) with effect from 1 July 2006. Consequently the above information for the years 2007, 2008 and 2009 have been extracted from audited financial statements prepared under NZ IFRS. For comparative purposes the first column above for 2007 is extracted from audited financial statements prepared before the introduction of NZ IFRS. The main adjustments required to comply with NZ IFRS were derecognition of the disposal provision for investment properties and recognition of a deferred tax liability for building depreciation.
- 2) Net surplus (deficit) attributable to minority interests relates to the minority interests in NZRPT.
- 3) The discount on acquisition of units in New Zealand Rural Property Trust arises from acquiring the units at less than the net asset value.
- 4) The net tangible asset backing per share above is calculated in accordance with the requirements under the Regulations. As a result, minority interests are included in the above calculation and the value of NZRPTML's management agreement is excluded.

The net tangible asset values per share shown above are based on total Group tangible assets and liabilities divided by the number of REL shares on issue at 30 June each year. The merger proposal will result in a maximum of 15,484,379 additional REL shares being issued. When the shares are issued, the net tangible assets per REL share, based on 30 June 2009 values for the assets and liabilities will be \$3.97 per share.

STATUTORY INFORMATION

The information in this section includes, or refers to, the information required by the First Schedule to the Regulations. In the Regulations and this Statutory Information section:

- (a) the *REL Group* means REL, NZRPTML, REL-TML and NZRPT; and
- (b) *Subsidiaries* means NZRPTML, REL-TML and NZRPT and *Subsidiary* means any of them.

1. MAIN TERMS OF OFFER

Issuer

The issuer of the Shares is Rural Equities Limited which has its registered office at Level 1, 120 Karamu Road North, Hastings, New Zealand.

Description

REL is offering ordinary shares in REL to Unitholders in NZRPT. The Shares offered will be identical to all existing ordinary shares on issue in REL, and will rank equally in all respects with the existing ordinary shares. The Shares are described in greater detail on page 8.

Maximum Number

The maximum number of Shares offered is 15,484,379 in total and the minimum number of Shares offered is 15,483,297. Subject to rounding, the number of Shares in REL that will be required to be issued in accordance with the Exchange Value will be within this range if the Unitholders authorise the merger proposal.

Price or other consideration

The consideration for the issue of Shares is the transfer to REL by the Unitholders (other than REL) of 1.15 Units in NZRPT for 1 Share in REL.

Listing not being sought

As at the date of this Offer Document, listing of the Shares in REL on a registered exchange is not being sought.

2. IF OFFEROR NOT ISSUER

The offeror is also the issuer for the purposes of the Regulations.

3. DETAILS OF INCORPORATION OF ISSUER

Date and Number

REL was incorporated in New Zealand on 20 October 1989 under the Companies Act 1955 and re-registered under the Companies Act 1993 on 4 March 1996. REL's registered number is 448795.

Place File Kept

The public file in respect of REL can be viewed on the Companies Office website at www.companies.govt.nz. Copies may also be obtained by telephoning the Companies Office Contact Centre on 0508 266 726. A prescribed fee may be charged for a requested document.

4. PRINCIPAL SUBSIDIARIES OF ISSUER

REL has three Subsidiaries, which are as follows:

- (a) NZRPTML which is the manager of NZRPT and is a wholly owned subsidiary of REL.
- (b) REL-TML, the primary purpose of which was to manage the REL-Pacific Equity Trust. A resolution to wind up the Trust was passed on 26 June 2009. REL-TML is a wholly owned subsidiary of REL.
- (c) NZRPT, which holds a diverse long-term portfolio of prime rural property assets. REL holds 62.76% of the Units in NZRPT.

NZRPT is the only subsidiary of REL whose total tangible assets exceed 5% of the total tangible assets of the REL Group.

5. DIRECTORATE AND ADVISORS

Details

The names of the Directors, their technical or professional qualifications (if any) and their city of principal residence are set out in the Directory on page 17 of this Offer Document. The Directors may be contacted at the Company's registered office which is set out in the Directory.

Details of Directors who are employees

No directors are employees of REL and/or its Subsidiaries.

No Bankruptcy

No Director of REL has been adjudged bankrupt during the five years preceding the date of this Offer Document.

Advisors

The names and addresses of the auditor, the share registrar and the solicitors who have been involved in the preparation of this Offer Document are set out in the Directory on page 17 of this Offer Document.

Experts

There are no experts named in this Offer Document other than PwC in respect of the Valuation Report prepared by PwC for REL and the Trustee, as set out in Schedule 1 to this Offer Document. PwC's qualifications are set out in Appendix A to the Valuation Report from PwC. PwC has given and has not withdrawn its consent to the Valuation Report being included in this Offer Document in the form and context in which it is included.

PwC is not as at the date of this Offer Document and is not intended to be a director, officer or employee of the REL Group. PwC does, however, from time to time provide taxation advice to the REL Group.

5A. RESTRICTIONS ON DIRECTORS' POWERS

Apart from the modifications, exceptions and limitations imposed on all companies by the Companies Act, there are no modifications, excepts or limitations on the powers of the directors of REL under REL's constitution, and in force at the date of this Offer Document.

6. SUBSTANTIAL EQUITY SECURITY HOLDERS OF ISSUER

Name and Shares held

As at the date of this Offer Document, the 10 largest registered shareholders in REL and the amounts of their shareholdings are set out on page 6 of this Offer Document.

No Shareholder liability

No shareholders undertake any liability in respect of and do not guarantee the securities being offered under this Offer Document.

7. DESCRIPTION OF ACTIVITIES FOR THE ISSUING GROUP

Activities

A description of the activities of REL and its Subsidiaries during the five years preceding the date of this Offer Document is set out on pages 6 to 7 of this Offer Document under the heading About REL.

Nature and use of principal fixed assets

The principal fixed assets owned or leased:

- (a) by REL are Units in NZRPT; and
- (b) by NZRPT are farm land and buildings, livestock, other farm assets and a forest.

NZRPTML and REL-TML do not hold or lease any fixed assets.

These assets are used to conduct the business activities of REL and its Subsidiaries described in this Offer Document.

8. SUMMARY OF FINANCIAL STATEMENTS

A financial statement in summary form is set out on page 12 of this Offer Document.

9. PROSPECTS AND FORECASTS

Trading Prospects and Material Information

It is expected that the REL Group will continue to undertake its current activities as described on pages 6 to 7 under the heading About REL.

The audited financial statements of the REL Group for the year ended 30 June 2009 that are set out in Schedule 2 of this Offer Document provide details of the REL Group's performance during that period and the financial position as at 30 June 2009. The economic, sectoral and business risks and factors that could materially affect the prospects of the REL Group (and which are not likely to be known or anticipated by the general public) are described under "What are my risks?" on pages 9 to 10.

The two main influences on the REL Group's financial performance are its operating results and asset revaluations.

The Directors believe that operating results for the current year will be at least similar to last year. Fonterra have recently increased their projected milk payout for the current year. Following recent rent reviews of the leased properties, rental income will be higher in the current year than last year.

The assets of the REL Group are independently valued as at 30 June each year. Primarily as a result of changes to the value of the REL Group's farm properties, a revaluation decrease of \$30.2m was recorded as at 30 June 2009 compared to a revaluation increase of \$47.0m as at 30 June 2008. Directors do not forecast the outcome of future property revaluations.

10. PROVISIONS RELATING TO INITIAL FLOTATIONS

Not applicable.

11. ACQUISITION OF BUSINESS OR SUBSIDIARY

Neither REL nor any Subsidiary has acquired a business or subsidiary at any time in the two years preceding the date of this Offer Document.

12. SECURITIES PAID UP OTHERWISE IN CASH

Neither REL nor any Subsidiary has in the five years preceding the date of this Offer Document allotted any securities paid up otherwise than in cash other than the following Units in NZRPT which were issued to NZRPTML as part of the management fee payable to NZRPTML under the NZRPT Trust Deed.

YEAR	NUMBER OF UNITS
2005	252,147
2006	256,065
2007	260,953
2008	250,499
2009	259,975

13. OPTIONS TO SUBSCRIBE FOR SECURITIES OF ISSUING GROUP

At the date of this Offer Document no option to subscribe for securities has been granted to or is proposed to be granted by or on behalf of REL or its Subsidiaries.

14. APPOINTMENT AND RETIREMENT OF DIRECTORS

Existing Appointments

All existing Directors of REL have been appointed by the shareholders of REL by ordinary resolution other than Rodger Finlay, John Green and Andrew Train who were appointed by the Board to fill casual vacancies. Rodger Finlay, John Green and Andrew Train are each required to retire at REL's next annual general meeting in accordance with REL's constitution, but are seeking election as Directors by shareholders at that Annual Meeting.

Retirement Age

There is no retirement age for directors of REL.

Right to appoint Directors of REL

No person (other than the shareholders of REL in general meeting or the Board of REL acting to fill a casual vacancy) has the right to appoint a Director of REL.

Alternate Directors

Each Director has the power to appoint a person who is approved by a majority of the other Directors as an alternate Director. Unless otherwise provided by the terms of his or her appointment, an alternate Director has all the powers, rights, duties and privileges of a Director.

15. DIRECTORS' INTERESTS

Remuneration other than Directors' Fees

None of the Directors of the Company is entitled to any remuneration from REL or from any Subsidiary other than by way of directors' fees, except that Andrew Train has been engaged by REL as an advisor in respect of NZRPT's Waikato properties on arm's length commercial terms.

16. PROMOTER'S INTERESTS

The Promoter (as defined in the Act and the Regulations) of the offer is REL.

There are no "material transactions" (as defined in the Regulations) entered into at any time in the five years preceding the date of this Offer Document or which are to be entered into on or after the date of this Offer Document requiring disclosure under clause 16 of Schedule 1 to the Regulations.

17. MATERIAL CONTRACTS

REL and its Subsidiaries have not entered into any material contracts (not being contracts entered into in the ordinary course of business) in the two years preceding the date of this Offer Document.

18. PENDING PROCEEDINGS

There are no legal proceedings or arbitrations that are pending or current at the date of this Offer Document that may have a material adverse effect on REL and its Subsidiaries.

19. PRELIMINARY AND ISSUE EXPENSES

The estimated amount of expenses of this offer is \$260,000. That amount comprises the following:

- (a) Accounting and audit fees, legal fees and other fees associated with the offer, registry expenses, printing and distribution of this Offer Document. REL will meet all of these expenses.
- (b) The cost of the Valuation Report, 50% of which will be paid by REL and 50% of which will be paid by NZRPT.
- (c) The costs of the Independent Report commissioned by the Trustee and the report commissioned by the Trustee on the implications for Unitholders of exchanging units in a unit trust for shares in a limited liability company. These costs will be paid by NZRPT.

No commissions are payable in respect of this offer.

20. RESTRICTIONS ON ISSUING GROUP

There are no restrictions on the ability of REL and/or its Subsidiaries to make a distribution or to borrow other than under the general security agreement that REL has granted in favour of its bankers, Westpac New Zealand Limited which provides as follows:

- (a) REL must not (without Westpac's consent) create a charge or security interest over any of its assets (other than certain specified security interests); or
- (b) REL must not make any distributions (including dividends) other than dividends paid out of profits in accordance with current accounting practice (except to the extent necessary to comply with any requirements imposed by Westpac).

21. OTHER TERMS OF OFFER AND SECURITIES

All the terms of the offer, and all the terms of the Shares being offered, are set out in this Offer Document, except for those implied by law or set out in a document that:

- is registered with a public official; and
- is available for public inspection; and
- is referred to in this Offer Document.

22-38. FINANCIAL STATEMENTS

The financial statements required by clauses 22 to 38 of the First Schedule to the Regulations are set out in Schedule 2 of this Offer Document.

Ernst & Young has given and has not withdrawn its consent to be named in this Offer Document as auditor to REL and to the issue of this Offer Document with its auditors' report included in the form and context in which it is included.

39. PLACES OF INSPECTION OF DOCUMENTS

During the currency of this Offer Document, the constitution of REL and the material contracts referred to in this Offer Document may be inspected without fee at the Company's registered office during normal business hours of 9:00am to 5:00pm on a working day (as defined in the Companies Act).

Such documents can also be viewed on the Companies Office website at www.companies.govt.nz. Copies may also be obtained by telephoning the Companies Office Contact Centre on 0508 266 726. A prescribed fee may be charged for a requested document.

40. OTHER MATERIAL MATTERS

NZRPT's Banking Covenants

NZRPT has entered into a deed of covenant with Westpac New Zealand Limited ("Westpac") dated 5 December 2005 (the "Deed") in relation to its banking facilities with Westpac.

Under the Deed NZRPT is required to comply with an interest cover ratio which is calculated at 30 June and 31 December each year for the preceding 12 month period. In March this year, it became apparent that NZRPT may not be able to meet the interest cover ratio when it was due to be tested on 30 June 2009. Accordingly, NZRPT sought and obtained written waivers from Westpac from compliance with the interest cover ratio until 31 December 2009.

The waiver from Westpac is conditional on Westpac being provided with details of the following, to Westpac's satisfaction, on or prior to 15 December 2009:

- (a) the planned restructuring of the NZRPT group;
- (b) the introduction of equity; or
- (c) the reduction of debt by sale of assets.

If these conditions are not met, NZRPT will as at 31 December 2009 be required to comply with the interest cover ratio for the 12 months to 31 December 2009. NZRPTML is of the view that NZRPT will not be able to comply with the interest cover ratio at that date. However, NZRPTML

believes that NZRPT will be able to comply with the interest cover ratio at 30 June 2010 based on current expectations. Accordingly, if the merger does not proceed, NZRPT would need to enter into further negotiations with Westpac regarding its banking arrangements. NZRPTML, as manager of NZRPT, considers it likely that these banking arrangements would be satisfactorily resolved due to the financial strength of NZRPT.

Other than the matters set out above and elsewhere in this Offer Document and contracts entered into in the ordinary course of business of REL, there are no other material matters relating to the Offer or the Shares.

41. DIRECTORS' STATEMENT

The Directors, after due enquiry by them in relation to the period between 30 June 2009 and the date of registration of this Offer Document, are of the opinion that no circumstances have arisen that materially adversely affect:

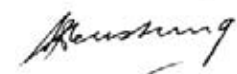
- the trading or profitability of REL and its Subsidiaries; or
- the value of assets of REL and its Subsidiaries; or
- the ability of REL and/or its Subsidiaries to pay its liabilities due within the next 12 months.

42. AUDITOR'S REPORT

A copy of the auditor's report required by clause 42 of the First Schedule to the Regulations is set out in Schedule 3 of this Offer Document.

Signed for and on behalf of:

Rural Equities Limited as Issuer and Promoter:



Director

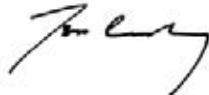


Director

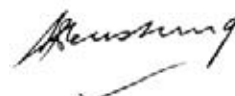
Signed for and on behalf of each Director of **Rural Equities Limited**:



Sir Ronald Carter



David Cushing



Sir Selwyn Cushing



Rodger Finlay



Murray Gough
(by his agent authorised in writing)



John Green



Andrew Train

DIRECTORY

The Issuer and Promoter

Rural Equities Limited

Level 1

120 Karamu Road North

HASTINGS

Ph: 06 – 870 4672

Fax: 06 – 870 4673

Email: enquiries@ruralequities.co.nz

Directors

Sir Selwyn Cushing, F.C.A., KNZM, CMG (Chairman), of Hastings

Murray Gough, B.Comm, OBE (Deputy Chairman), of Wellington

Sir Ronald Carter, D.E.(Hon), M.E., KNZM. of Auckland

David Cushing, B.Comm, ACA., of Christchurch

Rodger Finlay, B.Comm, CA, of Christchurch

John Green, BCA, CA, of Rotorua

Andrew Train of Waipukurau

Executive

Brian Burrough – Chief Executive Officer

Owen Trimmer – Chief Financial Officer

James Wright – Chief Operating Officer

Solicitors for REL

Chapman Tripp

119 Armagh Street

P O Box 2510

CHRISTCHURCH

Share Registrar

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road

Takapuna

Private Bag 92119

AUCKLAND 1020

Ph: 0800 – 228 811

Fax: 09 – 488 8787

Auditors of REL

Ernst & Young

AXA Building

41 Shortland Street

PO Box 2146

AUCKLAND 1010

Ph: 09 377 4790

Fax: 09 309 8137

GLOSSARY

Act means the Securities Act 1978.

Companies Act means the Companies Act 1993.

Exchange Value means 1 Share in REL for every 1.15 Units in NZRPT.

Extraordinary Resolution means the resolution to be put to a meeting of Unitholders to:

(a) approve the exchange of all Units in NZRPT not held by REL for Shares in REL at the Exchange Value; and

(b) authorise NZRPTML to act as the Unitholder's agent to sign such documents or transfers required to give effect to the merger.

Such Extraordinary Resolution is required to be passed at a meeting of Unitholders validly convened and held in accordance with the provisions in the NZRPT Trust Deed and carried by a majority of not less than three-fourths of the persons voting at that meeting upon a show of hands or, if a poll is demanded or votes are able to be cast by post, by a majority consisting of not less than three-fourths of the votes given on that poll.

Independent Report means the report commissioned by the Trustee from a reputable advisor on whether the offer is fair and reasonable to Unitholders. This report does not form part of this Offer Document.

Minimum Holding means the minimum number of securities that a shareholder in REL is required to hold in REL as contained in the constitution of REL (as that constitution may be amended from time to time). As at the date of this Offer Document, the minimum number of securities in REL that a shareholder is required to hold is 1,000.

NZRPT means the New Zealand Rural Property Trust which is a unit trust established under the UTA.

NZRPTML means New Zealand Rural Property Trust Management Limited, a wholly owned subsidiary of REL which is the manager of NZRPT.

NZRPT Trust Deed means the trust deed for NZRPT between The New Zealand Guardian Trust Company Limited (as trustee) and NZRPTML (as manager), dated 30 January 1987, as that deed has subsequently been varied from time to time.

PwC means PricewaterhouseCoopers.

Regulations means the Securities Regulations 1983.

REL means Rural Equities Limited.

REL-TML means REL-Trust Management Limited, a wholly owned subsidiary of REL.

Shares means the ordinary shares in REL on offer pursuant to this Offer Document.

Takeovers Code means the Takeovers Code Approval Order 2000 (SR2000/210).

Trustee means the Trustee of NZRPT, namely The New Zealand Guardian Trust Company Limited.

Unitholders means persons who hold Units in NZRPT as at the date of this Offer Document.

Units means units in NZRPT and Unit means any one of them.

UTA means the Unit Trusts Act 1960.

Valuation Report means the report set out in Schedule 1 dated 10 September 2009 commissioned by REL and the Trustee from PwC on the current fair market value of NZRPT and REL.

Schedule 1



The New Zealand Guardian Trust Company Limited as Trustee of The New Zealand Rural Property Trust

Valuation of The New Zealand Rural Property Trust and Rural Equities Limited

10 September 2009

The Trustee of the New Zealand Rural Property Trust
The New Zealand Guardian Trust Company Limited
Vero Centre
48 Shortland Street
PO Box 1934
AUCKLAND

10 September 2009

Dear Sirs

Fair market valuation of The New Zealand Rural Property Trust and Rural Equities Limited

In accordance with the terms of our engagement letter dated 17 August 2009, we attach our Valuation Report on the fair market value of 100% of the Units in The New Zealand Rural Property Trust and 100% of the Shares in Rural Equities Limited. Our valuation date is the date of this Valuation Report.

If you require any clarification or further information, please do not hesitate to contact me (09 355 8330).

Yours sincerely



Justin Liddell
Partner

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1 Introduction

- 1.1 We report to The New Zealand Guardian Trust Company Limited (Guardian Trust or the Trustee) in its capacity as the trustee of The New Zealand Rural Property Trust (NZRPT or the Trust) on the current fair market value of NZRPT and Rural Equities Limited (REL).

Background

- 1.2 NZRPT is an unlisted Unit Trust that invests in rural property. NZRPT has approximately 1,100 Unitholders with the largest Unitholder being REL which holds approximately 62.76% of the Units in NZRPT.
- 1.3 REL is a rural property investment and management company which, in addition to its investment in NZRPT, owns all the shares in New Zealand Rural Property Trust Management Limited (NZRPTML). NZRPTML is the manager of NZRPT.
- 1.4 We understand that REL is intending to offer all NZRPT Unitholders (other than REL and NZRPTML) shares in REL in exchange for their Units in NZRPT (the Offer). We further understand that, under clause 12.3(a) of the Schedule to NZRPT's Deed of Modification, an Extraordinary Resolution is required to sanction the exchange of Units for REL Shares.
- 1.5 PricewaterhouseCoopers (PwC) has been engaged by Guardian Trust as trustee of NZRPT to prepare an independent report assessing whether the terms of the Offer are fair and reasonable to the Unitholders of NZRPT (the Independent Report).
- 1.6 REL has not yet determined the ratio at which REL Shares are to be offered to NZRPT Unitholders (the Exchange Ratio). We understand that REL will determine the Exchange Ratio following REL considering our view of the relative values of REL and NZRPT and before finalisation of our Independent Report.
- 1.7 The contents of this report on the current fair market value of NZRPT and REL (the Valuation Report) will form part of our Independent Report to NZRPT Unitholders.

Scope of Valuation Report

- 1.8 In this Valuation Report we report on our view of the current fair market value of 100% of the Units in NZRPT and 100% of the Shares in REL.
- 1.9 Our assessment of the current fair market value of each of NZRPT and REL constitutes an "independent business valuation" in the manner prescribed by the New Zealand Institute of Chartered Accountants (NZICA) Advisory Engagement Standard No. 2 (AES-2). By its very nature, much of our work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single value and we therefore express our opinion as falling within a likely range.
- 1.10 We have undertaken an assessment of the current fair market value of NZRPT and REL. For practical purposes, as the rural properties owned by NZRPT are valued as at 30 June each year, we have relied upon the 30 June 2009 valuations of these farms. In all other respects we have reflected the market conditions as at the date of our report. The effective valuation date is therefore the date of this Valuation Report

1.11 We define fair market value as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer, and a knowledgeable, willing but not anxious seller, both acting at arm’s length”.

1.12 The purpose of our Valuation Report is to assist us in forming our opinion on the fairness and reasonableness of the terms of the Offer to NZRPT Unitholders. We understand that REL may consider the relative valuations of NZRPT and REL in determining the Exchange Ratio.

1.13 This Valuation Report has been prepared in accordance with the terms set out in our Engagement Letter dated 17 August 2009. This Valuation Report is issued subject to the attached Statement setting out our Qualifications, Independence, Disclaimers, Restrictions, Limitations of Liability, and Indemnity at Appendix A.

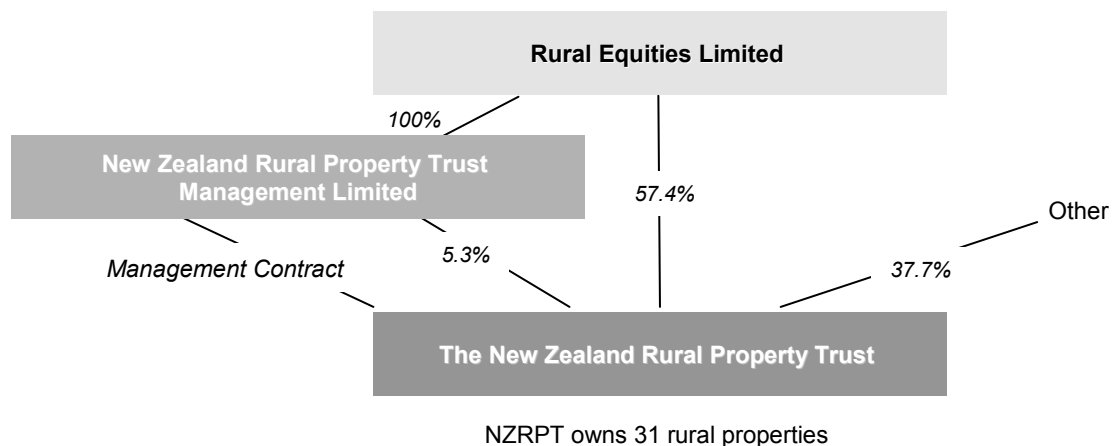
1.14 In Appendix B we list the sources of information relied upon in preparing our Valuation Report.

REL and NZRPT Structure

1.15 NZRPT is a Unit Trust that holds a portfolio of farms and a forest. Its Units are traded on the ShareMart trading system (ShareMart) and the Unlisted trading facility (Unlisted).

1.16 REL has approximately 500 shareholders with parties associated with Sir Selwyn Cushing and David Cushing owning 65.1% of REL’s Shares. REL is also traded on ShareMart and Unlisted.

1.17 The chart below illustrates the REL and NZRPT structure.



2 Profile of NZRPT

Background

- 2.1 NZRPT is a Unit Trust registered in New Zealand under the Unit Trust Act 1960. It was established in 1987 for the express purpose of developing and holding a diverse portfolio of rural property assets. In 1989 NZRPT invested in the forestry sector.
- 2.2 NZRPT's primary objective is the long term investment in high quality New Zealand rural property for capital gain and income generation. The Trust Deed states that the Trustee shall invest NZRPT's funds in accordance with this policy so that any appreciation or diminution in value of a Unitholder's investment shall primarily reflect the investment risk associated with this policy.
- 2.3 NZRPT operates as a closed Trust, whereby Unitholders seeking to sell Units can do so via secondary markets.
- 2.4 NZRPT is listed on the Unlisted and Sharemart exchanges, and its Units trade at a discount to net asset value (NAV). The most recent traded price per Unit is \$2.20 on 1 September 2009 which, based on total Units of 47,812,922, implies a market capitalisation of \$105.2m. This represents a discount of 42.4% on the 30 June 2009 reported NAV of \$182.8m.

Trust Deed

- 2.5 The key terms of the Trust Deed are summarised below.

Creation of Units

- 2.6 The Manager is able to invite offers, subscriptions or applications for Units at any time, through the issue of a prospectus. This would normally be a method of increasing the scale and diversity of the fund. However, where the consideration is for cash, each Unit must be issued for an amount not less than the NAV per Unit. Given the discount at which Units trade, in practical terms this has prevented NZRPTML from issuing new Units to external parties.

Borrowing powers

- 2.7 NZRPT is theoretically able to borrow up to 25% of the gross value of NZRPT. However, NZRPT is limited from a practical point of view by its ability to service debt.
- 2.8 Between FY05 and FY09, bank borrowings have been between 3.9% and 7.7% of the gross value of NZRPT's property assets and other investments.

Net asset value (NAV)

- 2.9 NAV is defined in the NZRPT Trust Deed as:
 - the market value of investments in real property, as determined by a registered valuer at least annually; plus
 - the market value of forests and crops as determined by a qualified valuer from time to time; plus
 - the market value of other investments assessed by reference to traded prices on an appropriate stock exchange or by a qualified valuer; less

- all liabilities of NZRPT; less
- all costs, charges and other amounts incurred or accrued in holding NZRPT investments; less
- an amount which NZRPTML may determine as representing the estimated cost that would be incurred if NZRPT's investments were realised and converted into cash; less
- any other amount NZRPTML and/or the Trustee thinks necessary to make provision for any liabilities, losses or contingent liabilities.

Valuation

- 2.10 The Trustee is required to obtain a valuation report by a registered valuer for real property at least every twelve months and a valuation report prepared by a qualified valuer for any forest, crop or investment other than real property at such time or times as NZRPTML and the Trustee consider desirable.

Investments

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

Overview of rural property investments

Investment overview

- 2.12 As at 30 June 2009, NZRPT held the following rural property investments:

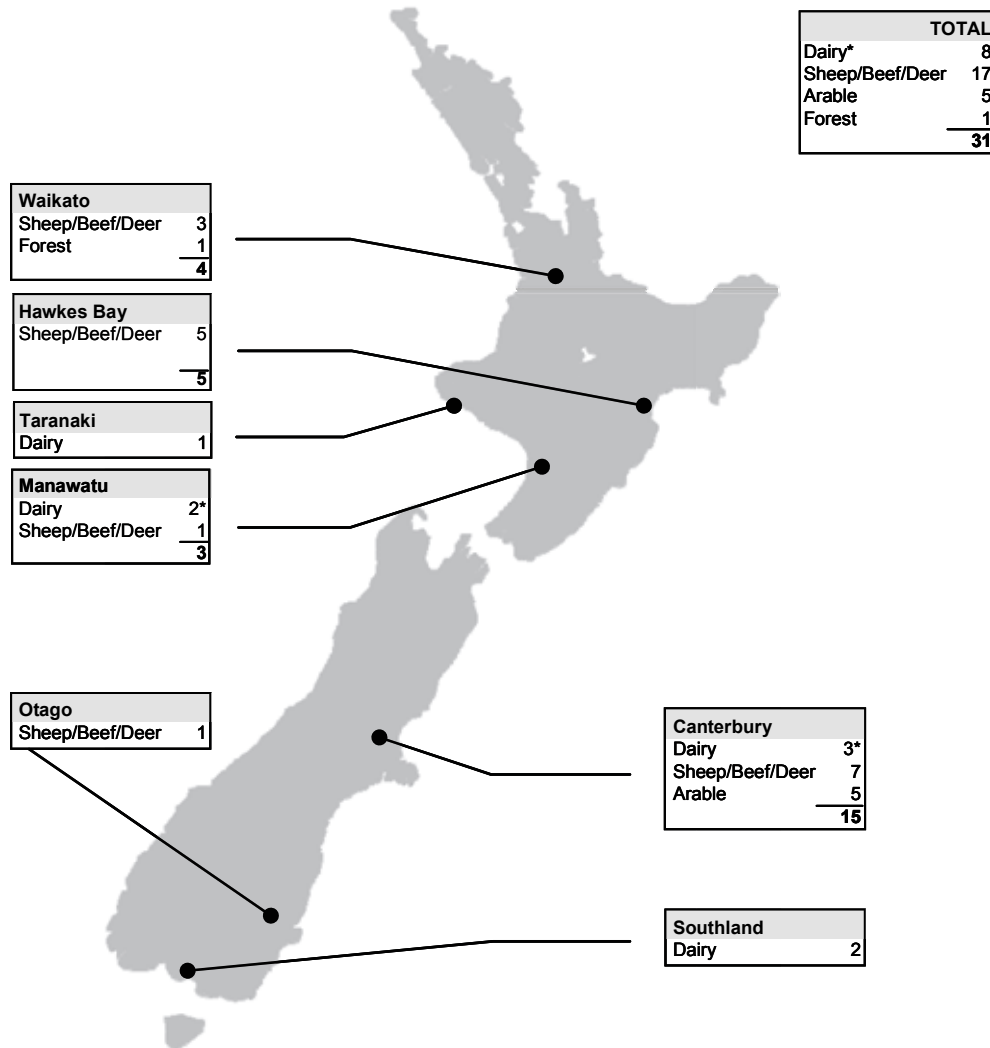
Rural property	Value \$m	% of total
Farmland property	180.8	97.5%
Forest Land	2.4	1.3%
Forest Crop	2.2	1.2%
Total	185.4	100.0%

Source: Audited Financial Statements

- 2.13 The valuations reflected in the above table are as per the 30 June 2009 financial statements. For financial reporting purposes, NZRPT revalues its rural property investments at 30 June of each year.

Farmland property investments \$180.8m

2.14 NZRPT's rural properties reflect a diverse portfolio. The properties are summarised by region and type on the map below:



*Includes dairy grazing units, one each in Manawatu and Canterbury

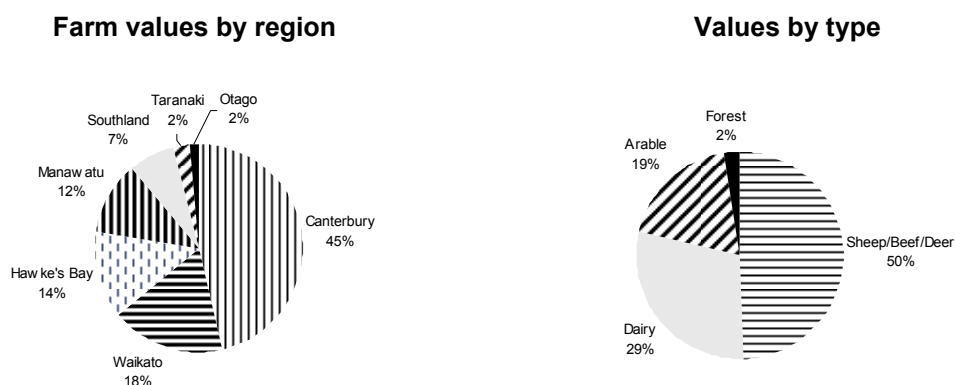
- 2.15 Of the 30 farms owned, 20 are leased to farmers with the balance either sharemilked or managed on behalf of NZRPT.
- 2.16 The six working dairy farms are operated under 50:50 sharemilking agreements and produced 1,408,522 kilograms of milksolids in the 2008 / 2009 season.

2.17 The table below lists all of NZRPT’s properties and summarises the total of the registered valuations as at 30 June 2008 and 2009. The registered valuations have been prepared by Telfer Young and are relied upon by NZRPT for financial reporting purposes.

Property	Type	Region	Size (ha)	Management	Value (\$m)	
					30 Jun 08	30 Jun 09
Annandale	Sheep/Beef Finishing	Waikato	515	Managed		
Barry’s Bay	Sheep/Beef Grazing	Canterbury	573	Leased		
Blairmore	Sheep/Beef/Deer Grazing	Otago	647	Leased		
Cedars	Arable	Canterbury	237	Leased		
Clifton	Sheep/Beef Finishing	Canterbury	656	Leased		
Dalmuir	Arable	Canterbury	219	Leased		
Delorain	Dairy	Taranaki	101	Sharemilked		
Eiffelton	Dairy Grazing	Canterbury	396	Leased		
Ernsdale	Sheep/Beef Finishing	Canterbury	368	Leased		
Flimby	Arable	Canterbury	266	Leased		
Fox’s Peak	Sheep/Beef Grazing	Canterbury	4,799	Managed		
Glendowns	Sheep/Beef Finishing	Canterbury	399	Leased		
Highlands	Deer Breeding/Finishing	Canterbury	346	Leased		
Maranoa	Deer Breeding/Finishing	Hawke’s Bay	305	Leased		
Marchfield	Sheep/Beef/Deer Finishing	Hawke’s Bay	481	Leased		
Middle Hills	Sheep/Beef Finishing	Hawke’s Bay	545	Leased		
Milford	Dairy	Canterbury	177	Sharemilked		
Ngaruawahia Forest	Forest	Waikato	852	Managed		
Penhurst	Dairy	Manawatu	257	Sharemilked		
Pukekura	Sheep/Beef Finishing	Hawke’s Bay	444	Leased		
Puketotara	Intensive Sheep/Beef Finishing	Waikato	1,146	Managed		
Rocklea	Dairy	Canterbury	189	Sharemilked		
Rollesby	Sheep/Beef Grazing	Canterbury	322	Leased		
Shenstone	Dairy	Southland	313	Sharemilked		
Silverton	Intensive Sheep/Beef Finishing	Manawatu	546	Leased		
Tahuna	Sheep/Beef Finishing	Hawke’s Bay	580	Leased		
Tatarepo	Dairy	Southland	153	Sharemilked		
Waikoha	Sheep/Beef Grazing	Waikato	2,510	Managed		
Waimahaka	Dairy Grazing	Manawatu	216	Leased		
Wentworth	Arable	Canterbury	161	Leased		
Woodlands	Arable	Canterbury	451	Leased		
Total			19,171		216.2	183.2

Source: Property valuations as provided by REL

2.18 The charts below illustrate NZRPT’s property values at 30 June 2009 by region and type:



Forestry block \$4.6m

2.19 NZRPT owns a 1,123 hectare pinus radiata forestry block located near Ngaruawahia. As at 30 June 2009, 83 hectares of the first crop rotation was still to be harvested.

- 2.20 The forestry assets are split into the following:
- (a) land (valued at \$2.4m); and
 - (b) forest crop (valued at \$2.2m).
- 2.21 The valuation of the forest land was prepared by Telfer Young at 30 June 2009 while the crop valuation was prepared by Chandler Fraser Keating Ltd at 30 June 2009. The value of the crop represents the fair value of the future earnings attributable to harvesting the forest, less estimated point of sale costs. For mature trees, fair value has been determined by assessing the present value of the projected net cash flows from harvesting the forest. Replacement cost is used to approximate fair value for trees under six years old.

Overview of Management Contract

- 2.22 REL's wholly owned subsidiary, NZRPTML, has a contract to manage NZRPT's assets (the Management Contract). REL acquired NZRPTML from Ascot Management Corporation (NZ) Limited on 30 June 1992.
- 2.23 The terms of the Management Contract are contained in the NZRPT Trust Deed. The NZRPT Trust Deed between NZRPTML and the Trustee was first signed on 30 January 1987 and has since been modified on a number of occasions; the most recent modification was on 26 March 2009.
- 2.24 The keys terms of the Management Contract are summarised below:
- The contract expires on 30 June 2067.
 - NZRPTML's role is to administer and supervise the investments of NZRPT in the best interests of Unitholders.
 - NZRPTML can be removed:
 - By the passing of a special resolution by Unitholders (75% majority); or
 - If the Trustee certifies that it is in the best interests of Unitholders that NZRPTML should retire; or
 - If the High Court orders that NZRPTML be removed from office pursuant to Section 19 of the Unit Trusts Act.
 - The majority of the annual management fee is payable in cash with the balance satisfied by the issue of Units in NZRPT.
 - The cash component of the current management fee is calculated based on the value of NZRPT's assets on the first business day of the financial year, on the following basis:
 - an amount equal to 1.50% of the gross value¹ of NZRPT, or where the gross value is greater than \$50m, an amount of \$750,000; plus
 - if the gross value of NZRPT is greater than \$50m, an amount equal to 1.25% of the difference between \$50m and the gross value or, if the gross value is greater than \$100m, an amount of \$625,000; plus;
 - if the gross value is greater than \$100m, an amount equal to 1.0% of the difference between \$100m and the gross value.

¹ gross value is defined as the total value of investments and other assets in NZRPT before any deductions for borrowing and liabilities.

- The Unit component of the management fee is equal to 0.5% of the gross value calculated on the last business day of the financial year to which the fee relates. The number of Units subscribed for is determined by dividing the fee payable by the net asset value (NAV) per Unit.
- Payment of the cash component of NZRPTML's fee is made quarterly in arrears and the Unit component is issued following the end of each financial year.

2.25 The table below illustrates the management fees (cash component and Unit component) paid to NZRPTML over the past 4 years and the budget for FY10.

Summary of Management Fees Paid \$ in thousands	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual	FY10 Budget
Gross Value of Trust	174,549	180,778	230,379	199,822	200,062
Cash Component*	2,308	2,437	2,183	2,679	2,373
Number of Units issued (000s)	256	261	250	260	261
Weighted average price (\$)	1.8870	2.2500	3.0000	2.5000	2.4877
Value of units issued**	483	587	751	650	650
Total Management Fee	2,791	3,024	2,934	3,329	3,023

* The cash component is calculated on the prior year's gross asset value, whereas the Unit component is calculated on the current period's gross asset value.

** As provided by management and used for financial reporting purposes

Source: REL

2.26 We note that there is a variance between the gross asset value above and the value as per the financial statements. This variance reflects the property disposal provision in FY06 to FY07 and the forest disposal provision in FY08 and FY09. These provisions are not included in the above gross asset values.

Financial statements

2.27 The financial statements for FY08 and FY09 have been prepared under the New Zealand equivalent of International Financial Reporting Standards (IFRS) whereas the FY05 to FY07 were prepared under pre-IFRS New Zealand Generally Accepted Accounting Principles. The change in accounting standards adopted has meant that several policies have changed. As such, the financial results in FY05 to FY07 are not directly comparable to the FY08 and FY09 results particularly regarding the treatment of forestry income and expenses.

Financial performance and cash flows

2.28 A summary of NZRPT's actual financial performance for FY05 to FY09 and the FY10 budget is presented below.

Statement of financial performance

\$ in thousands	FY05 Audited	FY06 Audited	FY07 Audited	FY08 Audited	FY09 Audited	FY10 Budget
Lease income	2,226	2,322	2,307	2,410	2,705	2,785
Farm income	3,742	3,134	4,062	6,559	5,808	5,687
Forest growth / log sales	328	440	548	2,340	4,438	3,695
Total income	6,296	5,896	6,917	11,309	12,951	12,167
Farm expenses	(2,186)	(2,377)	(3,067)	(3,587)	(4,667)	(4,565)
Logging cost of sales	(24)	(17)	(12)	(2,340)	(4,438)	(3,714)
Total operating expenses	(2,210)	(2,394)	(3,079)	(5,927)	(9,105)	(8,279)
Net farm and forest revenue	4,086	3,501	3,838	5,382	3,846	3,888
Management fees	(2,473)	(2,791)	(3,024)	(2,934)	(3,329)	(3,023)
Corporate expenses	(437)	(441)	(415)	(584)	(541)	(425)
Other income	250	-	-	-	-	19
EBIT	1,426	269	399	1,864	(24)	459
% of total income	23%	5%	6%	16%	0%	4%
Net interest costs	(449)	(566)	(785)	(926)	(1,276)	(795)
NPBT	977	(297)	(386)	938	(1,300)	(336)
Tax	24	346	380	260	599	-
NPAT	1,001	49	(6)	1,198	(701)	(336)
Revaluation of assets	21,402	17,788	3,319	46,977	(30,236)	-
Surplus after taxation	22,403	17,837	3,313	48,175	(30,937)	(336)

Source: Annual financial statements, Budget

2.29 We note the following regarding NZRPT's financial performance:

- The financial operating performance of NZRPT is driven by lease income from properties and returns from managed farms and the forest.
- FY08 performance was strong compared to other years primarily due to the high Fonterra payout.
- Interest costs increased by \$350k in FY09 as debt levels increased primarily due to funding the following:
 - additional livestock purchases at Puketotara, which became a managed farm from 1 August 2008; and
 - buyout of interest rate swap agreements.
- The single largest cost incurred by NZRPT is the management fee which it pays to NZRPTML.
- The surplus after taxation is significantly impacted by the revaluation of assets. For budgeting purposes, management has not assumed any increase in farm values at 30 June 2010. We understand that the exclusion of any revaluation from the FY10 budget does not suggest that Management does not expect any movement in the value of rural property assets. Rather, it is simply a pragmatic assumption for budgeting purposes.

2.30 As illustrated in the cash flow statement below, operating cash flows are driven by farm operations.

Statement of cash flows

\$ in thousands	FY05 Audited	FY06 Audited	FY07 Audited	FY08 Audited	FY09 Audited	FY10 Budget
Operating cash flows provided from (applied to)						
Lease operations	2,050	2,374	2,349	2,398	2,716	2,785
Farm operations	1,723	968	(40)	3,523	(902)	1,786
Forest operations	577	550	324	64	672	642
Management and Trustee fees	(2,498)	(2,829)	(3,162)	(2,394)	(2,843)	(2,629)
Other operating payments	(371)	(228)	(205)	(233)	(270)	(228)
Interest	(443)	(509)	(684)	(936)	(1,335)	(795)
Total operating cash flows	1,038	326	(1,418)	2,422	(1,962)	1,560
Net cash flows from investing activities	(336)	(1,801)	(1,892)	(1,004)	(1,104)	(1,849)
Net cash flows from financing activities	(556)	1,328	3,367	(1,273)	2,793	300
Net cash flows	146	(147)	57	145	(273)	11

Source: Annual financial statements, Budget

2.31 As is apparent from this cash flow summary, NZRPT's operating cash flows are reasonably volatile reflecting the volatility in farm income (i.e. the income from those farms that are not leased). This is most obviously illustrated in the movement in operating cash flows from farm operations, from a \$3.5m cash inflow in FY08 to a \$0.9m cash outflow in FY09 due largely to the drop in income on NZRPT's dairy farms.

Financial position

2.32 We summarise below NZRPT's Statement of Financial Position for the FY05 to FY09 year-ends (being 30 June) together with the 31 July 2009 unaudited position (being the latest available) and the budgeted 30 June 2010 position.

Statement of financial position

\$ in thousands	FY05 Audited	FY06 Audited	FY07 Audited	FY08 Audited	FY09 Audited	31 July 09 Unaudited	FY10 Budget
Current assets	1,250	948	1,068	1,922	2,282	1,324	1,285
Non - Current Assets							
Property assets	132,934	150,592	154,214	215,220	183,262	183,298	184,520
Livestock	973	862	2,030	1,535	3,597	3,827	4,064
Forestry assets	4,714	5,905	6,777	1,493	2,208	2,209	2,053
Plant and equipment	740	1,344	1,318	1,073	1,123	1,101	886
Investments	9,250	9,912	10,273	8,554	6,751	6,751	6,751
Deferred tax	528	528	507	507	504	504	504
Total non-current assets	149,139	169,143	175,119	228,382	197,444	197,689	198,777
Total Assets	150,389	170,091	176,187	230,304	199,726	199,013	200,062
Current liabilities	2,247	2,712	2,447	1,618	16,399*	1,136	1,521
Non - Current Liabilities							
Bank term loans	5,500	7,600	10,800	10,000	-	14,800	14,900
Deferred tax liability	248	319	-	1,173	576	576	576
Total non-current liabilities	5,748	7,919	10,800	11,173	576	15,376	15,476
Total Liabilities	7,995	10,631	13,247	12,791	16,975	16,512	16,997
Net assets	142,394	159,460	162,940	217,513	182,751	182,501	183,065
<i>Represented by:</i>							
Contributed funds	40,131	40,902	41,775	41,973	42,724	42,724	43,374
Reserves	94,746	112,478	115,953	14,236	11,467	11,522	11,467
Retained earnings	7,517	6,080	5,212	161,304	128,560	128,256	128,224
Total unitholders funds	142,394	159,460	162,940	217,513	182,751	182,501	183,065

*Includes bank loans of \$14,600k

Source: Annual financial statements, Budget, Management Accounts

2.33 The principal component of net assets is the value of property assets, which include land and buildings.

- 2.34 As noted above, no revaluation is included in the FY10 budget. The increase in property assets between FY09 and FY10 reflects solely the anticipated capital expenditure.
- 2.35 The increase in livestock and bank term loans relates to the additional stock purchases for Puketotara which became a managed farm from 1 August 2008.

NZRPT Unitholders

- 2.36 The table below shows the top seven NZRPT Unitholders as at 31 August 2009. REL and NZRPTML collectively hold 62.76% of the Units in NZRPT at this date.

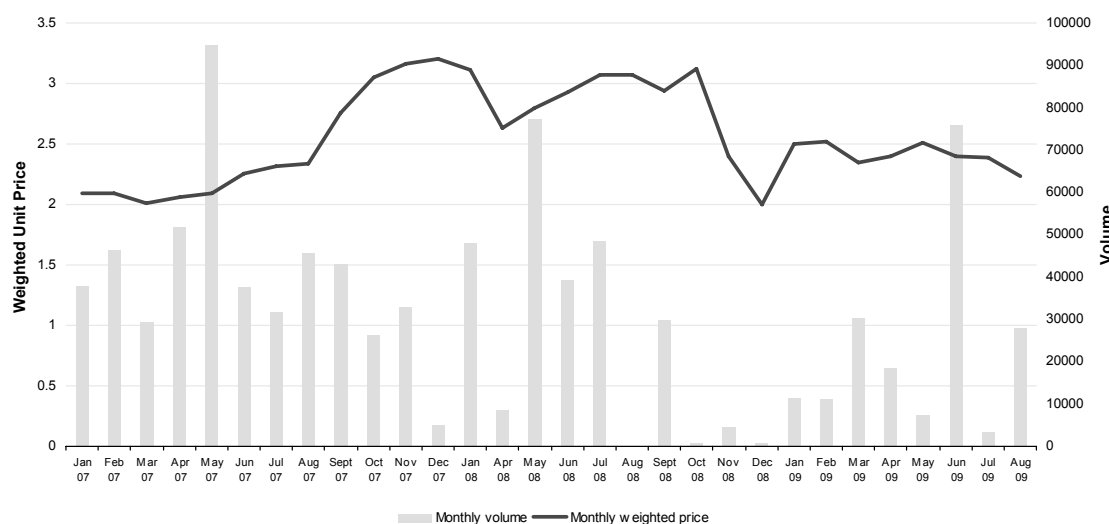
NZRPT Unitholders	Number of Units (000s)	Unitholding %
Rural Equities Limited	27,453	57.4%
Ashfield Farm Limited	2,896	6.1%
NZ Rural Property Trust Management Limited	2,554	5.3%
National Nominees New Zealand Limited	1,948	4.1%
H & G Limited	1,406	2.9%
Rotorua Trust Perpetual Capital Fund Limited	1,341	2.8%
Selba Holdings Limited	964	2.0%
Other (1085 Unitholders)	9,251	19.3%
Total	47,813	100.0%

Source: REL

NZRPT Units trading history

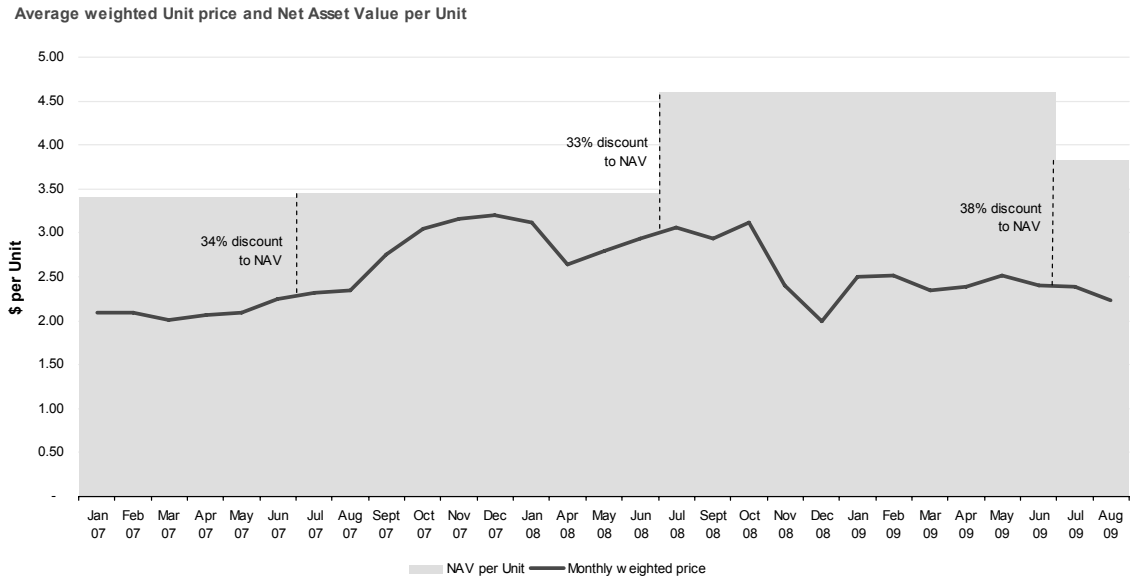
- 2.37 The chart below summarises the volume weighted average Unit price from Unlisted and Sharemart between January 2007 and August 2009. Over this period the Unit price has fluctuated between \$2.00 and \$3.20.

Monthly volumes and average weighted unit price



Source: Unlisted, Sharemart

2.38 The chart below compares NZRPT's Unit price to reported NAV per Unit.



3 Profile of REL

Background

- 3.1 REL is a rural investment and management company. REL owns 100% of NZRPTML, the manager of NZRPT. REL holds 57.41% of the NZRPT Units on issue and NZRPTML holds a further 5.34%. Collectively the REL Group owns 62.76% of the NZRPT Units on issue.
- 3.2 In addition to managing NZRPT through NZRPTML, REL also provides administrative services to a number of other entities.
- 3.3 In 2006 REL launched the REL – Pacific Equity Trust (REL-PET), a trust established to take advantage of investment opportunities in New Zealand and Australia. REL's subsidiary, REL-Trust Management Limited, was contracted to manage the REL-PET. The decision to liquidate REL-PET was made in June 2009. As part of that liquidation process REL sold its Units in REL-PET and the contract between REL-PET and REL-Trust Management Limited ceased.
- 3.4 Shares in REL trade on the Unlisted and Sharemart exchanges. The most recent trade on Unlisted was 3 July 2009 at a price of \$2.45 with the last Share trade on Sharemart on 4 February 2009 of \$2.10. The current Unlisted price of \$2.45 represents a 35% discount to NAV as at 30 June 2009.

Financial statements

- 3.5 The financial statements for FY08 and FY09 have been prepared under the New Zealand equivalent of International Financial Reporting Standards (IFRS) whereas the FY05 to FY07 were prepared under pre-IFRS New Zealand Generally Accepted Accounting Principles. The change in accounting standards adopted has meant that several policies have changed. As such, the financial results in FY05 to FY07 are not directly comparable to the FY08 to FY10 results.

Financial performance and cash flows

- 3.6 REL's unconsolidated statement of financial performance and statement of cash flows are presented below. We have presented the unconsolidated financial statements, recognising that REL is an investment company. The unconsolidated financial statements better illustrate the income REL receives from its investments.

Statement of financial performance

	FY05	FY06	FY07	FY08	FY09
\$ in thousands	Audited	Audited	Audited	Audited	Audited
Intergroup Administration fee	2,510	2,828	3,236	3,516	3,906
Intergroup dividends	622	765	355	237	1,043
Other revenue	-	36	89	215	255
Total Revenue	3,132	3,629	3,680	3,968	5,204
Corporate expenses	(1,163)	(818)	(907)	(1,423)	(1,790)
EBIT	1,969	2,811	2,773	2,545	3,414
<i>% of total income</i>	63%	77%	75%	64%	66%
Net interest costs	(1,018)	(1,176)	(1,582)	(1,875)	(1,983)
NPBT	951	1,635	1,191	670	1,431
Tax	(478)	(539)	(393)	(230)	(407)
Surplus after taxation	473	1,096	798	440	1,024

Source: Annual financial statements

- 3.7 REL's primary revenue stream includes dividends from NZRPT and administration fees from NZRPTML. Other revenue primarily relates to fees received for the provision of administrative services to other entities.

Statement of cash flows

	FY05	FY06	FY07	FY08	FY09
\$ in thousands	Audited	Audited	Audited	Audited	Audited
Operating cash flows provided from (applied to)					
Receipts from subsidiary	1,699	1,900	2,242	2,395	2,710
Dividends received	622	765	355	237	1,130
Other income	-	39	89	215	240
Payments and other expenses	(613)	(1,093)	(843)	(1,232)	(1,099)
Tax	(631)	(527)	(404)	(199)	(313)
Interest	(972)	(1,226)	(1,582)	(1,875)	(2,258)
Total operating cash flows	105	(142)	(143)	(459)	410
Net cash flows from investing activities	(16,248)	(1,171)	(4,005)	(10,588)	3,989
Net cash flows from financing activities	16,313	1,250	4,200	11,181	(4,410)
Net cash flows	170	(63)	52	134	(11)

Source: Annual financial statements

- 3.8 The cash outflow in investing activities during FY08 relates to the purchase of additional Units in NZRPT. The cash inflow from financing activities in FY08 relates to a share issue to fund the purchase of NZRPT Units.

Financial position

- 3.9 REL's unconsolidated statement of financial position is shown below.

Statement of financial position - Parent

	FY05	FY06	FY07	FY08	FY09	31 July 09
\$ in thousands	Audited	Audited	Audited	Audited	Audited	Unaudited
Cash at bank	-	-	-	-	-	307
Accounts receivable	33	23	254	108	108	67
Derivative financial instruments	-	-	-	147	252	217
USD deposit	-	-	-	-	1,563	1,551
Net current assets	33	23	254	255	1,923	2,142
Creditors	569	232	472	378	135	301
Bank overdraft	132	195	143	9	20	-
Provision for tax	-	10	-	64	155	40
Total current liabilities	701	437	615	451	310	341
Receivables from subsidiary	3,193	4,121	5,074	6,242	7,365	6,948
Investment in subsidiaries and associates	39,235	40,336	44,336	54,923	50,923	50,923
Other	-	65	56	50	42	41
Total non-current assets	42,428	44,522	49,466	61,215	58,330	57,912
Bank term loans	14,900	16,150	20,350	19,545	17,445	17,146
Deferred tax liability	(1)	1	-	-	-	-
Total non-current liabilities	14,899	16,151	20,350	19,545	17,445	17,146
Net assets	26,861	27,957	28,755	41,474	42,498	42,567

Source: Annual financial statements, Management accounts

- 3.10 In REL's unconsolidated financial statements, the investments in NZRPT and NZRPTML are not revalued and reflect historical cost. Accordingly, we summarise REL's consolidated statement of financial position from FY05 to FY09 below:

Statement of financial position - Consolidated

\$ in thousands	FY05	FY06	FY07	FY08	FY09
	Audited	Audited	Audited	Audited	Audited
Current assets	1,680	1,490	1,829	2,177	4,194
Non - Current Assets					
Property assets	132,934	150,592	154,214	215,220	183,298
Livestock	973	862	2,030	1,535	3,597
Forestry assets	4,714	5,905	6,777	1,493	2,208
Plant and equipment	740	1,409	1,374	1,114	1,123
Investments	9,250	9,912	14,498	12,753	6,751
Management Contract	925	882	862	696	681
Total non-current assets	149,536	169,562	179,755	232,811	197,657
Total Assets	151,216	171,052	181,584	234,988	201,851
Current liabilities	1,617	1,787	1,629	1,523	16,029*
Non - Current Liabilities					
Bank term loans	20,400	23,750	31,150	29,545	17,445
Deferred tax liability	248	320	-	657	66
Total non-current liabilities	20,648	24,070	31,150	30,202	17,511
Total Liabilities	22,265	25,857	32,779	31,725	33,540
Net assets	128,951	145,195	148,805	203,263	168,311
<i>Equity Attributable to:</i>					
Parent Company Shareholders	61,225	71,711	74,127	121,386	99,881
Minority Interests	67,726	73,484	74,678	81,877	68,430
Total unitholders funds	128,951	145,195	148,805	203,263	168,311

*Includes bank loans of \$14,600k

Source: Annual financial statements

- 3.11 The consolidated statement of financial position reflects the revaluations of NZRPT's rural property assets. The resulting NAV at 30 June 2009 attributable to REL shareholders (i.e. after deducting minority interests) is \$99.9m (or \$3.74 per Share).

REL shareholders

3.12 The table below illustrates REL's top 9 shareholders as at 30 June 2009, who collectively hold 81.7% of Units on issue. Interests of Sir Selwyn Cushing and David Cushing account for circa 65.1% of REL's Shares.

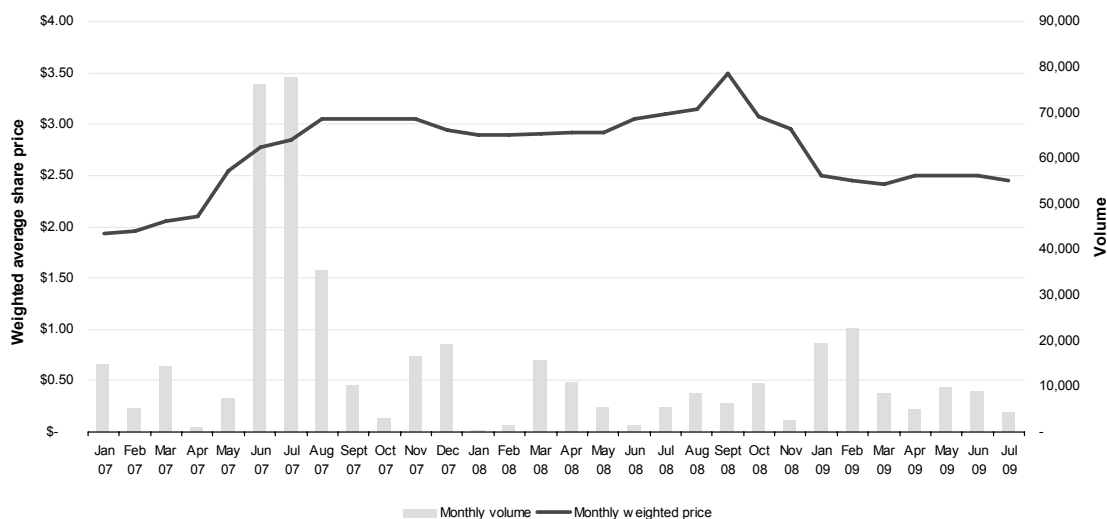
REL Shareholders	Number of Shares (000s)	Shareholding %
H & G Limited	14,898	55.8%
Rotorua Trust Perpetual Capital Fund Limited	3,500	13.1%
RGH Holdings Limited	917	3.4%
David Cushing	644	2.4%
New Zealand Central Securities Depository Limited	536	2.0%
Brian Martin	375	1.4%
Sir Selwyn Cushing	367	1.4%
Seajay Securities Limited	314	1.2%
Selba Holdings Limited	263	1.0%
Other (502 shareholders)	4,871	18.3%
Total	26,686	100.0%

Source: REL

REL Shares trading history

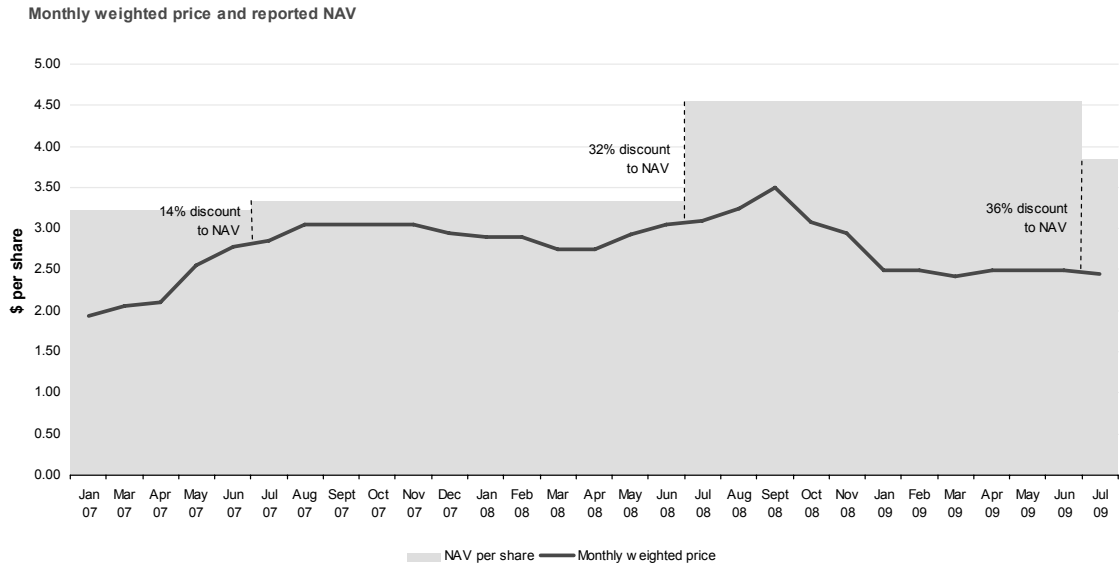
3.13 The chart below illustrates REL's Share trading history between January 2007 and July 2009. The price has fluctuated between \$1.93 and \$3.50 during this period on a monthly weighted basis.

Monthly volume and weighted average price



Source: Unlisted, Sharemart

3.14 The chart below compares REL's Share price to reported NAV per Share.



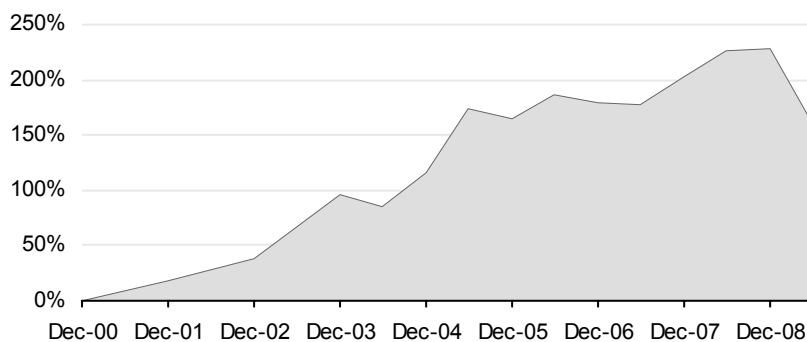
Source: Unlisted, Sharemart

4 Rural Property Sector Overview

Farmland property prices

- 4.1 Farmland property prices enjoyed significant growth between December 2000 and December 2008 with the average price per hectare increasing by over 220%, representing a compound annual growth rate of 16%.

Movement in Farmland Prices 2000 - 2009



Source: Quotable Value, National Bank Rural Report June 2009

- 4.2 However, since December 2008 the June 2009 National Bank Rural Report indicates that rural property prices have fallen by approximately 20%. This decline in prices is reflected in the movement in valuations of NZRPT's farms between 30 June 2008 and 30 June 2009 as summarised at paragraph 2.17.

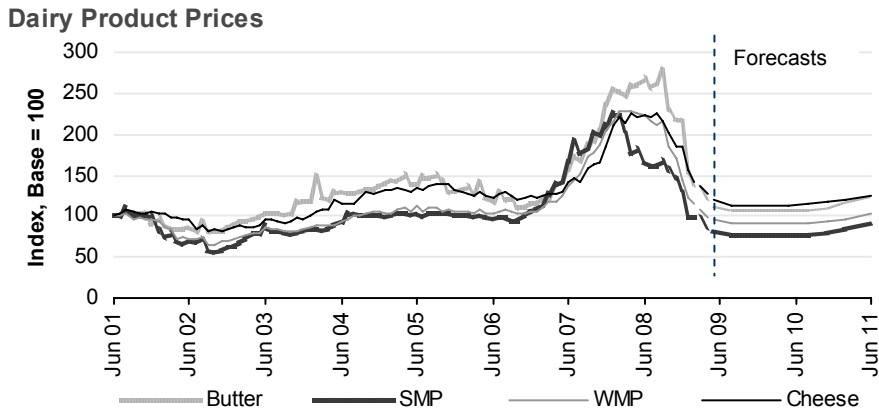
Rural economy

- 4.3 The rural economy is currently experiencing a challenging environment with the high New Zealand dollar, lower commodity prices compared to highs experienced during 2007 / 2008, (particularly dairy), and poor pasture cover in some areas following periods of dry weather. These factors are leading to increasing pressure from the banking sector as farmland prices fall and equity values diminish. Farmer confidence in May 2009 indicated that 33% of farmers expected the agricultural economy to worsen in the next 12 months². Sheep and beef farmers appear to be more optimistic with 74% expecting conditions to improve or stay the same.
- 4.4 However, lamb prices in recent months continue to trade higher (even with the high New Zealand dollar) compared to levels experienced in the last twelve months and whole milkpowder prices achieved under Fonterra's *globalDairyTrade* in September 2009 were approximately 50% higher than prices in the July auction.

Commodity prices

- 4.5 Prices for dairy products increased sharply between June 2006 and September 2008. Since September 2008 however, prices have corrected to long term historical levels and are forecast to increase marginally over the next two years.

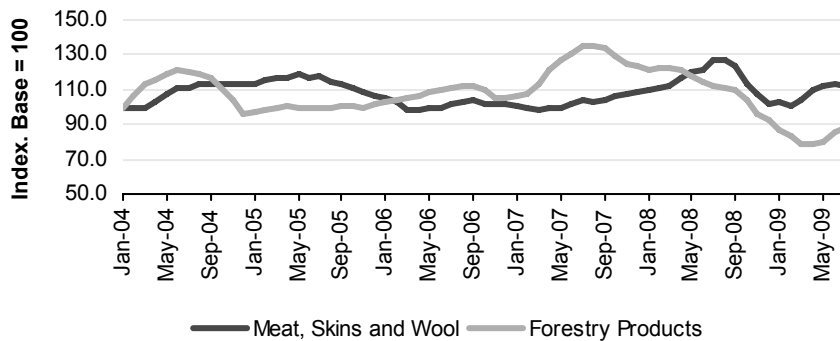
² Rabobank Rural Confidence Survey, 4 May 2009



Source: MAF, Statistics New Zealand

4.6 The chart below shows meat, skins and wool and forestry products indexed USD price movements between January 2004 to July 2009. Meat, skins and wool prices peaked in July 2008 before falling to historic levels at the beginning of 2009. Forestry product prices peaked in August 2009 before experiencing a constant decline until May 2009 when prices lifted slightly.

Meat, skins, wool and forestry products



Source: ANZ Commodities Index

4.7 Lamb prices in New Zealand increased by approximately 30% over the twelve months to August 2009, as a result of increased demand from overseas markets. Beef prices however declined over the same period as demand from overseas markets, particularly Japan, Indonesia and the European Union, decreased.

Lamb prices (NZc/kg)	Aug 09	Aug 08	% change	Beef prices (NZc/kg)	Aug 09	Aug 08	% change
North Island 17.5kg	591	454	30%	North Island Bull 300kg	347	430	-19%
South Island 17.5kg	600	468	28%	South Island Bull 300kg	324	329	-2%

Source: Rabobank Agribusiness Review August 2009

Sector value drivers

- 4.8 The key drivers currently impacting the value of rural property assets and the security of their income streams are detailed below.

Economic environment

- 4.9 Economic growth – economic growth drives the level of demand for the various types of property. This includes both historic levels of growth as well as the level of confidence in the economy going forward.
- 4.10 Dairy farms – the price farmers receive for milksolids produced affects their income greatly. Returns to farmers were high over the 2007 / 2008 period and Fonterra's payout was over \$7 per kilogram of milksolids due to strong international commodity prices. However, a decline in commodity prices has caused the payout to drop and returns to fall, which has caused downward pressure on property prices.
- 4.11 Sheep and beef farms – the commodity prices received by farmers drive the return for dry stock operations. These commodity prices are determined on international markets. The prices New Zealand farmers receive are highly influenced by exchange rates. International commodity prices for wool and beef are currently holding reasonably steadily, but lamb prices have increased since 2008.
- 4.12 Log prices – log prices and shipping costs are key determinants of returns in the forestry industry.

Exchange rates

- 4.13 Exchange rates have a significant influence on the value of rural property. The primary influence is through the effect the exchange rate has on farm produce prices. Increases in the value of the New Zealand dollar relative to its trading partners decrease returns to farmers, thus theoretically having a flow-on effect in reducing property values.

Banking sector

- 4.14 The actions which the banking sector may look to take in response to the high level of rural property debt and the recent falling farm equity values may influence land values in the future.

Input costs

- 4.15 Farm input costs affect the overall level of profitability, which in turn impacts on farm property prices. Certain inputs such as fuel, wages and fertiliser are currently putting pressure on farm profitability.

Climate

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

Rural outlook

Dairy farms

- 4.17 Despite ongoing pressure from the higher New Zealand dollar, Fonterra recently reconfirmed its forecast payout of \$4.55 per kg/ms for the 2009 / 2010 season, down from \$5.20 per kg/ms for the previous season.
- 4.18 Farmers' cash flows remain under pressure due to the reduced payout, compounded by elevated input costs.
- 4.19 The general consensus amongst industry commentators suggests that dairy farmers will remain under pressure in the short term but the medium to long term outlook remains positive as demand returns in both developed and emerging markets. However, the New Zealand dollar exchange rate will continue to be a key variable.

Sheep and beef farms

- 4.20 To some extent over the past few years sheep and beef farm values have been driven by corresponding increases in the dairy sector as in many cases adjoining farms have been converted to dairying units or used as support blocks. As such, the slowdown in the dairy sector may also adversely impact land prices for sheep and beef farms.
- 4.21 The outlook for lamb prices is optimistic with reduced stock numbers and lamb production internationally declining, resulting in a supply/demand imbalance. The increased economic returns on lambs are likely to encourage farmers to rebuild stock numbers. There is already some evidence of this with ewe slaughter numbers declining, which indicates some farmers are moving to rebuild flocks.
- 4.22 Returns on beef are likely to remain challenging due to tougher market conditions, driven by changes in consumer spending patterns, particularly for prime beef. Manufacturing beef prices (40% of total beef exports) are expected to hold due to relatively stronger world demand and falling internal US supply.

Forestry

- 4.23 With the exception of China, there has been a general fall in demand for logs driven by a slowdown in housing markets, which has impacted negatively on international prices. The implementation of log export taxes in Russia may create opportunities for other exporting countries, including New Zealand.

5 Valuation Methodology

Overview of valuation methodologies

- 5.1 There are four methodologies that are commonly used to value a business or shares in a trading company, namely:
- Capitalisation of earnings;
 - Discounted cash flow (DCF);
 - Industry rules of thumb; and
 - Net Assets Value (NAV) or estimated proceeds from the orderly realisation of assets.
- 5.2 The methodology selected reflects the nature of the business, the interest being valued and the purpose of the valuation.

Capitalisation of Earnings

- 5.3 Capitalisation of earnings is the most commonly used method for valuation of companies with an operating history and an earnings trend that are sufficiently stable to be indicative of on-going earnings potential. This method involves capitalising the earnings of a business by a market-derived multiple applied to an appropriate measure of profitability such as earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest and tax (EBIT), or net profit after tax (NPAT).
- 5.4 The application of the capitalisation of earnings methodology involves:
- The selection of the future maintainable earnings level, having regard to historical and forecast operating results; and
 - The determination of an appropriate capitalisation multiple.

Discounted Cash Flow Analysis

- 5.5 DCF valuations involve calculating the net present value (NPV) of projected cash flows using a discount rate which reflects the risk associated with the projected cash flow stream.
- 5.6 The DCF methodology relies heavily on:
- Assumptions about the prospects of the business both during the forecast period as well as beyond the discrete forecast period;
 - The capital expenditure requirements during the forecast period and beyond;
 - Identification of any surplus assets; and
 - Changes in working capital.
- 5.7 Considerable knowledge and judgement is required to estimate future cash flows. Typically the NPV produced by DCF analysis is very sensitive to relatively small changes in underlying assumptions, some of which cannot be predicted with a high degree of accuracy.
- 5.8 The projected cash flows are discounted to an NPV using a discount rate based on an assessment of the weighted average cost of capital (WACC).

Industry Rules of Thumb

- 5.9 In some industries, businesses are valued using well established “rules of thumb”. Generally these rules of thumb are used as a cross-check for a primary valuation methodology such as capitalisation of earnings or DCF.

Net Assets Value or Notional Realisation

- 5.10 In some instances, it is usual to value a business based on its assets and liabilities. This is common in property based businesses, where the underlining assets are subject to regular valuations in their own right and are capable of being independently realised.
- 5.11 Alternatively, in the event that a company has a poor earnings record or faces an uncertain future earnings outlook, its value may have to be established by assessing the results of a notional winding up. The notional realisation assumes an orderly realisation process, or the sale of subsidiary companies as a going concern.
- 5.12 The method would typically be used if an earnings based valuation would give a lesser total value implying that a rational owner or controlling shareholder would liquidate in order to maximise value. This approach can also be used to complement the primary valuation approach for the purpose of providing an assessment of minimum value.

Principal methodology

- 5.13 As discussed in Sections 3 and 4 of this Valuation Report, the vast majority of the assets underpinning the value of both NZRPT and REL are common, namely the farm and forestry properties held by NZRPT. These assets are independently valued at 30 June of each year. The remaining assets of NZRPT are also recorded at market or realisable value, as per the 31 July 2009 management accounts.
- 5.14 Accordingly, the principal methodology that we have applied in valuing both NZRPT and REL is a net assets based approach whereby the values for NZRPT and REL are derived primarily from the assessed market value of their assets i.e. the farms and forestry properties in the case of NZRPT and Units in NZRPT in the case of REL.

5.15 We summarise the components of our valuations of the equity of each of NZRPT and REL as follows:

NZRPT		REL	
	Rural Property Assets		
Add	Other Investments		
Add	Other Assets / (Liabilities)		
Less	Capitalised Management Fee		
Less	Capitalised Other Costs		
Equals	NZRPT Enterprise Value		
Less	NZRPT Debt		
Equals	NZRPT Equity Value		
		Equals	REL's Investment in NZRPT
		Add	NZRPT Management Contract
		Add	Other Management Services
		Less	Capitalised Other Costs
		Add	Other Assets / (Liabilities)
		Equals	REL Enterprise Value
		Less	REL Debt
		Equals	REL Equity Value

x 62.76%

NZRPT

5.16 As the farm and forestry property valuations have been prepared on a stand alone basis, we have made adjustments to net asset value of NZRPT to reflect:

- The other assets and liabilities of NZRPT that are not included in the farm and forestry property valuations, including Fonterra shares and livestock at 30 June 2009 valuations;
- The management fee payable by NZRPT to NZRPT Management. Recognising the going-concern nature of NZRPT, we have capitalised the management fee payable by NZRPT and deducted this capitalised amount from the value of NZRPT's net assets;
- NZRPT's other costs which we have also capitalised and deducted; and
- NZRPT's net debt.

5.17 The aggregation of these component parts represents our opinion of the fair market value of 100% of the Units of NZRPT.

REL

5.18 As illustrated in the diagram above, the value of the equity of NZRPT becomes the major component of the REL valuation given REL holds 62.76% of the Units in NZRPT. In valuing REL's interest in NZRPT, we have applied no discount to the pro rata value of 100% of NZRPT Units as we consider that REL effectively controls NZRPT through its majority Unit holding and the fact that, via NZRPT Management, REL manages NZRPT.

5.19 In addition to the value of REL's investment in NZRPT we have aggregated:

- The NZRPT management contract which we have valued by capitalising the maintainable earnings derived from the management contract;
- The capitalised income that REL expects to generate from non-NZRPT management services;
- REL's other costs which we have capitalised and deducted;
- REL's other assets and liabilities; and
- REL's net debt.

5.20 The aggregation of these component parts represents our opinion of the fair market value of 100% of the Shares of REL.

6 Valuation of NZRPT

Valuation summary

- 6.1 As discussed in the previous section, we have ascertained the fair market value of the equity in NZRPT by aggregating the underlying value of each of the following components of NZRPT:

NZRPT Equity Value	
Rural Property Assets	
Add: Other Investments	
Add: Other Assets / (Liabilities)	
Less: Capitalised Management fee costs	
Less: Capitalised Operating Costs	
Enterprise Value	
Less: Net Debt	
Equals: NZRPT Equity Value	

Valuation of rural property assets

- 6.2 The fair market value of NZRPT's rural property investments as at 30 June 2009 was \$185.4m. The value has been assessed as fair value for financial reporting purposes and reflects the independent valuation reports received for each property, adjusted for lease encumbrances where appropriate.

Valuation of other investments

- 6.3 The fair market value of NZRPT's other investments as at 30 June 2009 was \$6.8m, with \$6.5m of this being Fonterra Fair Value shares. This represents 1.44m shares at \$4.52 each.

Valuation of other assets and liabilities

- 6.4 We have assessed the aggregate value of the other assets and liabilities of NZRPT based on their carrying values as per the 31 July 2009 financial statements. These are set out below.

Other Assets and Liabilities	
\$ in thousands	31 Jul 2009
Debtors	1,197
Livestock and feed on hand	3,827
Plant and machinery	1,101
Deferred tax asset	504
Creditors	(1,136)
Deferred tax liability	(576)
Net other assets and liabilities	4,916

Source: Management Accounts

Contingent liabilities

- 6.5 The 30 June 2009 financial statements state that NZRPT had no contingent liabilities. It should be noted that NZRPT was involved in a dispute with the Inland Revenue Department (IRD) in relation to income tax in respect of property sales between 1996 and 2000. We understand that the IRD agreed not to dispute the tax treatment of profits on any of NZRPT's property sales through to the 2004 income tax year.
- 6.6 We note that NZRPT has not sold any properties since 2004. Prior to listing Puketotara in 2008, NZRPT received a binding ruling from the IRD stating it would not have to pay income tax on any profits arising from the disposal of the property. Accordingly, we have not included a contingent liability for any income tax on the profits from disposal of property.

Capitalised management fee costs

- 6.7 The following table provides details of the forecast management fees NZRPT will pay to NZRPTML for FY10. The cash component of the FY10 management fee is calculated off the 30 June 2009 property valuations, whereas the Unit component is calculated from management's forecast of the 30 June 2010 property valuations.

Management fees paid to NZRPT Management \$ in thousands	
Management Fee Cash	(2,373)
Management Fee Units in \$ terms	(650)
Total Management Fee	(3,023)

- 6.8 Based on the management fees for FY10, our assessment of the total management and other operating costs to be incurred by NZRPT is as follows:

Management and other operating costs \$ in thousands	
Total Management Fee	(3,023)
Other Operating Expenses	(450)
Total Management and Overhead costs	(3,473)
Tax	1,042
Post tax Management and other operating costs	(2,431)

- 6.9 After reviewing historical operating expenses and discussing with management, we have assumed that NZRPT's other operating costs will be approximately \$450k p.a. going forward.
- 6.10 On this basis, we have calculated the post-tax management fee and other operating costs on a maintainable basis to be approximately \$2.4m.

Valuation of management fee and other overhead costs

- 6.11 We have capitalised NZRPT's Management fee and other operating costs of \$2.4m using a multiple range of 8.0x to 12.0x. This multiple range is consistent with the range that we have used to value the Management Contract and we discuss the basis for this multiple range in Section 7.
- 6.12 The resulting capitalised value range for the management fee and other operating costs is \$19.4m to \$29.2m.

Net debt

- 6.13 As at 31 July 2009 NZRPT had net bank debt of \$14.7m. We understand that the net debt balance had not changed materially between 31 July 2009 and the date of this Valuation Report.

NZRPT Valuation Assessment

- 6.14 Aggregating the components of NZRPT's value results in an equity value range of \$153.3m to \$163.0m as summarised below:

NZRPT Equity Value (\$m)	Low	High
Rural Property Assets	185.4	185.4
Add: Other Investments	6.8	6.8
Add: Other Assets / (Liabilities)	4.9	4.9
Less: Capitalised Management fee and other operating costs	(29.2)	(19.4)
Enterprise Value	167.9	177.6
Less: Net Debt	(14.7)	(14.7)
Equals: NZRPT Equity Value	153.3	163.0
Number of Units on issue (m)	47.8	47.8
Value per Unit	3.21	3.41
NAV	3.82	3.82
<i>Premium / (Discount)</i>	<i>(16.1%)</i>	<i>(10.8%)</i>
Unit Price	2.20	2.20
<i>Premium / (Discount)</i>	<i>45.7%</i>	<i>54.9%</i>
12 month VWAP	2.46	2.46
<i>Premium / (Discount)</i>	<i>30.3%</i>	<i>38.6%</i>

- 6.15 Our equity valuation range implies a value per Unit in the range of \$3.21 to \$3.41. This range represents:
- a 11% to 16% discount to NAV as at 30 June 2009 of \$3.82, based on 47,812,922 Units on issue; and
 - a 46% to 55% premium to current Unit price of \$2.20 and a premium of 30.3% to 38.6% over the VWAP for the 12 months to the date of this Valuation Report.
- 6.16 We consider that the discount to NAV is reasonable as it reflects the fact that NZRPT pays a management fee to NZRPTML and bears other operating costs that are necessarily incurred as part of holding its portfolio of assets.
- 6.17 The premium to the current Unit price reflects the illiquid nature of the NZRPT Units given the relatively small free float, the fact that REL holds a controlling interest in NZRPT, the fact that observed trading prices represent trades of small minority interests and the lack of a reliable dividend stream.

7 Valuation of REL

- 7.1 As discussed in Section 5, the principal components of the value of REL are REL's investment in NZRPT and the Management Contract. We have ascertained the fair market value of the equity in REL by aggregating the following:

REL Equity Value
REL's investment in NZRPT
Add: NZRPT Management Contract
Add: Other Management Services
Less: Capitalised Other Costs
Add: Other Assets / (Liabilities)
Enterprise Value
Less: Net Debt
Equals: REL Equity Value

Valuation of investment in NZRPT

- 7.2 In conjunction with NZRPTML, REL owns a combined total of 30,007,131 Units, or 62.76% of the total Units in NZRPT.
- 7.3 On the basis of our assessment of NZRPT's valuation range, REL's investment in NZRPT is in the range of \$96.2m to \$102.3m.

Management Contract

- 7.4 We have assessed the fair market value of the Management Contract by capitalising the estimated maintainable earnings from the Management Contract. We have applied an earnings multiple to the estimated maintainable earnings and cross-checked these resulting values against revenue multiples.

Maintainable Earnings

- 7.5 We have used the FY10 budget as the basis for estimating the maintainable earnings attributable to the Management Contract. In estimating the value of the management fees received, a value needs to be ascribed to the Unit component. The value of the Units could be considered as either the amount they could currently be sold for on the market (i.e. the latest trading price of \$2.20 per Unit), or since the Units are being received by the wholly owned subsidiary of REL, a majority shareholder in NZRPT, they could be worth as much as the full underlying NAV of NZRPT. In our valuation of the Management Contract we have used these alternatives as our estimate of the high and low range of the sustainable Management Fee.

- 7.6 Management has advised that, of the \$1.1m of costs borne by NZRPTML and REL, approximately \$0.75m relates to the management of NZRPT. Accordingly, we have deducted this amount from the maintainable Management Fee to determine the pre-tax earnings attributable to the Management Contract. After deducting tax at 30%, we estimate the post-tax maintainable earnings to be \$1.54m to \$1.83m as summarised below:

Management Fee \$ in millions	Low	High
Cash Component	2.37	2.37
Unit Component	0.57	0.99
Total	2.95	3.37
Management costs	(0.75)	(0.75)
Maintainable Earnings	2.20	2.62
Tax	(0.66)	(0.79)
Post tax Maintainable Earnings	1.54	1.83

Earnings Multiple

- 7.7 In determining the appropriate multiple to apply to the maintainable earnings attributable to the NZRPT Management Contract, we have considered:
- observed multiples from listed comparable companies and transactions in the sector;
 - the multiples applied in previous valuations of REL; and
 - the application of corporate finance principles including an assessment of the appropriate discount rate that would be applied to the forecast cash flows from the Management Contract.
- 7.8 We have reviewed the price to earnings (PE) multiples of a number of listed fund and property management companies in New Zealand, Australia and the United States. The comparability of these listed companies to NZRPTML is limited as these companies are significantly larger than NZRPTML and are not focussed upon rural property. Accordingly we have not placed any reliance on their observed PE multiples which are generally above 20x.
- 7.9 The NZRPT Management Contract has previously been valued by ourselves in 2004, by Deloitte in 2004 and by KPMG in 2007. Our 2004 valuation related to the transfer of Williams & Kettle Limited's assets and the subsequent valuations by Deloitte and KPMG were independent advisor's reports in relation to offers by H&G Limited for shares in REL.
- 7.10 In our 2004 valuation we applied a multiple to the post-tax maintainable earnings attributable to the NZRPT Management Contract of 8.0x to 10.0x. This multiple range was subsequently adopted by Deloitte and KPMG. We determined this multiple range in 2004 by applying a perpetuity calculation assuming a discount rate of 11% to 13% and a growth rate assumption of 2.5% p.a. We then applied a 15% discount to the resulting multiple to reflect the limited marketability of the NZRPT Management Contract.
- 7.11 We consider that the appropriate multiple range to be applied to the post-tax maintainable earnings of the NZRPT Management Contract is now 8.0x to 12.0x. In increasing the upper end of our multiple range from 10.0x to 12.0x we are reflecting a reduction in the appropriate discount rate since 2004 by virtue of a reduction in the risk-free rate and we have assumed a range in the growth rate of 2.0% to 3.0% (nominal) p.a.

- 7.12 Applying this multiple range to our assessment of the post-tax maintainable earnings results in the following value for the Management Contract.

Management Contract \$ in millions	Low	High
Post tax Maintainable Earnings	1.54	1.83
Multiple applied	8.0x	12.0x
Value	12.3	22.0
Implied fee multiple	4.2x	6.5x

- 7.13 We note that the Management Contract value range of \$12.3m to \$22.0m implies a revenue multiple of 4.2x to 6.5x. These implied multiples are consistent with observed fund management transactions as summarised in Appendix E.

Other management services

- 7.14 REL currently provides management services to several external parties and management has advised that they currently receive \$275k (\$193k post-tax) per annum for providing these services. A significant portion of this fee (\$225k) is paid under a contract that expires in June 2011. Management expect that the contract will be extended beyond this date.
- 7.15 In valuing the revenue stream for those services, we have considered a low and a high case. The low case assumes that the contract expiring in June 2011 is not extended and capitalises the remaining \$35k (post-tax) at 8.0x. The high cases assume the contract is extended and therefore the \$193k is the maintainable level of earnings. We have capitalised this maintainable level of post-tax earnings at 12.0x.

Capitalised other costs

- 7.16 In addition to the costs attributable to the Management Contract, as discussed at Paragraph 7.6 REL expects to incur other costs of approximately \$0.35m p.a. Recognising the going-concern nature of REL's business we have capitalised these costs after deducting tax at the same multiple range of 8.0x to 12.0x.

Other costs \$ in millions	Low	High
Costs	0.35	0.35
Multiple applied	8.0x	12.0x
Capitalised Other Costs	2.8	4.2
Tax	(0.8)	(1.2)
Post tax Capitalised Costs	1.9	2.9

Other assets and liabilities

7.17 We have assessed the aggregate value of the other assets and liabilities of REL based on their carrying values as per the 31 July 2009 financial statements as set out below. The total carrying value of these assets and liabilities was as follows.

Other Assets and Liabilities \$ in thousands	31 Jul 2009
Derivative financial instruments	217
Debtors	265*
Plant & Equipment	35
Deferred Tax Asset	6
Creditors	(301)
Provision for tax	(40)
Net other assets and liabilities	182

*Includes \$198k receivable for one month of FY10 cash management fee

7.18 We understand that REL has no contingent liabilities.

7.19 We note that NZRPTML does not have any non-REL group assets or liabilities other than the Management Contract.

Net bank debt

7.20 As at 31 July 2009 REL had net debt of approximately \$15.29m.

Conclusion

7.21 Based on REL's investment in NZRPT and capitalising all revenues and costs associated with holding the management contract and other operating costs, we assess REL's equity value to be in the range of \$92.0m to \$108.6m. This represents a value per Share of \$3.45 to \$4.07.

REL Equity Value \$ in millions	Low	High
REL's investment in NZRPT	96.2	102.3
Add: NZRPT Management Contract	12.3	22.0
Add: Other Management Services	0.6	2.3
Less: Capitalised Other Costs	(1.9)	(2.9)
Add: Other assets / (liabilities)	0.2	0.2
Enterprise Value	107.3	123.9
Less: Net Debt	(15.3)	(15.3)
Equals: REL Equity Value	92.0	108.6
Number of Shares on issue (m)	26.7	26.7
Value per Share	3.45	4.07
NAV	3.74	3.74
Premium / (Discount)	(7.9%)	8.7%
Share Price	2.45	2.45
Premium / (Discount)	40.8%	66.1%
12 month VWAP	2.69	2.69
Premium / (Discount)	28.1%	51.2%

7.22 Pro rata value of \$3.45 to \$4.07 per Share represents:

- (a) A discount of 8% under the low case and a premium of 9% under the high case to the NAV of REL (excluding minority interests). We consider the low level of discount and small premium to NAV is reasonable in the case of REL as the Management Contract is not reflected in REL's NAV despite having significant value.
- (b) A premium in the range of 41% to 66% over the last trading price of Shares in REL of \$2.45 on 3 July 2009. Given that the observed trading prices relate to small minority Shareholdings and the relatively illiquid nature of the Shares as evidenced by the low volume of trades, we consider such a premium to be reasonable.

8 Summary of Values of NZRPT and REL

8.1 In summary, we conclude that the current fair market value of:

- (a) 100% of the Units in NZRPT is \$153.3m to \$163.0m; and
- (b) 100% of the Shares in REL is \$92.0m to \$108.6m.

8.2 Based upon the current Unit and Shares on issue, our value ranges per NZRPT Unit and REL Share are as follows:

Value (\$)	Low	High
NZRPT Unit	3.21	3.41
REL Share	3.45	4.07

8.3 Such value ranges imply an exchange ratio of between 1.08 to 1.19 Units per Share.

Appendix A Statement of Qualifications, Independence, Disclaimer, Restrictions, Limitation of Liability and Indemnity

Qualifications

This Valuation Report has been prepared by the Corporate Finance division of PricewaterhouseCoopers, which provides advice on mergers, acquisitions and divestments, valuations, independent expert's reports and appraisals, financial investigations and strategic corporate advice. The Partners responsible for this Valuation Report are Justin Liddell B.Com, LLB, CA and Bruce Wattie B.Com, CA, both of whom have extensive experience in relation to the preparation of independent expert's reports for the benefit of investors.

Independence

PricewaterhouseCoopers considers itself independent of Guardian Trust, NZRPT and REL. We confirm that:

- We have not been responsible for formulation of the Offer; and
- Our fees for preparation of this Valuation Report are based on the time required for its completion, and are not contingent on the success or implementation of the Offer.

We have carried out a range of tax consulting and compliance services during the last three years for NZRPT and REL.

Other than the provision of this Valuation Report, we have not undertaken any assignments for Guardian Trust in its capacity as Trustee of NZRPT during the last three years.

We believe that the independence of PricewaterhouseCoopers asserted in relation to the conduct of this assignment is not impaired by our other work undertaken for Guardian Trust, NZRPT and REL or any of their related parties.

Consent

We consent to this Valuation Report being provided to REL subject to the terms of the hold harmless letter dated 17 August 2009 which REL has signed.

Disclaimer and restrictions on the scope of our work

The statements and opinions expressed in this Valuation Report are based on information available as at the date of the Valuation Report. We have relied on audited financial statements as at 30 June 2009 as provided by REL. Farm and property valuations have been provided by REL and have been prepared by third parties.

In preparing our Valuation Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of NZRPT, REL or any of their related entities. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

In forming our opinions, we have relied on forecasts and assumptions prepared by NZRPT and REL about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this letter and our Valuation Report have been made in good faith and on the basis that all relevant information for the purposes of preparing our Valuation Report has been provided by NZRPT and REL, and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither PricewaterhouseCoopers nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in our Valuation Report resulting directly or indirectly from any such circumstances or from any assumptions upon which our Valuation Report is based proving unjustified.

Our opinions have been arrived at based on economic, market and other conditions prevailing at the date of our Valuation Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Valuation Report, if any additional information, which was in existence on the date of our Valuation Report, was not brought to our attention, or subsequently comes to light.

Limitation of Liability

PricewaterhouseCoopers will accept liability to pay damages for losses arising as a direct result of breach of contract or negligence on our part in respect of services provided in connection with, or arising out of, this engagement but, to the extent permitted by law, any liability of PricewaterhouseCoopers, its partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed ten times the fees paid in aggregate in respect of all such services.

Indemnity

Guardian Trust in its capacity as Trustee of NZRPT has agreed to indemnify us against claims brought by any third party. The indemnity covers PricewaterhouseCoopers for any loss or liability suffered or incurred as a result of or in connection with the preparation of our Valuation Report. The extent of the indemnity from the Trustee is limited to the realisable value of the asset to which Guardian Trust has recourse under the Trust Deed between itself and NZRPT.

Appendix B Sources of Information

- Property valuations as provided by REL and prepared by Telfer Young and Chandler Fraser Keating
- NZRPT Audited Financial Statements FY05 – FY09
- NZRPT Budget for FY10
- NZRPT Unaudited Management Accounts for the month of July 2009
- List of NZRPT Unitholders as at 31 August 2009
- List of all NZRPT Unit transactions January 2007 – 31 August 2009 from REL
- REL Audited Financial Statements FY05 – FY09
- REL Unaudited Management Accounts for the month of July 2009
- List of REL Shareholders as at 30 June 2009
- List of all REL Share transactions January 2007 – 31 August 2009 from REL
- Quotable Value New Zealand Rural Property Sales Statistics Report, December 2008
- National Bank Rural Report June 2009
- Ministry of Agriculture and Fisheries Dairy Product Price statistics
- ANZ Commodities Index, 30 June 2009
- Rabobank Agribusiness Review August 2009

Appendix C Trading in REL Shares in the year to 10 September 2009

Trading in REL Shares					
Date	Unlisted		Sharemart		
	Volume	Price	Volume	Price	
23/09/2008	2,400	\$ 3.50	-	\$ -	-
09/10/2008	4,950	\$ 3.10	-	\$ -	-
17/10/2008	1,500	\$ 3.10	-	\$ -	-
28/10/2008	4,125	\$ 3.05	-	\$ -	-
17/11/2008	2,000	\$ 2.95	-	\$ -	-
24/11/2008	425	\$ 2.95	-	\$ -	-
22/01/2009	19,366	\$ 2.50	-	\$ -	-
04/02/2009	499	\$ 2.50	2,500	\$ 2.10	-
09/02/2009	3,250	\$ 2.50	-	\$ -	-
18/02/2009	16,555	\$ 2.50	-	\$ -	-
16/03/2009	3,400	\$ 2.30	-	\$ -	-
30/03/2009	5,088	\$ 2.50	-	\$ -	-
03/04/2009	4,000	\$ 2.50	-	\$ -	-
27/04/2009	912	\$ 2.50	-	\$ -	-
01/05/2009	5,688	\$ 2.50	-	\$ -	-
18/05/2009	4,000	\$ 2.50	-	\$ -	-
08/06/2009	9,000	\$ 2.50	-	\$ -	-
03/07/2009	4,300	\$ 2.45	-	\$ -	-

Source: Unlisted, Sharemart

Appendix D Trading in NZRPT Units in the year to 10 September 2009

Trading in NZRPT Units				
Date	Unlisted		Sharemart	
	Volume	Price	Volume	Price
19/09/2008	-	-	5,256	2.80
22/09/2008	1,100	3.20	-	-
30/09/2008	9,234	3.15	-	-
17/10/2008	743	3.12	-	-
17/11/2008	4,689	2.40	-	-
23/12/2008	-	-	979	2.00
28/01/2009	11,501	2.50	-	-
17/02/2009	8,086	2.52	-	-
18/02/2009	2,058	2.52	-	-
26/02/2009	1,056	2.52	-	-
25/03/2009	7,526	2.25	-	-
26/03/2009	4,776	2.30	-	-
30/03/2009	17,978	2.40	-	-
02/04/2009	1,944	2.40	-	-
09/04/2009	10,200	2.50	-	-
22/04/2009	5,052	2.26	1,107	2.00
04/05/2009	2,000	2.50	-	-
15/05/2009	4,000	2.52	-	-
18/05/2009	1,174	2.50	-	-
03/06/2009	840	2.50	-	-
26/06/2009	14,500	2.40	-	-
29/06/2009	58,452	2.40	2,000	2.40
06/07/2009	410	2.40	-	-
09/07/2009	2,500	2.40	-	-
16/07/2009	490	2.30	-	-
04/08/2009	-	-	400	2.50
05/08/2009	6,000	2.32	3,420	2.20
10/08/2009	101	2.21	-	-
14/08/2009	11,909	2.20	-	-
17/08/2009	6,091	2.20	-	-
01/09/2009	945	2.20	-	-

Source: Unlisted, Sharemart

Appendix E Transaction Comparables

Date	Target	Acquirer	% Sought	Proforma EV (A\$m)	Fee Multiple
Jun-09	Macquarie Leisure Group	Macquarie Group	100%	17.0	5.3x
Mar-09	Macquarie Communications Infrastructure Group	Canadian Pension Plan Investment Board	100%	96.5	5.3x
Mar-09	ConnectEast Management	ConnectEast Group	100%	5.3	4.6x
Feb-08	Dexus Property Group / Deutsche	DB Rreef Trust	50%	260.0	3.9x
Apr-07	Macquarie ProLogis	Prologis	50%	105.6	5.5x
Jul-06	Century Funds Management	OFM Investment Group	100%	41.9	4.5x
Aug-04	Property Funds Australia	James Fielding Group	50%	10.0	5.3x
Aug-04	Domaine Property Funds	James Fielding Group	50%	7.0	4.6x
Feb-03	Tyndall Investments Management (Australia)	James Fielding Holdings	100%	22.7	5.3x
Median					5.3x
Average					4.9x

Source: Company Reports, ASX Announcements, Company websites, Grant Samuel Independent Expert Report (in AFG acquisition of Rubicon EM)

Notes

1. Under the ConnectEast Investment Trust Constitution, ConnectEast Management Limited was entitled to receive a fixed fee annually indexed for inflation

Schedule 2



Rural Equities Limited Financial Statements

For the year ended 30 June 2009

Income Statement

For the year ended 30 June 2009

		GROUP	GROUP	PARENT	PARENT
		2009	2008	2009	2008
	Notes	\$000	\$000	\$000	\$000
Revenue					
Lease income		2,705	2,410	-	-
Farm income		5,808	6,559	-	-
Log sales		4,438	2,340	-	-
Management fees		379	378	224	212
Inter group administration fee		-	-	3,906	3,516
Distribution from New Zealand Rural Property Trust		-	-	1,043	237
Other income		48	34	31	3
Total		13,378	11,721	5,204	3,968
Less Expenses					
Farm operating expenses		4,481	3,420	-	-
Logging cost of sales		4,438	2,340	-	-
Interest costs		3,276	2,820	1,983	1,875
Other expenses		2,547	2,355	1,790	1,423
Total	3	14,742	10,935	3,773	3,298
Net surplus (deficit) before other income & expenses					
		(1,364)	786	1,431	670
Share of associate's profit (loss) after tax	15	(199)	(26)	-	-
Revaluations	2	(30,236)	46,977	-	-
Discount on units purchased in the New Zealand Rural Property Trust		-	2,659	-	-
Net profit (loss) before tax		(31,799)	50,396	1,431	670
Income tax (expense) credit	5	192	30	(407)	(230)
Net profit (loss) after tax		(31,607)	50,426	1,024	440
Net profit (loss) attributable to minority interests		(11,771)	18,034	-	-
Net profit (loss) attributable to parent interests		(19,836)	32,392	1,024	440
Earnings per share - basic & diluted - \$ per share	19	\$ (0.74)	\$ 1.30		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2009

	Notes	GROUP 2009 \$000	GROUP 2008 \$000	PARENT 2009 \$000	PARENT 2008 \$000
Equity at start of year		203,263	151,887	41,474	28,803
Net profit (loss) attributable to:					
Parent interest		(19,836)	32,392	1,024	440
Minority interest		(11,771)	18,034	-	-
Total net profit (loss) after tax		(31,607)	50,426	1,024	440
Revaluation of land & buildings - net of tax					
Parent interest		(1,669)	1,361	-	-
Minority interest		(999)	821	-	-
Total revaluation of land & buildings		(2,668)	2,182	-	-
Total recognised income & expenses		(34,275)	52,608	1,024	440
Proceeds of share issue		-	12,231	-	12,231
Distribution to minority interests		(677)	(216)	-	-
Changes in minority interests		-	(13,247)	-	-
Equity at end of year	9	168,311	203,263	42,498	41,474

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2009

		GROUP	GROUP	PARENT	PARENT
		2009	2008	2009	2008
	Notes	\$000	\$000	\$000	\$000
Current Assets					
Cash at bank		62	335	-	-
Bank term deposit		1,563	-	1,563	-
Accounts receivable		1,971	1,421	108	108
Derivative financial instruments		241	151	252	147
Feed on hand		357	270	-	-
Total		4,194	2,177	1,923	255
Non Current Assets					
Investment properties	10	147,233	196,094	-	-
Property, plant & equipment	11	37,187	20,240	36	41
Livestock	12	3,597	1,535	-	-
Forest	13	2,208	1,493	-	-
Management contract	17	681	696	-	-
Deferred tax asset	5	-	-	6	9
Receivable from subsidiary		-	-	7,365	6,242
Shares in Fonterra Co-operative Group Limited	16	6,518	8,347	-	-
Investment in associate	15	-	4,199	-	4,000
Other investments	16	233	207	50,923	50,923
Total		197,657	232,811	58,330	61,215
Total Assets		201,851	234,988	60,253	61,470
Current Liabilities					
Bank overdraft		20	9	20	9
Accounts payable & accrued expenses		1,254	1,450	135	378
Provision for tax		155	64	155	64
Bank loans	18	14,600	-	-	-
Total		16,029	1,523	310	451
Term Liabilities					
Bank loans	18	17,445	29,545	17,445	19,545
Deferred tax liability	5	66	657	-	-
Total		17,511	30,202	17,445	19,545
Equity					
Equity attributable to:					
Parent company shareholders		99,881	121,386	42,498	41,474
Minority interests		68,430	81,877	-	-
Total Equity	9	168,311	203,263	42,498	41,474
Total Liabilities & Equity		201,851	234,988	60,253	61,470

On behalf of the Directors, who authorise the issue of these financial statements, dated 23 October 2009.



Sir Selwyn Cushing
CHAIRMAN



Rodger Finlay
DIRECTOR

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2009

		GROUP	GROUP	PARENT	PARENT
		2009	2008	2009	2008
	Notes	\$000	\$000	\$000	\$000
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		13,392	11,544	240	215
Other receipts		-	-	2,710	2,395
Dividends received		-	-	1,130	237
Tax refund		4	-	-	-
Other income		17	19	-	-
		13,413	11,563	4,080	2,847
<i>Cash was applied to:</i>					
Payments to suppliers and employees		12,172	6,828	1,099	1,232
Taxation paid		313	199	313	199
Interest paid		3,610	2,830	2,258	1,875
		16,095	9,857	3,670	3,306
Net cash flows from operating activities	4	(2,682)	1,706	410	(459)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Proceeds from sale of associate	15	4,000	-	4,000	-
Proceeds from sale of assets		5	3	-	-
		4,005	3	4,000	-
<i>Cash was applied to:</i>					
Capital expenditure including farm improvements		1,120	1,007	11	-
Purchase of units in NZRPT	14	-	10,588	-	10,588
		1,120	11,595	11	10,588
Net cash flows from investing activities		2,885	(11,592)	3,989	(10,588)
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Share issue		-	12,231	-	12,231
Term loan advance		1,580	-	-	-
		1,580	12,231	-	12,231
<i>Cash was applied to:</i>					
Investment in term deposit		1,390	-	1,390	-
Term loan reduction		-	1,850	3,020	1,050
Income distribution		677	216	-	-
		2,067	2,066	4,410	1,050
Net cash flows from financing activities		(487)	10,165	(4,410)	11,181
Net increase (decrease) in cash held		(284)	279	(11)	134
Cash at start of period		326	47	(9)	(143)
Cash at end of period		42	326	(20)	(9)
<i>Comprised of:</i>					
Cash at bank		62	335	-	-
Bank overdraft		(20)	(9)	(20)	(9)
		42	326	(20)	(9)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Rural Equities Limited is a company registered in New Zealand under the Companies Act 1993. The company is a listed issuer for the purposes of the Financial Reporting Act 1993 and the financial statements have been prepared in accordance with that Act.

The Group ("the Group") consists of:

- (a) The parent, Rural Equities Limited ("the Company")
- (b) The subsidiaries, New Zealand Rural Property Trust Management Limited, REL – Trust Management Limited and the New Zealand Rural Property Trust.
- (c) The associate, the REL – Pacific Equity Trust (disposed of on 26 June 2009).

The principal activities of the Group are described in the front of the annual report.

MEASUREMENT BASE

The functional currency is New Zealand dollars and the financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (\$000).

The financial statements have been prepared on an historical cost basis, except for investment properties, forest assets, land and buildings, investments, livestock and derivative financial instruments, which have been measured at fair value as detailed below.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit orientated entities. They also comply with International Financial Reporting Standards (IFRS).

STANDARDS ISSUED BUT NOT YET EFFECTIVE

NZ IAS 1: Presentation of Financial Statements (Revised) will affect the Group's 2010 financial statements. This standard deals with the naming of the financial statements and changes some disclosure requirements (including the presentation of a Statement of Comprehensive Income) and is expected to have minimal impact on the financial statements.

NZ IFRS 8: Operating Segments will affect the Group's 2010 financial statements. This standard will require some additional disclosure but is expected to have minimal impact on the financial statements.

There are no other new standards, amendments or interpretations that have been issued, but not yet effective, which are expected to have a material impact on the reported financial performance or position of the Group.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies. The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

(a) Basis of Consolidation

The financial statements include the parent company and its subsidiaries, accounted for using the purchase method. All significant inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Notes to the Financial Statements

Where an acquisition of an additional interest in a subsidiary results in the carrying value of the minority interest acquired being greater than the cost, then the excess is immediately recognised in the Income Statement.

Minority interests are allocated their share of net profit or loss after tax in the Income Statement and are presented within equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

(b) Investment in Associates

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under this method the investment in the associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate.

The Group's share of post acquisition profits and losses is recognised in the Income Statement. Dividends received from associates are recognised in the parent company's Income Statement, and in the Consolidated Balance Sheet they reduce the carrying amount of the investment.

(c) Investment Properties

Investment properties are recorded at fair value.

An independent valuation is obtained for each investment property at least once a year. All investment properties are revalued annually as at 30 June.

Investment properties are valued by independent registered public valuers. Changes in value are recorded in the Income Statement.

Additions between each valuation are stated at cost.

(d) Property, Plant & Equipment

Land & Buildings

Land and buildings are recorded at fair value, based on annual valuations.

An independent valuation is obtained for each property at least once a year. All properties are revalued annually as at 30 June.

Land and buildings are valued by independent registered public valuers.

Any revaluation increment is credited to the revaluation reserve account in the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement.

Any revaluation decrease is recognised in the Income Statement. To the extent that a revaluation decrease offsets a previous revaluation increase for the same asset, then the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance in the revaluation reserve for that asset.

Buildings are depreciated on a straight line basis over 50 years.

Plant & Machinery

Plant and machinery is recorded at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight line basis so as to allocate the cost of the assets over their estimated useful lives. The estimated useful lives of plant and machinery assets range from four to ten years.

Notes to the Financial Statements

(e) Forest Assets

The forest is recorded at fair value, less estimated point of sale costs, based on annual valuations by external independent valuers.

The forest is revalued annually as at 30 June and revaluations are recorded in the Income Statement.

(f) Investments

Investments, other than the parent company investment in subsidiaries, are initially recorded at cost and subsequently revalued to fair value. Changes in fair value are recorded in the Income Statement.

Investments have been designated as "at fair value through profit or loss" on the basis that the assets are both managed and their performance is evaluated on a fair value basis as part of a documented investment strategy.

Investments in subsidiaries are recognised at cost less any provision for impairment.

(g) Livestock

Livestock is recorded at fair value as assessed by an external independent valuer, less estimated point of sale costs. Changes in fair value are recorded in the Income Statement.

(h) Taxation

The income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation. In accordance with the NZ SIC-21: Income taxes – Recovery of Revalued Non-Depreciable Assets, it is the Directors' view that deferred tax is not recognised on non depreciable assets (including all land) because the tax rate on the realisation of those assets would be 0%.

A deferred tax asset relating to unused tax losses is only recognised to the extent that taxable profits will be available against which the tax losses can be utilised.

(i) Goods and Services Tax

The financial statements have been prepared on a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

(j) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

(k) Trade and Other Payables

Trade payables are carried at amortised cost. They represent liabilities for goods and services provided prior to balance date that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Cash and Cash Equivalents

For purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank, short term deposits and bank overdrafts.

(m) Revenue Recognition

Lease rental revenue is recognised in the Income Statement on a straight line basis over the term of the lease.

Revenue from the sale of goods, including livestock and logs, is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer. Milk sales income is recognised at the time of delivery of milk to Fonterra Co-operative Group Limited at their declared payment rate.

Notes to the Financial Statements

(n) Interest-bearing Loans and Borrowings

All loans are initially recognised at the fair value. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(o) Derivative Financial Instruments

Derivative financial instruments are used to economically hedge exposure to interest rate and currency risks. Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are revalued to fair value. The gain or loss on revaluation is recognised immediately in the Income Statement.

The fair value of currency options is the amount the Company would pay or receive to terminate the option contract at balance date, based on counterparty quotations.

(p) Management Contract

The contract to manage the New Zealand Rural Property Trust is governed by a trust deed dated 30 January 1987 and a number of subsequent deeds of modification, the latest of which were dated 5 October 1999 and 30 June 2000. The contract expires in 2067. The contract is being amortised over the life of the contract.

(q) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in New Zealand dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences are taken to the Income Statement.

NOTE 2 REVALUATIONS	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Revaluation of investment properties	(25,584)	50,818	-	-
Revaluation of land & buildings	(4,212)	-	-	-
Revaluation of investments	(1,479)	(1,785)	-	-
Revaluation of forest assets	1,039	(2,056)	-	-
	(30,236)	46,977	-	-

NOTE 3 EXPENSES

Farm operating expenses include the costs of operating the farms that the Group manages directly or under sharemilking agreements. The main items are feed, fertiliser, repairs and maintenance and labour.

Logging cost of sales includes harvesting and transporting costs.

	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Specific disclosures are as follows:				
Depreciation - on plant	374	340	16	16
Depreciation - on buildings	41	22	-	-
Directors' fees	184	141	170	125
Operating lease costs	240	198	50	44
Audit fees	47	47	20	20
Fees paid to Ernst & Young for tax compliance	-	22	-	-
Key management remuneration - short term benefits	623	593	623	593
Other employee remuneration	505	271	10	-
Amortisation of management contract	15	166	-	-
Unrealised exchange loss	762	245	762	245
Loss (gain) in fair value of derivatives	(12)	167	(23)	77

Notes to the Financial Statements

NOTE 4 CASH FLOW RECONCILIATION	GROUP	GROUP	PARENT	PARENT
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Net profit (loss) after tax	(31,607)	50,426	1,024	440
Add (deduct) non-cash items:				
Depreciation	415	362	16	16
Amortisation of intangible assets	15	166	-	-
Forest depletion	560	245	-	-
Equity accounted loss of associate	199	26	-	-
Unrealised exchange loss	762	245	762	245
Interest income accrued	(15)	-	(15)	-
Discount on units purchased in the New Zealand Rural Property Trust	-	(2,659)	-	-
Revaluation movements	30,236	(46,977)	-	-
	32,172	(48,592)	763	261
Changes in assets & liabilities:				
Change in accounts payable	(196)	(36)	(243)	(94)
Change in derivatives	(90)	15	(105)	(75)
Change in provision for taxation	91	64	91	64
Change in deferred taxation	(591)	(293)	3	(33)
Change in livestock & feed	(2,149)	156	-	-
Change in receivable from subsidiary	-	-	(1,123)	(1,168)
Change in accounts receivable	(550)	(289)	-	146
	(3,485)	(383)	(1,377)	(1,160)
Add (deduct) non-operating items:				
Non-operating items in accounts payable	(108)	255	-	-
Non-operating items in accounts receivable	349	-	-	-
Realised gains on asset sales	(3)	-	-	-
	238	255	-	-
Net cash flows from operating activities	(2,682)	1,706	410	(459)
NOTE 5 TAXATION				
Income Statement				
Net profit (loss) before tax	(31,799)	50,396	1,431	670
Tax at the statutory rate of 30% (2008 33.0%)	(9,540)	16,630	429	221
Adjusted for tax effect of:				
Non assessable land revaluations	8,808	(16,413)	-	-
Non assessable investment revaluations	444	589	-	-
Depreciation on land improvements	(150)	(143)	-	-
Other items	246	(693)	(22)	9
Tax expense (credit)	(192)	(30)	407	230
Represented by :				
Current tax	404	263	404	263
Deferred tax	(596)	(293)	3	(33)
	(192)	(30)	407	230
Deferred tax debited (credited) directly to equity				
Revaluation of buildings	3	(9)	-	-

Tax losses are subject to the Company meeting the continuity of ownership requirements of tax legislation.

Notes to the Financial Statements

	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Balance Sheet				
Deferred tax (assets) & liabilities relate to the following:				
Buildings depreciation & revaluation	1,806	1,854	-	-
Forest operations & revaluation	613	339	-	-
Plant depreciation	(81)	(56)	1	3
Livestock revaluation	(19)	(54)	-	-
Recognition of tax losses	(1,732)	(899)	-	-
Unused prepaid tax credits	(504)	(507)	-	-
Other items	(17)	(20)	(7)	(12)
Total	66	657	(6)	(9)
Disclosed as:				
Deferred tax liability	66	657	-	-
Deferred tax asset	-	-	(6)	(9)
	66	657	(6)	(9)
Changes to deferred tax recognised in the Income Statement				
Buildings depreciation & revaluation	(50)	406	-	-
Forest operations & revaluation	274	(598)	-	-
Plant depreciation	(25)	(8)	(2)	-
Livestock revaluation	35	(10)	-	-
Recognition of tax losses	(833)	(19)	-	-
Other items	3	(64)	5	(33)
	(596)	(293)	3	(33)

NOTE 6 IMPUTATION CREDIT ACCOUNT	PARENT	PARENT
	2009	2008
	\$000	\$000
Balance at beginning of period	1,763	1,744
Change of shareholding continuity adjustment	-	(180)
Income tax paid during the period	313	199
Balance at end of period	2,076	1,763

At balance date the imputation credits available to the shareholders of the Company were through direct shareholding in the Company. Imputation credits are dependent on the Company continuing to meet the requirements of tax legislation.

NOTE 7 SEGMENT REPORTING

The Group owns and manages rural property entirely within New Zealand and entirely within the rural sector and therefore operates only in one segment.

Notes to the Financial Statements

NOTE 8 FINANCIAL INSTRUMENTS

Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. All interest rates are fixed for periods of 90 days or less. To manage this interest rate risk the Group enters into interest rate swaps. The Group does not apply hedge accounting. At balance date these swaps hedge approximately 29% (2008 89%) of the Group's borrowings.

The interest rate swaps require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched against the appropriate loans.

The effect on Group profit after tax and equity of a 1% change in interest rates is \$160,000. There was no significant sensitivity to interest rates in 2008.

The notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	GROUP 2009 \$000	GROUP 2008 \$000	PARENT 2009 \$000	PARENT 2008 \$000
Less than one year	9,195	4,000	6,195	-
Between one and two years	-	5,276	-	5,276
Between three and five years	-	17,000	-	11,000
	9,195	26,276	6,195	16,276

Currency Risk

The Group is exposed to currency risk through a loan denominated in US dollars. The amount of the loan is US\$4,000,000 (2008 US\$4,000,000). To mitigate the currency risk the Group entered into a NZ dollar put/US dollar call option for US\$2,000,000 (2008 US\$2,000,000) with a strike rate of US\$0.70. The Group also has a deposit of US\$1,000,000 (2008 nil). As a result of the currency option and the deposit held by the Group, there is no significant sensitivity to changes in foreign exchange rates. The US dollar assets and liabilities are converted to NZ dollars at balance date at an exchange rate of NZ\$1.00 = US\$0.6457.

Commodity Price Risk

The Group is exposed to price risk on a number of agricultural commodities including logs, wool, meat and milk solids. The directors have identified changes to milk solid prices as having a material impact on profit. The effect on profit after tax and equity of a change in the price of milk solids of \$1.00 per kilogram would be \$493,000 (2008 \$505,000).

Credit Risk

Financial instruments which potentially subject the Group to credit risk, consist of cash at bank, bank deposit, interest rate swaps and accounts receivable. All cash at bank is with a registered New Zealand bank.

Included in accounts receivable is \$1,091,000 (2008 \$685,000) receivable from Fonterra Cooperative Group Limited. There are no other significant concentrations of credit risk.

Maximum credit exposures are:

	GROUP 2009 \$000	GROUP 2008 \$000	PARENT 2009 \$000	PARENT 2008 \$000
Cash at bank	62	335	-	-
Bank deposits	1,563	-	1,563	-
Derivative financial instruments	241	151	252	147
Accounts receivable	1,971	1,421	108	108

Fair values

Carrying value approximates to fair value for all classes of financial instrument.

Notes to the Financial Statements

Liquidity risk

The Group's approach to liquidity risk management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to returns.

Liquidity is assessed by using all information known, expected cash flows and the availability of collateral which could be used to secure additional funding if required. The Company's facility runs until 30 September 2011.

The loans of the subsidiary, the New Zealand Rural Property Trust, are drawn for 90 day terms or less to take advantage of current low interest rates. The Trust Manager is in discussions with the Trust's bankers to determine the appropriate future borrowing structure for the Trust. The Trust's current bank loans as at 30 June 2009 are 7.3% of total assets (2008 4.4%).

The following table sets out the maturity profile of the Group's financial liabilities:

	2009	2009	2008	2008
	Less than 12 months	1 to 3 years	Less than 12 months	1 to 3 years
	\$000	\$000	\$000	\$000
Accounts payable and accrued expenses	1,254	-	1,450	-
Interest bearing loans (including contracted interest)	32,501	-	7,762	22,275
	33,755	-	9,212	22,275
	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Financial Instrument Classification				
The carrying amounts of financial instruments by category are:				
Loans & receivables:				
Accounts receivable	1,971	1,421	7,473	6,350
Bank deposits	1,563	-	1,563	-
Cash at bank	62	335	-	-
Financial assets at fair value through profit or loss:				
Designated - shares	6,751	8,554	-	-
Held for trading - derivatives	241	151	252	147
Financial liabilities measured at amortised cost:				
Bank loans	32,065	29,554	17,465	19,554
Accounts payable & accruals	1,254	1,450	135	378

Capital Risk Maintenance

The Group's capital is primarily invested in farms and a forest which are held for long term capital appreciation. No dividends have been paid to shareholders in recent years. Operational cash inflows are broadly expected to match outflows and where differences arise this is managed within the available banking facilities.

Market Price Risk

Shares in Fonterra Co-operative Group Limited are valued at a price set by Fonterra each year. If the price changed by 10% the effect on profit after tax and equity would be \$652,000 (2008 \$835,000).

Notes to the Financial Statements

NOTE 9 EQUITY	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Share capital	49,213	49,213	49,213	49,213
Revaluation reserve	2,504	4,173	-	-
Retained earnings (accumulated deficit)	48,164	68,000	(6,715)	(7,739)
	99,881	121,386	42,498	41,474
Minority interests	68,430	81,877	-	-
Total	168,311	203,263	42,498	41,474

Share capital

There are 26,685,612 shares on issue (2008 26,685,612).

	GROUP & COMPANY		GROUP & COMPANY	
	NUMBER OF SHARES		VALUE	
	2009	2008	2009	2008
	000	000	\$000	\$000
Opening balance	26,686	22,238	49,213	36,982
Shares issued for cash	-	4,448	-	12,231
Closing balance	26,686	26,686	49,213	49,213

All shares participate equally in dividends and any surpluses on winding up the Company. All shares have equal voting rights and have no par value.

	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Revaluation reserve				
Opening balance	4,173	2,812	-	-
Revaluation of land & buildings	(1,669)	1,361	-	-
Closing balance	2,504	4,173	-	-
Retained earnings				
Opening balance	68,000	35,608	(7,739)	(8,179)
Net profit (loss) after tax	(19,836)	32,392	1,024	440
Closing balance	48,164	68,000	(6,715)	(7,739)

NOTE 10 INVESTMENT PROPERTIES	GROUP	GROUP
	2009	2008
	\$000	\$000
Opening balance	196,094	145,075
Additions	301	201
Transferred to property, plant & equipment	(23,578)	-
Revaluations	(25,584)	50,818
Closing balance	147,233	196,094
Land	133,743	181,239
Buildings	13,490	14,855
Total	147,233	196,094

All investment properties were valued as at 30 June 2009 by independent registered valuers Telfer Young Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

Notes to the Financial Statements

Where a property is subject to a lease arrangement the terms and conditions of the lease have been assessed, including exit provisions, and the value of the Group's investment as lessor is established.

A discounted cash flow model is used in situations where there is an absence of sales of properties with a similar lease arrangement to adjust the unencumbered market value of the properties to the value of the Group's interest as lessor. The total lease encumbrance is \$3,153,000 (2008 \$5,608,000).

The latest Government valuations of investment properties totals \$146,511,000.

NOTE 11 PROPERTY, PLANT & EQUIPMENT	GROUP	GROUP	PARENT	PARENT
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Land & Buildings				
Opening balance	19,126	16,757	-	-
Additions	243	218	-	-
Transferred from investment properties	23,578	-	-	-
Depreciation	(41)	(22)	-	-
Revaluations	(6,878)	2,173	-	-
Closing balance	36,028	19,126	-	-
Land	33,813	17,866		
Buildings	2,215	1,260		
Total	36,028	19,126		
Plant & Equipment				
Opening balance	1,114	1,374	41	56
Additions	421	80	11	1
Disposals	(2)	-	-	-
Depreciation	(374)	(340)	(16)	(16)
Closing balance	1,159	1,114	36	41
Cost	3,399	2,995	86	76
Accumulated depreciation	(2,240)	(1,881)	(50)	(35)
Net carrying amount	1,159	1,114	36	41
Total property, plant & equipment	37,187	20,240	36	41

During the year two additional properties (2008 Nil) became directly farmed by the Group and so were transferred from investment properties to property, plant and equipment.

Land and buildings were valued as at 30 June 2009 by independent registered valuers Telfer Young Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

If land and buildings were measured at cost less accumulated depreciation and impairment then the carrying amounts would be:

	GROUP	GROUP
	2009 \$000	2008 \$000
Land	7,837	4,445
Buildings	2,312	1,180
Less depreciation	(724)	(343)
Net carrying amount	9,425	5,282

The latest Government valuations of the land and buildings totals \$45,127,000.

Notes to the Financial Statements

NOTE 12 LIVESTOCK

The Group operates four sheep and beef farms. Livestock are held for meat and wool production.

	GROUP 2009 No. of Head	GROUP 2008 No. of Head
Livestock on hand		
Sheep	13,473	13,126
Cattle	3,418	1,494
	2009 \$000	2008 \$000
Sheep value		
Opening balance	674	665
Increases due to purchases	115	13
Decreases due to sales	(583)	(289)
Revaluation gains net of births & deaths	1,019	285
Closing balance	1,225	674
Cattle value		
Opening balance	861	982
Increases due to purchases	2,284	78
Decreases due to sales	(1,352)	(394)
Revaluation gains net of births & deaths	579	195
Closing balance	2,372	861
Total livestock	3,597	1,535

Livestock was valued as at 30 June 2009 by independent livestock valuers. The valuation is on the basis of current fair value less point of sale costs. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality and condition in the regions the Group's livestock is located.

NOTE 13 FOREST ASSET

The Group owns a 848 hectare forest of pinus radiata trees. As at 30 June 2009 83 hectares (2008 199 hectares) of the first crop rotation was still to harvested.

	GROUP 2009 \$000	GROUP 2008 \$000
Opening balance	1,493	3,609
Forest redevelopment	236	185
Forest harvest depletion	(560)	(245)
Revaluation	1,039	(2,056)
Closing balance	2,208	1,493

The forest was valued as at 30 June 2009 by independent registered valuers. The valuation is on the basis of current fair value less point of sale costs. For mature trees fair value is determined by assessing the present value of the projected net cash flow from the harvest of the forest. An assessment of the appropriate market discount rates is made by the valuer. Trees under six years old are valued at replacement cost which approximates fair value.

Notes to the Financial Statements

	GROUP 2009	GROUP 2008
Valuation details are as follows:		
Valuer	Chandler Fraser Keating Ltd	Chandler Fraser Keating Ltd
Discount rate		
Mature trees	10.0% (pre tax)	16.0% (pre tax)
Immature trees	10.0% (pre tax)	10.0% (pre tax)

Although the discount rate for the mature trees has been reduced by the valuer, it has little impact on the value as the trees are expected to be harvested within a year of balance date.

NOTE 14 INVESTMENT IN THE NEW ZEALAND RURAL PROPERTY TRUST

REL and its subsidiary, New Zealand Rural Property Trust Management Limited ("NZRPTML"), hold 29,747,156 units (2008 29,496,657) in its subsidiary, the New Zealand Rural Property Trust ("the Trust"). This represents 62.6% (2008 62.4%) of the units on issue.

In September 2008, NZRPTML subscribed for 250,499 units (2007 260,953 units), as part of the management fee in accordance with the Trust Deed.

NOTE 15 INVESTMENT IN REL - PACIFIC EQUITY TRUST

REL - Pacific Equity Trust is an unlisted investment trust formed to take advantage of investment opportunities in New Zealand and Australia. The Company had significant influence over REL - Pacific Equity Trust and it was therefore treated as an associate using the equity method of accounting until the date of disposal. On 26 June 2009 the Company sold its 4,000,000 units in REL - Pacific Equity Trust it owned.

The carrying amount of the investment in REL - Pacific Equity Trust is:

	GROUP 2009 \$000	GROUP 2008 \$000
Opening balance	4,199	4,225
Loss after tax for the period	(199)	(26)
Proceeds from disposal of associate	(4,000)	-
Closing balance	-	4,199

Extract from the REL - Pacific Equity Trust's Financial Statements - 100%

	GROUP 2009 \$000	GROUP 2008 \$000
Current assets	-	36
Investments	-	18,713
Current liabilities	-	(904)
Net assets	-	17,845
Revenue	551	667
Net loss after tax	(2,367)	(61)
Value per unit - \$ per unit	\$ -	\$ 1.05

During the year ending 30 June 2009 the Group earned fees for managing the REL - Pacific Equity Trust of \$155,000 (2008 \$178,000).

The REL - Pacific Equity Trust is in the process of being liquidated thus the Group will not receive any further fees for managing this Trust.

Notes to the Financial Statements

NOTE 16 INVESTMENTS	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Subsidiary Entities				
Shares in New Zealand Rural Property Trust Management Limited - 100% owned	-	-	2,532	2,532
Shares in REL - Trust Management Limited - 100% owned	-	-	-	-
Units in the New Zealand Rural Property Trust - refer note 14	-	-	48,391	48,391
			50,923	50,923
Associate Entity				
Units in the REL - Pacific Equity Trust - refer note 15	-	4,199	-	4,000
Other Investments				
Shares in Fonterra Co-operative Group Limited	6,518	8,347	-	-
Other shares at valuation	233	207	-	-
	6,751	12,753	50,923	54,923

NOTE 17 MANAGEMENT CONTRACT	GROUP	GROUP
	2009	2008
	\$000	\$000
Management Contract to manage the New Zealand Rural Property Trust		
Cost	2,354	2,354
Amortisation		
Opening balance	(1,658)	(1,492)
Current year	(15)	(166)
Closing balance	(1,673)	(1,658)
Net carrying value	681	696

NOTE 18 BANK LOANS

The Group has loan facilities with Westpac Banking Corporation totalling \$42.0M (2008 \$38.0M). As at 30 June 2009 the facility was drawn to \$32.0M (2008 \$29.5M) at an average interest rate of 4.04% (2008 6.51%). This is made up of loans classed as current liabilities of \$14,600,000 (2008 Nil) and loans classed as non current liabilities of \$17,445,000 (2008 \$29,545,000).

The Company has provided the bank with a first ranking all obligations debenture over all the Company's assets. The facility runs to 30 September 2011 with interest rates reset every 90 days or less.

Bank loans for the subsidiary, the New Zealand Rural Property Trust, are classified as current liabilities while the Trust Manager and Westpac review the Trust's future banking requirements, over the next six months.

See note 8 for interest rate risk management.

NOTE 19 EARNINGS PER SHARE	GROUP	GROUP
	2009	2008
Numerator - \$000		
Earnings attributable to parent company interests	(19,836)	32,392
Denominator - 000 shares		
Weighted average number of shares on issue	26,686	24,832
Earnings (loss) per share - \$ per share	\$ (0.74)	\$ 1.30

Notes to the Financial Statements

NOTE 20 RELATED PARTY DISCLOSURES

The Company has entered into a Deed of Lease with Ecco Building Partnership for the lease of the Company's office premises at 120 Karamu Road, Hastings. Sir Selwyn Cushing, a director of REL, is one of the partners of Ecco Building Partnership. The lease is for a term from 13 February 2006 until 28 February 2011 with a further right of renewal until 25 November 2014. The annual rent is \$22,400 reviewable on 28 February 2010 and every two years thereafter. The amount of rental paid by the Company to Ecco Building Partnership during the financial year was \$22,400 (2008 \$20,887). There was no amount owing as at 30 June 2009 (30 June 2008 Nil).

During the year REL provided accounting and administration services to H&G Limited. H&G Limited is REL's parent company. Sir Selwyn Cushing and David Cushing, who are directors of REL, are directors and shareholders of H&G Limited. The fees, charged at commercial rates, were \$15,600 (2008 \$12,000). The amount owing at balance date was \$5,600 (2008 \$12,000) and has since been paid in full.

In June 2009 H&G Limited made an offer to all the Unitholders in the REL - Pacific Equity Trust to purchase all the units that were not already owned by H&G Limited for \$1 per unit. The Company accepted the offer and sold its 4,000,000 units to H&G Limited on 26 June 2009 - refer note 15. H&G Limited is in the process of liquidating the REL - Pacific Equity Trust.

For transactions with the New Zealand Rural Property Trust - see note 14.

NOTE 21 COMMITMENTS & CONTINGENT LIABILITIES

Operating Lease Commitments

The Group leases farm land adjacent to several of its dairy farms to supplement the feed provided by the Group's farms. The land is leased under standard terms for non-cancellable farm leases and are for periods between one and five years. The Group also leases office space and motor vehicles on standard terms under non-cancellable leases.

Lease commitments under these non-cancellable leases are:

	GROUP 2009 \$000	GROUP 2008 \$000	PARENT 2009 \$000	PARENT 2008 \$000
Not later than one year	229	157	50	50
Later than one year and not later than two years	196	99	27	50
Later than two years and not later than five years	275	67	-	27
Total future minimum lease payments	700	323	77	127

Property, Plant & Equipment Commitments

The Group had no commitments contracted but not provided for as at 30 June 2009 (2008 \$242,000).

Contingent Liabilities

There are no contingent liabilities as at 30 June 2009 (2008 Nil).

NOTE 22 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS

In applying the accounting policies management continually evaluate judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions made by management. Significant judgements made in the preparation of these financial statements are outlined below:

- i) Investment Properties - The majority of the Group's assets consist of investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment properties.

Notes to the Financial Statements

NOTE 22 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS - CONTINUED

- ii) Sharemilking Arrangements - The Group has sharemilking agreements in place on six (2008 six) of its properties. The essential nature of these agreements is that of a tenancy and so these properties are treated as investment properties. Therefore all changes in value are recorded in the Income Statement.
- iii) Leases - The Group has entered into leases with farmers for its investment properties. The Group retains all significant risks and rewards of ownership of the properties and has therefore classified the leases as operating leases.

NOTE 23 SUBSEQUENT EVENTS

On 24 September 2009, REL announced a proposal to merge with NZRPT. It is proposed that REL will issue shares to all unitholders in NZRPT (other than REL itself) at an exchange ratio of one share for every 1.15 NZRPT units held.

A meeting of REL shareholders will be held to consider and approve, by ordinary resolution the issuing of REL shares to NZRPT unitholders. The meeting is expected to be held in late November 2009.

A meeting of NZRPT unitholders to consider the merger is also expected to be held in the second half of November 2009.

Schedule 3



Chartered Accountants

AUDITOR'S REPORT

The Directors
Rural Equities Limited
PO BOX 783
Hastings

Ref: 60433330

Dear Directors

This report is issued in respect of the public offer by Rural Equities Limited ("the Company") of up to 15,484,379 ordinary shares in the Company, in terms of the Investment Statement and Prospectus dated 23 October 2009.

This report is made solely to the directors, in accordance with clause 42 of the First Schedule to the Securities Regulations 1983 ("the First Schedule"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible for the preparation and presentation of:

- (a) financial statements as required by clauses 23 to 38 of the First Schedule. The financial statements provide information about the past financial performance and cash flows of the Company and its subsidiaries ("the Group") for the year ended 30 June 2009 and their financial position as at that date; and
- (b) the summary of financial statements of the Group for the years ended 30 June 2005, 2006, 2007, 2008 and 2009 as required by clauses 8(2) and 8(3) of the First Schedule.

Auditor's Responsibilities

We are responsible for:

- (a) expressing an independent opinion on the financial statements of the Company and Group as at 30 June 2009 and for the year ended on that date, prepared and presented by the directors, and reporting our opinion in accordance with clause 42(1) of the First Schedule; and
- (b) reporting, in accordance with clause 42(1)(g) of the First Schedule, on the amounts included in the summary of financial statements.

This report has been prepared for inclusion in the Investment Statement and Prospectus for the purpose of meeting the requirements of clause 42 of the First Schedule. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements and the summary of financial statements for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Investment Statement and Prospectus not mentioned in this report.

Ernst & Young provided taxation advice to the Company and Group.

Basis of Opinion

Our audit of financial statements for the year ended 30 June 2009 included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also included assessing:

- (a) the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

We have also undertaken procedures to provide reasonable assurance that the amounts in the summary of financial statements, pursuant to clauses 8(2) and 8(3) of the First Schedule, have been correctly taken from audited financial statements.

Unqualified Opinion

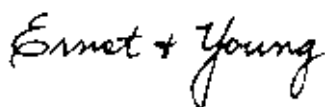
We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company and Group as far as appears from our examination of those records; and
- (b) the financial statements on pages 1 to 19 of Schedule 2 of the Investment Statement and Prospectus that are required by clauses 23 to 38 of the First Schedule, and that are required to be audited:
 - (i) comply with the Securities Regulations 1983; and
 - (ii) subject to those regulations, comply with generally accepted accounting practice in New Zealand; and
 - (iii) give a true and fair view of the state of affairs of the Company and Group as at 30 June 2009 and of their results and cash flows for the year ended on that date; and
- (c) the amounts in the summary of financial statements, on page 12 of the Investment Statement and Prospectus, pursuant to clauses 8(2) and 8(3) of the First Schedule, have been correctly taken from audited financial statements of the Group for the years ended 30 June 2005, 2006, 2007, 2008 and 2009.

We completed our work for the purposes of this report on 23 October 2009 and our unqualified opinion is expressed as at that date.

Yours faithfully



Ernst & Young

