rural equities LIMITED

ANNUAL REPORT 2005

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Business Activities and Structure

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

REL has a fully owned subsidiary company called New Zealand Rural Property Trust Management Ltd (NZRPTML) which is the manager of New Zealand Rural Property Trust (the Trust). Together REL and NZRPTML own 52.43% (approximately) of the units in the Trust.

The Trust owns a diverse portfolio of 30 high quality rural properties spread throughout New Zealand as well as a pine forest near Ngaruawahia. Twenty-three of the farm properties are leased and seven are directly farmed with six of these being dairy farms. On the dairy farms approximately 3,700 cows are milked in conjunction with 50/50 sharemilkers. Milk production for the 2004/05 season was 1.42 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 $142 million at 30 June 2005. An after tax surplus of $22.4 million was achieved for the full 2005 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

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in the Randolph Room, Heritage Christchurch, 28-30 Cathedral Square, Christchurch on Tuesday 1 November 2005 commencing at 3.00 pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2005 with the reports of the Directors and Auditor.
2. To elect Directors:
   a) In accordance with clause 13.5 of the Company's constitution Sir Ronald Carter, who was appointed as a director on 30 November 2004 to fill a casual vacancy, retires and being eligible offers himself for election.
   b) In accordance with Clause 13.8 of the Company's constitution David Cushing and Murray Gough retire by rotation and offer themselves for re-election.
3. To record the re-appointment of Ernst & Young as Auditor of the Company and to authorise the Directors to fix their remuneration for the ensuing year.
4. To increase the amount of remuneration paid to the Directors of the Company and the Directors of any subsidiary of the Company from $75,000 per annum to $150,000 per annum, to be divided and paid among them as the Directors of the Company see fit.

   Explanatory note:
   The current level of Directors fees of $75,000 was set in January 2004 before the Company was separated from Williams & Kettle Limited. With the Company now having operated under its new ownership structure for 18 months a review of the current level of remuneration paid to the Directors has been completed. The review concluded that 1) considering the input required by the Directors 2) comparing the level of fees paid to other companies of a similar size and structure and 3) to include additional remuneration currently paid to Sir Ronald Carter and John Green (a director of the Company's subsidiary New Zealand Rural Property Trust Management Limited), the proposed increase was recommended. The Directors recommend that shareholders approve the proposed increase.

GENERAL BUSINESS

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

NOTES

1. All shareholders are entitled to attend and vote at the Annual Meeting.
2. Any shareholder entitled to attend and vote at the Annual Meeting may appoint another person or persons as his or her proxy or representative in the case of corporate shareholders, to attend and vote on their behalf. A proxy or representative need not be a shareholder of the Company.
3. A form of proxy is enclosed with this notice. The constitution of the Company requires, so as to be valid, that any proxy form must be deposited at the registered office of the Company (Wilket 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 92 199, 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

The Directors are pleased to present the second annual report to shareholders for Rural Equities Limited (REL). The year to 30 June 2005 marks the completion of the first full year of operations for the Company as the financial year ended 30 June 2004 was an eleven month period and included part of the year before REL was separated from Williams and Kettle Limited (W&K).

The Company's investment holding in the New Zealand Rural Property Trust (the Trust) increased from 31.87% to 52.43% of the total units on issue during the year. This reflects the purchase of units in the market and the acquisition of units from two successful separate offers to Trust unitholders. In accordance with accepted accounting standards the Trust is now a subsidiary of REL and the consolidated financial statements have been prepared to reflect this.

Financial Overview

The after tax surplus for the year was $18.6 million. This result includes some significant one-off adjustments arising from the acquisition of additional units in the Trust. Last year there were also significant adjustments arising from the separation of REL from W&K.

In the Statement of Financial Performance, the Group Net Surplus includes the Trust's current year surplus of $18.2 million after adjustment for minority interests, revaluation movements including the discount on acquisition of the units in the Trust, and the partial write down of the value of the management contract. This write down was necessary as the Trust is now a subsidiary effectively paying the fee to its parent. The discount on acquisition of units arises due to the difference between the assessed fair value of the units when acquired and the cost.

In addition to the share of the Trust's surplus, REL made an operating surplus of $473,000.

The interest expense incurred by REL was significant this year and results from the additional bank debt incurred to purchase the additional units in the Trust.

From the Statement of Financial Position, REL's assets and liabilities have changed significantly during the year, also as a result of the increased holding of Trust units. Additional assets have been purchased, funded by a combination of debt and a rights issue to shareholders. Equity in REL (Parent) has risen from $19.0 million to $26.9 million during the year. Equity in the group is now $129.0 million, up from $35.2 million a year ago.

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

Rights Issue

A one-for two pro-rata rights issue of ordinary shares in REL was made during the year resulting in the issue of 7,412,663 new shares at $1.00. The attractive offer was 93% subscribed with the underwriter taking up the balance of the shares offered. The funds received have been used to reduce bank debt and help position REL for future business initiatives.

Directors

During the year, two new directors were appointed within the Group. Sir Ronald Carter was appointed to the Board of REL and John Green was appointed to the Board of New Zealand Rural Property Trust Management Limited. Both bring a wealth of business experience to the Group.

Dividend Policy

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

Provision of Services

Since its separation from W&K in February 2004, REL has operated under a Service Provision Agreement with W&K under which W&K provides the Group with its total administrative and management resource. W&K has subsequently been taken over and amalgamated with Wrightson Limited. REL and Wrightson Limited have recently agreed that the Service Provision Agreement will end on 30 September 2005. From that date REL will operate independently with its own office and systems. REL has retained the services of the key staff who were previously performing those duties under the Service Provision Agreement.

Outlook

The 2005 year has seen significant growth and change for REL. Whilst the same level of growth is not anticipated in the year ahead, rural property values are expected to remain firm. Farm product prices for sheep meat, wool and beef are expected to be at similar levels to those received in the previous year. Milk from the dairy farms is supplied to Fonterra, which has indicated that the milk solids payout, based on initial expectations could reduce by approximately $0.74 per kilogram next season. A drop in payout of this magnitude will affect the dairy farms contribution to overall profit. Taking all factors into account, the Directors expect the overall rural economy during the coming year to be stable and look ahead with optimism.

Sir Selwyn Cushing
Chairman

Brian Burrough
Chief Executive Officer

Statement of Financial Performance

for the year ended 30 June 2005

	Notes	GROUP 2005 12 months $000	GROUP 2004 11 months $000	PARENT 2005 12 months $000	PARENT 2004 11 months $000
Operating Revenue					
Lease Income		676	-	-	-
Farm Income		1,363	-	-	-
Forest Income		369	-	-	-
Management Fees		1,773	2,004	-	-
Inter Group Administration Fee		-	-	2,510	1,976
Inter Group Dividends		-	-	622	-
Other Income		4	51	-	55
Total		**4,185**	**2,055**	**3,132**	**2,031**
Less Expenses					
Farm & Forest Expenses		822	-	-	-
Interest Expense		1,132	134	1,018	134
Other Expenses		1,309	923	1,163	835
Total		**3,263**	**1,057**	**2,181**	**969**
Net Operating Income	3	**922**	**998**	**951**	**1,062**
Share of Associate's Surplus	5	177	16,150	-	-
Revaluation Movements		29,557	-	-	-
Adjustment to Management Contract on Consolidation	14	(1,024)	-	-	-
Surplus Before Taxation		**29,632**	**17,148**	**951**	**1,062**
Taxation Expense	4	511	427	478	482
Surplus After Taxation		**29,121**	**16,721**	**473**	**580**
Less Surplus Attributable to Minority Interests		10,483	-	-	-
Net Surplus Attributable to Parent Interests		**18,638**	**16,721**	**473**	**580**

For the period 1 July 2004 to 31 March 2005, the New Zealand Rural Property Trust was an associate entity and equity accounted. From 1 April 2005 onwards it is a subsidiary entity - refer to notes 5 and 20.

Statement of Movements in Equity

for the year ended 30 June 2005

	Notes	GROUP 2005 12 months $000	GROUP 2004 11 months $000	PARENT 2005 12 months $000	PARENT 2004 11 months $000
Equity at Start of Period		**35,174**	**6,017**	**18,975**	**5,959**
Net Surplus Attributable to:					
Parent Interest		18,638	16,721	473	580
Minority Interest		10,483	-	-	-
Total Recognised Revenues and Expenses		**29,121**	**16,721**	**473**	**580**
Share Issue	7	7,413	15,384	7,413	15,384
Distributions	6	-	(2,948)	-	(2,948)
Minority Interest Acquired		57,243	-	-	-
Equity at End of Period		**128,951**	**35,174**	**26,861**	**18,975**

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

Statement of Financial Position

as at 30 June 2005

	Notes	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Current Assets					
Cash at Bank	10	148	-	-	-
Accounts Receivable & Prepayments		1,003	1,298	33	257
Livestock & Feed on Hand		973	-	-	-
Receivable from Subsidiary		-	-	3,193	2,374
Provision for Tax Refund		529	-	1	-
Total		2,653	1,298	3,227	2,631
Non Current Assets					
Investment Properties	11	132,934	-	-	-
Forest	12	4,714	-	-	-
Property, Plant & Equipment	13	740	2	-	2
Management Contract	14	925	1,976	-	-
Investments	15	9,250	38,542	39,235	22,986
Total		148,563	40,520	39,235	22,988
Total Assets		**151,216**	**41,818**	**42,462**	**25,619**
Current Liabilities					
Bank Overdraft	10	-	302	132	302
Accounts Payable & Accrued Expenses		1,617	190	569	190
Provision for Taxation		-	152	-	152
Total		**1,617**	**644**	**701**	**644**
Term Liabilities					
Bank Term Loans	9	20,400	6,000	14,900	6,000
Provision for Defered Taxation		248	-	-	-
Total		**20,648**	**6,000**	**14,900**	**6,000**
Equity					
Equity Attributable to:					
Parent Company Shareholders	7	61,225	35,174	26,861	18,975
Minority Interests	7	67,726	-	-	-
Total Equity		**128,951**	**35,174**	**26,861**	**18,975**
Total Liabilities & Equity		**151,216**	**41,818**	**42,462**	**25,619**

On behalf of the Directors, who authorised the issue of these financial statements, dated 31 August 2005.

Sir Selwyn Cushing
Chairman

Roger Bonifant
Director

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

Statement of Cash Flows

for the year ended 30 June 2005

	Note	GROUP 2005 12 months $000	GROUP 2004 11 months $000	PARENT 2005 12 months $000	PARENT 2004 11 months $000
Cash flows from operating activities					
Cash was provided from					
Receipts from customers		3,851	1,707	-	-
Receipts from subsidiary		-	-	1,699	1,109
Dividends received		-	31	622	-
Other income		4	20	-	20
		3,855	1,758	2,321	1,129
Cash was applied to					
Payments to suppliers and employees		1,242	1,033	613	974
Taxation paid		631	338	631	338
Interest paid		1,097	134	972	134
		2,970	1,505	2,216	1,446
Net cash flows from operating activities	18	**885**	**253**	**105**	**(317)**
Cash flows from investing activities					
Cash was provided from					
Sale of property, plant & equipment		-	151	-	151
Sale of investment		-	590	-	590
Net proceeds from Forest realisation by Harvest		250	-	-	-
		250	741	-	741
Cash was applied to					
Farm Improvements		321	-	-	-
Purchase of units in NZRPT	5	16,177	6,570	16,248	6,000
		16,498	6,570	16,248	6,000
Net cash flows from investing activities		**(16,248)**	**(5,829)**	**(16,248)**	**(5,259)**
Cash flows from financing activities					
Cash was provided from					
Share issue		7,413	2	7,413	2
Term loan advance		8,400	6,000	8,900	6,000
		15,813	6,002	16,313	6,002
Increase in commercial facility					
Cash was applied to					
Payment of dividend		-	2,020	-	2,020
		-	2,020	-	2,020
Net cash flows from financing activities		**15,813**	**3,982**	**16,313**	**3,982**
Net increase (decrease) in cash held		450	(1,594)	170	(1,594)
Cash at start of period		(302)	1,292	(302)	1,292
Cash at end of period		**148**	**(302)**	**(132)**	**(302)**
Comprised of					
Cash at bank		148	-	-	-
Bank overdraft		-	(302)	(132)	(302)
		148	(302)	(132)	(302)

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

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

MEASUREMENT BASE

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

SPECIFIC ACCOUNTING POLICIES

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

(a) Basis of Consolidation - Purchase Method

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

(b) Associated Entities

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

(c) Investment Properties

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

Land, buildings and improvements are not depreciated.

(d) Forest Assets

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

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

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

As forest growth has been credited to the Statement of Financial Performance, forest harvest proceeds are credited to the forest asset account.

Changes in the value of the forest due to movements in timber prices are recorded in the Statement of Financial Performance under Revaluation movements.

Notes to the Financial Statements

NOTE 1 (continued)

(e) Fixed Assets

All fixed assets are initially recorded at cost.

(f) Depreciation

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

Office equipment	at 20% of cost price
Plant and equipment	at 10% of cost price

(g) Receivables

Receivables are stated at their estimated realisable value.

(h) Livestock

Livestock is recorded at market value as assessed by an independent valuer. Changes in market value are recorded in the Statement of Financial Performance.

(i) Taxation

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

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

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

(j) Management Contract

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

(k) Investments

Investments are principally Fonterra Co-operative Group shares. All investments are recorded at current market value. Changes in market value are recorded in the Statement of Financial Performance.

(l) Financial Instruments

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

CHANGE OF BALANCE DATE

The Company changed its balance date from 31 July to 30 June in 2004, to bring it in line with the balance date of its susidiary, the New Zealand Rural Property Trust. Comparative figures for the preceding period are therefore for the eleven months ended 30 June 2004.

CHANGES IN ACCOUNTING POLICIES

The only change in accounting policy relates to deferred taxation where the Company now applies the partial basis to recognise deferred taxation. This is to align the policy with the subsidiary, New Zealand Rural Property Trust. This change has no effect on the reported surplus after taxation in the current year.

All other policies have been applied on bases consistent with those used in previous years.

Notes to the Financial Statements

NOTE 2 CONTINUING AND DISCONTINUED ACTIVITIES

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

	GROUP		PARENT	
	Jun 2005 $000 12 months	Jun 2004 $000 11 months	Jun 2005 $000 12 months	Jun 2004 $000 11 months
NOTE 3 EXPENSES include:				
Interest paid - term loans	1,132	134	1,018	134
Depreciation - on plant	52	2	2	2
Loss on sale of property, plant & equipment	-	1	-	1
Directors' fees	86	59	80	25
Audit fees	20	12	13	12
Fees paid to auditor for other services	4	2	3	2
Amortisation of management contract	27	29	-	-
Administration and management fees	561	191	561	191
Group restructuring costs	-	467	-	467
NOTE 4 TAXATION CHARGED AGAINST SURPLUSES				
Operating surplus before taxation	29,632	17,148	951	1,062
Prima facie taxation	9,779	5,659	314	350
Plus (less) taxation effect of timing differences - not recognised	-	(5)	-	(5)
Plus (less) taxation effect of other permanent differences	(10,294)	(5,227)	164	137
Tax expense (credit)	(515)	427	478	482
Current tax	495	427	478	482
Deferred tax	(1,010)	-	-	-
	(515)	427	478	482
Analysed between:				
Taxation on operating surplus	511	427	478	482
Taxation on forest revaluation	(1,026)	-	-	-
	(515)	427	478	482
Provision for Deferred Taxation				
Provision acquired - refer note 5	1,258	-	-	-
Provided for in current period	(1,010)	-	-	-
Closing balance	248	-	-	-

There are no income tax losses carried forward.

The taxation effects of timing differences arising from building depreciation in the New Zealand Rural Property Trust are not recognised in the financial statements as they are not expected to reverse in the foreseeable future. These timing differences amount to $3,533,000 with a tax effect of $1,166,000 (2004 Nil).

	PARENT	
	Jun 2005 $000 12 months	Jun 2004 $000 11 months
IMPUTATION CREDIT ACCOUNT		
Opening Balance	180	1,301
Imputation credits attaching to dividends paid in the period	-	(1,452)
Write off balance due to change in shareholding	-	(1)
Income tax paid during the period	631	332
Closing Balance	811	180

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

Notes to the Financial Statements

NOTE 5 INVESTMENT IN NEW ZEALAND RURAL PROPERTY TRUST

The Group holds 24,400,696 units in the New Zealand Rural Property Trust ("the Trust"). This represents 52.4% of the units on issue in the Trust. This investment results in the Trust becoming a subsidiary entity and it is required to be consolidated into the Rural Equities Group in accordance with FRS37.

The detail of recent acquisitions of units in the Trust is as follows:

a) In February 2004, on separation from Williams & Kettle Limited, the company purchased 13,727,716 units in the Trust by issuing 32,628,210 shares and paying $6,000,000 in cash. A discount on acquisition arose due to the difference between the assessed fair value of the units in the Trust when purchased and the fair value of the equity interest in underlying assets acquired. This discount was disclosed in the Financial Accounts for the period ended 30 June 2004.

b) During the 9 months ended 31 March 2005 the Company purchased a further 5,343,988 units in the Trust at a cost of $8,979,000.

c) In April 2005 the Company purchased a further 4,308,679 units in the Trust at a cost of $7,932,000. This increased the Company's holding to 52.4% of the units on issue in the Trust, making the Trust a subsidiary. A discount on acquisition of subsidiary of $8,135,000 has arisen from these transactions. The discount for the current year has initially been applied proportionally against the non monetary assets acquired. As the majority of these assets are carried at net current value as at 30 June 2005, the discount has effectively been recorded as a component of the current year result in the statement of financial performance. It has been disclosed within the revaluation movements.

The details of the movement in the investment are as follows:

	GROUP		PARENT	
	Jun 2005 $000	Jun 2004 $000	Jun 2005 $000	Jun 2004 $000
i) As an Associate				
Opening balance	38,542	1,313	20,454	-
Cost of units acquired during the period	8,979	21,024	8,317	20,454
	47,521	22,337	28,771	20,454
Less distribution received	(667)	-		
Share of surplus before taxation	177	5,514		
Discount on acquisition of interest in associate		10,636		
Income tax credit	12	55		
Transfer on becoming a subsidiary	(47,043)	-	(28,771)	
Closing balance	-	38,542	-	20,454
Consideration for the acquisition:				
Shares issued	-	14,454	-	14,454
Cash paid	8,979	6,570	8,317	6,000
Cost of units acquired	8,979	21,024	8,317	20,454
ii) As a Subsidiary				
Net Assets Acquired				
Investment Properties	113,423			
Forest	4,605			
Investments	7,903			
Plant & Machinery	791			
Debtors	1,004			
Livestock	899			
Provision for Tax Refund	557			
Creditors	(1,638)			
Provision for Deferred Taxation	(1,258)			
Net Bank Borrowings	(5,933)			
	120,353			

Notes to the Financial Statements

		GROUP Jun 2005 $000	GROUP Jun 2004 $000	PARENT Jun 2005 $000	PARENT Jun 2004 $000
NOTE 5 *(continued)*					
	Percentage of Net Assets Acquired	52.4%			
	Value of Net Assets Acquired	63,110			
	Less Carrying value of the Trust before becoming a subsidiary	47,043			
	Less acquisition at cost	7,932			
	Therefore Discount on Acquisition	8,135			
	Net Cash Outflow				
	To acquire units while an associate	8,979			
	To acquire units to become a subsidiary	7,932			
	Less cash distribution received	(667)			
	Less cash acquired with subsidiary	(67)			
	Net Cash Outflow	16,177			
NOTE 6	**DISTRIBUTIONS TO WILLIAMS & KETTLE LIMITED**				
	Dividends paid	-	2,020	-	2,020
	Bonus issue	-	928	-	928
		-	2,948	-	2,948
NOTE 7	**EQUITY**				
	Share Capital	36,982	29,569	36,982	29,569
	Revaluation Reserve - see note 8	19,378	-	-	-
	Retained Earnings (Accumulated Deficit) - see note 8	4,865	5,605	(10,121)	(10,594)
		61,225	35,174	26,861	18,975
	Minority Interests	67,726	-	-	
		128,951	35,174	26,861	18,975

There are 22,237,890 (2004 14,825,260) ordinary shares on issue

	GROUP & COMPANY 2005 Number 000	GROUP & COMPANY 2005 Value $000	GROUP & COMPANY 2004 Number 000	GROUP & COMPANY 2004 Value $000
Fully paid ordinary shares				
Balance at beginning of period	14,825	29,569	17,441	14,185
Taxable bonus issue	-		-	928
Shares issued for cash	7,413	7,413	1	2
Shares issued to acquire units in the New Zealand Rural Property Trust - refer note 5	-	-	32,628	14,454
	7,413	7,413	32,629	15,384
Share consolidation	-	-	(35,245)	-
Balance at end of period	22,238	36,982	14,825	29,569

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

Notes to the Financial Statements

		GROUP		PARENT	
		Jun 2005 $000	Jun 2004 $000	Jun 2005 $000	Jun 2004 $000
NOTE 8	**RESERVES**				
	Retained Earnings				
	Opening balance	5,605	(8,168)	(10,594)	(8,226)
	Operating surplus attributable to the shareholders of the Parent Company	18,638	16,721	473	580
		24,243	8,553	(10,121)	(7,646)
	Transfer to revaluation reserve	(19,378)	-	-	-
	Bonus issue	-	(928)	-	(928)
	Dividends	-	(2,020)	-	(2,020)
	Closing balance	4,865	5,605	(10,121)	(10,594)
	Revaluation Reserve				
	Transfer from Retained Earnings for revaluation of:				
	Investment Properties	29,746	-	-	-
	Forest	(1,780)	-	-	-
	Investments	1,591	-	-	-
		29,557	-	-	-
	Less minority interest	(10,179)			
	Closing Balance	19,378	-	-	-
NOTE 9	**TERM LIABILITIES**				
	Term loans - repayable within 36 months	20,400	6,000	14,900	6,000
	The weighted average interest rate is:	7.25%	6.40%	7.17%	6.40%

NOTE 10 CURRENT AND TERM BANKING FACILITIES

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

		GROUP	
		Jun 2005 $000	Jun 2004 $000
NOTE 11	**INVESTMENT PROPERTIES**		
	Properties Leased	98,716	-
	Properties Not Leased	34,218	-
		132,934	-

Independent registered valuers performed market valuations of all the properties at 30 June 2005.The registered valuers used are as follows: Ashworth Lockwood Limited, Ford Baker Valuation Limited, Macpherson Valuation limited, Schrader Wilson Valuation Limited, Morgan Property Advisors.

Notes to the Financial Statements

	GROUP	
	Jun 2005 $000	Jun 2004 $000
NOTE 12 FOREST ASSETS		
Ngaruawahia Forest		
Crop value	1,524	-
Land value	3,190	-
	4,714	-

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

Valuation details are as follows:	2005
Forest valuer	Forest & Woodlot Consultants (NZ) Ltd
Discount rate	8.5% (post-tax)
Forest land valuer	Ashworth Lockwood Limited

	GROUP		PARENT	
	Jun 2005 $000	Jun 2004 $000	Jun 2005 $000	Jun 2004 $000
NOTE 13 PLANT & EQUIPMENT				
Plant, machinery, furniture & fittings				
Cost	1,702	10	9	10
Accumulated depreciation	(962)	(8)	(9)	(8)
	740	2	-	2
NOTE 14 MANAGEMENT CONTRACT				
Management Contract - to manage the New Zealand Rural Property Trust				
Cost	2,354	2,354	-	-
Amortisation				
Opening balance	(378)	(349)		
Adjustment as a result of the Trust becoming a subsidiary	(1,024)	-		
Current year	(27)	(29)	-	-
Closing balance	(1,429)	(378)		
Net carrying value	925	1,976	-	-
NOTE 15 INVESTMENTS				
Subsidiary entities				
Shares in New Zealand Rural Property Trust Management Limited			2,532	2,532
Units in New Zealand Rural Property Trust			36,703	-
			39,235	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	-	-
	-	38,542	-	20,454
Other shares at valuation	9,250	-	-	-
	9,250	38,542	39,235	22,986

NOTE 16 COMMITMENTS

There are no future capital expenditure commitments.

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

NOTE 17 SEGMENT INFORMATION

The Group invests in the farming industry indirectly through management of the New Zealand Rural Property Trust. The Group owns 52.4% 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.

Notes to the Financial Statements

	GROUP		PARENT	
	Jun 2005 $000 12 Months	Jun 2004 $000 11 Months	Jun 2005 $000 12 Months	Jun 2004 $000 11 Months
NOTE 18 CASH FLOW STATEMENT				
Reconciliation of Net Cashflows from Operating Activities with Net Surplus after Tax				
Net surplus after tax for period	29,121	16,721	473	580
Add/(deduct) items not involving cash flows				
Depreciation	52	2	2	2
Loss/(gain) on sale of property, plant & equipment	-	1	-	1
Amortisation of intangible assets	1,051	29	-	-
Revaluation movements	(28,695)	-	-	
Livestock revaluations	(74)	-	-	-
Deferred taxation provision movement	(1,010)	-	-	-
Equity accounted earnings of associates	(177)	(16,205)	-	-
	(28,853)	(16,173)	2	3
Add/(deduct) movement in working capital items:				
Creditors and accruals	733	105	376	105
Taxation provision	(137)	143	(153)	143
Debtors and prepayments	21	(543)	225	(245)
Receivable from subsidiary	-	-	(818)	(903)
	617	(295)	(370)	(900)
Net cashflows from operating activities	885	253	105	(317)

NOTE 19 RELATED PARTIES

The Group earned management fees from the New Zealand Rural Property Trust during the 9 months to 31 March 2005 of $1,773,000 (which were paid in full). After that date the Trust became a subsidiary of the Rural Equities Limited and subsequent management fees were eliminated on consolidation.

The Company has a Service Provision Agreement with Williams & Kettle Limited ("W&K") for W&K to provide the Group with administrative and management services until 30 September 2007. The amount of the fees paid by the Company to W&K under the Service Provision Agreement for the year ended 30 June 2005 was $561,000 (four months ended 30 June 2004 $191,000). The amount outstanding as at 30 June 2005 was $140,000 (30 June 2004 $140,000). This has since been paid in full. During the financial year Roger Bonifant, David Cushing, Sir Selwyn Cushing, Murray Gough and Brian Martin were directors of Williams & Kettle Limited. David Cushing, Sir Selwyn Cushing and Brian Martin were also substantial security holders of W&K. During the financial year W&K was the subject of a take over by Wrightson Limited which resulted in W&K being amalgamated into Wrightson Limited on 1 June 2005. Sir Selwyn Cushing and Gerald Weenink were appointed directors of Wrightson Limited on 14 March 2005.

On 30 June 2005, the Company reached agreement with Wrightson Limited to terminate the service agreement with effect from 30 September 2005. In consideration of the termination the Company will pay Wrightson Limited $332,000 on 30 September 2005. This has been accrued as at 30 June 2005.

NOTE 20 SUBSIDIARY ENTITIES	Percentage Held	Trading Activity
Subsidiary Company		
New Zealand Rural Property Trust Management Limited	100%	Manages the New Zealand Rural Property Trust.
Subsidiary Entity		
New Zealand Rural Property Trust	52.4%	Rural Property Ownership

For the period 1 July 2004 to 31 March 2005, the Trust was an associate entity and equity accounted. From 1 April 2005 onwards it is a subsidiary entity.

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

Notes to the Financial Statements

NOTE 21 FINANCIAL INSTRUMENTS

Credit Risk

Financial instruments which potentially subject the Group to credit risk consist of bank balances, accounts receivable and investments in other entities.The credit risk is limited primarily to the rural sector of New Zealand.

	GROUP		PARENT	
	Jun 2005 $000	Jun 2004 $000	Jun 2005 $000	Jun 2004 $000
Maximum exposures to credit risk as at balance date are :				
Bank balances	148	-	-	-
Accounts receivable	1,003	1,298	33	257
Investments in other entities	9,250	-	-	-
Receivable from subsidiary	-	-	3,193	2,374
	10,401	1,298	3,226	2,631

Credit Facilities

The Company has a loan facility with Westpac of $17.3M. The New Zealand Rural Property Trust has loan facility with ANZ Banking Group of $8M. Interest rates applying range from 7.1% to 7.5%.

Fair Values

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

Term Loan	Accounts Receivable
Short Term Borrowing	Cash Balances
Accounts Payable	

NOTE 22 IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS

The Group plans to adopt New Zealand equivalents to international accounting standards (NZ IFRS) for the accounting period ending 30 June 2008. Accordingly comparatives will be required for the year to 30 June 2007, with an opening balance sheet as at 1 July 2006.

Management has not yet fully assessed the likely changes to accounting policies from adoption of New Zealand equivalents to international accounting standards. Consequently the financial affect of any such changes to accounting policies has also not yet been quantified.

AUDITOR'S REPORT

ERNST & YOUNG

To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 4 to 15. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2005. 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 2005 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

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

Basis of Opinion

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

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

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

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

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 4 to 15:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 30 June 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 August 2005 and our unqualified opinion is expressed as at that date.

Ernst + Young

Auckland

ADDITIONAL DISCLOSURES

Directors and Remuneration

The persons holding office as directors of Rural Equities Limited (REL) as at 30 June 2005 were:

Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Roger Bonifant, Sir Ronald Carter (appointed 30 November 2004), David Cushing, Brian Martin, Gerald Weenink.

The persons holding office as directors of New Zealand Rural Property Trust Management Limited (NZRPTML) as at 30 June 2005 were:

Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Roger Bonifant, David Cushing, John Green (appointed 30 November 2004), 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 during the year ended 30 June 2005.

	REL $	NZRPTML $
Roger Bonifant	10,000	-
Sir Ronald Carter	5,250	-
David Cushing	9,000	-
Sir Selwyn Cushing	20,500	-
Murray Gough	17,500	-
John Green	-	5,250
Brian Martin	9,000	-
Gerald Weenink	9,000	-

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

Entries Recorded in the Interests Register

The following entries were recorded in the interests register of REL and NZRPTML during the year ending 30 June 2005:

Sir Selwyn Cushing and Gerald Weenink were appointed directors of Wrightson Limited on 14 March 2005.

Roger Bonifant, David Cushing, Murray Gough and Brain Martin resigned as directors of Williams & Kettle Limited on 11 April 2005.

Sir Selwyn Cushing ceased being a director of Williams & Kettle Limited on 1 June 2005 as a result of Williams & Kettle Limited being amalgamated into Wrightson Limited on that date.

Directors' Share Transactions

	Opening balance as at 1 July 2004	Rights Issue [2]	Acquisition and (sale) of shares	Balance as at 30 June 2005 Beneficial Interest	Non-beneficial interest
Roger Bonifant	1,000	5,000	44,000 [3]	-	50,000
Sir Ronald Carter [1]	230,438	115,220	-	149,001	196,657
David Cushing	4,745,292	3,524,422	2,303,551 [4]	756,222	9,817,043 [10]
Sir Selwyn Cushing	5,058,868	3,594,197	2,135,956 [4&5]	377,208	10,411,813 [10]
Murray Gough	46,252	40,969	85,685 [6]	-	172,906
John Green [1]	-	-	25,000 [7]	-	25,000
Brian Martin	4,830,704	3,519,883	2,209,060 [4,5,8 & 9]	312,870	10,246,777 [10]
Gerald Weenink	37,404	18,702	-	-	56,106

[1] Opening balance as at 30 November 2004 when appointed a director

[2] Shares issued following participation in REL's one for two rights issue of ordinary shares at $1.00 per share in accordance with an Investment Statement and Short Form Proposectus dated 3 May 2005.

[3] Shares acquired by Miro Securites Limtied - 6,380 at $1.46 on 11 October 2004, 2,620 at $1.52 on 26 October 2004, 35,000 at $1.20 on 24 June 2005.

[4] Shares acquired by H&G Limited as a result of the partial takeover offer under the Takeovers Code - 2,303,551 at $1.60 on 13 July 2004.

[5] Shares acquired / (sold) by W&K Staff Pension Fund Limited - (266,511) at $1.60 on 13 July 2004, 50,000 at $1.45 on 12 August 2004, 10,748 at $1.40 on 24 August 2004, 956 at $1.67 on 21 January 2005, 569 at $1.67 on 25 January 2005, 2,868 at $1.65 on 4 February 2005, 266 at $1.67 on 8 Febraury 2005, 1,751 at $1.67 on 15 February 2005, 1,900 at $1.67 on 22 February 2005, 1,300 at $1.70 on 17 March 2005, 928 at $1.67 on 22 March 2005, 1,830 at $1.69 on 29 March 2005, 20,800 at $1.69 on 28 April 2005, 5,000 at $1.77 on 3 June 2005.

[6] Shares acquired by MGS Fund Limtied - 11,485 at $1.45 on 17 September 2004, 10,000 at $1.52 on 18 October 2004, 152 at $1.70 on 11 May 2005, 7,144 at $1.72 on 18 May 2005, 2,480 at $1.74 on 19 May 2005, 4,424 at $1.74 on 20 May 2005, 50,000 at $1.20 on 27 June 2005.

[7] Shares acquired by Claudia Ann Green - 25,000 at $1.00 on 24 June 2005.

[8] Shares (sold) by Datastore Systems (NZ) Limited - (11,896) at $1.60 on 13 July 2005.

[9] Shares acquired by J A Snijders, J E Snijders and B J Martin (Snijders Family Account) - 85,000 at $1.70 on 24 February 2005.

[10] 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 Group for the period 27 February 2004 to 31 May 2005. On 1 June 2005 REL renewed this policy for a further year until 31 May 2006.

Donations

The REL Group did not make any donations during the financial year ended 30 June 2005.

Employees' Remuneration

The REL Group currently does not have any employees.

SHAREHOLDER INFORMATION

Top Twenty Shareholders as at 7 September 2005

Holder	Number	%
H&G Limited	9,079,277	40.82
St Laurence Equities Limited	3,958,943	17.80
RECT Funds Management Limited	816,446	3.67
David Cushing	536,922	2.41
New Zealand Central Securities Depository Limited	441,852	1.98
Brian Martin	312,870	1.40
Sir Selwyn Cushing	305,814	1.37
Jan Snijders, Joan Snijders & Brian Martin (Snijders' Family Account)	292,500	1.31
Seajay Securities Limited	261,354	1.17
W&K Staff Pension Fund Limited	245,180	1.10
Selba Holdings Limited – A/C 50	219,300	0.98
Makowai Farm Limited	174,138	0.78
Sir Ronald Carter	149,001	0.67
Ashfield Properties Limited	148,800	0.66
Brian Martin & Sir Selwyn Cushing (G Cushing Settlement Account)	138,960	0.62
Craig & Penelope Hickson	119,989	0.53
MGS Fund Limited	102,742	0.46
Rodney Goodrick	100,000	0.44
Maurice Herrick	97,000	0.43
Custodial Services Limited	91,320	0.41

Size of Shareholding as at 7 September 2005

	Number of Shareholders	%	Quantity of Shares Held	%
1 – 99	259	13.69	15,223	0.07
100 – 199	256	13.53	36,191	0.16
200 – 499	345	18.23	111,455	0.50
500 – 999	270	14.27	191,608	0.86
1,000 - 1,999	285	15.06	394,078	1.77
2,000 – 4,999	262	13.85	825,160	3.71
5,000 – 9,999	95	5.02	647,993	2.91
10,000 – 49,999	84	4.44	1,417,828	6.38
50,000 – 99,999	18	0.95	1,194,299	5.37
100,000 – 499,999	14	0.74	3,012,500	13.55
500,000 and over	4	0.22	14,391,588	64.72
	1,892		**22,237,923**	

Spread of Shareholding by Location as at 7 September 2005

	No. of Shareholders	%	Quantity of Shares Held	%
Upper North Island	410	21.67	2,623,088	11.80
Gisborne	308	16.28	372,171	1.67
Hawke's Bay	746	39.43	12,729,509	57.24
Manawatu/Wanganui/Wairarapa	208	11.00	277,447	1.24
Wellington	103	5.44	5,245,371	23.59
South Island	109	5.76	982,020	4.42
Overseas	8	0.42	8,317	0.04
Total	**1,892**		**22,237,923**	

CORPORATE GOVERNANCE

Role of the Board of Directors

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

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

Day-to-day management of REL and NZRPTML is delegated to Williams & Kettle (now part of Wrightson Limited) (W&K) pursuant to a Service Provision Agreement between REL and W&K. Agreement has been reached with W&K for that agreement to terminate on 30 September 2005. From that date REL will operate independently having retained the services of the key staff who were previously performing those duties under the Service Provision Agreement.

Board Membership

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

Board Committees

Both Boards have constituted Audit Committees.

The REL Audit Committee is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing external audit, liaison with REL's auditors and making recommendations to the Board as to their appointment and remuneration. This Audit Committee comprises Roger Bonifant (Chairman), David Cushing, Murray Gough, Brian Martin and Gerald Weenink.

The NZRPTML Audit Committee has the same responsibilities in respect of the Trust. This Audit Committee comprises Roger Bonifant (Chairman), David Cushing, Murray Gough, and Brian Martin.

DIRECTORY

Board of Directors

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Roger Bonifant
Director

Sir Ronald Carter
Director

David Cushing
Director

Brian Martin
Director

Gerald Weenink
Director

Executive

(Provided by Williams & Kettle part of Wrightson Limited under a 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

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rural equities LIMITED