rural equities
LIMITED

ANNUAL REPORT 2008

CONTENTS

Company Business Activities & Structure

Rural Equities Limited (REL) is a company which primarily 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 Ltd (NZRPTML) which is the manager of New Zealand Rural Property Trust (NZRPT). Together REL and NZRPTML own 62.4% (approximately) of the units in NZRPT.

NZRPT is an unlisted unit trust with net assets of $217.5 million at 30 June 2008. An after tax profit of $48.2 million was achieved for the full 2008 financial year with the increase in value of the properties owned being the major contributor to this result.

NZRPT 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 farms 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 2007/08 season was over 1.5 million kilograms of milk solids. The pine forest is mature and is being harvested on a restricted basis due to the current low price of logs. The forest is being re-established following harvest.

Further information regarding NZRPT 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 another subsidiary of REL to manage REL - Pacific Equity Trust and receives management fees for the services provided. REL owns 23.5% of the units in REL-Pacific Equity Trust.

The website for REL is www.ruralequities.co.nz

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in Batten Room 1, Novotel Rotorua Lakeside, Tutanekai Street, Rotorua on Thursday 13 November 2008 at 4.30pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2008 with the reports of the Directors and the Auditor.
2. To elect Directors. In accordance with clause 13.8 of the Company's constitution David 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 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 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 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

INVITATION

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

REPORT TO SHAREHOLDERS 2008

By the Chairman & Chief Executive Officer

Introduction

Directors are pleased to report a record after tax profit of $32.4 million for the year ended 30 June 2008. This compares with $2.7 million achieved last year. This year's result reflects much higher values for dairy and arable farms, as well as for properties with potential to convert to or support dairy production. The value of sheep and beef properties remained stable.

Dairy farm incomes lifted significantly following an increased payout from Fonterra. Arable crop prices also increased markedly but sheep and beef farmers had a difficult year with continuing low product prices. A widespread and severe summer and autumn drought affected most regions of the country, and rapidly rising farm input and operating costs, particularly for supplementary feed, fertiliser, and fuel, impacted on farm profitability.

The Company's investment holding in the New Zealand Rural Property Trust (NZRPT) increased from 54.2% to 62.4% of the total units on issue during the year. This resulted primarily from an offer to NZRPT Unitholders and from units issued in accordance with the NZRPT management contract. NZRPT is a subsidiary of REL with the consolidated financial statements reflecting this. The reported profit of $32.4 million is after deducting the share of consolidated Group profit which is attributable to the units in NZRPT which REL does not own.

Financial Overview

This is the first reporting period that REL has used the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Accordingly there are changes in the way some aspects of the financial statements are reported, further details of which are contained in the notes attached to the financial statements. In summary, the full year result for last year was reported at that time as a profit after tax of $2.4 million whereas for comparative purposes it is shown as a profit of $2.7 million after tax this year. The main differences are the derecognition of the provision for cost of disposal previously provided for investment properties, a provision for point of sale costs on the value of livestock owned, the value of interest rate swaps held and changes to the accounting treatment of revaluation gains on owner-occupied properties.

The Income Statement for the Group includes the full financial results of NZRPT as well as those of REL, the Parent Company. The figures for REL are shown separately as the Parent. Revenue includes lease and farm income less expenses from the NZRPT farms and forest. NZRPT's result reflects strong gains in the value of its farm properties as well as higher earnings from its directly managed farms.

In addition to the revaluation gains from the NZRPT farm properties, there was a further gain of $2.6 million on the value of NZRPT units purchased during the year. This is shown as the discount on units purchased and is the difference between the purchase price and the Net Asset Value at the time of purchase of those units.

Group expenses increased, including higher operating costs for the directly farmed NZRPT properties.

Parent Company expenses including interest also continued to rise. The interest cost of the accumulated bank debt which has mainly been incurred to purchase units in NZRPT and to fund the investment in REL - Pacific Equity Trust, was once again a significant cost.

Earnings per share increased from $0.12 to $1.30 per share following the substantial revaluation gains.

Total equity for the Group has increased to $203.2 million from $151.8 million. Equity attributable to Parent Company Shareholders in the Group increased from $75.4 million to $121.3 million. Part of this growth was a result of the cash issue of shares during the year which raised $12.2 million. The additional share capital was used to fund the purchase of additional NZRPT units as well as reduce bank debt.

Whilst Group liabilities total $31.7 million, these are just 13.5% of total assets.

Dividend Policy

Directors have decided that no dividend will be paid. Whilst there have been substantial revaluation gains this year, cash returns from rural property investment remain low. Taking this into account as well as the debt carried by REL, Directors do not expect dividends will be paid in the foreseeable future.

REL – Pacific Equity Trust

REL - Pacific Equity Trust was formed in 2006 as part of a strategy to expand the funds management aspect of the business. REL earns a management fee through its wholly owned subsidiary, REL - Trust Management Limited, which manages the REL - Pacific Equity Trust.

This Trust faced a difficult and challenging year as a result of extremely volatile equity markets. In the circumstances, the small after tax loss recorded by the REL - Pacific Equity Trust, is considered satisfactory.

Directors

Gerald Weenink retired as a Director in November 2007. Gerald had been involved in various roles with REL and NZRPT for seventeen years and has made a valuable contribution. In particular his input to NZRPT during the period of restructure was fundamental to its ongoing success. We wish him well for his retirement.

In September 2008, Brian Martin retired from the Board having been a director since 1993. Brian has made a significant contribution to both REL and NZRPT on a wide range of issues which has seen the successful development of both to their current strong positions. We wish him well for the future.

In accordance with the Company's constitution David Cushing and Murray Gough retire by rotation at the Annual Meeting. Both are offering themselves for re-election.

Outlook

The 2008 financial year has been one of strong growth in the value of the NZRPT farm properties and a significant increase in returns from the directly managed dairy farms. The gap has continued to grow between dairy and arable farm profitability compared with sheep and beef farms in New Zealand. There are already signs that sheep and beef product prices are improving which bodes well for improved profitability on those farms in the year ahead.

Fonterra has announced an opening forecast milk solids payout of $7.00 per kilogram of milk solids for the 2008-09 season. This is lower than the expected final payout for the 2007-08 season of $7.60 (net of retentions). Despite this the Directors expect another strong contribution from the directly managed NZRPT dairy farms which is expected to be assisted by improved sheep and beef returns.

Directors believe the outlook for the rural sector remains encouraging. Whilst world prices for dairy products have eased back from the peak prices seen during the last season, there is ongoing strong world demand for milk products. Beef and lamb meat schedule prices are now in the range 35% to 40% higher than last spring.

REL is in a strong position to continue to benefit from the buoyant dairy and arable sectors and improving sheep and beef returns through its investment in NZRPT.

Sir Selwyn Cushing
CHAIRMAN

Brian Burrough
CHIEF EXECUTIVE OFFICER

Income Statement

for the year ended 30 June 2008

	Notes	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Revenue					
Lease income		2,410	2,307	-	-
Farm income		6,559	4,015	-	-
Log income		2,340	1,435	-	-
Management fees		378	290	200	89
Inter-group administration fee		-	-	3,516	3,236
Distribution from New Zealand Rural Property Trust		-	-	237	355
Other income		34	52	15	-
Total		**11,721**	**8,099**	**3,968**	**3,680**
Less Expenses					
Farm operating expenses		3,420	2,935	-	-
Logging cost of sales		2,340	1,435	-	-
Interest costs		2,820	2,419	1,875	1,582
Other expenses		2,355	1,445	1,423	902
Total	3	**10,935**	**8,234**	**3,298**	**2,484**
Net profit (loss) before other income and expenses		**786**	**(135)**	**670**	**1,196**
Share of associate's profit (loss) after tax	15	(26)	225	-	-
Revaluations	2	46,977	4,516	-	-
Discount on units purchased in the New Zealand Rural Property Trust	14	2,659	-	-	-
Net profit before tax		**50,396**	**4,606**	**670**	**1,196**
Income tax (expense) credit	5	30	(97)	(230)	(395)
Net profit after tax		**50,426**	**4,509**	**440**	**801**
Less net profit attributable to minority interests		18,034	1,785	-	-
Net profit attributable to parent interests		**32,392**	**2,724**	**440**	**801**
Earnings per share - basic & diluted - cps	19	**130.4**	**12.2**		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2008

	Notes	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Equity at start of period		**151,887**	**148,140**	**28,803**	**28,002**
Net profit attributable to:					
Parent interest		32,392	2,724	440	801
Minority interest		18,034	1,785	-	-
Total net profit		**50,426**	**4,509**	**440**	**801**
Revaluation of land & buildings - net of tax		1,361	(238)	-	-
Total recognised income & expense		**51,787**	**4,271**	**440**	**801**
Proceeds of share issue		12,231	-	12,231	-
Distribution to minority interests		(216)	(323)	-	-
Changes in minority interests		(12,426)	(201)	-	-
Equity at end of period	9	**203,263**	**151,887**	**41,474**	**28,803**

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2008

	Notes	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current Assets					
Cash at bank		335	190	-	-
Accounts receivable		1,421	1,132	108	254
Derivative financial instruments		151	167	147	72
Feed on hand		270	314	-	-
Total		2,177	1,803	255	326
Non Current Assets					
Investment properties	10	196,094	145,075	-	-
Property, plant & equipment	11	20,240	18,131	41	56
Livestock	12	1,535	1,647	-	-
Forest	13	1,493	3,609	-	-
Management contract	17	696	862	-	-
Deferred tax asset		-	-	9	-
Receivable from subsidiary		-	-	6,242	5,074
Shares in Fonterra Co-operative Group Limited	16	8,347	10,072	-	-
Investment in associate	15	4,199	4,225	4,000	4,000
Other investments	16	207	201	50,923	40,336
Total		232,811	183,822	61,215	49,466
Total Assets		**234,988**	**185,625**	**61,470**	**49,792**
Current Liabilities					
Bank overdraft		9	143	9	143
Accounts payable & accrued expenses		1,450	1,486	378	472
Provision for tax	5	64	-	64	-
Total		1,523	1,629	451	615
Term Liabilities					
Bank term loans	18	29,545	31,150	19,545	20,350
Deferred tax liability	5	657	959	-	24
Total		30,202	32,109	19,545	20,374
Equity					
Equity attributable to:					
Parent company shareholders		121,386	75,402	41,474	28,803
Minority interests		81,877	76,485	-	-
Total Equity	9	203,263	151,887	41,474	28,803
Total Liabilities & Equity		**234,988**	**185,625**	**61,470**	**49,792**

On behalf of the Directors, who authorise the issue of these financial statements, dated 2 September 2008.

Sir Selwyn Cushing
CHAIRMAN

Roger Bonifant
DIRECTOR

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2008

	Notes	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		11,544	8,028	215	89
Other receipts		-	-	2,395	2,242
Dividends received		-	-	237	355
Other income		19	141	-	-
		11,563	8,169	2,847	2,686
Cash was applied to:					
Payments to suppliers & employees		6,828	6,518	1,232	843
Taxation paid		199	404	199	404
Interest paid		2,830	2,318	1,875	1,582
		9,857	9,240	3,306	2,829
Net cash flows from operating activities	4	**1,706**	**(1,071)**	**(459)**	**(143)**
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of assets		3	9	-	-
		3	9	-	-
Cash was applied to:					
Capital expenditure including farm improvements		1,007	1,907	-	5
Purchase of investment in associate	15	-	4,000	-	4,000
Purchase of units in NZRPT	14	10,588	-	10,588	-
		11,595	5,907	10,588	4,005
Net cash flows from investing activities		**(11,592)**	**(5,898)**	**(10,588)**	**(4,005)**
Cash flows from financing activities					
Cash was provided from:					
Share issue		12,231	-	12,231	-
Term loan advance		-	7,400	-	4,200
		12,231	7,400	12,231	4,200
Cash was applied to:					
Term loan reduction		1,850	-	1,050	-
Income distribution		216	323	-	-
		2,066	323	1,050	-
Net cash flows from financing activities		**10,165**	**7,077**	**11,181**	**4,200**
Net increase (decrease) in cash held		279	108	134	52
Cash at start of period		47	(61)	(143)	(195)
Cash at end of period		**326**	**47**	**(9)**	**(143)**
Comprised of:					
Cash at bank		335	190	-	-
Bank overdraft		(9)	(143)	(9)	(143)
		326	**47**	**(9)**	**(143)**

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 consists of:

(a) The parent, Rural Equities Limited.

(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.

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

MEASUREMENT BASE

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

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

STATEMENT OF COMPLIANCE

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

This is the first set of financial statements prepared based on NZ IFRS and comparatives for the year ended 30 June 2007 have been restated accordingly. Reconciliations of total equity at 1 July 2006 and 30 June 2007 under NZ IFRS to the previously reported equity is shown in note 22. Also a reconciliation of profit for the year ended 30 June 2007 under NZ IFRS to the previously reported results is shown in note 22.

Amendments to NZ IAS 27 Consolidated and Separate Financial Statements effective from 1 July 2009 will require any discount on purchase of units in the New Zealand Rural Property Trust to be credited directly to equity. Currently discount on purchase of these units is credited to the Income Statement.

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

The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

a) Basis of Consolidation

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

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

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

Notes to the Financial Statements

(b) Investment in Associates

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

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

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

(c) Investment Properties

Investment properties are recorded at fair value.

An independent valuation is obtained for each property at least once a year. All investment properties were revalued as at 30 June 2008.

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

Additions between each valuation are stated at cost.

(d) Land and 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 were revalued as at 30 June 2008.

Land and buildings are valued by external independent registered public valuers.

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

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

Additions between each valuation are stated at cost.

(e) Forest Assets

Harvesting is in progress on the mature part of the Ngaruawahia Forest. The balance of the forest has been harvested over the last six years and has been re-established. The forest is recorded at fair value, less estimated point of sale costs, based on annual valuations by external independent valuers.

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

(f) Plant and Machinery

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

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

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES - CONTINUED

(g) Investments

Investments, other than the parent company investment in subsidiaries, are principally shares in Fonterra Co-operative Group Limited. Investments are initially recorded at cost and subsequently revalued to fair value. Changes in fair value are recorded in the Income Statement.

Investments have been designated as "at fair value through the income statement" 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.

(h) Livestock

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

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Revenue Recognition

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

Revenue from the sale of goods, including livestock and logs, is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Milk sales income is recognised at the time of delivery of milk to Fonterra Co-operative Group Limited at their declared payment rate.

Notes to the Financial Statements

(o) Interest-bearing Loans and Borrowings

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

(p) Derivative Financial Instruments

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

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

(q) 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.

(r) Foreign Currency Translation

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

All exchange differences are taken to the Income Statement.

NOTE 2 REVALUATIONS

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Revaluation of investment properties	50,818	3,379	-	-
Revaluation of investments	(1,785)	346	-	-
Revaluation of forest assets	(2,056)	791	-	-
	46,977	4,516	-	-

NOTE 3 EXPENSES

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

Logging cost of sales includes harvesting and transporting costs.

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Specific cost disclosures are as follows:				
Depreciation - on plant	340	336	16	14
Depreciation - on buildings	22	24	-	-
Directors' fees	141	150	125	134
Operating lease costs	198	187	44	41
Audit fees	47	42	20	16
Fees paid to Ernst & Young for tax compliance	22	34	-	10
Key management remuneration - short term benefits	593	509	593	509
Other employee remuneration	271	228	-	-
Amortisation of management contract	166	20	-	-

Notes to the Financial Statements

NOTE 4	CASH FLOW RECONCILIATION	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
	Net profit after tax	50,426	4,509	440	801
	Add (deduct) non-cash items:				
	Depreciation	362	360	16	14
	Amortisation of intangible assets	166	20	-	-
	Forest depletion	245	315	-	-
	Equity accounted earnings of associate	26	(225)	-	-
	Fair value change in derivatives	167	(82)	77	(5)
	Unrealised exchange loss	245	-	245	-
	Discount on units purchased in the New Zealand Rural Property Trust	(2,659)	-	-	-
	Revaluation movements	(46,977)	(4,516)	-	-
		(48,425)	(4,128)	338	9
	Changes in assets & liabilities:				
	Change in accounts payable	(36)	1	(94)	240
	Change in derivatives	(152)	-	(152)	-
	Change in provision for taxation	64	11	64	(10)
	Change in deferred taxation	(293)	(316)	(33)	1
	Change in livestock & feed	156	(1,121)	-	-
	Change in receivable from subsidiary	-	-	(1,168)	(953)
	Change in accounts receivable	(289)	(400)	146	(231)
		(550)	(1,825)	(1,237)	(953)
	Add (deduct) non-operating items:				
	Non-operating items in creditors	255	376	-	-
	Realised gains on asset sales	-	(3)	-	-
		255	373	-	-
	Net cash flows from operating activities	1,706	(1,071)	(459)	(143)
NOTE 5	**TAXATION**				
	Income Statement				
	Net profit before tax	50,396	4,606	670	1,196
	Tax at the statutory rate of 33.0%	16,630	1,521	221	395
	Adjusted for tax effect of:				
	Non assessable gains on land revaluations	(16,413)	(1,107)	-	-
	Non assessable changes on investment revaluations	589	(114)	-	-
	Depreciation on land improvements	(143)	(196)	-	-
	Change in tax rate to 30% from 1 July 2008	-	(144)	-	-
	Other items	(693)	137	9	-
	Tax expense (credit)	(30)	97	230	395
	Represented by :				
	Current tax	263	412	263	393
	Deferred tax	(293)	(315)	(33)	2
		(30)	97	230	395
	Deferred tax credited directly to equity				
	Revaluation of buildings	9	-	-	-

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

Notes to the Financial Statements

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Balance Sheet				
Deferred tax assets & liabilities relate to the following:				
Buildings depreciation & revaluation	1,854	1,457	-	-
Forest operations & revaluation	339	937	-	-
Revaluation of derivative financial instruments	(2)	53	(3)	24
Plant depreciation	(56)	(48)	3	3
Livestock revaluation	(54)	(44)	-	-
Recognition of tax losses	(899)	(880)	-	-
Unused prepaid tax credits	(507)	(507)	-	-
Other items	(18)	(9)	(9)	(3)
Total	657	959	(9)	24
Disclosed as:				
Deferred tax liability	657	959	-	24
Deferred tax asset	-	-	(9)	-
	657	959	(9)	24
Changes to deferred tax recognised in the Income Statement				
Buildings depreciation & revaluation	406	(24)	-	-
Forest operations & revaluation	(598)	173	-	-
Revaluation of derivative financial instruments	(55)	25	(27)	2
Plant depreciation	(8)	(4)	-	-
Livestock revaluation	(10)	4	-	-
Recognition of tax losses	(19)	(487)	-	-
Other items	(9)	(2)	(6)	-
	(293)	(315)	(33)	2

NOTE 6 IMPUTATION CREDIT ACCOUNT

	PARENT 2008 $000	PARENT 2007 $000
Balance at beginning of period	1,744	1,340
Change of shareholding continuity adjustment	(180)	-
Income tax paid during the period	199	404
Balance at end of period	1,763	1,744

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

NOTE 7 SEGMENT REPORTING

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

Notes to the Financial Statements

NOTE 8 FINANCIAL INSTRUMENTS

Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. All interest rates are fixed for periods of 90 days or less. To manage this interest rate risk the Group enters into interest rate swaps. The Group does not apply hedge accounting. At balance date these swaps hedge approximately 89% (2007 42%) of the Group's borrowings.

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

As the Group takes out interest rate swaps to economically hedge the effects of changes in interest rates, there is no significant sensitivity to changes in interest rates.

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

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Less than one year	4,000	9,000	-	9,000
Between one and two years	5,276	4,000	5,276	-
Between three and five years	17,000	-	11,000	-
	26,276	13,000	16,276	9,000

Currency Risk

The Group is exposed to currency risk through a loan denominated in US dollars. The amount of the loan is US$4,000,000 (2007 nil). To mitigate the currency risk 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. As a result of the currency option held by the Group, there is no significant sensitivity to changes in foreign exchanges rates.

Commodity Price Risk

The Group is exposed to price risk on a number of agricultural commodities including logs, wool, meat and milk solids. The directors have identified changes to milk solid prices as having a material impact on profit. The effect on profit after tax and equity of a change in the price of milk solids of $1.00 per kilogram would be $505,000 (2007 $502,000).

Credit Risk

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

Included in accounts receivable is $685,000 (2007 $686,000) receivable from Fonterra Cooperative Group Limited. There are no other significant concentrations of credit risk.

Maximum credit exposures are:	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Cash at bank	335	190	-	-
Derivative financial instruments	151	167	147	72
Accounts receivable	1,421	1,132	108	254
Accounts receivable - Aging				
30 to 90 days	1,433	1,131	108	254
Over 90 Days	13	26	-	-
Allowance for doubtful debts	(25)	(25)		
Total	1,421	1,132	108	254

Notes to the Financial Statements

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

	2008	2008	2007	2007
	Less than 3 months	1 to 3 years	Less than 3 months	1 to 3 years
	$000	$000	$000	$000
Accounts payable	1,450	-	1,486	-
Interest bearing loans	-	29,554	-	31,293
	1,450	29,554	1,486	31,293

	GROUP	GROUP	PARENT	PARENT
	2008	2007	2008	2007
	$000	$000	$000	$000
Financial Instrument Classification				
The carrying amounts of financial instruments by category are:				
Loans & receivables:				
Accounts receivable	1,421	1,132	6,350	5,328
Cash at bank	335	190	-	-
Financial assets at fair value through profit and loss:				
Designated - shares	8,554	10,273	-	-
Held for trading - derivatives	151	167	147	72
Financial liabilities measured at amortised cost:				
Bank term loans	29,554	31,293	19,554	20,493
Accounts payable & accruals	1,450	1,486	378	472

Capital Maintenance

The Group's capital is primarily invested in farms and a forest which are held for long term capital appreciation. No dividends have been paid to shareholders in recent years. During the year bank debt had increased as a result of the purchase of the additional interest in New Zealand Rural Property Trust.

Notes to the Financial Statements

NOTE 9	**EQUITY**	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
	Share capital	49,213	36,982	49,213	36,982
	Revaluation reserve	4,173	2,812	-	-
	Retained earnings (accumulated deficit)	68,000	35,608	(7,739)	(8,179)
		121,386	75,402	41,474	28,803
	Minority interests	81,877	76,485	-	-
	Total	203,263	151,887	41,474	28,803

Share capital

There are 26,685,612 shares on issue (2007 22,237,923).

	GROUP & COMPANY NUMBER OF SHARES		GROUP & COMPANY VALUE	
	2008 000	2007 000	2008 $000	2007 $000
Opening balance	22,238	22,238	36,982	36,982
Shares issued for cash	4,448	-	12,231	-
Closing balance	26,686	22,238	49,213	36,982

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 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Revaluation reserve				
Opening balance	2,812	3,050	-	-
Revaluation of land & buildings	1,361	(238)	-	-
Closing balance	4,173	2,812	-	-
Retained Earnings				
Opening balance	35,608	32,884	(8,179)	(8,980)
Net profit (loss) after tax	32,392	2,724	440	801
Closing balance	68,000	35,608	(7,739)	(8,179)

NOTE 10	**INVESTMENT PROPERTIES**	GROUP 2008 $000	GROUP 2007 $000
	Opening balance	145,075	140,850
	Additions	201	846
	Revaluations	50,818	3,379
	Closing balance	196,094	145,075

All investment properties were valued as at 30 June 2008 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.

Notes to the Financial Statements

NOTE 11 PROPERTY, PLANT & EQUIPMENT	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Land & Buildings				
Opening balance	16,757	17,115	-	-
Additions	218	105	-	-
Depreciation	(22)	(24)	-	-
Revaluations	2,173	(439)	-	-
Closing balance	19,126	16,757	-	-
Plant & Equipment				
Opening balance	1,374	1,409	56	65
Additions	80	301	1	5
Depreciation	(340)	(336)	(16)	(14)
Closing balance	1,114	1,374	41	56
Cost	2,995	2,915	76	75
Accumulated depreciation	(1,881)	(1,541)	(35)	(19)
Net carrying amount	1,114	1,374	41	56
Total property, plant & equipment	20,240	18,131	41	56

Land and buildings were valued as at 30 June 2008 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.

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

	GROUP 2008 $000	GROUP 2007 $000
Land	4,445	4,381
Buildings	1,180	1,025
Less depreciation	(343)	(321)
Net carrying amount	5,282	5,085

Notes to the Financial Statements

NOTE 12 LIVESTOCK

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

	GROUP 2008 No. of Head	GROUP 2007 No. of Head
Livestock on hand		
Sheep	13,126	12,990
Cattle	1,494	1,474

	2008 $000	2007 $000
Sheep value		
Opening balance	665	198
Increases due to purchases	13	621
Decreases due to sales	(289)	(345)
Revaluation gains net of births & deaths	285	191
Closing balance	674	665
Cattle value		
Opening balance	982	342
Increases due to purchases	78	794
Decreases due to sales	(394)	(300)
Revaluation gains net of births & deaths	195	146
Closing balance	861	982
Total livestock	1,535	1,647

Livestock was valued as at 30 June 2008 by independent registered valuers. The valuation is on the basis of current fair value. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality and condition in the regions the Group's livestock is located.

NOTE 13 FOREST ASSET

The Group owns a 848 hectare forest of pinus radiata trees. As at 30 June 2008 199 hectares (2007 264 hectares) of the first crop rotation was still to harvested. During 2008 65 hectares (2007 42 hectares) were harvested.

	GROUP 2008 $000	GROUP 2007 $000
Opening balance	3,609	2,876
Forest redevelopment	185	257
Forest harvest depletion	(245)	(315)
Revaluation	(2,056)	791
Closing balance	1,493	3,609

The forest was valued as at 30 June 2008 by independent registered valuers. The valuation is on the basis of current fair value. For mature trees fair value is determined by assessing the present value of the projected net cash flow from the harvest of the forest. An assessment of the appropriate market discount rates is made by the valuer. Trees under six years old are valued at replacement cost.

Notes to the Financial Statements

	GROUP 2008	GROUP 2007
Valuation details are as follows:		
Valuer	Chandler Fraser Keating Ltd	Chandler Fraser Keating Ltd
Discount rate		
Mature trees	16.0% (pre tax)	15.8% (pre tax)
Immature trees	10.0% (pre tax)	10.0% (pre tax)

NOTE 14 INVESTMENT IN THE NEW ZEALAND RURAL PROPERTY TRUST

REL and its subsidiary, New Zealand Rural Property Trust Management Limited ("NZRPTML"), hold 29,496,657 units in its subsidiary, New Zealand Rural Property Trust ("the Trust"). This represents 62.4% (2007 54.2%) of the units on issue.

The acquisition of units in the Trust during the year were as follows:

a) In September 2007 NZRPTML subscribed for 260,953 units, in accordance with the Trust Deed to manage the Trust.

b) During the eight month period to February 2008, REL purchased a further 3,754,666 units in the Trust on the market and via an offer made to all Unitholders. The total cost of these purchases was $10,588,000, giving rise to a discount on acquisition of $2,659,000. The discount has been recorded in the Income Statement.

The NZRPTML earns management fees from the New Zealand Rural Property Trust. For the year ended 30 June 2008 these amounted to $2,934,000 (2007 $2,707,000).

NOTE 15 INVESTMENT IN REL - PACIFIC EQUITY TRUST

The Company owns 23.5% (2007 21.1%) of the units in REL - Pacific Equity Trust. The Company has significant influence, therefore REL - Pacific Equity Trust is treated as an associate using the equity method of accounting. REL - Pacific Equity Trust is an unlisted investment trust formed to take advantage of investment opportunities in New Zealand and Australia.

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

	GROUP 2008 $000	GROUP 2007 $000
Opening balance	4,225	-
Cost of acquisition	-	4,000
Share of profit (loss) after tax	(26)	225
Closing balance	4,199	4,225

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

	GROUP 2008 $000	GROUP 2007 $000
Current assets	35	7,254
Investments	18,713	12,932
Current liabilities	(904)	(118)
Net assets	17,844	20,068
Revenue	667	982
Net profit after tax	(61)	1,068

Notes to the Financial Statements

NOTE 15 INVESTMENT IN REL - PACIFIC EQUITY TRUST - CONTINUED

	GROUP 2008	GROUP 2007
Value per unit - $ per unit	$1.05	$1.06

During the year 2,000,000 units were redeemed (2007 Nil).

Rural Equities Limited earns management fees from REL - Pacific Equity Trust. For the year ended 30 June 2008 these amounted to $178,000 (2007 $201,000).

NOTE 16 INVESTMENTS

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $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 New Zealand Rural Property Trust - refer note 14.	-	-	48,391	37,804
	-	-	50,923	40,336
Associate Entity				
Units in REL - Pacific Equity Trust - refer note 15	4,199	4,225	4,000	4,000
Other Investments				
Shares in Fonterra Co-operative Group Limited	8,347	10,072	-	-
Other shares at valuation	207	201	-	-
	12,753	14,498	54,923	44,336

NOTE 17 MANAGEMENT CONTRACT

	GROUP 2008 $000	GROUP 2007 $000
Management Contract to manage the New Zealand Rural Property Trust		
Cost	2,354	2,354
Amortisation		
Opening balance	(1,492)	(1,472)
Current year	(166)	(20)
Closing balance	(1,658)	(1,492)
Net carrying value	696	862

NOTE 18 BANK FACILITIES

The Company has a loan facility with Westpac Banking Corporation of $24.5M (2007 $21.50M). As at 30 June 2008 the facility was drawn to $19.5M (2007 $20.4M) at an average interest rate of 5.68% (2007 7.89%). The Company has provided the bank with a first ranking all obligations debenture over all the Company's assets. The facility runs to 30 September 2010 with interest rates reset every 90 days or less.

See note 8 for interest rate risk management.

NOTE 19 EARNINGS PER SHARE

	GROUP 2008	GROUP 2007
Numerator - $000		
Earnings attributable to parent company interests	32,392	2,724
Denominator - 000 shares		
Weighted average number of shares on issue	24,832	22,237
Earnings per share - cps	130.4	12.2

Notes to the Financial Statements

NOTE 20 RELATED PARTY DISCLOSURES

The Company has entered into a Deed of Lease with directors, 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 $22,400 reviewable on 28 February 2010 and every two years thereafter. The amount of rental paid by the Company to Ecco Building Partnership during the financial year was $20,887 (2007 $20,130). There was no amount owing as at 30 June 2008 (30 June 2007 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 $12,000 (2007 Nil). This amount was owing at balance date and has since been paid in full.

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

NOTE 21 COMMITMENTS & CONTINGENT LIABILITIES

Operating Lease Commitments

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

Lease commitments under these non-cancellable leases are:

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Not later than one year	157	193	50	28
Later than one year and not later than two years	99	130	50	20
Later than two years and not later than five years	67	124	27	34
Total future minimum lease payments	323	447	127	82

Property, Plant & Equipment Commitments

The Group had commitments for farm buildings and equipment contracted but not provided for, amounting to $242,000 as at 30 June 2008 (2007 $138,000).

Contingent Liabilities

There are no contingent liabilities as at 30 June 2008 (2007 Nil).

NOTE 22 IMPACT OF ADOPTION OF NZ IFRS

	Notes	GROUP 1-Jul-06 $000	GROUP 30-Jun-07 $000	PARENT 1-Jul-06 $000	PARENT 30-Jun-07 $000
Reconciliation of Equity as presented under previous NZ GAAP to that under NZ IFRS					
Total Equity under Previous NZ GAAP		145,195	148,805	27,957	28,755
Disposal provision derecognition	A	4,344	4,450	-	-
Fair value of interest rate swaps	B	85	167	67	72
Deferred tax	C	(1,462)	(1,466)	(22)	(24)
Fair value of livestock	D	(22)	(69)	-	-
Total Equity under NZ IFRS		148,140	151,887	28,002	28,803

Notes to the Financial Statements

NOTE 22 IMPACT OF ADOPTION OF NZ IFRS - CONTINUED

	Notes	YEAR ENDED 30 JUNE 2007 GROUP $000	PARENT $000
Reconciliation of Net Profit After Tax under NZ GAAP to that under NZ IFRS			
Prior periods Net Profit under previous NZ GAAP		3,933	798
Disposal provision derecognition	A	106	-
Fair value of interest rate swaps	B	82	5
Deferred tax	C	(4)	(2)
Fair value of livestock	D	(47)	-
Revaluation of land & buildings	E	439	-
Prior periods Net Profit under NZ IFRS		4,509	801
Reconciliation of Cash Flow From Operations under NZ GAAP to that under NZ IFRS			
Prior periods cash flow from operations under previous NZ GAAP		(1,395)	(143)
Log sales reclassified from investing cash flows to operational cash flows		324	-
Prior periods cash flow from operations under NZ IFRS		(1,071)	(143)

Notes

A Investment properties and fixed assets are recorded at fair value under NZ IAS 40 Investment Property & NZ IAS 16 Property, Plant & Equipment respectively, but were recognised at Net Current Value (market value less disposal costs) under previous NZ GAAP. This has resulted in the derecognition of the disposal provision and an increase in equity and an increase in profit for the year ended 30 June 2007.

B Interest rate swaps under NZ IAS 39 Financial Instruments: Recognition & Measurement are recognised at fair value. Under previous NZ GAAP such revaluations were not recognised. This has resulted in an increase in equity and profit after tax.

C Under NZ IAS 12 Income Taxes, income tax is accounted for on a comprehensive basis resulting in the recognition of a deferred tax liability on building depreciation. Under previous NZ GAAP deferred tax was accounted for on a partial basis. This has resulted in a decrease in equity and change in the reported tax expense.

D Under NZ IAS 41 Agriculture, livestock is recorded at fair value less any point of sale costs. Livestock were previously recorded at market value under NZ GAAP. This has resulted in recognition of point of sale costs and a decrease in equity.

E Under NZ IAS 16 Plant, Property & Equipment, owner occupied property is excluded from the definition of investment property. Several of the properties are classified as owner occupied. Revaluations of land and buildings not classified as investment properties are to be recognised in the Statement of Changes in Equity and not in the Income Statement.

NOTE 23 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 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) Sharemilking Arrangements - The Group has sharemilking agreements in place on six of its properties. The essential nature of these agreements is that of a tenancy and so these properties are treated as investment properties. Therefore all changes in value are recorded in the Income Statement.

iii) Leases - The Group has entered into leases with farmers for its investment properties. The Group retains all significant risks and rewards of ownership of the properties and has therefore classified the leases as operating leases.

AUDITOR'S REPORT

To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 4 to 22. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 8 to 11.

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' 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 2008 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.

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

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 22:
    - 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 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 2 September 2008 and our unqualified opinion is expressed as at that date.

Ernst & Young

Auckland

ADDITIONAL DISCLOSURES

Directors and Remuneration

The Directors of Rural Equities Limited ("REL") as at 30 June 2008 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Roger Bonifant, Sir Ronald Carter, David Cushing, and Brian Martin. Gerald Weenink retired as a director of REL on 20 November 2007.

The Directors of New Zealand Rural Property Trust Management Limited ("NZRPTML") as at 30 June 2008 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Roger Bonifant, David Cushing, John Green and Brian Martin. Gerald Weenink retired as a director of NZRPTML on 20 November 2007.

The Directors of REL – Trust Management Limited as at 30 June 2008 were Sir Selwyn Cushing (Chairman), Sir Ronald Carter, David Cushing (Executive Director), Murray Gough and James Wright (Alternate for Sir Selwyn Cushing).

The table below details the remuneration received by the Directors during the year ended 30 June 2008.

Name	REL $	NZRPTML $
Roger Bonifant	20,000	-
David Cushing	16,000	-
Sir Ronald Carter	16,000	-
Sir Selwyn Cushing	30,000	-
Murray Gough	20,000	-
John Green	-	16,000
Brian Martin	16,000	-
Gerald Weenink	6,667	-

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

Donations

REL did not make any donations during the financial year ended 30 June 2008.

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 2008 (including Brian Burrough through the secondment agreement) employees received remuneration as follows:

$170,000 - $180,000	1
$210,000 - $220,000	1
$220,000 - $230,000	1

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 2008:

Sir Selwyn Cushing is a director of PGG Wrightson Limited. John Green is a director of Perpetual Capital Management Limited.

Directors' relevant interest in the REL shares as at 30 June 2008

	Opening balance as at 1 July 2007	H&G Limited partial offer 1	Rights Issue 2	Acquisition and (sale) of shares		Balance as at 30 June 2008		
						Beneficial	Associated persons	
Roger Bonifant	50,000	(50,000)		20,000	3		20,000	
Sir Ronald Carter	345,658	(345,658)		220,000	3		220,000	
David Cushing	10,573,265	2,223,791	2,559,414	1,371,184	4	907,467	15,820,187	5
Sir Selwyn Cushing	10,536,341	2,206,859	2,548,642	1,371,184	4	452,650	16,210,376	5
Brian Martin	10,306,967	1,931,291	2,447,654	1,371,184	4	375,444	15,681,652	5
Murray Gough	180,406		36,082				216,488	
John Green	25,000		5,000				30,000	

1 *Shares acquired / (sold) on 3 July 2007 as a result of the partial takeover offer made by H&G Limited under the Takeovers Code at $2.75 per share.*

2 *Shares issued on 24 December 2007 following participation in REL's one for five rights issue of ordinary shares at $2.75 per share in accordance with the Investment Statement and Short Form Prospectus dated 20 November 2007.*

3 *Shares acquired on 21 January 2008 through the placement of the shares not taken up under REL's one for five rights issue at $2.75 per share.*

4 *Shares acquired on 4 April 2008 by the REL-Pacific Equity Trust at $2.85 per share.*

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

Directors' Indemnity and Insurance

On 31 May 2007 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2007 to 31 May 2008. On 31 May 2008 REL renewed this policy for a further year until 31 May 2009.

SHAREHOLDER INFORMATION

as at 5 September 2008

Top Twenty Shareholders

Holder	Number of Shares Held	%
H&G Limited	13,563,682	50.83
RotoruaTrust Perpetual Capital Fund Limited	3,500,000	13.12
Tepler Nominees Limited	1,371,184	5.13
RGH Holdings Limited	800,039	3.00
David Cushing	644,307	2.41
New Zealand Central Securities Depository Limited	531,552	1.99
Brian Martin	375,444	1.41
Sir Selwyn Cushing	366,977	1.38
Seajay Securities Limited	313,625	1.18
Selba Holdings Limited – A/C 50	263,160	0.99
Riddell Funds Management Limited	220,000	0.82
Makowai Farm Limited	208,966	0.78
B&S Custodians Limited	182,000	0.68
Ashfield Properties Limited	178,560	0.67
David Cushing & Sir Selwyn Cushing (G Cushing Settlement Account)	166,752	0.62
MGS Fund Limited	124,234	0.47
Rodney Goodrick	120,000	0.45
Ben Cushing	101,823	0.38
Mary-Ellen Gough	92,254	0.34
FE Mayell & DA Young	90,000	0.34

Analysis of Shareholding by Size

	Number of Shareholders	%	Number of Shares Held	%
1,000 - 4,999	344	66.54	753,428	2.82
5,000 – 9,999	71	13.73	488,267	1.83
10,000 – 49,999	68	13.15	1,282,215	4.81
50,000 – 99,999	16	3.10	1,129,397	4.23
100,000 and over	18	3.48	23,032,305	86.31
Total	**517**		**26,685,612**	

Analysis of Shareholding by Location

	Number of Shareholders	%	Number of Shares Held	%
Upper North Island	142	27.47	5,210,590	19.53
Gisborne	48	9.28	261,642	0.98
Hawke's Bay	172	33.27	17,659,999	66.18
Manawatu/Wanganui/Wairarapa	40	7.74	189,284	0.71
Wellington	59	11.41	1,359,894	5.10
South Island	53	10.25	1,994,671	7.47
Overseas	3	0.58	9,532	0.03
Total	**517**		**26,685,612**	

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 has two wholly owned subsidiaries each with their own boards:

- New Zealand Rural Property Trust Management Limited ("NZRPTML") is responsible for overseeing the management of the New Zealand Rural Property Trust ("NZRPT").
- REL - Trust Management Limited ("REL-TML") is responsible for overseeing the management of the REL – Pacific Equity Trust ("REL-PET").

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

Board Membership

The composition of the three Boards is set out on page 24 of this report. Each Board meets 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.

Board Committees

Each Board has a constituted Audit Committee.

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 the external audit, liaison with REL's auditor and making recommendations to the Board as to their appointment and their remuneration. The responsibilities of this committee encompass REL, NZRPTML and REL-TML but not NZRPT or REL-PET.

The NZRPTML Audit Committee has the same responsibilities in respect of the NZRPT.

The REL-TML Audit Committee has the same responsibilities in respect of the REL-PET.

The three Audit Committees are chaired by Roger Bonifant and the other members are David Cushing, Murray Gough and Brian Martin (retired 2 September 2008).

DIRECTORY

Directors

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Roger Bonifant

Sir Ronald Carter

David Cushing

Rodger Finlay
(*Appointed 1 July 2008*)

Brian Martin
(*Retired 2 September 2008*)

Gerald Weenink
(*Retired 20 November 2007*)

Executive

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Chief Operating Officer

Registered Office

Rural Equities Limited
First Floor, 120 Karamu Road North
PO Box 783, Hastings 4156
Telephone 0800 100 042
Facsimile 06 870 4673
Email enquiries@ruralequities.co.nz
Website www.ruralequities.co.nz

Share Registry

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119
Auckland 1020
Telephone 0800 228 811
Facsimile 09 488 8787

rural
equities
LIMITED