rural
equities
LIMITED

ANNUAL REPORT 2006

CONTENTS

Company Business Activities & Structure

Rural Equities Limited (REL) is a company which invests in and manages rural property in New Zealand for long term capital growth and income.

REL has a fully owned subsidiary company called New Zealand Rural Property Trust Management Limited (NZRPTML) which is the manager of New Zealand Rural Property Trust (the Trust). Together REL and NZRPTML own 53.9% (approximately) of the units in the Trust.

The Trust owns a diverse portfolio of 30 high quality rural properties spread throughout New Zealand as well as a pine forest near Ngaruawahia. Twenty-two of the farm properties are leased and eight are directly farmed with six of these being dairy farms. On the dairy farms approximately 3,700 cows are milked in conjunction with 50/50 sharemilkers. Milk production for the 2005/06 season was 1.41 million kilograms milk solids. The pine forest is mature and is being harvested on a restricted basis owing to the current low price of logs.

The Trust is an unlisted unit trust and net assets exceeded $159 million at 30 June 2006. An after tax surplus of $17.8 million was achieved for the financial year ended 30 June 2006 with the increase in value of the properties owned being the major contributor to this result.

Further information regarding the Trust can be obtained from the website www.nzrpt.co.nz.

In July 2006, REL – Pacific Equity Trust was formed to invest in listed and unlisted securities principally in New Zealand and Australia. REL – Trust Management Limited was formed as a subsidiary of Rural Equities Limited to manage REL – Pacific Equity Trust and will receive management fees for the services provided. REL is also an investor in the new Trust.

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in The Foyer, Hawke's Bay Opera House, 107 Hastings Street South, Hastings on Tuesday 31 October 2006 commencing at 4.00pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2006 with the reports of the Directors and Auditor.
2. To elect Directors. In accordance with Clause 13.8 of the Company's constitution Roger Bonifant and Sir Selwyn Cushing retire by rotation and offer themselves for re-election.
3. To record the re-appointment of Ernst & Young as Auditor of the Company and to authorise the Directors to fix their remuneration for the ensuing year.
4. To increase the amount of Directors' remuneration paid to the Directors of the Company and the Directors of any subsidiary of the Company from $150,000 per annum to $200,000 per annum, to be divided and paid among them as the Directors of the Company see fit.

   ***Explanatory note*:**

   At last year's Annual Meeting the Directors' fees were increased from $75,000 to $150,000. That increase was recommended by the Directors (and subsequently approved by shareholders) following a review of the fees paid by the Company compared with other companies of a similar size and structure. Last year's increase also included provision for remuneration paid to Sir Ronald Carter and John Green following their appointment in November 2004.

   The proposed increase this year from $150,000 to $200,000 is to provide adequate remuneration to Directors for their increased responsibilities as Directors of the Company's new subsidiary, REL-Trust Management Limited, the manager of REL – Pacific Equity Trust. It is also intended to appoint an appropriately qualified independent director to the board of REL – Trust Management Limited in due course. Part of this increase would be utilised to remunerate the new independent director once appointed.

   The Directors recommend that shareholders approve the proposed increase.

INVITATION

Shareholders are cordially invited to join Directors for refeshments at the conclusion of the Meeting.

GENERAL BUSINESS

The Chairman will invite shareholders to raise any other issues relating to the Company for discussion.

NOTES

1. All shareholders are entitled to attend and vote at the Annual Meeting.
2. Any shareholder entitled to attend and vote at the Annual Meeting may appoint another person or persons as his or her proxy or representative in the case of corporate shareholders, to attend and vote on their behalf. A proxy or representative need not be a shareholder of the Company.
3. A form of proxy is enclosed with this notice. The constitution of the Company requires, so as to be valid, that any proxy form must be deposited at the registered office of the Company (First Floor, 120 Karamu Road North, PO Box 783, Hastings, New Zealand) or posted to the Company's Share Registrar, Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna (Private Bag 92 199) Auckland 1020, to be received not less than 48 hours before the time of the Annual Meeting.

James Wright
Chief Operating Officer

REPORT TO SHAREHOLDERS

By the Chairman & Chief Executive Officer

Introduction

The Directors are pleased to present the third annual report to shareholders for Rural Equities Limited (REL). Another sound year has produced an after tax surplus for the year of $10.5 million.

The Company's investment in the New Zealand Rural Property Trust (the Trust) increased during the year from 52.4% to 53.9% of the total units on issue. This resulted from the issue of units in accordance with the Trust management contract as well as the purchase of units on the market. The Trust became a subsidiary of REL during the financial year ended 30 June 2005 with the consolidated financial statements reflecting this.

Financial Overview

Once again strong gains in the value of farm properties owned by the Trust were the major contributor to the after tax surplus for the year of $10.5 million. This is lower than the $18.6 million achieved last year, however, last year included a gain of $8.1m arising from the purchase of Trust units compared to a gain of $630,000 in the current year from unit purchases.

In the Statement of Financial Performance the Group results include the financial returns from the Trust as well as those from REL, the parent company. The figures for REL are also shown separately as the Parent. The Group Net Surplus therefore includes the Trust's current year surplus of $17.8 million which is then adjusted for minority interests, and the operating surplus from REL of $1.1 million (last year $473,000).

REL's interest expense is significant again this year and results from bank debt which has accumulated as a result of the purchase of units in the Trust over the past two years. Other Group expenses are at a similar level to last year although the portion directly attributable to REL as the parent has reduced by $345,000. This reduction is primarily as a result of the Company's administration being transferred to be completed "in-house" rather than through the Service Provision Agreement with Williams & Kettle which was terminated with effect from 30 September 2005 (refer below).

From the Statement of Financial Position, Total Group Equity has increased by $16.2 million to $145.2 million.

The result for the year is again pleasing, and reflects the continued growth in the value of the rural properties owned by the Trust as well as the surplus achieved in REL.

Dividend Policy

In line with the current dividend policy the Directors have decided that no dividend will be paid this year. The revenue returns obtained from rural property investment are typically low, yet such investments provide long term capital growth and have proven to be a sound investment over time. Taking this into account, as well as the debt currently carried by REL, Directors reaffirm they do not expect that dividends will be paid in the foreseeable future.

Administration - Provision of Services

Until 30 September 2005, REL operated under a Service Provision Agreement with Williams & Kettle – part of Wrightson Limited - under which REL was provided with its total administrative and management resource. Since 1 October 2005, REL, has operated independently with its own office and systems in Hastings. REL has retained the services of the three key executuves who were previously performing those duties under the Service Provision Agreement.

REL – Pacific Equity Trust

Subsequent to the end of the financial year, REL has expanded its funds management business with the formation of REL – Pacific Equity Trust. The expansion of the funds management business is a key strategy for REL.

REL – Pacific Equity Trust is a closed end unit trust which has been established to take advantage of investment opportunities, principally in New Zealand and Australia. This new trust will accumulate an investment portfolio of listed and unlisted securities which represent good fundamental value with sound long term prospects. Following the issue of a Private Placement Memorandum, initial applications were received for 19 million $1 units, including an application for 4 million units from REL. This $4 million investment by REL has been funded by additional bank debt.

Outlook

The 2006 financial year has been one of further growth with consolidation of the significant growth and changes that occurred during the 2005 financial year. This has occurred in the midst of more difficult rural economic conditions and is therefore a pleasing result.

The year ahead for the Group will provide challenges. Rural property values are now relatively stable following significant increases in value over recent years and there are indications that buyers are being more cautious. Farm product prices for sheep meat and wool are expected to show some improvement. Dairy and beef prices should continue at similar levels to those received in the past year.

The management of REL – Pacific Equity Trust will be an exciting development adding a further dimension to the portfolio of funds under the Group's management. The Directors look forward to meeting the challenges and opportunities that lie ahead.

Sir Selwyn Cushing

Chairman

Brian Burrough

Chief Executive Officer

Statement of Financial Performance

for the year ended 30 June 2006

		GROUP		PARENT	
		2006	2005	2006	2005
	Notes	$000	$000	$000	$000
Operating Revenue					
Lease income		2,322	676	-	-
Farm income		3,134	1,363	-	-
Forest income		440	369	-	-
Management fees		-	1,773	-	-
Inter group administration fee		-	-	2,828	2,510
Inter group dividends		-	-	765	622
Other income		56	4	36	-
Total		**5,952**	**4,185**	**3,629**	**3,132**
Less Expenses					
Farm & forest expenses		2,394	822	-	-
Interest expense		1,762	1,132	1,176	1,018
Other expenses		1,318	1,309	818	1,163
Total		**5,474**	**3,263**	**1,994**	**2,181**
Operating Surplus Before Taxation	3	**478**	**922**	**1,635**	**951**
Share of associate's surplus	5	-	177	-	-
Revaluation movements		18,418	29,557	-	-
Adjustment to management contract on consolidation	13	-	(1,024)	-	-
Surplus Before Taxation		**18,896**	**29,632**	**1,635**	**951**
Taxation expense	4	193	511	539	478
Surplus After Taxation		**18,703**	**29,121**	**1,096**	**473**
Less surplus attributable to minority interests		8,217	10,483	-	-
Net Surplus Attributable to Parent Interests		**10,486**	**18,638**	**1,096**	**473**

Statement of Movements in Equity

for the year ended 30 June 2006

		GROUP		PARENT	
		2006	2005	2006	2005
	Notes	$000	$000	$000	$000
Equity at Start of Period		**128,951**	**35,174**	**26,861**	**18,975**
Net Surplus Attributable to:					
Parent interest		10,486	18,638	1,096	473
Minority interest		8,217	10,483	-	-
Total Recognised Revenues and Expenses		**18,703**	**29,121**	**1,096**	**473**
Share issue	6	-	7,413	-	7,413
Distribution to minority interests		(729)	-	-	-
Changes in minority interest		(1,730)	57,243	-	-
Equity at End of Period		**145,195**	**128,951**	**27,957**	**26,861**

The accompanying notes form part of and should be read in conjunction with these statements.

Statement of Financial Position

as at 30 June 2006

		GROUP		PARENT	
	Notes	2006 $000	2005 $000	2006 $000	2005 $000
Current Assets					
Cash at bank	9	134	280	-	-
Accounts receivable & prepayments		838	1,003	23	33
Livestock & feed on hand		862	973	-	-
Receivable from subsidiary		-	-	4,121	3,193
Total		1,834	2,256	4,144	3,226
Non Current Assets					
Investment properties	10	150,592	132,934	-	-
Forest	11	5,905	4,714	-	-
Property, plant & equipment	12	1,409	740	65	-
Management contract	13	882	925	-	-
Prepaid taxation		518	529	-	1
Investments	14	9,912	9,250	40,336	39,235
Total		169,218	149,092	40,401	39,236
Total Assets		**171,052**	**151,348**	**44,545**	**42,462**
Current Liabilities					
Bank overdraft	9	195	132	195	132
Accounts payable & accrued expenses		1,592	1,617	232	569
Provision for taxation		-	-	10	-
Total		**1,787**	**1,749**	**437**	**701**
Term Liabilities					
Bank term loans	8	23,750	20,400	16,150	14,900
Provision for deferred taxation	4	320	248	1	-
Total		**24,070**	**20,648**	**16,151**	**14,900**
Equity					
Equity attributable to:					
Parent company shareholders	6	71,711	61,225	27,957	26,861
Minority interests	6	73,484	67,726	-	-
Total Equity		**145,195**	**128,951**	**27,957**	**26,861**
Total Liabilities & Equity		**171,052**	**151,348**	**44,545**	**42,462**

On behalf of the Directors, who authorised the issue of these financial statements, dated 31 August 2006.

Sir Selwyn Cushing
Chairman

Roger Bonifant
Director

The accompanying notes form part of and should be read in conjunction with these statements.

Statement of Cash Flows

for the year ended 30 June 2006

	Note	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Cash flows from operating activities					
Cash was provided from					
Receipts from customers		5,682	3,851	-	-
Receipts from subsidiary		-	-	1,900	1,699
Dividends received		-	-	765	622
Other income		59	4	39	-
		5,741	3,855	2,704	2,321
Cash was applied to					
Payments to suppliers and employees		3,868	1,242	1,093	613
Taxation paid		527	631	527	631
Interest paid		1,755	1,097	1,226	972
		6,150	2,970	2,846	2,216
Net cash flows from operating activities	17	**(409)**	**885**	**(142)**	**105**
Cash flows from investing activities					
Cash was provided from					
Net proceeds from forest realisation by harvest		550	250	-	-
		550	250	-	-
Cash was applied to					
Capital expenditure including farm improvements		1,870	321	70	
Purchase of units in NZRPT	5	1,101	16,177	1,101	16,248
		2,971	16,498	1,171	16,248
Net cash flows from investing activities		**(2,421)**	**(16,248)**	**(1,171)**	**(16,248)**
Cash flows from financing activities					
Cash was provided from					
Share issue		-	7,413	-	7,413
Term loan advance		3,350	8,400	1,250	8,900
		3,350	15,813	1,250	16,313
Cash was applied to					
Income distribution		729	-	-	-
		729	-	-	-
Net cash flows from financing activities		**2,621**	**15,813**	**1,250**	**16,313**
Net increase (decrease) in cash held		**(209)**	**450**	**(63)**	**170**
Cash at start of period		148	(302)	(132)	(302)
Cash at end of period		**(61)**	**148**	**(195)**	**(132)**
Comprised of					
Cash at bank		134	280	-	-
Bank overdraft		(195)	(132)	(195)	(132)
		(61)	**148**	**(195)**	**(132)**

The accompanying notes form part of and should be read in conjunction with these statements.

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Rural Equities Limited is a company registered under the *Companies Act* 1993.

The Group consists of Rural Equities Limited and its subsidiaries New Zealand Rural Property Trust Management Limited and the New Zealand Rural Property Trust.

The financial statements of Rural Equities Limited have been prepared in accordance with the *Financial Reporting Act* 1993.

MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Group, with the exception that investment properties, forestry assets, livestock and investments are revalued.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies, which materially affect the measurement of financial performance and financial position, have been applied.

(a) Basis of Consolidation - Purchase Method

The financial statements include the parent company and its subsidiaries, accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation. Where an acquisition of an interest in an entity results in a discount on acquisition, that discount is first applied proportionately to non-monetary assets. Any remaining discount is recognised in the statement of financial performance.

(b) Associated Entities

Associate entities have been reflected in the consolidated financial statements on an equity accounting basis, which shows the Group's share of surplus in the consolidated statement of financial performance and its share of post acquisition increases in net assets, in the consolidated statement of financial position.

(c) Investment Properties

Investment properties are valued annually, as at 30 June, at net current value by independent registered public valuers. Changes in value are recorded in the statement of financial performance under revaluation movements. Net current value represents an open market value, less allowance for any lease encumbrance and anticipated costs of disposal. Subsequent additions after such a valuation are stated at cost.

Land, buildings and improvements are not depreciated.

(d) Forest Assets

Forest land is treated in the same manner as properties per note (c) above.

The trees are accounted for differently due to their nature, which is more that of a crop than a fixed asset.

Ngaruawahia Forest is a mature forest and harvesting is in progress. It is independently valued at least once a year. The forest growth attributed to a specific accounting period is recorded as income in the statement of financial performance for that period.

As forest growth has been credited to the statement of financial performance, forest harvest proceeds are credited to the forest asset account.

Other changes in the value of the forest are recorded in the statement of financial performance under revaluation movements.

Notes to the Financial Statements

NOTE 1 (continued)

(e) Fixed Assets

All fixed assets are initially recorded at cost.

(f) Depreciation

Fixed assets are depreciated on a straight line basis as follows:

Office equipment	at 25% of cost price
Plant and equipment	at 10% of cost price

(g) Receivables

Receivables are stated at their estimated realisable value.

(h) Livestock

Livestock is recorded at market value as assessed by an independent valuer. Changes in market value are recorded in the statement of financial performance.

(i) Taxation

The taxation expense charged in the statement of financial performance includes both the current period's provision and the income taxation effects of timing differences calculated using the liability method.

Deferred taxation, calculated using the liability method, is accounted for on a partial basis in respect of those timing differences expected to reverse in the future.

Deferred taxation is not provided on property revaluations as the Group does not intend to sell those properties and accordingly no tax liability is expected to arise.

(j) 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.

(k) Investments

Investments are principally Fonterra Co-operative Group shares. All investments are recorded at current market value. Changes in market value are recorded in the statement of financial performance.

(l) Financial Instruments

Financial instruments recognised in the statement of financial position include cash balances, bank overdrafts, receivables, payables, investments and term borrowings.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All accounting policies have been applied on a basis consistent with those used in previous years. Where necessary, comparative information has been reclassified in order to provide a more appropriate basis for comparison.

Notes to the Financial Statements

NOTE 2 CONTINUING AND DISCONTINUED ACTIVITIES

No activities were discontinued during the current financial year or during the previous financial year.

		GROUP		PARENT	
		Jun 2006 $000	Jun 2005 $000	Jun 2006 $000	Jun 2005 $000
NOTE 3	**EXPENSES include:**				
	Interest paid	1,762	1,132	1,176	1,018
	Depreciation - on plant	252	52	5	2
	Directors' fees	131	86	118	80
	Audit fees	49	20	22	13
	Fees paid to auditor for other services	27	4	4	3
	Amortisation of management contract	43	27	-	-
	Leasing and rental costs	159	132	24	-
	Administration and management fees	140	561	140	561
NOTE 4	**TAXATION CHARGED AGAINST SURPLUSES**				
	Operating surplus before taxation	478	922	1,635	951
	Forest revaluation movement	1,263	(3,105)	-	-
		1,741	(2,183)	1,635	951
	Prima facie taxation	574	(720)	540	314
	Plus (less) taxation effect of permanent differences	36	205	(1)	164
	Tax expense (credit)	610	(515)	539	478
	Current tax	538	495	538	478
	Deferred tax	72	(1,010)	1	-
		610	(515)	539	478
Analysed between:					
	Taxation on operating surplus	193	511	539	478
	Taxation on forest revaluation	417	(1,026)	-	-
		610	(515)	539	478
	Provision for Deferred Taxation				
	Opening balance	248	-	-	-
	Provision acquired - refer note 5	-	1,258	-	-
	Provided for in current period	72	(1,010)	1	-
	Closing balance	320	248	1	-

The taxation effects of timing differences arising from building depreciation in the New Zealand Rural Property Trust are not recognised in the financial statements as they are not expected to reverse in the foreseeable future. These timing differences amount to $3,826,000 with a tax effect of $1,263,000 (2005 $3,533,000 with a tax effect of $1,166,000).

	PARENT	
	Jun 2006 $000	Jun 2005 $000
IMPUTATION CREDIT ACCOUNT		
Opening balance	811	180
Income tax paid during the period	527	631
Closing balance	1,338	811

At balance date the imputation credits available to the shareholders of the Company were through direct shareholding in the Company.

Notes to the Financial Statements

NOTE 5 INVESTMENT IN NEW ZEALAND RURAL PROPERTY TRUST

The Group holds 25,224,973 units in its subsidiary, the New Zealand Rural Property Trust ("the Trust"). This represents 53.9% (2005 52.4%) of the units on issue in the Trust.

The detail of acquisitions of units in the Trust during the year are as follows:

a) In September 2005 the Group subscribed for 252,147 units at a cost of $771,000, in accordance with the provisions of the Trust Deed to manage the Trust.

b) During the 8 months ended 28 February 2006, the Group purchased a further 572,130 units in the Trust on the market at a cost of $1,101,000. A discount on acquisition of $630,000 has arisen from these transactions. The discount has initially been applied proportionally against the non monetary assets acquired. As the majority of these assets are carried at net current value as at 30 June 2006, the discount has effectively been recorded as a component of the current year result in the statement of financial performance. The discount has been disclosed within the revaluation movements.

In 2005 the investment was equity accounted for part of the period prior to it becoming a subsidiary.

	GROUP		PARENT	
The details of the movement in the investment are as follows:	Jun 2006 $000	Jun 2005 $000	Jun 2006 $000	Jun 2005 $000
As an Associate				
Opening balance	-	38,542	-	20,454
Cost of units acquired during the period	-	8,979	-	8,317
	-	47,521	-	28,771
Less distribution received	-	(667)	-	-
Share of surplus before taxation	-	177	-	-
Income tax credit	-	12	-	-
Transfer on becoming a subsidiary	-	(47,043)	-	(28,771)
Closing balance	-	-	-	-
As a Subsidiary				
Net Assets Acquired				
Investment Properties	-	113,423		
Forest	-	4,605		
Investments	-	7,903		
Plant & machinery	-	791		
Debtors	-	1,004		
Livestock	-	899		
Provision for tax refund	-	557		
Creditors	-	(1,638)		
Provision for deferred taxation	-	(1,258)		
Bank borrowings	-	(5,933)		
	-	120,353		
Value of Net Assets Acquired	2,502	63,110		
Less carrying value of the Trust before becoming a subsidiary	-	(47,043)		
Less acquisitions at cost	(1,872)	(7,932)		
Therefore discount on acquisition	630	8,135		

Notes to the Financial Statements

NOTE 5 (continued)

	GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
Net Cash Outflow				
Cash paid to acquire units	1,872	16,911		
Less cash paid to subsidiary to acquire units	(771)	-		
Less cash distribution received	-	(667)		
Less cash acquired with subsidiary	-	(67)		
Net cash outflow	1,101	16,177		

NOTE 6 EQUITY

	GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
Share Capital	36,982	36,982	36,982	36,982
Revaluation Reserve - see note 7	29,599	19,378	-	-
Retained Earnings (Accumulated Deficit) - see note 7	5,130	4,865	(9,025)	(10,121)
	71,711	61,225	27,957	26,861
Minority Interests	73,484	67,726	-	-
	145,195	128,951	27,957	26,861

There are 22, 237, 923 (2005 22, 237, 923) ordinary shares on issue

	GROUP & COMPANY Jun 2006 Number 000	GROUP & COMPANY Jun 2006 Value $000	GROUP & COMPANY Jun 2005 Number 000	GROUP & COMPANY Jun 2005 Value $000
Fully paid ordinary shares				
Balance at beginning of period	22,238	36,982	14,825	29,569
Shares issued for cash	-	-	7,413	7,413
Balance at end of period	22,238	36,982	22,238	36,982

All shares on issue participate equally in dividends and any surpluses on winding up the Company and all shares have equal voting rights.

NOTE 7 RESERVES

	GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
Retained Earnings				
Opening balance	4,865	5,605	(10,121)	(10,594)
Operating surplus attributable to the shareholders of the parent company	10,486	18,638	1,096	473
	15,351	24,243	(9,025)	(10,121)
Transfer to revaluation reserve	(10,221)	(19,378)	-	-
Closing balance	5,130	4,865	(9,025)	(10,121)
Revaluation Reserve				
Opening balance	19,378	-	-	-
Transfer from retained earnings for revaluation of:				
Investment properties	17,013	29,746	-	-
Forest	846	(1,780)	-	-
Investments	559	1,591	-	-
	18,418	29,557	-	-
Less minority interest	(8,197)	(10,179)	-	-
	10,221	19,378	-	-
Closing balance	29,599	19,378	-	-

Notes to the Financial Statements

		GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
NOTE 8	**TERM LIABILITIES**				
	Term loans - repayable within 36 months	23,750	20,400	16,150	14,900
	The weighted average interest rate is:	7.45%	7.25%	7.39%	7.17%
NOTE 9	**CURRENT AND TERM BANKING FACILITIES**				
	In consideration of our bankers providing advances the Company has granted the Westpac Bank a first ranking all obligations debenture over all the Company's assets.				
NOTE 10	**INVESTMENT PROPERTIES**				
	Properties leased	116,447	99,456		
	Properties not leased	34,145	33,478		
		150,592	132,934		
	Independent registered valuers performed market valuations of all the properties at 30 June 2006. The registered valuers used are Telfer Young Limited.				
NOTE 11	**FOREST ASSETS**				
	Ngaruawahia Forest				
	Crop value	2,876	1,524		
	Land value	3,029	3,190		
		5,905	4,714		

Ngaruawahia Forest is valued annually using the net present value method. Full provision has been made for the deferred tax liability that exists in respect of these forestry assets.

Valuation details are as follows:	2006	2005
Forest valuer	Chandler Fraser Keating Limited	Forest & Woodlot Consultants (NZ) Ltd
Discount rate	8.0% (post-tax)	8.5% (post-tax)
Forest land valuer	Telfer Young Limited	Ashworth Lockwood Limited

		GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
NOTE 12	**PLANT & EQUIPMENT**				
	Plant, machinery, furniture & fittings				
	Cost	2,613	1,702	70	9
	Accumulated depreciation	(1,204)	(962)	(5)	(9)
		1,409	740	65	-
NOTE 13	**MANAGEMENT CONTRACT**				
	Management Contract - to manage the New Zealand Rural Property Trust				
	Cost	2,354	2,354	-	-
	Amortisation				
	Opening balance	(1,429)	(378)		
	Adjustment as a result of the Trust becoming a subsidiary	-	(1,024)		
	Current year	(43)	(27)	-	-
	Closing balance	(1,472)	(1,429)		
	Net carrying value	882	925	-	-

Notes to the Financial Statements

		GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
NOTE 14	**INVESTMENTS**				
	Subsidiary Entities				
	Shares in New Zealand Rural Property Trust Management Limited			2,532	2,532
	Units in New Zealand Rural Property Trust			37,804	36,703
				40,336	39,235
	Other shares at valuation	9,912	9,250	-	-
		9,912	9,250	40,336	39,235
NOTE 15	**COMMITMENTS**				
	Capital commitments contracted but not provided for amounted to $181,000 as at 30 June 2006 (2005 $Nil).				
	Operating Lease Commitments				
	Lease commitments under non-cancelable operating leases:				
	Not later than one year	165	111	28	111
	Later than one year and not later than two years	145	104	20	104
	Later than two years and not later than five years	185	130	54	130
		495	345	102	345

NOTE 16 **SEGMENT INFORMATION**

The Group invests in the farming industry indirectly through management of the New Zealand Rural Property Trust. The Group owns 53.9% of the units in the New Zealand Rural Property Trust. The Trust owns a forest and a number of farms, most of which are leased to third parties with the balance farmed directly. The operations are carried out entirely in New Zealand.

		GROUP Jun 2006 $000	GROUP Jun 2005 $000	PARENT Jun 2006 $000	PARENT Jun 2005 $000
NOTE 17	**CASH FLOW STATEMENT**				
	Reconciliation of Net Cash Flows from Operating Activities with Net Surplus after Tax				
	Surplus after taxation	18,703	29,121	1,096	473
	Add/(deduct) items not involving cash flows:				
	Depreciation	252	52	5	2
	Amortisation of intangible assets	43	1,051	-	-
	Revaluation movements	(19,275)	(28,695)	-	-
	Livestock revaluations	115	(74)	-	-
	Deferred taxation provision movement	72	(1,010)	1	-
	Equity accounted earnings of associates	-	(177)	-	-
		(18,793)	(28,853)	6	2
	Add/(deduct) movement in working capital items:				
	Creditors and accruals	(241)	733	(337)	376
	Taxation provision	11	(137)	11	(153)
	Debtors and prepayments	(89)	21	10	225
	Receivable from subsidiary	-	-	(928)	(818)
		(319)	617	(1,244)	(370)
	Net cash flows from operating activities	(409)	885	(142)	105

Notes to the Financial Statements

NOTE 18 RELATED PARTIES

The Company had a Service Provision Agreement with Williams & Kettle Limited ("W&K") for W&K to provide the Group with administrative and management services until 30 September 2007. On 30 June 2005 the Company reached agreement with Wrightson Limited (who amalgamated with W&K on 1 June 2005) to terminate the Service Provision Agreement with effect from 30 September 2005. In consideration of the termination the Company paid Wrightson Limited $332,000 on 30 September 2005. That amount had been accrued as an expense in the financial statements for the year ended 30 June 2005. The amount of the fees paid by the Company to Wrightson Limited under the Service Provision Agreement during the financial year (for the period 1 July 2005 to 30 September 2005) was $140,250 (30 June 2005 $561,000). There was no amount outstanding as at 30 June 2006 (30 June 2005 $140,000). Sir Selwyn Cushing and Gerald Weenink were appointed directors of Wrightson Limited on 14 March 2005 and contemporaneously with the amalgamation of Wrightson Limited and Pyne Gould Guinness Limited on 7 October 2005 were appointed directors of PGG Wrightson Limited.

The Company has entered into a Deed of Lease with Sir Selwyn Cushing and Brian Martin (trading as Ecco Building Partnership) for the lease of the Company's office premises at 120 Karamu Road, Hastings. 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 $20,130 reviewable on 28 February 2008 and every two years thereafter. The amount of rental paid by the Company to Ecco Building Partnership during the financial year was $7,537. There was no amount outstanding as at 30 June 2006.

NOTE 19 SUBSIDIARY ENTITIES

SUBSIDIARY ENTITIES	Percentage Held	Trading Activity
Subsidiary Company		
New Zealand Rural Property Trust Management Limited	100%	Manages the New Zealand Rural Property Trust.
Subsidiary Entity		
New Zealand Rural Property Trust	53.9%	Rural Property Ownership.

The Company's voting interest in the New Zealand Rural Property Trust is proportionate to its equity interest.

NOTE 20 FINANCIAL INSTRUMENTS

Credit Risk

Financial instruments which potentially subject the Group to credit risk consist of bank balances, accounts receivable and investments in other entities.

The credit risk is limited primarily to the rural sector of New Zealand.

	GROUP		PARENT	
Maximum exposures to credit risk as at balance date are :	Jun 2006 $000	Jun 2005 $000	Jun 2006 $000	Jun 2005 $000
Bank balances	134	280	-	-
Accounts receivable	838	1,003	23	33
Investments in other entities	9,912	9,250	-	-
Receivable from subsidiary	-	-	4,121	3,193
	10,884	10,533	4,144	3,226

Credit Facilities

The Company has a loan facility with Westpac Banking Corporation of $17.3M. The New Zealand Rural Property Trust has a loan facility with Westpac Banking Corporation of $10M. Interest rates applying range from 7.1% to 7.9%.

Interest Rate Risk

The Group uses interest rate swaps to manage interest rate risk.

At balance date the position was:

		GROUP	
		Jun 2006 $000	Jun 2005 $000
Fair Value (not recognised)		85	(11)
Face Value	Less than one year	3,000	-
	Two to five years	13,000	9,000
Effective interest rate		7.23%	7.14%

Notes to the Financial Statements

NOTE 20 ***(continued)***

Fair Values

The estimated fair values of the following classes of financial Instrument are equal to their carrying values for both the Group and the Parent Company:

Term Loan
Short Term Borrowing
Accounts Payable
Accounts Receivable
Cash Balances

NOTE 21 IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS

In December 2002 the Accounting Standards Review Board announced that New Zealand reporting entities are required to comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for reporting periods commencing on or after 1 January 2007, with the option of earlier adoption.

Accordingly the Group plans to adopt NZ IFRS for the accounting period ending 30 June 2008. Comparatives will be required for the year to 30 June 2007. This allows time to ensure both the best application of the new standards and increased understanding of the effects of the transition. Additionally NZ IFRS are still subject to change.

Management has not yet fully assessed the likely changes to accounting policies from adoption of NZ IFRS.

The main areas of impact resulting from the adoption of NZ IFRS identified to date are:

1) Deferred Taxation

Under NZ IFRS deferred tax is recognised on all temporary differences occurring between the accounting and tax values for each asset and liability. This is known as the balance sheet approach. Under current NZ GAAP the Group recognizes deferred tax on a partial basis using the liability method.

It is expected that this will relate mainly to depreciable farm buildings.

This change will result in additional deferred tax liabilities being recognised in the financial statements.

2) Investment Properties

Under NZ IFRS investment properties must be recorded at fair value without any deduction for transaction costs that may occur on sale or disposal. The current accounting policy requires deduction of anticipated costs of disposal.

3) Financial Instruments

The Group has interest rate swap agreements to protect against interest rate fluctuations on floating rate debt. Current practice is to not recognise the fair value of the swap agreements. Under NZ IAS 39 fair value will need to be recognised and this could lead to greater earnings volatility - refer to note 20 above.

The actual impact of adopting NZ IFRS may vary from the information presented above, and the variation may be material. However at this stage it is anticipated that the net change will be an increase in shareholders' equity of approximately $1,300,000.

NOTE 22 SIGNIFICANT EVENT AFTER BALANCE DATE

In July 2006, REL - Pacific Equity Trust was formed to invest in listed and unlisted equities in New Zealand and Australia. REL - Trust Management Limited, a wholly owned subsidiary of Rural Equities Limited, will manage REL - Pacific Equity Trust and will receive management fees for the services carried out. Rural Equities Limited has invested $4 million in REL - Pacific Equity Trust.

AUDITOR'S REPORT

ERNST & YOUNG

To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 4 to 15. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 7 and 8.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 30 June 2006 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We 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 information in the financial statements.

Our firm provides taxation services to the company and its subsidiaries.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 4 to 15:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 30 June 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 August 2006 and our unqualified opinion is expressed as at that date.

Ernst & Young

Auckland

ADDITIONAL DISCLOSURES

Directors and Remuneration

The persons holding office as directors of Rural Equities Limited (“REL”) as at 30 June 2006 were:

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

The persons holding office as directors of New Zealand Rural Property Trust Management Limited (“NZRPTML”) as at 30 June 2006 were:

Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Roger Bonifant, David Cushing, John Green, Brian Martin and Gerald Weenink.

No person ceased to hold office as director of REL or NZRPTML during the financial year.

The table below details the remuneration received by the Directors during the year ended 30 June 2006.

	REL $	NZRPTML $
Roger Bonifant	16,667	-
David Cushing	13,667	-
Sir Ronald Carter	13,667	-
Sir Selwyn Cushing	26,833	-
Murray Gough	19,167	-
John Green	-	13,667
Brian Martin	13,667	-
Gerald Weenink	13,667	-

No other benefits were paid or provided to Directors during the year.

Entries Recorded in the Interests Register

The following entries were recorded in the interests register of REL and NZRPTML during the year ended 30 June 2006:

Following the amalgamation of Pyne Gould Guinness Limited and Wrightson Limited, Sir Selwyn Cushing and Gerald Weenink became Directors of PGG Wrightson Limited on 7 October 2005.

Disclosure of share dealing by Directors

No Director acquired or disposed of a relevant interest in shares in Rural Equities Limited during the year ended 30 June 2006.

Directors' relevant interest in REL shares as at 30 June 2006

Name of Director	Beneficial Interest	Non-beneficial Interest	Note
Roger Bonifant	-	50,000	
Sir Ronald Carter	149,001	196,657	
David Cushing	756,222	9,817,043	1
Sir Selwyn Cushing	377,208	10,411,813	1
Murray Gough	-	172,906	
John Green	-	25,000	
Brian Martin	312,870	10,246,777	1
Gerald Weenink	-	56,106	

Note 1 – Some of these holdings relate to the same REL shares.

Directors' Indemnity and Insurance

On 31 May 2005 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2005 to 31 May 2006. On 31 May 2006 REL renewed this policy for a further year until 31 May 2007.

Donations

REL did not make any donations during the financial year ended 30 June 2006.

Employees

Until 1 October 2005 REL did not have any employees - the Group's administrative and management resources were provided under a service provision agreement with Williams & Kettle – part of Wrightson Limited.

The services of the Chief Executive Officer are provided through a Secondment Agreement with PGG Wrightson Limited ("PGGW"). The secondment agreement is for an indefinite term but may be terminated by either party giving six months notice, although PGGW can not give notice of termination before 31 March 2007.

For the nine month period from 1 October 2005 and 30 June 2006 two employees (including the Chief Executive Officer through the secondment agreement) received remuneration and other benefits of between $150,000 and $160,000.

SHAREHOLDER INFORMATION

as at 4 September 2006

Top Twenty Shareholders

Holder	Number	%
H&G Limited	9,079,277	40.82
St Laurence Property & Finance Limited	3,958,943	17.80
RECT Funds Management Limited	816,446	3.67
David Cushing	536,922	2.41
New Zealand Central Securities Depository Limited	451,852	2.03
Brian Martin	312,870	1.40
Sir Selwyn Cushing	305,814	1.37
Jan Snijders, Joan Snijders & Brian Martin (Snijders' Family A/c)	292,500	1.31
Seajay Securities Limited	261,354	1.17
W&K Staff Pension Fund Limited	252,680	1.13
Selba Holdings Limited - A/c 50	219,300	0.98
Makowai Farm Limited	174,138	0.78
Sir Ronald Carter	149,001	0.67
Ashfield Properties Limited	148,800	0.66
Sir Selwyn Cushing and Brian Martin (G Cushing Settlement Account)	138,960	0.62
Craig Hickson, Penelope Hickson and Maurice Lloyd (Clive Grange A/c)	136,941	0.61
MGS Fund Limited	103,528	0.46
Rodney Goodrick	100,000	0.44
Maurice Herrick	97,000	0.43
Ben Cushing	84,852	0.38

Analysis of Shareholding by Size

	Number of Shareholders	%	Quantity of Shares Held	%
1 to 99	257	13.99	15,042	0.07
100 to 199	250	13.61	35,092	0.16
200 to 499	335	18.24	107,817	0.48
500 to 999	262	14.26	185,951	0.84
1,000 to 1,999	274	14.92	379,956	1.70
2,000 to 4,999	249	13.55	784,374	3.53
5,000 to 9,999	89	4.84	605,548	2.72
10,000 to 49,999	85	4.63	1,517,947	6.83
50,000 to 99,999	18	0.98	1,166,870	5.25
100,000 to 499,999	14	0.76	3,047,738	13.70
500,000 and over	4	0.22	14,391,588	64.72
Total	**1,837**		**22,237,923**	

Analysis of Shareholding by Location

	Number of Shareholders	%	Quantity of Shares Held	%
Upper North Island	390	21.23	2,537,311	11.40
Gisborne	295	16.06	348,023	1.56
Hawke's Bay	720	39.20	12,806,098	57.58
Manawatu/Wanganui/Wairarapa	211	11.49	279,269	1.25
Wellington	103	5.61	5,276,717	23.73
South Island	108	5.87	980,438	4.42
Overseas	10	0.54	10,067	0.06
Total	**1,837**		**22,237,923**	

CORPORATE GOVERNANCE

Role of the Board of Directors

The Board of Rural Equities Limited ("REL") is responsible to shareholders for the performance of REL, including the setting of objectives and the strategies for achieving those objectives, identifying significant areas of business risk and implementing policies to deal with those risks, setting the overall policy framework and monitoring the continuing performance of REL and its management.

REL's wholly owned subsidiary, New Zealand Rural Property Trust Management Limited ("NZRPTML"), has its own board which is responsible for overseeing the management of the New Zealand Rural Property Trust ("the Trust").

The Boards of REL and NZRPTML have delegated to the three executive staff appropriate authority for the day to day management of the Group.

Board Membership

Both Boards comprise seven Directors (see page 17 for details). Both Boards meet approximately eight times during the year for scheduled meetings, with additional meetings held as required to consider urgent issues. Within the Boards is a broad mix of skills and experience relevant to the guidance of the relevant businesses.

Board Committees

Both Boards have constituted Audit Committees.

The REL Audit Committee 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 external audit, liaison with REL's auditor and making recommendations to the Board as to their appointment and remuneration. This Audit Committee is chaired by Roger Bonifant and its other members are David Cushing, Murray Gough, Brian Martin and Gerald Weenink.

The NZRPTML Audit Committee has the same responsibilities in respect of the Trust. This Audit Committee is chaired by Roger Bonifant and its other members are David Cushing, Murray Gough, and Brian Martin.

DIRECTORY

Board of Directors

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Roger Bonifant
Director

Sir Ronald Carter
Director

David Cushing
Director

Brian Martin
Director

Gerald Weenink
Director

Executive

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Chief Operating Officer

Registered Office

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Email enquiries@ruralequities.co.nz
Website www.ruralequities.co.nz

Share Registry

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Auckland 1020

Telephone 0800 228 811
Facsimile 09 488 8787

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