rural equities LIMITED

ANNUAL REPORT 2010





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Well drilling at Milford

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in The Cushing Foyer, Hawke's Bay Opera House, 107 Hastings Street South, Hastings on Friday 26 November 2010 at 3.30pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2010 with the reports of the Directors and the Auditor.
2. To elect Directors. In accordance with clause 13.8 of the Company's constitution, Sir Selwyn Cushing and Murray Gough retire by rotation. Both are seeking 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.

GENERAL BUSINESS

The Chairman will invite shareholders to raise any other issues 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 their proxy or, in the case of corporate shareholders, a representative to attend and vote on their behalf. A proxy or representative need not be 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 92199) Auckland 1020, to be received not less than 48 hours before the time of the Annual Meeting.

James Wright
CHIEF OPERATING OFFICER

Invitation

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

Chairman's Report

THE YEAR IN REVIEW

It is with pleasure that Directors present the Annual Report for the Rural Equities Group. This includes the financial results from the New Zealand Rural Property Trust (NZRPT), as a wholly owned subsidiary, for the first time.

The Group's result for the year to 30 June 2010 is an audited after tax loss of $4.5 million. This compares with and is a significant improvement on the loss of $34.2 million last year. That loss was primarily attributable to significant downward revaluations of the farm properties owned by NZRPT. This year an improved trading surplus of just under $2.7 million was offset by a small reduction in property values as well as writing off the remaining book value of the management contract with NZRPT.

Important features of the year were:

- Rural Equities Limited moved to 100% ownership of the New Zealand Rural Property Trust. This has given rise to a number of benefits.
- Net Tangible Assets per share at 30 June 2010 was $3.82 (last year, $3.72).
- A fully imputed special dividend of 5.5 cents per share was paid on 29 January 2010.
- Consolidation was achieved in many aspects of the Group's operations.
- Farm values were generally more stable, easing by an average of 2% across the portfolio.
- A significant increase in the contribution from the directly managed dairy farms.
- Higher forecast Fonterra payout for the 2009-10 season of $6.30 per kilogram of milk solids compared with $5.20 last year.
- Major investment in farm development continued at Waikoha and Annandale. These properties, together with Puketotara, are farmed by the Group as an integrated Waikato sheep and beef operation comprising 4,171 hectares and running 30,000 stock units.
- Harsh summer and autumn drought conditions impacted on pasture growth and livestock performance within the Waikato farming group.
- Lower product prices were received for sheep.
- Beef prices remained satisfactory.
- Harvesting at Ngaruawahia forest was completed in April 2010.

The notable event this year was Rural Equities Limited (REL) achieving 100% ownership of NZRPT following REL's shareholders and NZRPT's unitholders providing their overwhelming support. The benefits of full ownership are apparent and have resulted in a simplified group structure, internal management of the farms and forest, lower overhead costs and greater liquidity in share trading.

Following the merger, Directors reviewed the external services provided to the Group and the associated costs, and accordingly have appointed a new Trustee and have changed banks. This has achieved considerable cost savings and aligns the services provided with the current needs of the Group. As the farms and forest are now wholly owned within the Group and therefore internally managed, the management contract between REL and NZRPT has no further value. Accordingly the remaining $681,000 book value of the contract was written off.

Last year we commented that the rural property market had slowed considerably in response to uncertainty in world financial markets, restricted availability of credit from banks and falling global prices for many agricultural products and commodities, particularly those from the arable and dairy industries.

Whilst there has been some recovery in world financial markets and commodity prices, considerable volatility remains and the world economy is fragile. The New Zealand economy is no exception and whilst capital is available to fund land purchases, provided strict lending criteria can be met, there is still low demand from buyers who have less appetite for risk in these uncertain times. Consequently relatively few property sales have occurred and property values have continued to ease across all farming sectors.

Aerial top dressing at Puketotara

Whilst revaluation losses in the Statement of Comprehensive Income from the Group's property portfolio total $36.3 million over the last two years, it is important to note that this represents only 65% of the revaluation gains of $55.9 million that were achieved in the previous two year period to 30 June 2008. Property values in the Group's portfolio are still $19.6 million higher than four years ago.

Negotiations with the Williams Family in the late spring of 2009 resulted in them purchasing Fox's Peak, a high country property near Fairlie in South Canterbury, from NZRPT as a going concern. Settlement occurred in late January 2010. The gross proceeds from the sale (which included the land, livestock, farm plant and machinery) were $6.4 million, close to the book value of those assets as at 30 June 2009. Fox's Peak is the only property that has been realised from the NZRPT farm portfolio since unitholders voted to close NZRPT in 1999.

The strategy to operate the Annandale, Puketotara and Waikoha properties as an integrated Waikato farming group has progressed this year. This strategy involves a major five year development plan for these properties combined with intensification and fine tuning of livestock and grazing management systems. The full benefit of the complementary nature of those farms can be obtained by finishing all stock bred, improved livestock marketing opportunities through increased scale, greater management flexibility and some sharing of labour and machinery.

Significant earnings and value growth is expected from these three farms over the next five years as the farm development programme moves to completion. Further detail on this programme is provided in the Farming Review section of this report.

Working in the covered yards at Waikoha

FINANCIAL PERFORMANCE

Farm revenue increased from $5.8 million to $6.7 million (15%) reflecting both the higher Fonterra milk payout and a 4% increase in total milk production. This helped offset lower lamb prices and tight bull beef trading margins which were compounded by drought conditions which affected all three farms in the Waikato farming group. Farm operating expenses decreased by 2% mainly due to an easing in the cost of both fertiliser and supplementary feed.

Rental income from leased farm properties was 3% ahead of last year at $2.78 million. Following increases achieved at scheduled two-yearly rent reviews completed during the previous year, the tight farm rental market has meant that farm rents are now generally stable and recent rent reviews have resulted in fewer gains. As in the past, fair market rents will continue to be set to reflect the productive capability, improvements on, and the value of each farm.

Log sales were $3.2 million for the ten months until the harvest of the forest was completed in April 2010. This compares with $4.4 million for the 12 month period in the prior year.

Group expenses (excluding farm operating expenses and logging cost of sales) decreased by $2.98 million during the year. A significant reduction in interest costs of $2.0 million resulting from both lower interest rates and a reduction in total debt.

Revaluation movements are again the most significant item in the Statement of Comprehensive Income. This year's revaluation of the farm properties and forest saw values fall by $4.1 million.

The value of investments held by the Group, which comprise mainly shares in Fonterra to support production from the dairy farms, increased following the purchase of additional shares which were required to support the additional milk production. The Fonterra share price however remained stable at $4.52.

Total debt held by the Group decreased by $8.3 million, largely due to the realisation of Fox's Peak and less trading stock on the Waikato farms at balance date. Equity was $161.1 million at year end. The Group has low debt relative to its assets and remains in a very strong financial position.

CANTERBURY EARTHQUAKE

The Company acknowledges the distress and difficulties that the devastating earthquake has caused and we express our sympathy to the people of Canterbury who suffered as a consequence of that disaster.

Remarkably the Group's properties in the region escaped with only minimal damage and farming operations were not interrupted.

DIVIDEND

A fully imputed special dividend of 5.5 cents per share was paid on 29 January 2010. Continuing investment in farm development and the need to re-establish the Ngaruawahia forest means the Group currently has restricted cash flow for dividends. Accordingly no further dividend will be paid this year.

DIRECTORS

In accordance with the Company's constitution Sir Selwyn Cushing and Murray Gough retire by rotation at the Annual Meeting on 26 November 2010. Both are seeking re-election.

OUTLOOK

We have previously expressed confidence in the long term outlook for New Zealand's rural sector. Directors retain this confidence despite short and medium term difficulties. The global economy is likely to remain fragile and volatile in the foreseeable future and that will impact on our primary exports through a variable exchange rate and lack of long term confidence in many of our markets. Farmers currently face tight economic conditions and restricted profitability accentuated by difficult climatic conditions over consecutive seasons. The effects of drought remain for several seasons and are compounded by successive such events.

As the world recovers from the global financial crisis, the underlying demand for better food, both protein and grain, from a growing world population is again evident. Sustained investor and consumer confidence will take time to fully recover however, and further commodity price fluctuations are inevitable. This is evidenced by the significant price fluctuations seen on Fonterra's global dairy trade internet auctions in recent months. Predicting outcomes for the year ahead is difficult.

The arable sector is experiencing greater demand for feed grain from dairy farmers, and hence improved prices following the higher forecast Fonterra milk price. It is hoped this situation plus higher global prices will stabilise grain prices at levels where it is again economic to grow cereals with confidence. World dairy prices rose sharply earlier in the year and have since been variable as the global supply of dairy products available for export also increased in response to higher prices. World dairy production may however again decline as rising grain prices flow through and cause the cost of overseas dairy production to increase.

Export lamb markets are reasonably strong and prices (excluding the effect of currency movements) are expected to be resilient in the year ahead, aided by no imminent increase in the number of lambs born and available for export. Beef schedules are presently ahead of last season and are expected to be stable at these levels. Wool prices are currently showing a welcome improvement on the extremely low levels of recent years.

Farm sales are expected to be slow amidst continuing tightness of credit from banks, relatively low numbers of farms genuinely for sale and little appetite for risk from buyers. Accordingly the rural property market is likely to remain flat with little capital growth expected whilst these market conditions continue.

Prime Angus steers at Annandale

Within the Group's farm properties and direct farming operations there will be a focus on improving performance and profitability from the existing portfolio without incurring additional debt. The Waikato farming group of directly managed sheep and beef farms, Annandale, Puketotara and Waikoha, is indicative of this policy where benefits are already evident as the development programme progresses. Significant increases in both carrying capacity and livestock performance will result in improved profitability from all three farms.

Currency fluctuations, seasonal climatic variations, changing product prices and the fragile global economy will again provide challenges in the year ahead. However, the sound financial position of the Group and spread of income from our diversified farm activities provide a solid basis for further progress.

Sir Selwyn Cushing
Chairman

Farming Review

The Group owns twenty-nine farms comprising 13,554 hectares and the Ngaruawahia forest of 1,123 hectares. The farms are a mix of sheep and beef, dairy, deer and arable farms that are spread throughout New Zealand from northern Waikato to Southland. Nine farms are now directly managed comprising 5,361 hectares. Six of the directly managed farms are dairy farms, all with 50/50 sharemilkers, and the remaining three are the Waikato sheep and beef farms. The six dairy farms total 1,190 hectares and milk approximately 3,700 cows. The three Waikato group farms comprise 4,171 hectares and run approximately 30,000 stock units.

FARMED PROPERTIES

The directly managed farms produced a substantially improved contribution in the year to 30 June 2010 of $2.53 million compared with $1.29 million the previous year. Most of this was attributable to increased milk production combined with a higher forecast Fonterra milk price of $6.30 per kilogram of milk solids. In contrast the Waikato group sheep and beef farm contribution declined as a result of tight beef trading margins together with a serious summer and autumn drought which was experienced throughout much of the country.

The drought prevented additional summer lamb trading and normal autumn stock purchases. In addition lambs had to be sold at lighter weights and some Waikoha beef breeding cows have been fed maize silage grown on the farm with others being grazed at both Annandale and Puketotara this winter. Without the ability to spread the cows across these properties, some of the Waikoha cow herd would have been sold by necessity. The ongoing effects of the drought will be lower lambing and calving percentages this season and reduced farm profitability through both lower incomes and higher feed and grazing costs.

Docking at Waikoha

Milking at Milford

The benefits of irrigation and adequate supplies of supplementary feed mitigated any significant effects of the drought on the directly managed dairy farms.

This season just over 1.46 million kilograms of milk solids were supplied to Fonterra - a 4% increase. This is a good result, helped by favourable climatic conditions in the late autumn period and plentiful supplies of supplementary feed which enabled all farms to milk through to the end of May 2010. It was pleasing to see the forecast Fonterra payout increase during the season to $6.30 per kilogram of milk solids.

Milk production over all farms averages 1,234 kilograms of milk solids per hectare. Milford and Rocklea, both irrigated Canterbury dairy farms, have the highest per hectare production at 1,860 and 1,430 kilograms per hectare respectively. At Milford the heavy and fertile soils combined with efficient centre-pivot spray irrigation provides an excellent productive base to this property. Milk production from the non-irrigated dairy farms in Southland, Manawatu and Taranaki range from 1,030 to 1,160 kilograms per hectare. All farms compare favourably with district and national production figures.

The dairy farms operate with significant reserves of supplementary feed on hand and additional supplies are purchased during the season. This enables the cows to be well fed at all times of the year irrespective of pasture growth or climatic conditions. Maize and grass silage, grain and relatively small quantities of palm kernel extract are commonly used. In addition fertiliser is an essential input with the type and quantity applied decided after regular soil tests and in conjunction with nutrient budgets for all directly managed farms. Continued investment in fertiliser is essential to maintain soil fertility and pastures to protect future productivity.

WAIKATO FARMING GROUP

Annandale (515 hectares) has been directly farmed since February 2009. It operates as a finishing unit associated with Waikoha, which allows store lambs to be finished and all surplus weaner cattle to be farmed within the Group for another two years. Maximum value is therefore obtained for the stock that is bred. Annandale is located only four kilometres from Waikoha at Whatawhata on the outskirts of Hamilton.

Of particular note this year is the development programme underway at Annandale. During the year approximately 30 kilometres of subdivision fencing was erected creating 130 paddocks and a lane system to assist stock movement and access around the farm. In addition the stock water scheme is being extended so that there is a water trough in every paddock. Water is pumped from a central supply to storage tanks at five locations around the farm which is then gravity fed to all troughs. This development will allow an intensive farm management system to be operated with very good control of pasture through a planned grazing system. The result will be better stock performance and farm profitability. This will occur gradually over the next three years as soil fertility levels improve and pastures consolidate under the intensive grazing system. Although Annandale has only been directly farmed since February 2009, already marked changes in the appearance of the farm and pastures are apparent.

Puketotara (1,146 hectares), which is located west of Huntly, runs a predominantly beef finishing operation where currently over 1,800 cattle and 2,000 hoggets are farmed. Sheep and younger bulls are wintered as part of a land use and environmental plan that has been developed to recognise the physical attributes of the property, particularly the various soils types, and how best to use them in a sustainable manner. During the season approximately 1,200 two year old bulls and 5,000 lambs and hoggets will be finished although this was not achieved last year due to the drought which is not considered a normal occurrence in the Waikato.

Waikoha has been directly farmed for the last four years. Like the other two Waikato farms, prior to that it was leased. A major development programme continues on this 2,510 hectare hill country sheep and beef breeding property. Development to date has included a major fencing programme where approximately 32 kilometres of fencing has been replaced, a reticulated water scheme installed to all paddocks on the finishing country, the cleaning and creation of new dams for stock water supply on the hill country, drainage and regrassing plus all farm tracks have been renovated and culverts installed. Over 250 hectares of gorse has been sprayed. A covered sheep yard complex was built in 2007 near the centre of the farm and an adjacent new woolshed is currently under construction. Waikoha is a large property and is difficult to work owing to its contour and shape. The new woolshed and covered yards will minimise stock movements and make more efficient use of farm labour. Fence repair and replacement will continue and fertiliser is being applied in increasing quantities.

As part of the Waikato group, Waikoha will become a specialist breeding unit with all surplus progeny being sent to Annandale or Puketotara for finishing. The carrying capacity of Waikoha is expected to increase from 13,000 to 18,000 stock units over the next five or so years as a result of the development which will significantly improve both farm income and capital value.

New woolshed built adjacent to the covered yards at Waikoha

Deer at Highlands

LEASED PROPERTIES

Other than the nine directly managed farms, the 20 remaining farms continue to be leased providing rental income. These properties are located in Hawke's Bay, Manawatu, Canterbury and Otago and are leased predominantly to farmers with other farming interests, providing scale of operations in their farming businesses. The stable income base these properties provide to the Group is significant.

A number of rent reviews were completed during the year resulting in a modest increase in rental income from the leased properties. Over time farm rentals tend to follow property value trends although there is often a lag phase. This is now apparent as recent rent reviews indicate a tight but generally stable rental market.

The directly farmed dairy properties combined with the spread of sector representation of the leased farms across sheep, beef, deer and arable properties plus their widespread geographical location means any risk from adverse climatic events, disease or fluctuating financial returns to the Group is minimised.

The name, location, size and type of property in the Trust portfolio are shown in the Farm Property Schedule on page 7.

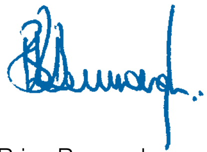
NGARUAWAHIA FOREST

Harvesting of the first rotation tree crop at the Ngaruawahia forest concluded in April 2010 with the remaining area of 80 hectares being cut. This brings harvesting operations that commenced in 2001 to a close. There will be no further harvesting until the first of the re-established second rotation trees are mature in approximately seventeen years.

The tonnage of logs harvested this year was 39,700 tonnes (533 tonnes per hectare). In comparison 59,000 tonnes were harvested during the previous full harvest year (592 tonnes per hectare). Net revenue from logs sold was $22.44 per tonne – a significant improvement on the $17.95 per tonne earned last year. This reflects stronger export log market conditions throughout the year.

The forest is being progressively replanted with pruning and thinning operations now occurring in many of the earlier replanted stands. This winter an area of 172 hectares was replanted. The oldest second rotation trees are now eight years old. Pruning and thinning on this age group of trees is now complete.

Ngaruawahia is classed as a pre-1990 forest under the Emissions Trading Scheme legislation. This means that the forest must be replanted following harvest to avoid significant financial penalties. Only a small number of New Zealand Units (carbon credits) will be earned to offset any reduction in land value arising from the inability to convert the land to alternative uses. As the land is unsuitable for conversion to pastoral farming the forest will continue to be replanted according to the Group's initial policy.



Brian Burrough
Chief Executive Officer

New fencing at Annandale

Farm Property Schedule

Property	Type	Region	Total Hectares	Management	Livestock Units (approx.)
Annandale	Sheep/Beef Finishing	Waikato	515	Managed	5,000
Barry's Bay	Sheep/Beef Grazing	Banks Peninsula Canterbury	573	Leased	4,400
Blairmore	Sheep/Beef/Deer Grazing	Central Otago	647	Leased	4,200
Cedars	Arable	Canterbury	237	Leased	n/a
Clifton	Sheep/Beef Finishing	North Canterbury	656	Leased	5,400
Dalmuir	Arable	South Canterbury	219	Leased	n/a
Delorain	Dairy	Taranaki	101	Sharemilked	305 cows
Eiffelton	Dairy Grazing	Canterbury	396	Leased	n/a
Ernsdale	Sheep/Beef Finishing	South Canterbury	368	Leased	3,800
Flimby	Arable	Canterbury	266	Leased	n/a
Glendowns	Sheep/Beef Finishing	South Canterbury	399	Leased	4,100
Highlands	Deer Breeding / Finishing	Canterbury	380	Leased	3,800
Maranoa	Deer Breeding / Finishing	Hawke's Bay	306	Leased	3,800
Marchfield	Sheep/Beef/Deer Finishing	Hawke's Bay	481	Leased	5,500
Middle Hills	Sheep/Beef Finishing	Hawke's Bay	545	Leased	6,000
Milford	Dairy	South Canterbury	177	Sharemilked	720 cows
Penshurst	Dairy	Manawatu	257	Sharemilked	680 cows
Pukekura	Sheep/Beef Finishing	Hawke's Bay	444	Leased	4,000
Puketotara	Intensive Sheep/Beef Finishing	Waikato	1,146	Managed	12,000
Rocklea	Dairy	Canterbury	189	Sharemilked	600 cows
Rollesby	Sheep/Beef Grazing	North Canterbury	323	Leased	3,800
Shenstone	Dairy	Southland	313	Sharemilked	930 cows
Silverton	Intensive Sheep/Beef Finishing	Manawatu	546	Leased	7,000
Tahuna	Sheep/Beef Finishing	Hawke's Bay	580	Leased	6,000
Tatarepo	Dairy	Southland	153	Sharemilked	500 cows
Waikoha	Sheep/Beef Grazing	Waikato	2,510	Managed	13,000
Waimahaka	Dairy Grazing	Manawatu	215	Leased	n/a
Wentworth	Arable	Canterbury	161	Leased	n/a
Woodlands	Arable	South Canterbury	451	Leased	n/a
Total Landholding - Farms			13,554		

Statement of Comprehensive Income

For the year ended 30 June 2010

	Notes	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Revenue					
Farm income		6,728	5,808	-	-
Log sales		3,231	4,438	-	-
Lease income		2,787	2,705	-	-
Inter group administration fee		-	-	2,304	3,906
Distribution from New Zealand Rural Property Trust		-	-	-	1,043
Other income		400	427	519	255
Total		**13,146**	**13,378**	**2,823**	**5,204**
Less Expenses					
Farm operating expenses		4,377	4,481	-	-
Logging cost of sales		3,231	4,438	-	-
Interest costs		1,244	3,276	727	1,983
Other expenses		1,599	2,547	1,185	1,790
Total	3	**10,451**	**14,742**	**1,912**	**3,773**
Net surplus (deficit) before other income and expenses		**2,695**	**(1,364)**	**911**	**1,431**
Share of associate's profit (loss) after tax	14	-	(199)	-	-
Write off management contract		(681)	-	-	-
Loss on disposal of property		(385)	-	-	-
Revaluations	2	(4,096)	(30,236)	-	-
Net profit (loss) before tax		**(2,467)**	**(31,799)**	**911**	**1,431**
Income tax (expense) credit	5	(2,186)	192	432	(407)
Net profit (loss) after tax		**(4,653)**	**(31,607)**	**1,343**	**1,024**
Other comprehensive income					
Revaluation of property, plant and equipment		100	(2,671)	-	-
Tax on other comprehensive income		-	3	-	-
Total other comprehensive income net of tax		100	(2,668)	-	-
Total comprehensive income		**(4,553)**	**(34,275)**	**1,343**	**1,024**
Net profit (loss) attributable to:					
Owners of the parent		(4,196)	(19,836)	1,343	1,024
Non-controlling interests		(457)	(11,771)	-	-
		(4,653)	**(31,607)**	**1,343**	**1,024**
Total comprehensive income attributable to:					
Owners of the parent		(4,096)	(21,505)	1,343	1,024
Non-controlling interests		(457)	(12,770)	-	-
		(4,553)	**(34,275)**	**1,343**	**1,024**
Earnings per share - basic & diluted - $ per share	18	**$(0.12)**	**$(0.74)**		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2010

GROUP	Notes	Fully Paid Ordinary Shares	Asset Revaluation Reserve	Retained Earnings	Non Controlling Interest	Total
		$000	$000	$000	$000	$000
At 1 July 2008		**49,213**	**4,173**	**68,000**	**81,877**	**203,263**
Net profit (loss) after tax for the period		-	-	(19,836)	(11,771)	(31,607)
Other comprehensive income net of tax		-	(1,669)	-	(999)	(2,668)
Total comprehensive income		**-**	**(1,669)**	**(19,836)**	**(12,770)**	**(34,275)**
Transactions with owners in their capacity as owners						
Dividends paid		-	-	-	(677)	(677)
At 30 June 2009	8	**49,213**	**2,504**	**48,164**	**68,430**	**168,311**
		$000	$000	$000	$000	$000
At 1 July 2009		**49,213**	**2,504**	**48,164**	**68,430**	**168,311**
Net profit (loss) after tax for the period		-	-	(4,196)	(457)	(4,653)
Other comprehensive income net of tax		-	100	-	-	100
Transfer on asset realisation		-	(1,108)	1,108	-	-
Total comprehensive income		**-**	**(1,008)**	**(3,088)**	**(457)**	**(4,553)**
Transactions with owners in their capacity as owners						
Shares issued		58,218	-	-	-	58,218
Transaction costs on share issue		(309)	-	-	-	(309)
Acquisition of non-controlling interest		-	4,728	5,027	(67,973)	(58,218)
Dividends paid		-	-	(2,319)	-	(2,319)
At 30 June 2010	8	**107,122**	**6,224**	**47,784**	**-**	**161,130**

PARENT COMPANY	Notes	Fully Paid Ordinary Shares	Retained Earnings	Total
		$000	$000	$000
At 1 July 2008		**49,213**	**(7,739)**	**41,474**
Net profit (loss) after tax for the period		-	1,024	1,024
Other comprehensive income net of tax		-	-	-
Total comprehensive income		**-**	**1,024**	**1,024**
At 30 June 2009	8	**49,213**	**(6,715)**	**42,498**
		$000	$000	$000
At 1 July 2009		**49,213**	**(6,715)**	**42,498**
Net profit (loss) after tax for the period		-	1,343	1,343
Other comprehensive income net of tax		-	-	-
Total comprehensive income		**-**	**1,343**	**1,343**
Transactions with owners in their capacity as owners				
Shares issued		58,218	-	58,218
Transaction costs on share issue		(309)	-	(309)
Dividends paid		-	(2,319)	(2,319)
At 30 June 2010	8	**107,122**	**(7,691)**	**99,431**

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2010

	Notes	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current Assets					
Cash at bank		6	62	-	-
Bank term deposit		-	1,563	-	1,563
Accounts receivable		1,056	1,971	93	108
Derivative financial instruments		-	241	-	252
Prepaid tax		27	-	27	-
Feed on hand		251	357	-	-
Total		1,340	4,194	120	1,923
Non Current Assets					
Investment properties	9	144,356	147,233	-	-
Property, plant & equipment	10	31,910	37,187	26	36
Livestock	11	2,918	3,597	-	-
Forest	12	1,888	2,208	-	-
Management contract	16	-	681	-	-
Deferred tax asset	5	-	-	8	6
Receivable from subsidiary		-	-	8,362	7,365
Shares in Fonterra Co-operative Group Limited	15	6,712	6,518	-	-
Other investments	15	179	233	115,525	50,923
Total		187,963	197,657	123,921	58,330
Total Assets		**189,303**	**201,851**	**124,041**	**60,253**
Current Liabilities					
Bank overdraft		49	20	49	20
Accounts payable & accrued expenses		1,238	1,254	158	135
Payable to subsidiary		-	-	703	-
Provision for tax		-	155	-	155
Bank loans	17	-	14,600	-	-
Total		1,287	16,029	910	310
Term Liabilities					
Bank loans	17	23,700	17,445	23,700	17,445
Deferred tax liability	5	3,186	66	-	-
Total		26,886	17,511	23,700	17,445
Equity					
Equity attributable to:					
Parent company shareholders		161,130	99,881	99,431	42,498
Non-controlling interest		-	68,430	-	-
Total Equity	8	161,130	168,311	99,431	42,498
Total Liabilities & Equity		**189,303**	**201,851**	**124,041**	**60,253**

On behalf of the Directors, who authorise the issue of these financial statements, dated 16 September 2010.

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 2010

	Notes	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		15,481	13,237	413	240
Other receipts		-	155	3,988	2,710
Dividends received		-	-	-	1,130
Tax refund		940	4	436	-
Other income		7	17	-	-
		16,428	13,413	4,837	4,080
Cash was applied to:					
Payments to suppliers and employees		9,705	12,172	1,149	1,099
Taxation paid		188	313	188	313
Interest paid		1,347	3,610	727	2,258
		11,240	16,095	2,064	3,670
Net cash flows from operating activities	4	**5,188**	**(2,682)**	**2,773**	**410**
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of associate	14	-	4,000	-	4,000
Proceeds from sale of assets		5,869	5	-	-
		5,869	4,005	-	4,000
Cash was applied to:					
Capital expenditure including farm improvements		2,105	1,120	3	11
		2,105	1,120	3	11
Net cash flows from investing activities		**3,764**	**2,885**	**(3)**	**3,989**
Cash flows from financing activities					
Cash was provided from:					
Term deposit maturity		1,437	-	1,437	-
Term loans advance		-	1,580	6,754	-
		1,437	1,580	8,191	-
Cash was applied to:					
Investment in term deposit		-	1,390	-	1,390
Term loans reduction		7,846	-	-	3,020
Advance to subsidiary		-	-	8,362	-
Share issue costs		309	-	309	-
Income distribution		2,319	677	2,319	-
		10,474	2,067	10,990	4,410
Net cash flows from financing activities		**(9,037)**	**(487)**	**(2,799)**	**(4,410)**
Net increase (decrease) in cash held		**(85)**	**(284)**	**(29)**	**(11)**
Cash at start of period		42	326	(20)	(9)
Cash at end of period		**(43)**	**42**	**(49)**	**(20)**
Comprised of:					
Cash at bank		6	62	-	-
Bank overdraft		(49)	(20)	(49)	(20)
		(43)	**42**	**(49)**	**(20)**

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 Group owns twenty nine farms and a forest. Twenty of the farms are leased out and six are operated under share milking arrangements. The other three farms are sheep and beef farms operated directly by the Trust.

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-oriented entities. They also comply with International Financial Reporting Standards (IFRS).

STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no 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 consolidated financial statements include the parent company and its subsidiaries. In preparing the consolidated financial statements all significant inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Non-controlling interest is allocated its share of net profit or loss after tax in the Statement of Comprehensive Income and is presented within equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

The acquisition of subsidiaries is accounted for using the acquisition method. Where an acquisition of an additional interest in a subsidiary results in the carrying value of the non-controlling interest acquired being greater than the cost, then the excess is accounted for as an equity transaction.

(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 Statement of Comprehensive Income. Dividends received from associates are recognised in the parent company's Statement of Comprehensive Income, and in the Consolidated Balance Sheet they reduce the carrying amount of the investment.

(c) Investment Properties

Investment properties are initially recorded at cost. Subsequent to initial recognition investment properties are revalued to 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 profit or loss for the period.

(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 and included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the profit or loss.

Any revaluation decrease is recognised in the profit or loss for the period except to the extent that it 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.

(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 Statement of Comprehensive Income.

(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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

(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 Statement of Comprehensive Income 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.

(n) Interest-bearing Loans and Borrowings

All loans are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowing costs are expensed in the period they occur as the Company does not have any qualifying assets for which interest needs to be capitalised.

(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 profit or loss.

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.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(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 was dated 5 May 2010. The contract expires in 2067.

The value of the management contract was being amortised over the life of the contract. However the contract has been fully written off as at 30 June 2010 following the Group obtaining 100% ownership of the New Zealand Rural Property Trust – see note 13 and note 16.

(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 Statement of Comprehensive Income.

NOTE 2 REVALUATIONS

	GROUP 2010 $000	GROUP 2009 $000
Revaluation of investment properties	(3,318)	(25,584)
Revaluation of property, plant & equipment	(575)	(4,212)
Revaluation of investments	-	(1,479)
Revaluation of forest assets	(203)	1,039
	(4,096)	(30,236)

NOTE 3 EXPENSES

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

Logging cost of sales includes harvesting and transporting costs.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Specific disclosures are as follows:				
Depreciation - on plant & equipment	256	374	13	16
Depreciation - on buildings	42	41	-	-
Directors' fees	200	184	200	170
Operating lease costs	253	240	50	50
Audit fees	47	47	20	20
Fees paid to Ernst & Young for prospectus audit	19	-	19	-
Key management remuneration - short term benefits	593	623	593	623
Other employee remuneration	595	505	15	10
Amortisation of management contract - see note 16	681	15	-	-
Exchange loss (gain)	(373)	762	(373)	762
Loss (gain) in fair value of derivatives	241	(12)	252	(23)

NOTE 4 CASH FLOW RECONCILIATION

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Net profit (loss) after tax	(4,653)	(31,607)	1,343	1,024
Add (deduct) non-cash items:				
Depreciation	298	415	13	16
Amortisation of intangible assets	681	15	-	-
Forest depletion	571	560	-	-
Equity accounted loss of associate	-	199	-	-
Exchange loss (gain)	(373)	762	(373)	762
Interest income accrued	-	(15)	-	(15)
Revaluation movements	4,096	30,236	-	-
	5,273	32,172	(360)	763
Changes in assets & liabilities:				
Change in accounts payable	(16)	(196)	23	(243)
Change in derivatives	241	(90)	252	(105)
Change in provision for taxation	(182)	91	(182)	91
Change in deferred taxation	3,120	(591)	(2)	3
Change in livestock & feed	785	(2,149)	-	-
Change in receivable from subsidiary	-	-	8,068	(1,123)
Change in accounts receivable	915	(550)	15	-
	4,863	(3,485)	8,174	(1,377)
Add (deduct) non-operating items:				
Non-operating items in accounts payable	(281)	(108)	-	-
Non-operating items in accounts receivable	(349)	349	-	-
Non-operating items in receivable from subsidiary	-	-	(6,384)	-
Realised (gains) losses on asset sales	335	(3)	-	-
	(295)	238	(6,384)	-
Net cash flows from operating activities	5,188	(2,682)	2,773	410

NOTE 5 TAXATION

Statement of Comprehensive Income

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Net profit (loss) before tax	(2,467)	(31,799)	911	1,431
Tax at the statutory rate of 30%	(740)	(9,540)	273	429
Adjusted for tax effect of:				
Non assessable land revaluations	975	8,808	-	-
Non assessable investment revaluations	-	444	-	-
Depreciation on land improvements	(275)	(150)	-	-
Deferred tax adjustment on long life buildings	2,281	-	-	-
Group loss offset	-	-	(669)	-
Non assessable intangible asset amortisation	204	5	-	-
Change in company tax rate to 28% on deferred tax items expected to reverse beyond 2011	(256)	-	-	-
Other items	(3)	241	(36)	(22)
Tax expense (credit)	2,186	(192)	(432)	407
Represented by :				
Current tax	(430)	404	(430)	404
Deferred tax	2,616	(596)	(2)	3
	2,186	(192)	(432)	407

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance Sheet				
Deferred tax (assets) & liabilities relate to the following:				
Buildings depreciation & revaluation	3,651	1,806	-	-
Forest operations & revaluation	529	613	-	-
Plant depreciation	(71)	(81)	1	1
Livestock revaluation	(34)	(19)	-	-
Recognition of tax losses	(862)	(1,732)	-	-
Unused prepaid tax credits	-	(504)	-	-
Other items	(27)	(17)	(9)	(7)
Total	3,186	66	(8)	(6)
Disclosed as:				
Deferred tax liability	3,186	66	-	-
Deferred tax asset	-	-	(8)	(6)
	3,186	66	(8)	(6)

The Government announced a change in the company tax rate from 30% to 28% with effect from the 2011/2012 tax year. The change in rate was approved by Parliament on 21 May 2010. Accordingly deferred tax has been measured at 28% to the extent the underlying temporary differences are expected to reverse in 2011/2012 and beyond.

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

The Government's May 2010 Budget announced legislation, which was subsequently enacted, to effectively remove the depreciation deduction allowed on buildings with expected lives of 50 years or more. The removal of tax deductions for depreciation means that there will no longer be tax deductions to claim against the taxable benefits through the use of the asset. The result of this change is that a deferred tax liability of $2,281,000 was recognised with a corresponding tax expense. The effect of this adjustment will reverse over the remaining useful life of the buildings.

Changes to deferred tax provision	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Changes:				
1) Recognised in profit or loss				
Buildings depreciation & revaluation	1,845	(50)	-	-
Forest operations & revaluation	(84)	274	-	-
Plant depreciation	10	(25)		(2)
Livestock revaluation	(15)	35	-	-
Utilisation (recognition) of tax losses	870	(833)	-	-
Other items	(10)	3	(2)	5
	2,616	(596)	(2)	3
2) Recognised in other comprehensive income	-	3	-	-
3) Recognised in the balance sheet	504	2	-	-
Total change in deferred tax position	3,120	(591)	(2)	3

NOTE 6 IMPUTATION CREDIT ACCOUNT

	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of period	2,076	1,763
Imputation credits attached to dividends paid	(1,116)	-
Income tax paid (refunded) during the period	(777)	313
Balance at end of period	183	2,076

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 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. At 30 June 2010 there were no outstanding interest rate swaps. As at 30 June 2009 the Group had entered into interest rate swaps to manage 29% of the interest rate risk on its borrowing.

The Group regularly reviews interest rates for a range of terms and acts to minimse weighted average interest rates over the medium term on its borrowings.

The effect on Group profit after tax of a 1% change in interest rates is $166,000 (2009 $160,000).

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Less than one year	-	9,195	-	6,195

Currency Risk

The Group has no direct exposure to foreign currencies as at 30 June 2010. At 30 June 2009 the Group had a direct exposure to the US dollar through a loan of US$4,000,000. To mitigate the currency risk in 2009 the Group entered into a NZ dollar put/US dollar call option for US$2,000,000 with a strike rate of US$0.70. The Group also had a deposit of US$1,000,000 as at 30 June 2009.

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 of a change in the price of milk solids of $1.00 per kilogram would be $513,000 (2009 $493,000).

Credit Risk

Financial instruments which potentially subject the Group to credit risk, consist of cash at bank, bank term deposits, derivative financial instruments and accounts receivable. All cash at bank is with a registered New Zealand bank.

Included in accounts receivable is $784,000 (2009 $1,091,000) receivable from Fonterra Cooperative Group Ltd. There are no other significant concentrations of credit risk.

Maximum exposures to credit risk are:	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash at bank	6	62	-	-
Bank deposits	-	1,563	-	1,563
Derivative financial instruments	-	241	-	252
Accounts receivable	1,056	1,971	93	108

Fair Values

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

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 bank facility runs until 5 May 2013.

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

	2010 Less than 12 months $000	2010 1 to 3 years $000	2009 Less than 12 months $000	2009 1 to 3 years $000
Accounts payable and accrued expenses	1,238	-	1,254	-
Interest bearing loans (incl. contracted interest)	23,810	-	32,501	-
	25,048	-	33,755	-

Financial Instrument Classification The carrying amounts of financial instruments by category are:	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Loans & receivables:				
Accounts receivable	1,056	1,971	8,455	7,473
Bank deposits	-	1,563	-	1,563
Cash at bank	6	62	-	-
Financial assets at fair value through profit or loss:				
Designated - shares	6,891	6,751	-	-
Held for trading - derivatives	-	241	-	252
Financial liabilities measured at amortised cost:				
Bank loans & overdraft	23,749	32,065	23,749	17,465
Accounts payable & accruals	1,238	1,254	861	135

Fair Value of Financial Instruments

The fair values of financial assets designated at fair value through profit or loss are based on quoted prices in an active market for identical assets (Level 1 in the valuation hierarchy). The only material investment in this category is shares in Fonterra Co-operative Group Limited. The quoted price is the price at which Fonterra would have redeemed the shares as at 30 June 2010 if the Group requested a share redemption and complied with the redemption conditions.

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 would be $671,000 (2009 $652,000).

NOTE 8 EQUITY

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Share capital	107,122	49,213	107,122	49,213
Revaluation reserve	6,224	2,504	-	-
Retained earnings (accumulated deficit)	47,784	48,164	(7,691)	(6,715)
	161,130	99,881	99,431	42,498
Non-controlling interest	-	68,430	-	-
Total	161,130	168,311	99,431	42,498

Capital Maintenance

The Group's capital is primarily invested in rural property which is held for long term capital appreciation. Operational cash inflows are broadly expected to match outflows and where differences arise this is managed within the available banking facilities. The Group's capital consists of share capital, revaluation reserve and retained earnings.

Share Capital

There are 42,168,932 shares on issue (2009 26,685,612).

	GROUP & COMPANY NUMBER OF SHARES		GROUP & COMPANY VALUE	
	2010	2009	2010	2009
	000	000	$000	$000
Opening balance	26,686	26,686	49,213	49,213
Shares issued	15,483	-	57,909	-
Closing balance	42,169	26,686	107,122	49,213

During the year 15,483,320 shares were issued to the non-controlling interest in New Zealand Rural Property Trust in exchange for their units in the New Zealand Rural Property Trust at a ratio of one share for 1.15 units held - refer to note 13.

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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Revaluation Reserve				
Opening balance	2,504	4,173	-	-
Revaluation of land & buildings	100	(1,669)	-	-
Transfer to retained earnings	(1,108)	-	-	-
Acquisition of non-controlling interest - see note 13	4,728	-	-	-
Closing balance	6,224	2,504	-	-
Retained Earnings				
Opening balance	48,164	68,000	(6,715)	(7,739)
Net profit (loss) after tax	(4,196)	(19,836)	1,343	1,024
Transfer from revaluation reserve	1,108	-	-	-
Acquisition of non-controlling interest - see note 13	5,027	-	-	-
Dividend paid	(2,319)	-	(2,319)	-
Closing balance	47,784	48,164	(7,691)	(6,715)

NOTE 9 INVESTMENT PROPERTIES

	GROUP 2010 $000	GROUP 2009 $000
Opening balance	147,233	196,094
Additions	441	301
Transferred to property, plant and equipment	-	(23,578)
Revaluations	(3,318)	(25,584)
Closing balance	144,356	147,233

All investment properties were valued as at 30 June 2010 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.

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 $2,180,000 (2009 $3,153,000).

NOTE 10 PROPERTY, PLANT & EQUIPMENT

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Land & Buildings				
Opening balance	36,028	19,126	-	-
Additions	914	243	-	-
Transferred from investment properties	-	23,578	-	-
Depreciation	(42)	(41)	-	-
Disposals	(5,635)	-	-	-
Revaluations	(475)	(6,878)	-	-
Closing balance	30,790	36,028	-	-
Plant & Equipment				
Opening balance	1,159	1,114	36	41
Additions	371	421	3	11
Disposals	(154)	(2)	-	-
Depreciation	(256)	(374)	(13)	(16)
Closing balance	1,120	1,159	26	36
Cost	3,473	3,399	88	86
Accumulated depreciation	(2,353)	(2,240)	(62)	(50)
Net carrying amount	1,120	1,159	26	36
Total property, plant & equipment	31,910	37,187	26	36

Land and buildings were valued as at 30 June 2010 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.

PROPERTY, PLANT & EQUIPMENT - *continued*

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

	GROUP 2010 $000	GROUP 2009 $000
Land	7,612	7,837
Buildings	1,957	2,312
Less accumulated depreciation	(637)	(724)
Net carrying amount	8,932	9,425

NOTE 11 LIVESTOCK

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

	GROUP 2010 No. of Head	GROUP 2009 No. of Head
Livestock on Hand:		
Sheep	10,487	13,473
Cattle	2,848	3,418

	GROUP 2010 $000	GROUP 2009 $000
Sheep Value		
Opening balance	1,225	674
Increases due to purchases	38	115
Decreases due to sales	(991)	(583)
Revaluation gains net of births & deaths	675	1,019
Closing balance	947	1,225
Cattle Value		
Opening balance	2,372	861
Increases due to purchases	897	2,284
Decreases due to sales	(2,408)	(1,352)
Revaluation gains net of births & deaths	1,110	579
Closing balance	1,971	2,372
Total Livestock	2,918	3,597

Livestock was valued as at 30 June 2010 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 12 FOREST ASSET

The Group owns a 848 hectare forest of pinus radiata trees. During the year ended 30 June 2010 the final 83 hectares of the first crop rotation were harvested. During the 2009 year 116 hectares were harvested.

	GROUP 2010 $000	GROUP 2009 $000
Opening balance	2,208	1,493
Forest redevelopment	454	236
Forest harvest depletion	(571)	(560)
Revaluation	(203)	1,039
Closing balance	1,888	2,208

The forest was valued as at 30 June 2010 by independent registered valuers. The valuation is on the basis of current fair value less point of sale costs. For trees over six years old 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.

The valuer for 2009 and 2010 was Chandler Fraser Keating Limited. A pre tax discount rate of 10% was used in the valuation for 2009 and 2010.

NOTE 13 INVESTMENT IN THE NEW ZEALAND RURAL PROPERTY TRUST

During the year the Group increased it ownership of units in the New Zealand Rural Property Trust from 62.6% to 100%. This was achieved by the Company making an offer of one REL ordinary share for every 1.15 units in the Trust that it did not own. The offer was approved by Trust unitholders and by the Company's shareholders in November 2009. Consequently the Company then issued 15,483,320 REL shares to the non-controlling interest.

The carrying value of the non-controlling interest as at the date of acquisition was $67,973,000. The fair value of the shares issued as determined by an independent valuation was $58,218,000. The principal methodology used in the independent valuation was a net assets based approach whereby the values for the Trust and the Company were derived primarily from the assessed market value of their assets. The difference between the carrying value of the non-controlling interest and the fair value of the shares issued is $9,755,000 and is recognised directly in equity. The non-controlling interest share of the other comprehensive income has been reattributed to REL as the parent. This resulted in a transfer from non-controlling interest of $4,728,000 to asset revaluation reserve and $5,027,000 to retained earnings.

As part of the transition Rural Equities Limited also acquired 2,553,648 Trust units from subsidiary New Zealand Rural Property Trust Management Limited for $6,384,000.

NOTE 14 INVESTMENT IN THE REL - PACIFIC EQUITY TRUST

The REL - Pacific Equity Trust was an unlisted investment trust formed to take advantage of investment opportunities in New Zealand and Australia. The Company had significant influence over the 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 the REL - Pacific Equity Trust.

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

	GROUP 2010 $000	GROUP 2009 $000
Opening balance	-	4,199
Loss after tax for the period	-	(199)
Proceeds from disposal of associate	-	(4,000)
Closing balance	-	-

NOTE 15 INVESTMENTS

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $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 - 100% owned - refer note 13.	-	-	112,993	48,391
			115,525	50,923
Other Investments				
Shares in Fonterra Co-operative Group Limited	6,712	6,518	-	-
Other shares at valuation	179	233	-	-
	6,891	6,751	115,525	50,923

NOTE 16 MANAGEMENT CONTRACT

Management Contract - to manage the New Zealand Rural Property Trust	GROUP 2010 $000	GROUP 2009 $000
Cost	2,354	2,354
Amortisation		
Opening balance	(1,673)	(1,658)
Current year	(681)	(15)
Closing balance	(2,354)	(1,673)
Net carrying value	-	681

During the year the Group acquired all the units in the New Zealand Rural Property Trust that it did not already own and consequently the management contract has been written off as it has no intrinsic value to the Group.

NOTE 17 BANK LOANS

The Company has loan facilities with ANZ National Bank Limited totalling $30.5M. As at 30 June 2010 the facility was drawn to $23.7M at a weighted average interest rate of 3.75% with maturities reset every 90 days or less.

A general security agreement has been entered into with ANZ National Bank Limited covering all the Company's assets. The facility runs to 5 May 2013.

As at 30 June 2009 the Group had bank facilities with Westpac Banking Corporation totalling $42.0M. At that date the facilities were drawn to $32M at an average interest rate of 4.04%, secured by a debenture over the Group's assets. All borrowings under this facility were repaid on 5 May 2010 and the facility terminated.

See note 7 for interest rate risk management.

NOTE 18 EARNINGS PER SHARE

	GROUP 2010	GROUP 2009
Numerator - $000		
Earnings attributable to parent company interests	(4,196)	(19,836)
Denominator - 000 shares		
Weighted average number of shares on issue	35,718	26,686
Earnings (Loss) per share - $ per share	$(0.12)	$(0.74)

NOTE 19 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 $23,700 reviewable on 28 February 2011. The amount of rental paid by the Company to Ecco Building Partnership during the financial year was $22,833 (2009 $22,400). There was no amount owing as at 30 June 2010 (30 June 2009 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 $17,100 (2009 $15,600). The amount owing at balance date was $3,800 (2009 $5,600) and has since been paid in full.

During the year Andrew Train, a director of REL, provided the Group with agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. The fees paid for these services totalled $10,500 (2009 $Nil). The amount outstanding as at 30 June 2010 was $10,500 and has since been paid in full.

During the year the Public Trust provided trustee services to the Group as trustee for the New Zealand Rural Property Trust. Rodger Finlay, a director of REL, is a Board Member of Public Trust. The fees paid to Public Trust for these services totalled $12,000 (2009 $Nil). The amount outstanding as at 30 June 2010 was $7,000 and has since been paid in full.

For transactions with the New Zealand Rural Property Trust - see note 13.

NOTE 20 COMMITMENTS & CONTINGENT LIABILITIES

Operating Lease Commitments

The Group leases farm land adjacent to three of its dairy farms to supplement the feed provided by those 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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Not later than one year	232	229	28	50
Later than one year and not later than two years	150	196	-	27
Later than two years and not later than five years	185	275	-	-
Total future minimum lease payments	567	700	28	77

Property, Plant & Equipment Commitments

The Group had commitments contracted but not provided for as at 30 June 2010 for farm buildings of $70,000 (2009 $Nil).

Contingent Liabilities

There are no contingent liabilities as at 30 June 2010 (2009 Nil).

NOTE 21 SEGMENT REPORTING

The Group's internal reporting to the Board of Directors is focused on each of the Group's individual rural properties. Due to the nature of the Group's rural properties they can all be grouped into one reportable segment.

Major Customers

The Group obtained 35% (2009 28%) of its revenue from Fonterra Co-operative Group Limited. This is for milk solids supplied by the Group's six dairy farms.

The Group obtained 18% (2009 20%) of its revenue from one forestry customer.

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.

ii) Share Milking Arrangements - The Group has share milking agreements in place on six (2009 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 Statement of Comprehensive Income.

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.

Auditor's Report

Ernst & Young

Chartered Accountants

To the Shareholders of Rural Equities Limited

Report on the Financial Statements

We have audited the financial statements of Rural Equities Limited (the "Company") and its subsidiaries on pages 8 to 26, which comprise the balance sheet of Rural Equities Limited and the Group as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company and Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that they give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in Rural Equities Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Opinion

In our opinion, the financial statements on pages 8 to 26:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Rural Equities Limited and the Group as at 30 June 2010 and the financial performance and cash flows of the Company and Group for the year then ended.

Report on Other Legal and Regulatory Requirements

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

In our opinion proper accounting records have been kept by Rural Equities Limited as far as appears from our examination of those records.

Ernst + Young

16 September 2010

Auckland

Additional Disclosures

DIRECTORS

The Directors of Rural Equities Limited ("REL") as at 30 June 2010 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Sir Ronald Carter, David Cushing, Rodger Finlay, John Green and Andrew Train. There were no resignations or appointments during the year.

The Directors of New Zealand Rural Property Trust Management Limited ("NZRPTML") as at 30 June 2010 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), David Cushing, Rodger Finlay, John Green and Andrew Train. There were no resignations or appointments during the year.

The Directors of REL – Trust Management Limited as at 30 June 2010 were Sir Selwyn Cushing (Chairman), Sir Ronald Carter, David Cushing, Rodger Finlay (appointed 2 May 2010) Murray Gough and James Wright (Alternate for Sir Selwyn Cushing). There were no resignations during the year.

PAYMENTS TO DIRECTORS

The table below details the Directors' fees paid by REL during the year ended 30 June 2010.

	$
Sir Ronald Carter	25,000
David Cushing	25,000
Sir Selwyn Cushing	40,000
Rodger Finlay	30,000
Murray Gough	30,000
John Green	25,000
Andrew Train	25,000

Andrew Train provided agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. During the year ending 30 June 2010 he was paid consultancy fees of $10,500 by REL for the provision of those services.

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

INTERESTS REGISTER

The following entries were recorded in the Interests Register of REL and NZRPTML during the year ended 30 June 2010:

General Disclosures

David Cushing is an Alternate Director of PGG Wrightson Limited.

Sir Selwyn Cushing is a Director of PGG Wrightson Limited.

Murray Gough is a Director or ANZCO Foods Limited.

John Green is a Director of Perpetual Capital Management Limited.

Rodger Finlay is a Board Member of Public Trust.

Directors' Indemnity and Insurance

On 31 May 2009 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2009 to 31 May 2010. On 31 May 2010 REL renewed this policy for a further year until 31 May 2011.

Disclosure of share dealing by Directors and Directors' relevant interest in REL shares as at 30 June 2010

	Shares held as at 1 July 2009	REL takeover of NZRPT [1]	Other share transactions	Shares held as at 30 June 2010	
				Beneficially	By associated persons
Sir Ronald Carter	220,000	24,150 [a]	(72,000) [2]	-	172,150
David Cushing	16,943,083	4,934,509 [b]	366,977 [3]	263,160	21,981,409 [5]
Sir Selwyn Cushing	16,626,030	4,934,509 [b]	644,307 [3]	85,673	22,119,173 [5]
Rodger Finlay	917,293	22,488 [c]	(2,000) [4]	-	937,781
Murray Gough	216,488	-	-	-	216,488
John Green	30,000	5,640 [d]	-	5,640	30,000
Andrew Train	2,002	870 [e]	-	2,872	-

Note 1 On 30 November 2009, to effect the merger of REL and the New Zealand Rural Property Trust (NZRPT), REL shares were issued to NZRPT unitholders at a ratio of 1 REL share for 1.15 NZRPT units held.

a - Sir Ronald Carter and WR Matthew as trustees of the R P Carter Family Trust No 2 (an associate of Sir Ronald Carter) were issued 24,150 REL shares in exchange for 27,773 NZRPT units.

b - H&G Limited (an associate of David Cushing and Sir Selwyn Cushing) was issued 4,934,509 REL shares in exchange for 5,674,685 NZRPT units.

c - RJ and EMA Finlay and MA Weakley as trustees of the Viewfield Trust (an associate of Rodger Finlay) were issued 22,488 REL shares in exchange for 25,861 NZRPT units.

d - John Green was issued 5,640 REL shares in exchange for 6,486 NZRPT units.

e - Andrew Train was issued 870 REL shares in exchange for 1,000 NZRPT units.

Note 2 On 13 May 2010 Sir Ronald Carter and WR Matthews as trustees of the RP Carter Family Trust No 2 (an associate of Sir Ronald Carter) distributed 72,000 REL shares to beneficiaries of that Trust.

Note 3 On 4 December 2009, as a consequence of the merger of REL and NZRPT[1] and compliant with the Takeovers Code, 1,260,383 REL shares were transferred to H&G Limited (an associate of David Cushing and Sir Selwyn Cushing). 82,347 REL shares were transferred from Ashfield Farm Limited (an associate of David Cushing and Sir Selwyn Cushing), 644,307 REL shares were transferred from David Cushing, 366,977 REL shares were transferred from Sir Selwyn Cushing and 166,752 REL shares were transferred from Sir Selwyn Cushing and David Cushing as trustees of the Graham Cushing Settlement (an associate of David Cushing and Sir Selwyn Cushing). The shares were transferred at $2.50 per share.

Note 4 On 15 March 2010 RJ and EMA Finlay and MA Weakley as trustees of the Viewfield Trust (an associate of Rodger Finlay) distributed 2,000 REL shares to a beneficiary of that Trust.

Note 5 Some of these holdings relate to the same REL shares.

DONATIONS

REL did not make any donations during the financial year ended 30 June 2010.

EMPLOYEES

The services of Brian Burrough (Chief Executive Officer) are provided through a Secondment Agreement with PGG Wrightson Limited. The secondment agreement is for an indefinite term but may be terminated by either party giving six months notice.

For the year ended 30 June 2010 three employees received remuneration and other benefits of between $200,001 and $210,000.

Shareholder Information

As at 7 September 2010

TOP TWENTY SHAREHOLDERS

Holder	Number of Shares Held	%
H&G Limited	21,092,762	50.01
RotoruaTrust Perpetual Capital Fund Limited	4,687,475	11.11
New Zealand Central Securities Depository Limited	2,229,030	5.28
RGH Holdings Limited	917,293	2.17
WJ Greenwood & ISM Robertson & AJ Mansell	593,544	1.40
FE Mayell & DA Young	505,397	1.19
BJ Martin	394,127	0.93
Seajay Securities Limited	313,625	0.74
Selba Holdings Limited – A/C 50	263,160	0.62
JW & MV Spiers	245,492	0.58
Makowai Farm Limited	208,966	0.49
B&S Custodians Limited	182,000	0.43
Ashfield Properties Limited	178,560	0.42
FNZ Custodians Limited	162,366	0.38
LM Marx-Sheather, WB Sheather, PV Sheather & SM Palmer	151,010	0.35
Riddell Funds Management Limited	148,000	0.35
MGS Fund Limited	124,234	0.29
RG Goodrick	120,000	0.28
BJ Cushing	101,823	0.24
Villarica Limited	100,790	0.23

ANALYSIS OF SHAREHOLDING BY SIZE

	Number of Shareholders	%	Number of Shares Held	%
1 - 999	217	14.16	104,763	0.25
1,000 - 4,999	811	52.90	2,047,523	4.85
5,000 – 9,999	260	16.96	1,804,420	4.28
10,000 – 49,999	197	12.85	3,625,161	8.60
50,000 – 99,999	28	1.83	1,867,411	4.43
100,000 and over	20	1.30	32,719,654	77.59
Total	**1,533**		**42,168,932**	

ANALYSIS OF SHAREHOLDING BY LOCATION

	Number of Shareholders	%	Number of Shares Held	%
Upper North Island	667	43.51	9,485,540	22.49
Gisborne	50	3.26	266,773	0.63
Hawke's Bay	199	12.98	24,097,976	57.15
Manawatu/Wanganui/Wairarapa	90	5.87	429,404	1.02
Wellington	175	11.42	4,469,065	10.60
South Island	273	17.81	3,037,758	7.20
Overseas	79	5.15	382,416	0.91
Total	**1,533**		**42,168,932**	

Corporate Governance

ROLE OF THE DIRECTORS

The Directors of Rural Equities Limited ("REL") are 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.

New Zealand Rural Property Trust Management Limited ("NZRPTML") is responsible for the management of the New Zealand Rural Property Trust ("NZRPT") which, although now 100% owned by REL, remains a separate legal entity with its business (specifically the operation of the farm properties and the forest) overseen by the Directors of NZRPTML.

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

APPOINTMENT AND MEETINGS

The Directors of REL are appointed by the REL shareholders. The Directors of NZRPTML are appointed by REL.

The Directors of REL and NZRPTML meet approximately eight times during the year for scheduled meetings, with additional meetings held if necessary to consider urgent issues. Within each Board is a broad mix of skills and experience relevant to the guidance of the businesses.

AUDIT COMMITTEE

REL has constituted a Group Audit Committee which 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 the auditor and making recommendations to the Directors as to their appointment and their remuneration. The Committee's responsibility encompasses REL and each of its subsidiaries.

The Audit Committee is chaired by Rodger Finlay and the other members are David Cushing, Murray Gough and John Green.

DIRECTORY

DIRECTORS

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Sir Ronald Carter

David Cushing

Rodger Finlay

John Green

Andrew Train


Bulls at Puketotara

EXECUTIVE

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Chief Operating Officer

REGISTERED OFFICE

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Website www.ruralequities.co.nz


Laying a new fenceline at Annandale

SHARE REGISTRY

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