



ANNUAL REPORT 2004

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held at Oceanside Motor Lodge, 1 Maunganui Road, Mt Maunganui on Tuesday 30 November 2004 commencing at 11.30 am.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the eleven months ending 30 June 2004 with the reports of the Directors and Auditor.
2. To elect Directors. In accordance with Clause 13.8 of the Company's constitution Brian Martin and Gerald Weenink retire by rotation and offer themselves for re-election.
3. To record the re-appointment of Ernst & Young as Auditor of the Company and to authorise the Directors to fix their remuneration for the ensuing year.

SPECIAL BUSINESS

4. To consider, and, if thought fit, pass the following resolution as a special resolution:

"The constitution of the Company is altered by deleting the existing definition of "Minimum Holding" in clause 1.1 and replacing it with "'Minimum Holding" means a parcel of 1,000 Securities in the Company;".

Explanatory note:

The effect of this resolution is to amend the definition of "Minimum Holding" in clause 1.1 of the Company's constitution from the minimum parcel or number of Securities as determined pursuant to the NZSX Listing Rules, to a parcel of 1,000 Securities in the Company. As the Company is not listed on the NZSX it is believed that it is not appropriate to refer to the NZSX Listing Rules for the definition of this term.

Based on the share price of the Company at the date of this notice, the change to this definition will have the effect of increasing the Minimum Holding from 200 shares in the Company to 1,000.

The Directors have the right to give a notice to a shareholder holding less than a Minimum Holding that if, at the expiration of one month after the date the notice is given to that shareholder, the shareholder still holds less than the Minimum Holding, the Company may exercise a power of sale of the securities held by that shareholder.

GENERAL BUSINESS

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

NOTES

1. All shareholders are entitled to attend and vote at the Annual Meeting.
2. Any shareholder entitled to attend and vote at the Annual Meeting may appoint another person or persons as his or her proxy or representative in the case of corporate shareholders, to attend and vote on their behalf. A proxy or representative need not be a shareholder of the Company.
3. A form of proxy is enclosed with this notice. Any proxy form must be deposited at the registered office of the Company (Willet House, Shakespeare Road, PO Box 344, Napier, New Zealand) or posted to the Company's Share Registrar, Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, Auckland (Private Bag 92119, Auckland 1020) to be received not less than 48 hours before the time of the Annual Meeting.

James Wright
Company Secretary



REPORT TO SHAREHOLDERS

By the Chairman & Chief Executive Officer

Introduction

It is with pleasure that the Directors present the first annual report to shareholders for Rural Equities Limited (REL). Formerly the company was named New Zealand Rural Properties Limited, and was a subsidiary of Williams & Kettle Limited (W&K).

The financial statements for this accounting period represent an eleven month period as the balance date has been changed to 30 June, to be the same balance date as the New Zealand Rural Property Trust (the Trust).

In accordance with accepted accounting standards REL's 31.9% investment in the Trust has been included in the financial statements on an equity accounting basis.

Financial Overview

The after tax surplus for the year was \$16.7 million. This result is significantly affected by one-off transactions arising from the separation of REL from W&K. The surplus from the Trust comprises both a share of the Trust's current year surplus amounting to \$5.514 million and the discount on acquisition of the units in the Trust from W&K of \$10.636 million. The discount arises due to the difference between the assessed fair value of the units when acquired and the value required to be shown for accounting purposes. In addition to this \$16.150 million contribution REL made an operating surplus of \$998,000.

The result for the year is pleasing, particularly the surplus achieved by the Trust which results primarily from the increase in value of the properties it owns.

Company Business Activities & Structure

For clarity, the business activities and structure of REL are outlined. REL is a company which invests in rural property in New Zealand for long term capital growth.

REL's wholly owned subsidiary New Zealand Rural Property Trust Management Limited (NZRPTML) is the manager of the New Zealand Rural Property Trust (the Trust).

Both REL and NZRPTML hold units in the in Trust. As at 30 June 2004 the aggregate holding of both REL and NZRPTML in Trust units was approximately 32% of the Trust units on issue. Since 30 June 2004 that aggregate holding had increased to approximately 41%, primarily through a cash offer to Trust Unitholders at \$1.60 per unit.

The Trust owns a diverse portfolio of 30 high quality rural properties spread throughout New Zealand as well as a pine forest near Ngaruawahia. Twenty-three of the farm properties are leased and seven are directly farmed with six of these being dairy farms. On the dairy farms approximately 3,750 cows are milked in conjunction with 50/50

sharemilkers. Milk production for the 2003/04 season was 1.35 million kilograms milk solids. The pine forest is mature and is being harvested on a restricted basis owing to the current low price of logs.

The Trust is an unlisted unit trust and net assets exceeded \$120 million at 30 June 2004. An after tax surplus of \$17.9 million was achieved for the full 2004 financial year with the increase in value of the properties owned being the major contributor to this result.

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

Dividend Policy

The Directors have decided that no dividend will be paid this year. Investment in rural property provides long term capital growth and has proven to be a sound investment over time. In contrast, the revenue returns obtained from rural property are typically low. Taking this into account as well as the level of debt currently carried by REL, Directors do not expect that dividends will be paid in the foreseeable future.

Outlook

Having completed the separation of REL from W&K during the last year, Directors expect the year ahead to reflect normal business activities and results. Rural property values are expected to remain stable. Farm product prices for sheep meat, wool and beef are expected to be firm in the year ahead. Milk from the dairy farms is supplied to Fonterra, which has indicated that the milk solids payout is expected to reduce by approximately \$0.20 per kilogram next season. In summary the Directors expect the rural economy during the coming year to be relatively stable.



Sir Selwyn Cushing
Chairman



Brian Burrough
Chief Executive Officer

Statement of Financial Performance

for the 11 months ended 30 June 2004

	Note	GROUP		PARENT	
		2004 \$000 11 months	2003 \$000 12 months	2004 \$000 11 months	2003 \$000 12 months
Total operating revenue	3	<u>2,055</u>	<u>2,043</u>	<u>2,031</u>	<u>1,988</u>
Operating surplus before Associate's Surplus	3	998	1,756	1,062	1,788
Share of Associate's Surplus	5	16,150	-	-	-
Operating surplus (deficit) before taxation		<u>17,148</u>	<u>1,756</u>	<u>1,062</u>	<u>1,788</u>
Taxation expense	4	427	565	482	565
Surplus (deficit) after taxation		<u>16,721</u>	<u>1,191</u>	<u>580</u>	<u>1,223</u>

Statement of Movements in Equity

for the 11 months ended 30 June 2004

	Note	GROUP		PARENT	
		2004 \$000 11 months	2003 \$000 12 months	2004 \$000 11 months	2003 \$000 12 months
Equity at start of period		6,017	4,826	5,959	4,736
Surplus after taxation		16,721	1,191	580	1,223
Total recognised revenue and expenses		<u>16,721</u>	<u>1,191</u>	<u>580</u>	<u>1,223</u>
Share issue	7	15,384	-	15,384	-
Distributions	6	(2,948)	-	(2,948)	-
Equity at end of period		<u>35,174</u>	<u>6,017</u>	<u>18,975</u>	<u>5,959</u>

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

Statement of Financial Position

as at 30 June 2004

	Note	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Assets					
Current assets					
Cash on hand and at bank		-	1,292	-	1,292
Accounts receivable and accrued income		1,298	755	257	12
Receivable from subsidiary		-	-	2,374	1,471
Total current assets		1,298	2,047	2,631	2,775
Non current assets					
Property, plant and equipment	12	2	155	2	155
Management contract	11	1,976	2,005	-	-
Investments	13	38,542	1,903	22,986	3,122
Total non current assets		40,520	4,063	22,988	3,277
Total assets		41,818	6,110	25,619	6,052
Liabilities					
Current liabilities					
Bank overdraft	10	302	-	302	-
Accounts payable and accrued expenses		190	85	190	85
Provision for taxation	4	152	8	152	8
Total current liabilities		644	93	644	93
Non current liabilities					
Bank term facility	9	6,000	-	6,000	-
Total non current liabilities		6,000	-	6,000	-
Total liabilities		6,644	93	6,644	93
Shareholders' funds					
Share capital	7	29,569	14,185	29,569	14,185
Retained earnings	8	5,605	(8,168)	(10,594)	(8,226)
Total shareholders' funds		35,174	6,017	18,975	5,959
Total liabilities and shareholders' funds		41,818	6,110	25,619	6,052

On behalf of the Directors, who approved the issue of the annual report, dated 30 August 2004.



Sir Selwyn Cushing
Chairman



Roger Bonifant
Director

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

Statement of Cash Flows

for the 11 months ended 30 June 2004

	Note	GROUP		PARENT	
		2004	2003	2004	2003
		\$000	\$000	\$000	\$000
		11 months	12 months	11 months	12 months
Cash flows from operating activities					
Cash was provided from					
Receipts from customers		1,707	1,847	-	-
Receipts from subsidiary		-	-	1,109	1,324
Dividends received		31	28	-	-
Other income		20	63	20	63
		<u>1,758</u>	<u>1,938</u>	<u>1,129</u>	<u>1,387</u>
Cash was applied to					
Payments to suppliers and employees		1,033	282	974	226
Taxation paid		338	566	338	566
Interest paid		134	1	134	1
		<u>1,505</u>	<u>849</u>	<u>1,446</u>	<u>793</u>
Net cash flows from operating activities	16	253	1,089	(317)	594
Cash flows from investing activities					
Cash was provided from					
Sale of property, plant & equipment		151	-	151	-
Sale of investment		590	-	590	-
		<u>741</u>	<u>-</u>	<u>741</u>	<u>-</u>
Cash was applied to					
Purchase of investments		-	1,030	-	535
Purchase of associate	5	6,570	-	6,000	-
		<u>6,570</u>	<u>1,030</u>	<u>6,000</u>	<u>535</u>
Net cash flows from investing activities		(5,829)	(1,030)	(5,259)	(535)
Cash flows from financing activities					
Cash was provided from					
Share issue		2	-	2	-
Term loan advance		6,000	-	6,000	-
		<u>6,002</u>	<u>-</u>	<u>6,002</u>	<u>-</u>
Cash was applied to					
Payment of dividend		2,020	-	2,020	-
		<u>2,020</u>	<u>-</u>	<u>2,020</u>	<u>-</u>
Net cash flows from financing activities		3,982	-	3,982	-
Net increase (decrease) in cash held		(1,594)	59	(1,594)	59
Cash at start of period		1,292	1,233	1,292	1,233
Cash at end of period		<u>(302)</u>	<u>1,292</u>	<u>(302)</u>	<u>1,292</u>
Comprised of					
Cash at bank		-	1,292	-	1,292
Bank overdraft		(302)	-	(302)	-
		<u>(302)</u>	<u>1,292</u>	<u>(302)</u>	<u>1,292</u>

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

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Rural Equities Limited is a Company registered under the Companies Act 1993. This Company was formerly known as New Zealand Rural Properties Limited and changed its name to Rural Equities Limited during the financial year.

The Group consists of Rural Equities Limited, its subsidiary and associate.

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

MEASUREMENT BASE

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

SPECIFIC ACCOUNTING POLICIES

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

(a) Basis of Consolidation - Purchase Method

The financial statements include the parent company and its subsidiaries, accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation.

(b) Associated Entities

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

(c) Fixed Assets

All fixed assets are initially recorded at cost.

(d) Depreciation

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

Office equipment at 20% of cost price

Plant and equipment at 10% of cost price

(e) Receivables

Receivables are stated at their estimated realisable value.



Notes to the Financial Statements

NOTE 1 (continued)

(f) Taxation

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

Tax effect accounting is applied on a comprehensive basis to all those timing differences that can be accurately determined. A debit balance in the provision for deferred taxation account, arising from timing differences or taxation benefits from tax losses, is only recognised if there is virtual certainty of realisation.

(g) 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 cost of the contract is being amortised over the life of the contract.

(h) Financial Instruments

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

CHANGE OF BALANCE DATE

The Company has changed its balance date from 31 July to 30 June, to bring it in line with the balance date of its major investment, the New Zealand Rural Property Trust. Comparative figures for the preceding period are for the twelve months ended 31 July 2003.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.



Notes to the Financial Statements

	GROUP		PARENT	
	2004 \$000 11 months	2003 \$000 12 months	2004 \$000 11 months	2003 \$000 12 months
NOTE 2 CONTINUING AND DISCONTINUED ACTIVITIES				
No activities were discontinued during the current financial period or during the previous financial year.				
NOTE 3 OPERATING REVENUE includes:				
Management fees	2,004	1,951	-	-
Inter Group administration fee	-	-	1,976	1,896
Dividends received from associate	31	28	-	-
Dividends received from subsidiary company	-	-	35	-
EXPENSES include:				
Interest paid - term loans	134	1	134	1
Depreciation - on plant	2	3	2	3
Loss on sale of property, plant & equipment	1	-	1	-
Directors' fees	59	56	-	-
Audit fees	12	-	12	-
Fees paid to auditor for other services	2	3	2	3
Amortisation of management contract	29	31	-	-
Administration and management fees	191	-	191	-
Group restructuring costs	467	-	467	-
NOTE 4 TAXATION CHARGED AGAINST SURPLUSES				
Operating surplus before taxation	<u>17,148</u>	<u>1,756</u>	<u>1,062</u>	<u>1,788</u>
Prima facie taxation	5,659	579	350	590
Plus (less) taxation effect of timing differences - not recognised	(5)	(6)	(5)	(6)
Plus (less) taxation effect of other permanent differences	<u>(5,227)</u>	<u>(8)</u>	<u>137</u>	<u>(19)</u>
Current tax expense	<u>427</u>	<u>565</u>	<u>482</u>	<u>565</u>
There are no recognised or unrecognised deferred tax items (2003 \$5,000 deferred tax asset). There are no income tax losses carried forward.				
IMPUTATION CREDIT ACCOUNT				
Opening Balance			1,301	707
Imputation credits attaching to dividends paid in the period			(1,452)	-
Write off balance due to change in shareholding			(1)	-
Imputation credits attaching to dividends received in the period			-	27
Income tax paid during the period			<u>332</u>	<u>567</u>
Closing Balance			<u>180</u>	<u>1,301</u>
At balance date the imputation credits available to the shareholders of the Company were:				
Through direct shareholding in the Company			<u>180</u>	<u>1,301</u>

Notes to the Financial Statements

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
NOTE 5 INVESTMENT IN ASSOCIATE				
On 27 February 2004 the Company purchased 13,727,716 units in the New Zealand Rural Property Trust by issuing 32,628,210 shares and paying \$6,000,000 in cash. As a result New Zealand Rural Property Trust is now an associate entity and as such is equity accounted in accordance with FRS 38. A discount on acquisition arose due to the difference between the assessed fair value of the Trust units when purchased and the fair value of the net assets acquired.				
Discount on acquisition of associate recognised as income subsequent to acquisition	10,636	-	-	-
Share of Surplus before taxation	5,514	-	-	-
	<u>16,150</u>	-	-	-
Income tax	55	-	-	-
	<u>16,205</u>	-	-	-
Investment at cost at beginning of the period	1,313	-	-	-
Cost of investments acquired during the period	21,024	-	20,454	-
Closing balance	<u>38,542</u>	-	<u>20,454</u>	-
There is no goodwill included in the carrying value of investment in associate.				
Acquisition of Associate				
Details of the acquisition of units in New Zealand Rural Property Trust are as follows:				
Consideration:				
Shares issued	14,454	-	14,454	-
Cash paid	6,570	-	6,000	-
Cost of units acquired	<u>21,024</u>	-	<u>20,454</u>	-
NOTE 6 DISTRIBUTIONS TO WILLIAMS & KETTLE LIMITED				
Dividends paid	2,020	-	2,020	-
Bonus issue	928	-	928	-
	<u>2,948</u>	-	<u>2,948</u>	-
NOTE 7 SHARE CAPITAL				
There are 14,825,260 (2003 17,441,000) ordinary shares on issue				
	GROUP & COMPANY		GROUP & COMPANY	
	2004	2004	2003	2003
	Number	Value	Number	Value
	000	\$000	000	\$000
Fully paid ordinary shares				
Balance at beginning of period	17,441	14,185	17,441	14,185
Taxable bonus issue	-	928	-	-
Issued for cash	1	2	-	-
Issued to acquire units in the New Zealand Rural Property Trust - refer Note 5	<u>32,628</u>	<u>14,454</u>	-	-
	32,629	15,384	-	-
Share consolidation (1:3.377)	<u>(35,245)</u>	-	-	-
Balance at end of period	<u>14,825</u>	<u>29,569</u>	<u>17,441</u>	<u>14,185</u>

Notes to the Financial Statements

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
NOTE 8 RESERVES				
Retained Earnings				
Opening balance	(8,168)	(9,359)	(8,226)	(9,449)
Operating surplus attributable to the shareholders of the Parent Company	16,721	1,191	580	1,223
	<u>8,553</u>	<u>(8,168)</u>	<u>(7,646)</u>	<u>(8,226)</u>
Bonus issue	(928)	-	(928)	-
Dividends	(2,020)	-	(2,020)	-
Closing balance	<u>5,605</u>	<u>(8,168)</u>	<u>(10,594)</u>	<u>(8,226)</u>
NOTE 9 TERM LIABILITIES				
Term loans - repayable within 36 months	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>-</u>
The weighted average interest rate is:	6.40%			

NOTE 10 CURRENT AND TERM BANKING FACILITIES

In consideration of our bankers providing advances the Company has granted the Bank of New Zealand a first ranking all obligations debenture.

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
NOTE 11 MANAGEMENT CONTRACT				
Management Contract - to manage the New Zealand Rural Property Trust				
Cost	2,354	2,354	-	-
Accumulated amortisation	(378)	(349)	-	-
	<u>1,976</u>	<u>2,005</u>	<u>-</u>	<u>-</u>
NOTE 12 PROPERTY, PLANT & EQUIPMENT				
Forestry Right	-	150	-	150
Plant, machinery, furniture & fittings				
Cost	10	178	10	178
Accumulated depreciation	(8)	(173)	(8)	(173)
	<u>2</u>	<u>5</u>	<u>2</u>	<u>5</u>
	<u>2</u>	<u>155</u>	<u>2</u>	<u>155</u>
NOTE 13 INVESTMENTS				
Subsidiary companies				
Shares at cost			2,532	2,532
Associated entities				
Units in the New Zealand Rural Property Trust at Cost	22,337	-	20,454	-
Share of post acquisition surplus	16,205	-	-	-
	<u>38,542</u>	<u>-</u>	<u>20,454</u>	<u>-</u>
Other investments				
Units in the New Zealand Rural Property Trust	-	1,313	-	-
Other shares at cost	-	590	-	590
	<u>-</u>	<u>1,903</u>	<u>-</u>	<u>590</u>
	<u>38,542</u>	<u>1,903</u>	<u>22,986</u>	<u>3,122</u>

Notes to the Financial Statements

NOTE 14 COMMITMENTS

There are no future capital expenditure commitments .

Operating lease commitments

There are no lease commitments under non-cancellable operating leases.

NOTE 15 SEGMENT INFORMATION

The Group invests in the farming industry indirectly through management of the New Zealand Rural Property Trust. The Group also owns 32% of the units in the New Zealand Rural Property Trust. The Trust owns a forest and a number of farms, most of which are leased to third parties with the balance farmed directly. The operations are carried out entirely in New Zealand.

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
	11 months	12 months	11 months	12 months
NOTE 16 CASH FLOW STATEMENT				
Reconciliation of Net Cashflows from Operating Activities with Net Surplus after Tax				
Net surplus after tax for period	16,721	1,191	580	1,223
Add/(deduct) items not involving cash flows				
Depreciation	2	3	2	3
Loss/(gain) on sale of property, plant & equipment	1	-	1	-
Amortisation of intangible assets	29	32	-	-
Equity accounted earnings of associates	(16,205)	-	-	-
	(16,173)	35	3	3
Add/(deduct) movement in working capital items:				
Creditors and accruals	105	(31)	105	(31)
Taxation provision	143	(1)	143	(1)
Debtors and prepayments	(543)	(105)	(245)	12
Receivable from subsidiary	-	-	(903)	(612)
	(295)	(137)	(900)	(632)
Net cashflows from operating activities	<u>253</u>	<u>1,089</u>	<u>(317)</u>	<u>594</u>

NOTE 17 RELATED PARTIES

The Group earned management fees from the New Zealand Rural Property Trust during the period of \$2,004,000 (2003 \$1,951,000). The amount owing to the Group in relation to these fees is \$1,041,000 (2003 \$744,000).

Until 27 February 2004, the Company was a wholly owned subsidiary of Williams & Kettle Limited. While the Company was a subsidiary it undertook the following transactions with Williams & Kettle Limited:

- The Company purchased 13,727,716 units in the New Zealand Rural Property Trust from Williams & Kettle Limited at a fair value as determined by PricewaterhouseCoopers in their report dated November 2003 - refer note 5.
- The Company reimbursed Williams & Kettle Limited \$422,000 for restructuring costs.
- The Company sold several assets to Williams & Kettle Limited at their book value totalling \$741,000.
- The Company entered into a service provision agreement with Williams & Kettle Limited to provide administrative and management services for a three and a half year period from 27 February 2004. The amount of the fees under the agreement for the four month period to 30 June 2004 was \$191,000. Of this amount, \$140,000 was outstanding at 30 June 2004. This was paid in full by 31 July 2004.
- The Company paid a dividend and made a bonus issue to Williams & Kettle Limited - refer note 6.

Notes to the Financial Statements

NOTE 18 SUBSIDIARY and ASSOCIATE ENTITIES

a) Subsidiary Company	Percentage Held	Balance Date
New Zealand Rural Property Trust Management Limited	100%	30 June
New Zealand Rural Property Trust Management Limited manages the New Zealand Rural Property Trust.		

b) Associate Entity

Entity Name	Balance Date & Date Accounted to	Equity Held	Trading Activity
New Zealand Rural Property Trust	30 June	31.9%	Rural Property Ownership
The Company's voting interest in the New Zealand Rural Property Trust is proportionate to its equity interest.			

NOTE 19 FINANCIAL INSTRUMENTS

Credit Risk

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

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

Maximum exposures to credit risk as at balance date are :

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Bank balances	-	1,292	-	1,292
Accounts receivable	<u>1,298</u>	<u>755</u>	<u>257</u>	<u>12</u>
	<u>1,298</u>	<u>2,047</u>	<u>257</u>	<u>1,304</u>

Credit Facilities

The New Zealand Rural Property Trust is the major debtor, with 80.2% of receivables due from management fees. This amount had been received by the time of completing this report.

Fair Values

The estimated fair values of term loans, accounts receivable, short term borrowings, cash balances and creditors are equal to their carrying values for both the Group and the Parent Company.

AUDITOR'S REPORT



To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 4 to 13. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 7 and 8.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 30 June 2004 and of their financial performance and cash flows for the eleven months 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 provides taxation services 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 13:
 - 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 2004 and their financial performance and cash flows for the eleven months ended on that date.

Our audit was completed on 30 August 2004 and our unqualified opinion is expressed as at that date.

Ernst & Young

Auckland

ADDITIONAL DISCLOSURES

Activities

Rural Equities Limited ("REL") was previously a wholly owned subsidiary of Williams and Kettle Limited ("W&K"). As part of a Court approved Scheme of Arrangement under Part XV of the Companies Act 1993, REL's ownership was transferred to shareholders of W&K on 27 February 2004.

As at 30 June 2004 REL held 13,727,716 units (29.66%) in the New Zealand Rural Property Trust ("Trust") and has a wholly owned subsidiary, New Zealand Rural Property Trust Management Limited ("NZRPTML"), which is the manager of the Trust. NZRPTML's responsibilities as manager of the Trust encompass the administration of the Trust and the management of the assets of the Trust. In addition to these management rights, NZRPTML holds 1,020,313 units (2.20%) in the Trust. REL and NZRPTML have no other significant assets or any employees. Since 30 June 2004 both REL's and NZRPTML's holdings in the Trust have increased.

W&K provides NZRPTML with the services required to manage the Trust and undertakes all administrative services for REL and NZRPTML. These services include property management, rent collection, company secretarial services and computer and information technology facilities.

Directors and Remuneration

The persons holding office as directors of REL and NZRPTML as at 30 June 2004 were:

Roger Bonifant
David Cushing
Sir Selwyn Cushing
Murray Gough
Brian Martin
Gerald Weenink

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

The table below details the remuneration received by the Directors of REL for the period 1 March 2004 until 30 June 2004. Prior to its separation from W&K on 27 February 2004 REL did not pay remuneration to its Directors.

Prior to the separation of REL from W&K on 27 February 2004 the Directors of NZRPTML were paid Directors' fees by NZRPTML. The table below also details the remuneration received by the Directors of NZRPTML for the period 1 August 2003 to 27 February 2004.

Name	REL \$	NZRPTML \$
Roger Bonifant	3,333	3,792
David Cushing	3,000	3,792
Sir Selwyn Cushing	6,833	11,375
Murray Gough	5,833	9,625
Brian Martin	3,000	3,792
Gerald Weenink	3,000	1,625

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

Entries Recorded in the Interests Register

The following entries were recorded in the interests register of REL during the financial period ending 30 June 2004:

Roger Bonifant, David Cushing, Sir Selwyn Cushing, Murray Gough and Brian Martin disclosed their interest as Directors of W&K.

Directors' Share Transactions

On 27 February 2004, pursuant to a Scheme of Arrangement approved by the High Court of New Zealand and the shareholders of W&K, W&K repurchased from its shareholders one fully paid ordinary share from every four fully paid ordinary shares held. In consideration for such a repurchase, W&K transferred to each shareholder four fully paid ordinary shares in REL in respect of each share repurchased. Pursuant to this transaction each of the Directors acquired a relevant interest in REL shares as follows:

Name of Director	Number of fully paid ordinary shares acquired	Nature of Relevant Interest in the shares acquired
Roger Bonifant	1,000	Non-beneficial interest
David Cushing	4,745,292*	Beneficial and non-beneficial interest
Sir Selwyn Cushing	5,058,868*	Beneficial and non-beneficial interest
Brian Martin	4,830,704*	Beneficial and non-beneficial interest
Murray Gough	46,252	Non-beneficial interest
Gerald Weenink	37,404	Beneficial interest

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

Directors' Indemnity and Insurance

On 27 February 2004 REL effected Directors' and Officers' Liability insurance for the period 27 February 2004 to 31 May 2005.

Donations

REL did not make any donations during the financial period ended 30 June 2004.

Employees' Remuneration

Neither REL or NZRPTML have any employees.

Directors relevant interest in the REL shares as at 30 June 2004

Name of Director	Beneficial Interest	Non-beneficial interest
Roger Bonifant	-	1,000
David Cushing	504,148	4,241,144 *
Sir Selwyn Cushing	251,472	4,807,396 *
Brian Martin	208,580	4,622,124 *
Murray Gough	-	46,252
Gerald Weenink	37,404	-

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

Shareholder Information as at 15 September 2004

REL's twenty largest shareholders	Number	%
H&G Limited	6,052,851	40.82
St Laurence Equities Limited	2,189,240	14.76
RECT Funds Management Limited	449,827	3.03
BD Cushing	357,948	2.41
New Zealand Central Securities Depository Limited	317,775	2.14
BJ Martin	208,580	1.40
SJ Cushing	203,876	1.37
Seajay Securities Limited	174,236	1.17
Selba Holdings Limited - A/c 50	146,200	0.98
W&K Staff Pension Fund Limited	130,285	0.87
Makowai Farm Limited	116,092	0.78
JA Sniijders, JE Sniijders & BJ Martin (Sniijders Family Account)	110,000	0.74
RP Carter	99,334	0.67
Ashfield Properties Limited	99,200	0.66
Johnny Appleseed Holdings Limited	96,408	0.65
BJ Martin & SJ Cushing (G Cushing Settlement Account)	92,640	0.62
RG Goodwick	60,000	0.40
BJ Cushing	56,568	0.38
RP Carter & WR Matthew (RP Carter Family A/c No 2)	51,731	0.34
MW Herrick	50,000	0.33

Rural Equities Limited
(formerly New Zealand Rural Properties Limited)

Size of Shareholding

	No. of Shareholders	%	Quantity of Shares Held	%
1-99	412	15.73	22,844	0.15
100-199	381	14.55	52,623	0.35
200-499	571	21.80	178,716	1.21
500-999	405	15.46	277,162	1.87
1,000-1,999	369	14.09	488,702	3.30
2,000-4,999	294	11.23	856,211	5.78
5,000-9,999	100	3.82	645,575	4.35
10,000-49,999	67	2.56	1,240,636	8.37
50,000-99,999	8	0.30	605,881	4.09
100,000-499,999	10	0.38	2,214,819	14.94
500,000 and over	2	0.08	8,242,091	55.59
Total	2,619		14,825,260	

Spread of Shareholding by Location

	No. of Shareholders	%	Quantity of Shares Held	%
Upper North Island	533	20.35	1,722,353	11.62
Gisborne	406	15.50	316,226	2.14
Hawke's Bay	1,066	40.70	8,815,765	59.47
Manawatu/Wanganui/Wairarapa	321	12.26	271,626	1.83
Wellington	134	5.12	2,978,779	20.09
South Island	155	5.92	713,828	4.81
Overseas	4	0.15	6,683	0.04
Total	2,619		14,825,260	

CORPORATE GOVERNANCE

Role of the Board of Directors

The Board 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. Day-to-day management of REL is delegated to W&K pursuant to a Service Provision Agreement between REL and W&K.

Board Membership

The Board comprises six Directors. The Board meets approximately six times during the year for scheduled meetings, with additional meetings held as required to consider urgent issues. Within the Board of Directors is a broad mix of skills and experience relevant to the guidance of REL's business.

Board Committee

The Board has constituted an Audit Committee. The Audit Committee is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing external audit, liaison with REL's auditors and making recommendations to the Board as to the Auditor's appointment and remuneration. This Audit Committee is chaired by Roger Bonifant and its other members are David Cushing, Murray Gough, Brian Martin and Gerald Weenink.

DIRECTORY

Board of Directors

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Roger Bonifant
Director

David Cushing
Director

Brian Martin
Director

Gerald Weenink
Director

Executive

(Provided by Williams & Kettle Limited under the service provision agreement)

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Company Secretary

Michael Smith
Accountant

Registered Office

Rural Equities Limited
Wilket House, Shakespeare Road
PO Box 154, Napier
Telephone 0800 100 042
Facsimile 06 835 2444
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

Telephone 0800 228 811
Facsimile 09 488 8787

