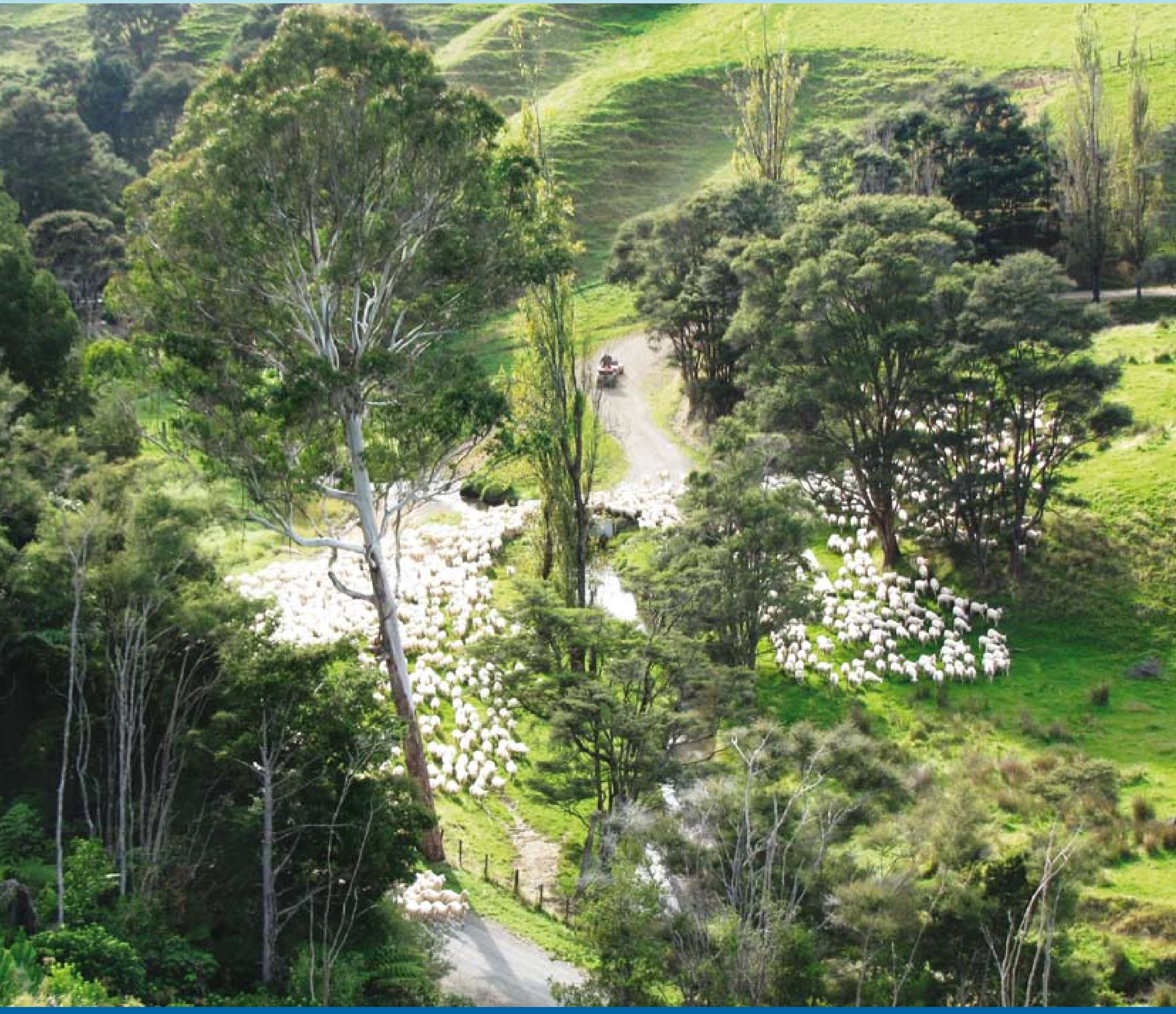
rural equities LIMITED

ANNUAL REPORT 2012



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NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in The Cushing Foyer, Hawke's Bay Opera House, 107 Hastings Street South, Hastings on Tuesday 27 November 2012 at 3.30pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2012 with the reports of the Directors and the Auditor.
2. To elect Directors. In accordance with clause 13.8 of the Company's constitution, Rodger Finlay and Andrew Train retire by rotation. Both are seeking re-election.
3. To confirm the appointment of PricewaterhouseCoopers as Auditor of the Company and to authorise the Directors to fix their remuneration for the ensuing year.
4 To increase the amount of Directors' remuneration paid to the Directors of the Company and Directors of any subsidiary of the Company from $200,000 per annum to $275,000 per annum, to be divided and paid among the Directors as they see fit.

Explanatory note:

Directors' remuneration was last increased at the Annual Meeting in 2006. The proposed increase follows a review of Directors' fees currently paid by the Company compared with other companies of a similar size and structure. The proposed increase will enable the Company to pay its Directors fair remuneration and in addition will make provision for additional remuneration to be paid with respect to the Executive Chairman following the creation of that role on 1 January 2012.

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 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, Hastings 4122 or PO Box 783, Hastings 4156) or posted to the Company's Share Registrar, Computershare Investor Services Limited, (Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622 or Private Bag 92119, Auckland 1142) to be received not less than 48 hours before the time of the Annual Meeting.

James Wright
CHIEF OPERATING OFFICER

Invitation

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

Chairman's Report

THE YEAR IN REVIEW

The Directors are pleased to present the 2012 Annual Report for the Rural Equities Limited Group.

The Group's audited Total Comprehensive Income for the year to 30 June 2012 was $15.8 million. This is a significant improvement on the $3.3 million achieved last year. The substantial increase in earnings reflects strong growth in the value of the Group's rural property portfolio during the financial year.

Important features of the year were:

- Net Asset Value (NAV) per share at 30 June 2012 was $4.47 which is a 13.2% increase from $3.95 as at 30 June 2011.
- The farm property portfolio increased in value by $14.3 million over the year resulting in Group total assets exceeding $200 million.
- Values for the 14 Canterbury farms increased on average by 14.9% compared with an average of 2.7% for the remainder of the farm portfolio.
- Operating Earnings reduced from $5.1 million to $2.9 million primarily due to significantly lower prices for milk, sheep and wool while beef returns remained steady.
- The six dairy farms achieved record milk production of over 1.53 million kilograms of milk solids.
- The forecast Fonterra milk price for the season ending 31 May 2012 reduced to $6.05 per kilogram of milk solids compared with $7.60 last year.
- A strategic review of the Group's rural property portfolio was undertaken recognising it had largely been unchanged for ten years. That review resulted in four properties being sold.
- Conversion of the Rocklea dairy farm in Canterbury from border-dyke to spray irrigation was completed with a 9% increase in milk production in the first year.
- Agreements to repurchase 4.76 million REL shares were entered into as part of the Group's capital management strategy.

Following the trend which began in the second half of the previous financial year, the rural property market continued to show increased activity, particularly in Canterbury where 14 of the Group's 29 farms are located. The valuations of those 14 farms rose on average by 14.9% whereas the remaining farm values increased by 2.7%. It is apparent that dairy and arable farms with reliable irrigation capability are being keenly sought in the market. There is also increased activity in the rural property market in other regions where values are generally steady.

In contrast to last year when prices received for livestock and farm produce rose substantially, this year saw significantly reduced milk, lamb and wool prices. Beef prices however at year end were similar to those that prevailed a year earlier although prices did peak in the middle of the year. Uncertainty remains in world financial markets, particularly Europe. This is contributing to the volatility we are seeing in commodity prices and currency values.

During the year Directors undertook a strategic review of the Group's rural property portfolio recognising that it had been held largely unchanged for over ten years. Following that review, to date four properties that have been owned for more than 22 years have been sold or have unconditional sale contracts in place. One block of the Waimahaka property, near the Manawatu Gorge, and the Ngaruawahia forest were settled prior to 30 June 2012. Ernsdale, (South Canterbury), Cedars (Mid Canterbury) and the other Waimahaka block will settle during the financial year ending 30 June 2013. Gross proceeds from the sale of the four properties will be $17.9 million.

The strategy to invest in properties within the portfolio continues. Various opportunities exist where changing the land use or completing infrastructure improvements could increase both earnings and the value of the property. The $1.0 million irrigation conversion project on the Rocklea dairy farm near Ashburton was completed early in the financial year. This involved conversion from border-dyke to spray irrigation using three centre pivot irrigators. Greater efficiency in the use of irrigation water occurs with spray irrigation which provides a significant increase in pasture growth and therefore milk production. Already a

Irrigation sprinklers at Rocklea

Angus heifers at Waikoha

9% increase in milk production has been achieved and in total a 25% increase is expected.

There was further investment in developing the farms in the Waikato group this year. The Annandale, Puketotara and Waikoha properties comprising 4,170 hectares and running 30,000 stock units, are managed as an integrated sheep and beef farming group. The majority of the development plan which includes fencing, stock water systems, pasture renewal, farm access, gorse control and capital fertiliser is complete although there will be ongoing management input in order to intensify and fine tune the livestock and grazing management systems. Benefits are becoming evident with production of lambs, beef and wool from these farms showing steady annual increases.

There are also various irrigation schemes at different stages of development that could potentially enhance the value of some farms in the portfolio. The proposed Tarras irrigation scheme in Central Otago which will potentially allow 350 hectares of the Blairmore property to be irrigated is likely to be the first such opportunity considered.

CAPITAL MANAGEMENT

As part of REL's capital management strategy, Directors entered into agreements to repurchase 4.76 million REL shares from three institutional investors at an average price of $3.19. The repurchase of these shares and their subsequent cancellation has resulted in a significant financial benefit to remaining shareholders. Based on the latest NAV per share, shareholders' equity has increased by $5.4 million due to these initiatives.

DIVIDEND

The Directors are pleased to advise that a fully imputed dividend of 5 cents per share will be paid with respect to the financial year ending 30 June 2012. The record date will be 16 November 2012 and the dividend will be paid on 28 November 2012.

FINANCIAL PERFORMANCE

Operating Earnings reduced from $5.1 million to $2.9 million primarily due to significantly lower prices for milk, sheep, and wool although farm operating expenses increased as a consequence of higher supplementary feed inputs on the six dairy farms together with a larger pasture renewal programme and increased fertiliser applications on many farms.

Rental income from leased properties was 4% higher than last year at $2.9 million. The farm rental market saw modest increases in rents across all sectors with more marked gains particularly where land is suitable for dairy grazing and support activities. As in the past, fair market rents will continue to be set to reflect the productive capability, improvements on, and the value of each farm.

Revaluations this year comprise an upward movement of $13.4 million which includes a loss of $846,000 on the sale of the Ngaruawahia forest.

The resulting Total Comprehensive Income is $15.8 million for the year ended 30 June 2012 which is a pleasing $12.5 million increase on the $3.3 million achieved last year.

BALANCE SHEET

Total assets have increased by $8.8 million to $201.6 million. Bank debt held by the Group increased by $5.0 million over the year primarily reflecting the use of funds to repurchase REL shares. A total of $3.3 million remains to be paid in relation to the repurchase of the REL shares which is classified as a current liability.

Only $4.8 million of the total proceeds of $17.9 million from the sale of the four properties had been received as at 30 June 2012 with the balance to be received during the financial year ending 30 June 2013.

Equity was $167.3 million at year end with a reduction in share capital arising from the repurchase of shares being offset by an increase in retained earnings and the asset revaluation reserve. The Group is in a very strong financial position with low debt relative to its assets (approximately 14%).

AUDITORS AND VALUERS

During the financial year, in accordance with best corporate governance practice, PricewaterhouseCoopers was appointed the Group's Auditor replacing Ernst & Young who had been Auditor since 2004.

In line with the Group's valuer rotation policy, Property Advisory Limited was appointed lead valuer to undertake the valuation of the Group's rural property portfolio commencing with the valuations for the 30 June 2012 financial statements.

DIRECTORS

On 1 January 2012 David Cushing was appointed the Company's Executive Chairman and Rodger Finlay was appointed Deputy Chairman.

The Directors acknowledge the outstanding contribution of Sir Selwyn Cushing and Murray Gough, who had served as Chairman and Deputy Chairman respectively since the Company was separated from Williams & Kettle Limited in 2004 – both will continue as Directors of REL.

In accordance with the Company's constitution, Rodger Finlay and Andrew Train retire by rotation at the Annual Meeting on 27 November 2012. Both are seeking re-election.

OUTLOOK

It is anticipated volatility in the markets will continue. Europe's fragile economic situation and soft market for lamb is likely to continue to impact on sheep returns for the coming year. The second consecutive serious drought in key agricultural areas of the United States is already

Sowing new grass at Rocklea

Ewes and lambs at Glendowns

causing grain prices to increase significantly which in turn will raise the cost of producing both beef and milk. As a result, beef and milk production in the United States is expected to decline in the coming year with a follow-on benefit to New Zealand. Accordingly, beef schedules are anticipated to be stable at current levels and to firm as the year progresses.

An increase in global milk production over the last year has resulted in a greater supply of exported dairy products from the larger dairy producing countries, particularly the United States. Demand for dairy products is still solid with emerging eastern markets still growing. In a similar situation to beef, reduced supply of dairy products in global markets is expected to cause prices to improve over the coming season. There is initial evidence of this beginning to occur which is promising.

REL will continue to focus on improving the operating performance and enhancing the existing portfolio. The Directors' believe that the long term prospects for quality New Zealand rural properties are excellent due to increasing international demand for food supplies. REL is in a strong position to benefit from any upturn in the agricultural sector with an outstanding portfolio of rural properties and low debts levels. The Company is soundly placed.

David Cushing
Executive Chairman

Farming Review

The Rural Equities Limited Group owns 29 farms comprising 13,423 hectares. The farms are a mix of sheep and beef, dairy, deer and arable farms that are spread throughout New Zealand from northern Waikato to Southland. There are 17 properties in the South Island and 12 in the North Island. Nine farms are directly managed comprising 5,361 hectares. Six of the directly managed farms are dairy farms, all with 50/50 sharemilkers, and the remaining three are the Waikato sheep and beef farms. The six dairy farms total 1,190 hectares and milk approximately 3,800 cows. The three Waikato group farms comprise 4,171 hectares and run approximately 30,000 stock units.

Dairy cows on winter feed crop at Shenstone

FARMED PROPERTIES

The directly managed farms produced another solid contribution to profit in the year to 30 June 2012 of $2.63 million. This compares with $4.82 million last year and $2.53 million in the year prior to that. The significantly lower Fonterra milk price for the season ending 31 May 2012 combined with declining sheep and wool prices for the majority of the season were the main contributing factors to the lower result.

Favourable climatic conditions in all parts of the country throughout most of the year were a welcome change although both Southland dairy farms experienced an unseasonal dry period in late spring affecting milk production during the peak of the season and the ability to make silage for supplementary and winter feed. A strong autumn in all areas meant cows could be milked until late May.

This season just over 1.53 million kilograms of milk solids were supplied to Fonterra - a 6% increase from the previous season. This is an excellent result and a record for the six dairy farms. Additional supplementary feed used during the shoulders of the season and more grass growth during the main part of the season both contributed to the record production. All farms equalled or improved on milk production from last season with particularly good performances from the Delorain (Taranaki) and Milford (South Canterbury) farms. The forecast Fonterra payout for the season ending 31 May 2012 of $6.05 per kilogram of milk solids is a $1.55 per kilogram reduction from last season's payout. The final milk price for the season will be announced by Fonterra in late September 2012. Looking ahead to the season ending 31 May 2013, Fonterra has indicated a forecast milk price of $5.25 per kilogram of milk solids. This will further reduce dairy farm income, however we are hopeful that world markets for dairy products will rebound quickly thereby providing an improvement in the milk price as the season progresses.

The Rocklea dairy farm comprises 189 hectares and is located near Ashburton. It was previously irrigated by a border-dyke flood irrigation system and identified as a property that is capable of improved productivity and income earning ability by investing to enhance the irrigation system. As a result, a major irrigation conversion project was undertaken at Rocklea in time to commence irrigating during the spring of 2011. This has seen the installation of three centre pivot irrigators with an underground mainline network and surface water pump, a new stock water scheme, relocated farm lanes and new fencing. This project, which cost $1.0 million, is effectively a complete redevelopment of the farm which will allow an additional 80 cows to be milked and will increase Rocklea's milk production by an estimated 55,000 kilograms of milk solids per season. In the season ending 31 May 2013 720 cows will be milked.

Fonterra loading milk at Rocklea

Another significant development project this year was the installation of an underpass at the Shenstone dairy farm in Southland. Shenstone comprises just over 400 hectares - 313 hectares are owned plus an adjacent leased block of 90 hectares. The property is divided by a busy road and has a milking herd of 930 cows. The underpass or tunnel under the road provides maximum grazing flexibility and allows the cows to safely cross under the road without farm staff supervision or risk of an accident.

Caring responsibly for the environment is given a high priority within the REL Group. On the dairy farms, effluent management is a key operational requirement recognising that the nutrient value derived from spreading the effluent on pasture enhances pasture production and reduces the quantity of fertiliser required, thereby reducing costs. Resource consent compliance requirements change frequently and often lead to additional capital investment being necessary in order to be able to renew the consents at the required ten yearly intervals. An example of this is at the Shenstone dairy farm in Southland where an additional effluent storage pond that provides storage for 90 days of effluent is under construction.

Fonterra, in conjunction with regional councils, is implementing a policy to exclude dairy cows from all farm waterways as a condition of supply. The six dairy farms have been fully compliant with this requirement for a number of years with all drains, streams and rivers fenced to exclude cows. Tree planting for livestock shelter and amenity value is an ongoing project.

At Waikoha, one of the Waikato sheep and beef farms, approximately three kilometres of fencing has been completed this year along the banks of the Kanikaniwha Stream following clearance of willows by the regional council. Also at Waikoha, attractive stands of mature Kahikatea trees have been fenced to exclude stock and encourage native plant regeneration. This winter, native seedlings have been planted in some of the fenced areas to enhance the regeneration process.

WAIKATO FARM GROUP

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

Two years ago a major development programme was completed at Annandale. This included subdivision fencing creating 130 paddocks, each with reticulated water, and a lane system to assist stock movement and access around the farm. This subdivision allows an intensive farm management system to be operated with proper control of pasture through a planned grazing system. Uncharacteristic dry summers in the Waikato precluded anticipated early progress and increases in livestock numbers, however there is now a sound productive base from which to work. The quantities of lambs, beef and wool produced are expected to show steady increases as pasture growth and utilisation improves.

Cow underpass at Shenstone

Puketotara (1,146 hectares) is an easy contoured property located west of Huntly. The farming policy is to run a predominantly bull beef finishing operation where currently over 1,800 cattle are farmed and up to 8,000 lambs are

Unloading lambs at Puketotara

traded and finished annually. Puketotara has been directly farmed since August 2008. Beef trading at Puketotara was very profitable this year as peak prices prevailed during the period when over 1,000 bulls were sent for slaughter. The average carcass weight of the bulls was 46kg (15%) heavier and the average sale value was $330 (28%) higher than the previous season. In contrast, lamb trading was difficult. Although liveweight gains for the lambs were good, acceptable margins could not be obtained with meat schedule prices declining as the season progressed. The pasture renewal programme at Puketotara continues as an integral part of the lamb finishing operation. Over 300 hectares now have new or overdrilled pastures.

Waikoha has been directly farmed since 2006. A major development programme continues on this 2,510 hectare hill country sheep and beef breeding property which is a specialist breeding unit that sends all surplus progeny to Annandale or Puketotara for finishing. All of the Waikato farms were previously leased but are now directly farmed so that REL can obtain full advantage and value from the development programmes on these farms. This year at Waikoha, more of the internal fences have been replaced and additional fertiliser was applied over much of the hill country. The management focus is now on growing more grass, improving the performance of the breeding ewe flock and increasing ewe hogget growth rates whilst steadily increasing sheep numbers.

Shearing at Waikoha

FORESTRY

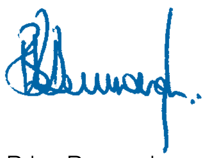
The Ngaruawahia forest was sold during the year. The first tree crop from Ngaruawahia had been harvested and the 830 hectares replanted. At the time of sale the trees were of varying ages up to ten years old. Low financial returns, the long wait until the next harvest combined with the ongoing costs to prune and thin the second tree crop, as well as the desire to concentrate on pastoral farming were factors in the decision to sell the forest. The Group now has only minor forestry interests comprising smaller plantations on some of the farms. The largest of these is at Waikoha where an area of 30 hectares that is unsuitable for pastoral use is planted in pinus radiata. There are areas of Waikoha that may be suitable for forestry to earn carbon credits, however the current low prices for New Zealand Units (carbon credits) does not justify any such investment.

LEASED PROPERTIES

The Trust's rental income is derived from the 20 farms that are leased. The steady income base these properties provide to the Group is significant. These properties are located in Hawke's Bay, Manawatu, Canterbury and Otago and form an integral part of the geographically diversified farm portfolio. Rent reviews are completed every two years. This year the reviewed rents have resulted in modest increases in rents across all sectors with more marked gains particularly where land is suitable for dairy grazing and support activities. This demand from established dairy farmers is now having the effect of increasing farm rents for pastoral land in areas that were not previously considered for dairy support.

Opportunities to develop and change the land use of some of the leased farms have been identified, particularly where there is potential to be part of proposed irrigation schemes or conversion to dairy farms. These opportunities will be taken up where economic viability is justified and improved financial returns as well as higher property values will result.

The name, location, size and type of property for each farm in the Group's portfolio are shown in the Farm Property Schedule and farm location map on page 7 of this report.



Brian Burrough
Chief Executive Officer

Farm Property Schedule

As at 30 June 2012

Property	Type	Region	Total Hectares	Management	Livestock Units (approx.)
Annandale	Sheep/Beef Finishing	Waikato	515	Managed	5,000
Barry's Bay	Sheep/Beef Grazing	Banks Peninsula Canterbury	573	Leased	4,000
Blairmore	Sheep/Beef/Deer Grazing	Central Otago	647	Leased	4,100
Cedars*	Arable	Canterbury	237	Leased	n/a
Clifton	Sheep/Beef Finishing	North Canterbury	656	Leased	5,400
Dalmuir	Arable	South Canterbury	219	Leased	n/a
Delorain	Dairy	Taranaki	101	Sharemilked	300 cows
Eiffelton	Dairy Grazing	Canterbury	396	Leased	n/a
Ernsdale*	Sheep/Beef Finishing	South Canterbury	368	Leased	3,500
Flimby	Arable	Canterbury	266	Leased	n/a
Glendowns	Sheep/Beef Finishing	South Canterbury	399	Leased	4,100
Highlands	Deer Breeding / Finishing	Canterbury	380	Leased	3,800
Maranoa	Deer Breeding / Finishing	Hawke's Bay	306	Leased	3,500
Marchfield	Sheep/Beef/Deer Finishing	Hawke's Bay	481	Leased	5,000
Middle Hills	Sheep/Beef Finishing	Hawke's Bay	545	Leased	6,000
Milford	Dairy	South Canterbury	177	Sharemilked	725 cows
Penshurst	Dairy	Manawatu	257	Sharemilked	725 cows
Pukekura	Sheep/Beef Finishing	Hawke's Bay	444	Leased	3,700
Puketotara	Sheep/Beef Finishing	Waikato	1,146	Managed	12,000
Rocklea	Dairy	Canterbury	189	Sharemilked	720 cows
Rollesby	Sheep/Beef Grazing	North Canterbury	323	Leased	3,500
Shenstone	Dairy	Southland	313	Sharemilked	930 cows
Silverton	Sheep/Beef Finishing	Manawatu	546	Leased	7,000
Tahuna	Sheep/Beef Finishing	Hawke's Bay	580	Leased	5,500
Tatarepo	Dairy	Southland	153	Sharemilked	420 cows
Waikoha	Sheep/Beef Grazing	Waikato	2,510	Managed	13,000
Waimahaka*	Dairy Grazing	Manawatu	84	Leased	n/a
Wentworth	Arable	Canterbury	161	Leased	n/a
Woodlands	Arable	South Canterbury	451	Leased	n/a
Total Landholding - Farms			13,423		

** Farms under unconditional contract for sale.*

Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Revenue					
Farm income	3	7,360	8,772	-	-
Leased property income		2,886	2,783	-	-
Inter group administration fee		-	-	1,200	1,200
Other income		315	299	312	296
Total		**10,561**	**11,854**	**1,512**	**1,496**
Operating Expenses					
Farm operating expenses		4,727	3,946	-	-
Leased property expenses		207	168	-	-
Interest costs		1,297	1,206	1,134	810
Other expenses		1,404	1,373	1,213	1,199
Total	5	**7,635**	**6,693**	**2,347**	**2,009**
Profit (loss) before other items		**2,926**	**5,161**	**(835)**	**(513)**
Other items					
Insurance proceeds	9	-	560	-	-
Loss on disposal of forest assets	16	(846)	-	-	-
Impairment of investment in subsidiary	18	-	-	-	(1,829)
Revaluations	4	11,504	(1,637)	(26)	-
Total other items		**10,658**	**(1,077)**	**(26)**	**(1,829)**
Net profit (loss) before tax		**13,584**	**4,084**	**(861)**	**(2,342)**
Income tax expense (credit)	7	492	1,176	(2)	2
Net profit (loss) after tax	6	**13,092**	**2,908**	**(859)**	**(2,344)**
Other comprehensive income					
Revaluation of property, plant and equipment	4	2,750	362	20	57
Tax on other comprehensive income	7	85	13	8	13
Total other comprehensive income net of tax		2,665	349	12	44
Total comprehensive income		**15,757**	**3,257**	**(847)**	**(2,300)**
Earnings per share - basic and diluted - $ per share	20	$0.33	$0.07		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2012

GROUP	Notes	Fully Paid Ordinary Shares $000	Asset Revaluation Reserve $000	Retained Earnings $000	Total $000
At 1 July 2010		**107,122**	**6,224**	**50,155**	**163,501**
Net profit after tax for the year		-	-	2,908	2,908
Other comprehensive income net of tax		-	349	-	349
Total comprehensive income		**-**	**349**	**2,908**	**3,257**
At 30 June 2011	11	**107,122**	**6,573**	**53,063**	**166,758**
At 1 July 2011		**107,122**	**6,573**	**53,063**	**166,758**
Net profit after tax for the year		-	-	13,092	13,092
Other comprehensive income net of tax		-	2,665	-	2,665
Total comprehensive income		**-**	**2,665**	**13,092**	**15,757**
Share repurchase and cancellation		(15,212)	-	-	(15,212)
At 30 June 2012	11	**91,910**	**9,238**	**66,155**	**167,303**

PARENT COMPANY	Notes	Fully Paid Ordinary Shares $000	Asset Revaluation Reserve $000	Retained Earnings $000	Total $000
At 1 July 2010		**107,122**	**-**	**(7,691)**	**99,431**
Net loss after tax for the year		-	-	(2,344)	(2,344)
Other comprehensive income net of tax		-	44	-	44
Total comprehensive income		**-**	**44**	**(2,344)**	**(2,300)**
At 30 June 2011	11	**107,122**	**44**	**(10,035)**	**97,131**
At 1 July 2011		**107,122**	**44**	**(10,035)**	**97,131**
Net loss after tax for the year		-	-	(859)	(859)
Other comprehensive income net of tax		-	12	-	12
Total comprehensive income		**-**	**12**	**(859)**	**(847)**
Share repurchase and cancellation		(15,212)	-	-	(15,212)
At 30 June 2012	11	**91,910**	**56**	**(10,894)**	**81,072**

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2012

	Notes	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current Assets					
Cash at bank		116	34	1	10
Accounts receivable		997	1,936	74	76
Receivable from subsidiary		-	-	-	6,128
Properties under contract for sale	13	12,832	-	-	-
Livestock	17	1,697	1,740	-	-
Feed on hand		560	547	-	-
Total		16,202	4,257	75	6,214
Non Current Assets					
Investment properties	12	144,448	147,329	-	-
Property, plant and equipment	14	31,155	29,466	583	596
Livestock	17	2,450	2,498	-	-
Forest	16	62	2,304	-	-
Shares in Fonterra Co-operative Group Limited	18	7,015	6,712	-	-
Other investments	18	264	207	113,696	113,696
Total		185,394	188,516	114,279	114,292
Total Assets		**201,596**	**192,773**	**114,354**	**120,506**
Current Liabilities					
Accounts payable and accrued expenses		1,772	1,661	321	315
Provision for tax		237	-	-	-
Other current liabilities	11	3,270	-	3,270	-
Payable to subsidiaries		-	-	2,278	703
Total		5,279	1,661	5,869	1,018
Term Liabilities					
Bank loans	19	27,400	22,350	27,400	22,350
Deferred tax liability	7	1,614	2,004	13	7
Total		29,014	24,354	27,413	22,357
Equity					
Fully paid up ordinary shares		91,910	107,122	91,910	107,122
Asset revaluation reserve		9,238	6,573	30	44
Retained earnings		66,155	53,063	(10,868)	(10,035)
Total	11	167,303	166,758	81,072	97,131
Total Liabilities and Equity		**201,596**	**192,773**	**114,354**	**120,506**

On behalf of the Directors, who authorised the issue of these financial statements, dated 30 August 2012.

David Cushing
EXECUTIVE CHAIRMAN

Murray Gough
DIRECTOR

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2012

	Notes	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		13,037	11,430	314	313
Other receipts		-	-	1,200	1,200
Tax refund		-	27	-	27
Interest received		3	3	-	-
		13,040	11,460	1,514	1,540
Cash was applied to:					
Payments to suppliers and employees		7,643	6,436	1,208	1,146
Taxation paid		730	-	-	-
Interest paid		1,283	1,088	1,120	692
		9,656	7,524	2,328	1,838
Net cash flows from operating activities	6	**3,384**	**3,936**	**(814)**	**(298)**
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of investment property		2,157	-	-	-
Proceeds from sale of a forest		1,465	-	-	-
Proceeds from sale of property, plant and equipment		1,490	4	-	-
		5,112	4	-	-
Cash was applied to:					
Improvements to investment properties		630	405	-	-
Improvements to other properties		427	1,279	-	505
Purchases of plant and equipment		408	607	6	22
Purchase of shares		57	222	-	-
		1,522	2,513	6	527
Net cash flows from investing activities		**3,590**	**(2,509)**	**(6)**	**(527)**
Cash flows from financing activities					
Cash was provided from:					
Repayment by subsidiary		-	-	7,703	2,234
Term loans advance		5,050	-	5,050	-
		5,050	-	12,753	2,234
Cash was applied to:					
Term loans reduction		-	1,350	-	1,350
Share repurchase and cancellation	11	11,942	-	11,942	-
		11,942	1,350	11,942	1,350
Net cash flows from financing activities		**(6,892)**	**(1,350)**	**811**	**884**
Net increase (decrease) in cash held		**82**	**77**	**(9)**	**59**
Cash at start of period		34	(43)	10	(49)
Cash at end of period		**116**	**34**	**1**	**10**
Cash at bank		**116**	**34**	**1**	**10**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Rural Equities Limited is a company registered in New Zealand under the Companies Act 1993. The Company is a listed issuer for the purposes of the Financial Reporting Act 1993 and the financial statements have been prepared in accordance with that Act.

The Group ("the Group") consists of:

(a) The parent, Rural Equities Limited ("the Company") ("REL")

(b) The subsidiaries, New Zealand Rural Property Trust Management Limited, REL - Trust Management Limited and the New Zealand Rural Property Trust ("the Trust").

REL's ultimate parent company is H&G Limited.

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

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 using a historical cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

STATEMENT OF COMPLIANCE

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies. The accounting policies set out below have been applied consistently to both periods presented in these financial statements. Where necessary, comparative information has been reclassified in order to provide a more appropriate basis for comparison.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

(a) Basis of Consolidation

The consolidated financial statements include the parent company and its subsidiaries. In preparing the consolidated financial statements all significant inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method.

(b) Property, Plant and Equipment

Land and Buildings

Land and buildings are recorded at fair value, based on annual valuations prepared by registered independent valuers.

All properties are revalued annually as at 30 June.

Any revaluation increment is credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within net profit in the Statement of Comprehensive Income, in which case the increase is recognised within net profit in the Statement of Comprehensive Income.

Any revaluation decrease is recognised within net profit in the Statement of Comprehensive Income for the period except to the extent that it offsets a previous revaluation increase for the same asset, then the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance in the revaluation reserve for that asset.

Buildings are depreciated on a straight-line basis over 50 years.

Plant 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.

(c) Investment Properties

Investment properties are initially recorded at cost. Subsequent to initial recognition investment properties are revalued to fair value based on annual valuations prepared by registered independent valuers.

All investment properties are revalued annually as at 30 June.

Changes in value are recorded within net profit in the Statement of Comprehensive Income for the period.

(d) Properties under Contract for Sale

Properties under contract for sale comprise land and buildings that have been sold unconditionally. They are classified under current assets and are recorded at sale value less estimated sale costs.

(e) Forest Assets

Forest assets are recorded at fair value, less estimated point of sale costs, based on valuations by independent valuers.

(f) Investments

Investments, other than the parent company investment in subsidiaries, are initially recorded at cost and subsequently revalued to fair value. Changes in fair value are recorded within net profit in the Statement of Comprehensive Income.

Investments have been designated as "at fair value through profit or loss" on the basis that the assets are both managed and their performance is evaluated on a fair value basis as part of a documented investment strategy.

Investments in subsidiaries are recognised at cost less any provision for impairment.

(g) Livestock

Livestock are recorded at fair value as assessed by an independent valuer, less estimated point of sale costs. Changes in fair value are recorded within net profit in the Statement of Comprehensive Income. Livestock are classified as a current asset if they are likely to be sold within one year.

(h) Taxation

The income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation.

A deferred tax asset relating to unused tax losses is only recognised to the extent that taxable profits will be available against which the tax losses can be utilised.

(i) Goods and Services Tax

The financial statements have been prepared on a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

(j) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any impairment losses.

(k) Trade and Other Payables

Trade payables are carried at amortised cost. They represent liabilities for goods and services provided prior to balance date that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Cash and Cash Equivalents

For purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank, short term deposits and bank overdrafts.

(m) Revenue Recognition

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

Farm income consists mainly of milk, wool and livestock sales.

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

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

(n) Interest-bearing Loans and Borrowings

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

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

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

(o) Derivative Financial Instruments

Derivative financial instruments are used to economically hedge exposure to interest rates. 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 within net profit in the Statement of Comprehensive Income.

(p) Feed on Hand

Feed on hand consists of livestock feed either purchased or produced on the farms. Feed on hand is valued at the lower of cost or net realisable value.

(q) Carbon Credits – New Zealand Units ("NZUs")

Allocations of NZUs are recognised where the Group is reasonably certain that they will be received. The Group's NZUs arise from current and past ownership of pre 1990 forest land. NZUs are treated as intangible assets and are carried at cost.

NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND 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, as assessed by independent registered valuers who estimate the amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment properties.

ii) Share Milking Arrangements - The Group has share milking agreements in place on six (2011 six) of its properties. The essential nature of these agreements is that of a tenancy and so these properties are treated as investment properties. Therefore all changes in value are recorded in the Statement of Comprehensive Income.

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

iv) Milk Proceeds - The Group estimates and accrues the final milk proceeds for the dairy season using the latest milk payout amount announced by Fonterra prior to the finalisation of the financial statements. The final amount received could be different from the amount accrued.

NOTE 3 FARM INCOME

Farm income comprises:	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Milk income	4,906	5,678	-	-
Livestock income (refer note 17)	2,115	2,804	-	-
Other income	339	290	-	-
	7,360	8,772	-	-

NOTE 4 REVALUATIONS

Revaluations recognised in profit and loss:	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Investment properties	11,297	2,393	-	-
Property, plant and equipment (refer note 1(b))	207	(4,075)	(26)	-
Forest assets	-	45	-	-
	11,504	(1,637)	(26)	-
Revaluations recognised in other comprehensive income:				
Property, plant and equipment (refer note 1(b))	2,750	362	20	57

NOTE 5 EXPENSES

Specific disclosures are as follows:	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Depreciation - on plant and equipment	349	281	9	12
Depreciation - on buildings	33	34	4	2
Directors' fees	198	200	198	200
Operating lease costs	198	254	32	39
Audit fees (PwC in 2012, E&Y in 2011)	40	39	14	13
Fees paid to PwC for advisory work	15	13	8	8
Key management remuneration - short term benefits	656	656	656	656
Other employee remuneration	513	499	58	35
Loss (gain) in fair value of derivatives	42	18	42	18

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

NOTE 6 CASH FLOW RECONCILIATION

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Net profit (loss) after tax	13,092	2,908	(859)	(2,344)
Add (deduct) non-cash items:				
Depreciation	382	315	13	14
Impairment of investment in subsidiary	-	-	-	1,828
Revaluation movements	(11,504)	1,637	26	-
	(11,122)	1,952	39	1,842
Changes in assets and liabilities:				
Change in accounts payable and accrued expenses	111	423	6	158
Change in provision for tax	237	27	-	27
Change in deferred taxation	(475)	1,176	(2)	2
Change in livestock and feed on hand	78	(1,616)	-	-
Change in accounts receivable	939	(880)	2	17
	890	(870)	6	204
Add (deduct) non-operating items:				
Non-operating items in accounts payable	(318)	(50)	-	-
Realised (gains) losses on asset sales	842	(4)	-	-
	524	(54)	-	-
Net cash flows from operating activities	3,384	3,936	(814)	(298)

NOTE 7 TAXATION

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Statement of Comprehensive Income				
Net profit (loss) before tax	13,584	4,084	(861)	(2,342)
Tax at the statutory rate of 28% (2011 30%)	3,804	1,225	(241)	(703)
Adjusted for the tax effect of:				
Non assessable property revaluations	(3,100)	509	7	-
Non assessable income	(74)	(333)	-	-
Non deductible impairment	-	-	-	549
Depreciation on land improvements	(148)	(172)	-	-
Group loss offset	-	-	231	148
Other items	10	(53)	1	8
Tax expense (credit)	492	1,176	(2)	2
Represented by:				
Current tax	967	-	-	-
Deferred tax	(475)	1,176	(2)	2
	492	1,176	(2)	2
Balance Sheet				
Deferred tax liabilities relate to the following:				
Buildings depreciation and revaluation	1,620	1,376	21	13
Forest operations and revaluation	17	645	-	-
Plant depreciation	(78)	(77)	-	-
Livestock revaluation	17	121	-	-
Recognition of tax losses	-	(104)	-	-
Other items	38	43	(8)	(6)
Total	1,614	2,004	13	7
Changes to deferred tax provision:				
1) Recognised in profit or loss				
Buildings depreciation and revaluation	159	83	-	-
Forest operations and revaluation	(628)	116	-	-
Plant depreciation	(1)	(6)	-	(1)
Livestock revaluation	(104)	155	-	-
Utilisation of tax losses	104	758	-	-
Other items	(5)	70	(2)	3
	(475)	1,176	(2)	2
2) Recognised in other comprehensive income	85	13	8	13
Total change in deferred tax provision	(390)	1,189	6	15

NOTE 8 IMPUTATION CREDIT ACCOUNT

	PARENT 2012 $000	PARENT 2011 $000
Imputation credits available for subsequent reporting periods	1,131	163

The above amounts represent the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

NOTE 9 INSURANCE PROCEEDS

In February 2011 the homestead on the Annandale property was destroyed by fire. The homestead was insured for replacement value. Agreement was reached with the underwriter for a cash settlement in lieu of replacement. This amount is accounted for as income as at 30 June 2011 and payment was received in July 2011. The 2011 annual revaluation of the property accounted for the loss of the homestead in the Statement of Comprehensive Income.

NOTE 10 FINANCIAL INSTRUMENTS

Financial Instrument Classification

The carrying amounts of financial instruments by category are:

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Loans and receivables:				
Accounts receivable	997	1,936	74	6,204
Cash at bank	116	34	1	10
Financial assets at fair value through profit or loss:				
Designated - shares	7,279	6,919	-	-
Properties under contract for sale	12,832	-	-	-
Financial liabilities measured at amortised cost:				
Bank loans and overdraft	27,400	22,350	27,400	22,350
Accounts payable and accruals	5,042	1,661	5,869	1,018

Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. All interest rates are fixed for periods of 100 days or less. As at 30 June 2012 the Group had entered into interest rate swaps to manage 36% (2011 80%) of the interest rate risk on its borrowing.

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

The effect on the Group's profit after tax and the Group's equity of a 1% change in interest rates is $197,000 (2011 $161,000).

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

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Less than one year	10,000	8,000	10,000	8,000
Between one and two years	-	10,000	-	10,000
	10,000	18,000	10,000	18,000

FINANCIAL INSTRUMENTS - *continued*

Commodity Price Risk

The Group is exposed to price risk on a number of agricultural commodities including wool, meat and milk solids. The Directors have identified changes to milk solid prices as having a material impact on profit. The effect on the Group's profit after tax and the Group's equity of a change in the price of milk solids of $1.00 per kilogram would be $553,000 (2011 $522,000).

Market Price Risk

Shares in Fonterra Co-operative Group Limited are valued at a price set by Fonterra each year. If the price changed by 10% the effect on the Group's profit after tax and the Group's equity would be $702,000 (2011 $671,000).

Credit Risk

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

Included in accounts receivable is $728,000 (2011 $1,092,000) receivable from Fonterra Co-operative Group Ltd. There are no other significant concentrations of credit risk.

Maximum exposures to credit risk are:	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Cash at bank	116	34	1	10
Accounts receivable	997	1,936	74	76
Accounts receivable from subsidiary	-	-	-	6,128

Fair Values

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

Liquidity Risk

The Group's approach to liquidity risk management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to returns.

Liquidity is assessed by using all information known, expected cash flows and the availability of collateral which could be used to secure additional funding if required. The Company's bank facility runs until 5 May 2014.

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

	2012 Less than 12 months $000	2012 1 to 3 years $000	2011 Less than 12 months $000	2011 1 to 3 years $000
Accounts payable and accrued expenses	4,891	-	1,482	-
Interest bearing loans (incl. contracted interest)	27,551	-	22,529	-
	32,442	-	24,011	-

Fair Value of Financial Instruments

The fair values of financial assets designated at fair value through profit or loss are based on quoted prices in an active market for identical assets (Level 1 in the valuation hierarchy). The only material investment in this category is shares in Fonterra Co-operative Group Limited. The quoted price is the price at which Fonterra would have redeemed the shares as at 30 June 2012 if the Group requested a share redemption and complied with the redemption conditions.

NOTE 11 EQUITY

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Share capital	91,910	107,122	91,910	107,122
Revaluation reserve	9,238	6,573	56	44
Retained earnings (accumulated deficit)	66,155	53,063	(10,894)	(10,035)
Total	167,303	166,758	81,072	97,131

Share Capital

There are 38,407,824 shares on issue (2011 42,168,932).

	GROUP AND COMPANY NUMBER OF SHARES		GROUP AND COMPANY VALUE	
	2012 000	2011 000	2012 $000	2011 $000
Opening balance	42,169	42,169	107,122	107,122
Shares repurchased and cancelled - see below	(3,761)	-	(11,942)	-
Closing balance	38,408	42,169	95,180	107,122
Shares subject to deferred settlement repurchase agreement and subsequent cancellation - see below	(1,000)	-	(3,270)	-
	37,408	42,169	91,910	107,122

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.

On 2 September 2011 the Company repurchased 2,036,108 shares at $3.15 per share from two investors - Citation Insurance Company and Physicians Insurance Company of Ohio - and cancelled the shares.

The Company entered into an agreement with Rotorua Energy Charitable Trust to repurchase 2,725,000 shares at an average price of $3.23 per share. Settlement for 1,725,000 shares at $3.20 took place on 30 March 2012 and the shares were subsequently cancelled. Settlement for the remaining 1,000,000 shares for $3,270,000 is due to take place on 4 October 2012. This amount is classified as a current liability in the balance sheet. The shares will then be cancelled on 4 October 2012.

Capital Maintenance

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

NOTE 12 INVESTMENT PROPERTIES

	GROUP 2012 $000	GROUP 2011 $000
Opening balance	147,329	144,356
Additions	441	580
Disposals	(1,787)	-
Transfer to Properties under Contract for Sale	(12,832)	-
Revaluations	11,297	2,393
Closing balance	144,448	147,329

All investment properties held as non current assets were valued as at 30 June 2012 by independent registered valuers, Property Advisory Limited or Curnow Tizard Limited (2011 Telfer Young Limited). The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

INVESTMENT PROPERTIES - *continued*

Where a property is subject to a lease arrangement the terms and conditions of the lease have been assessed, including exit provisions, and the value of the Group's investment as lessor is established.

A discounted cash flow model is used in situations where there is an absence of sales of properties with a similar lease arrangement to adjust the unencumbered market value of the properties to the value of the Group's interest as lessor. The total lease encumbrance is $1,807,000 (2011 $1,326,000).

Valuations by valuer	GROUP 2012 $000	GROUP 2011 $000
Curnow Tizard Limited	47,191	-
Property Advisory Limited	97,257	-
Telfer Young Limited	-	147,329
	144,448	147,329

NOTE 13 PROPERTIES UNDER CONTRACT FOR SALE

	GROUP 2012 $000	GROUP 2011 $000
Transferred from Investment Property	12,832	-

In September 2011 the Directors undertook a strategic review of the Group's rural property portfolio to consider the structure, components and diversification of the portfolio, recognising that the portfolio had been held largely unchanged for ten years. Following that review, four properties that were owned for more than 22 years have been sold unconditionally. At 30 June 2012, the sale of two of the properties and a portion of a third property remain to be settled. Settlement will be completed by 30 June 2013. These properties have been valued at their net sale proceeds.

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Land and Buildings				
Opening balance	27,995	30,790	560	-
Additions	196	952	-	505
Disposals	(1,465)	-	-	-
Depreciation	(33)	(34)	(4)	(2)
Revaluations	2,957	(3,713)	(6)	57
Closing balance	29,650	27,995	550	560
Plant and Equipment				
Opening balance	1,471	1,120	36	26
Additions	388	632	6	22
Disposals	(5)	-	-	-
Depreciation	(349)	(281)	(9)	(12)
Closing balance	1,505	1,471	33	36
Cost	4,464	4,097	116	110
Accumulated depreciation	(2,959)	(2,626)	(83)	(74)
Net carrying amount	1,505	1,471	33	36
Total property, plant and equipment	31,155	29,466	583	596

PROPERTY, PLANT AND EQUIPMENT - *continued*

Rural land and buildings were valued as at 30 June 2012 by independent registered valuer, Curnow Tizard Limited (2011 Telfer Young Limited). The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

The commercial land and building was valued as at 30 June 2012 by independent registered valuer Logan Stone Limited. The valuation is 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 of comparable size and location.

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Valuations by valuer				
Telfer Young Limited	-	27,435	-	-
Curnow Tizard Limited	29,100	-	-	-
Logan Stone Limited	550	560	550	560
	29,650	27,995	550	560

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

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Land	6,199	8,297	320	320
Buildings	2,128	2,128	185	185
Less accumulated depreciation	(681)	(640)	(5)	(2)
Net carrying amount	7,646	9,785	500	503

NOTE 15 CARBON CREDITS - NEW ZEALAND UNITS ("NZUs")

The Group has applied for 23,000 NZUs under the New Zealand Government's Emissions Trading Scheme. These units are the first tranche of entitlement on pre 1990 forest land. As at 30 June 2012 the units have not been issued. The NZUs are carried at nil value, being the cost to the Group.

NOTE 16 FOREST ASSET

The Group's Ngaruawahia forest was sold during the financial year. The net sale proceeds were below the 30 June 2011 valuation, giving rise to a loss on disposal of $846,000. The Group's remaining forest is a block of 41 hectares of pine trees located on the Waikoha property in the Waikato. The trees are under three years of age.

	GROUP 2012 $000	GROUP 2011 $000
Opening balance	2,304	1,888
Forest redevelopment	70	371
Forest sale	(2,312)	-
Revaluation	-	45
Closing balance	62	2,304

FOREST ASSET- *continued*

The forest assets were valued as at 30 June 2011 by independent registered valuers, Chandler Fraser Keating Limited. The valuation was on the basis of current fair value less point of sale costs. For trees over six years old fair value was 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 was made by the valuer. Trees under six years old are valued at replacement cost which approximates fair value.

The remaining Waikoha forest has not been revalued in 2012. The Directors are of the view that due to the age of the forest the carrying value has not materially changed.

NOTE 17 LIVESTOCK

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

	GROUP 2012 No. of Head	GROUP 2011 No. of Head
Livestock on hand:		
Sheep	12,837	12,132
Cattle	2,896	2,977

	GROUP 2012 $000	GROUP 2011 $000
Sheep value		
Opening balance	1,736	947
Increases due to purchases	521	507
Decreases due to sales	(1,370)	(1,070)
Revaluation gains net of births and deaths	698	1,352
Closing balance	1,585	1,736
Cattle value		
Opening balance	2,502	1,971
Increases due to purchases	1,017	1,040
Decreases due to sales	(2,374)	(1,961)
Revaluation gains net of births and deaths	1,417	1,452
Closing balance	2,562	2,502
Total livestock	4,147	4,238
Classified as:		
Current asset	1,697	1,740
Non current asset	2,450	2,498
	4,147	4,238

Livestock were valued as at 30 June 2012 by independent livestock valuers, PGG Wrightson Limited. The valuation is on the basis of current fair value less point of sale costs. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality and condition in the regions the Group's livestock is located.

NOTE 18 INVESTMENTS

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Subsidiary Entities				
Shares in New Zealand Rural Property Trust Management Limited - 100% owned	-	-	703	703
Shares in REL - Trust Management Limited - 100% owned	-	-	-	-
Units in the New Zealand Rural Property Trust - 100% owned	-	-	112,993	112,993
Other Investments				
Shares in Fonterra Co-operative Group Limited	7,015	6,712	-	-
Other shares at valuation	264	207	-	-
	7,279	6,919	113,696	113,696

The investment in New Zealand Rural Property Trust Management Limited has been written down to the value of the net asset value of the Company.

NOTE 19 BANK LOANS

The Company has loan facilities with ANZ National Bank Limited totalling $33.5M. As at 30 June 2012 the facility was drawn to $27.4M (2011 $22.4M) at a weighted average interest rate of 3.87% (2011 3.60%) with maturities reset every 90 days or less.

A general security agreement has been provided to ANZ National Bank Limited covering all the Group's assets. The facility expires on 5 May 2014.

See note 10 for interest rate risk management.

NOTE 20 EARNINGS PER SHARE

	GROUP 2012	GROUP 2011
Numerator - $000		
Earnings attributable to parent company interests	13,092	2,908
Denominator - 000 shares		
Weighted average number of shares on issue	39,791	42,169
Basic Earnings (Loss) per share - $ per share	$0.33	$0.07
Diluted Earnings (Loss) per share - $ per share	$0.33	$0.07

The denominator of weighted average number of shares on issue excludes effective from 30 March 2012, the 1,000,000 shares subject to the deferred settlement buyback and cancellation (refer note 11).

NOTE 21 RELATED PARTY DISCLOSURES

The Company had a Deed of Lease with Ecco Building Partnership for the lease of the Company's office premises at 120 Karamu Road North, Hastings. Sir Selwyn Cushing, a director of REL, was one of the partners of Ecco Building Partnership. The annual rent was $23,700. The lease was terminated in October 2010 when REL purchased the building (see below). The amount of rental paid by the Company to Ecco Building Partnership during the year ended 30 June 2011 was $7,500.

In October 2010 REL purchased the premises at 120 Karamu Road North, Hastings from the partners of Ecco Building Partnership for $520,000, being the value assigned by independent public valuer, Crighton Stone Limited.

RELATED PARTY DISCLOSURES - *continued*

During the year REL provided accounting and administration services to H&G Limited and related entities. 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 $35,000 (2011 $49,000). The amount owing at balance date was $12,000 (2011 $11,000) and has since been paid in full.

During the year Andrew Train, a director of REL, provided the Group with agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. The fees paid for these services totalled $8,000 (2011 $12,000). The amount outstanding as at 30 June 2012 was $8,000 (2011 $12,000) and has since been paid in full.

During the year the Public Trust provided trustee services to the Group as trustee for the New Zealand Rural Property Trust. Rodger Finlay, a director of REL, is a Board Member of Public Trust. The fees paid to Public Trust for these services totalled $28,000 for the year (2011 $28,000). The amount outstanding as at 30 June 2012 was $7,000 (2011 $7,000) and has since been paid in full.

NOTE 22 COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease Commitments

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

Lease commitments under these non-cancellable leases are:

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Within one year	171	193	32	32
After one year but not more than five years	104	280	18	50
Total future minimum lease payments	275	473	50	82

Operating Lease Commitments Receivable as Lessor

The Group's investment properties are leased for terms of up to 20 years. Generally the lease agreements provide the right for either the lessor or lessee to give the other party one or two years' notice to terminate the lease within the contract term.

The value of operating lease commitments receivable as lessor is based on the current rental receivable for each property on the assumption that the required early termination notice had been issued by the lessor at balance date.

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Within one year	2,736	2,845	30	30
After one year but not more than five years	1,282	1,269	13	-
After more than five years	-	180	-	-
Total	4,018	4,294	43	30

Property, Plant and Equipment Commitments

The Group had commitments contracted but not provided for as at 30 June 2012 for farm development expenditure of $99,000 (2011 $204,000).

Contingent Liabilities

There are no contingent liabilities as at 30 June 2012 (2011 Nil).

NOTE 23 SEGMENT REPORTING

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

Major Customers

The Group obtained 46% (2011 48%) of its revenue from Fonterra Co-operative Group Limited. This is for milk supplied by the Group's six dairy farms.

NOTE 24 EVENTS SUBSEQUENT TO BALANCE DATE

On 30 August 2012 the Directors approved the payment of a dividend of 5 cents per share amounting to $1,870,000 to be paid on 28 November 2012.

Independent Auditor's Report

pwc

To the Shareholders of Rural Equities Limited

Report on the Financial Statements

We have audited the financial statements of Rural Equities Limited ("the Company") on pages 8 to 26, which comprise the balance sheets as at 30 June 2012, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

We have no relationship with, or interests in, Rural Equities Limited or any of its subsidiaries other than in our capacities as auditor and in the provision of taxation and other advisory services. These services have not impaired our independence as auditor of the Company and the Group.

Opinion

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

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2012:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

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 work has been undertaken so that we might state to the Company's shareholders those matters which 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.

PricewaterhouseCoopers

Chartered Accountants Napier

30 August 2012

Additional Disclosures

DIRECTORS AND REMUNERATION

The Directors of Rural Equities Limited ("REL") as at 30 June 2012 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman), Sir Ronald Carter, Sir Selwyn Cushing, Murray Gough, John Green and Andrew Train. There were no resignations or appointments during the year.

The Directors of New Zealand Rural Property Trust Management Limited ("NZRPTML") as at 30 June 2012 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman), Sir Selwyn Cushing, Murray Gough, John Green and Andrew Train. There were no resignations or appointments during the year.

The Directors of REL – Trust Management Limited as at 30 June 2012 were Sir Ronald Carter, Sir Selwyn Cushing, David Cushing, Rodger Finlay, Murray Gough and James Wright (Alternate for Sir Selwyn Cushing). There were no resignations or appointments during the year.

The table below details the remuneration received by the Directors from REL during the year ended 30 June 2012.

	$
Sir Ronald Carter	25,000
David Cushing	32,500
Sir Selwyn Cushing	32,500
Rodger Finlay	30,000
Murray Gough	27,500
John Green	25,000
Andrew Train	25,000

Andrew Train provided agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. During the year ending 30 June 2012 he was paid consultancy fees of $8,250 by REL for the provision of those services.

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

ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the Interests Register of REL and NZRPTML during the year ended 30 June 2012:

David Cushing ceased to be an alternate director of PGG Wrightson Limited.

Sir Selwyn Cushing is a director of PGG Wrightson Limited.

Murray Gough ceased to be a director of ANZCO Foods Limited.

John Green ceased to be a director of Perpetual Capital Management Limited.

Rodger Finlay is a Board Member of Public Trust.

Disclosure of share dealing by Directors and Directors' relevant interest in REL shares as at 30 June 2012

On 3 February 2012 Andrew Train purchased 702 REL shares for $3.10 per share.

	Held Beneficially	Held by Associated Persons
Sir Ronald Carter	-	208,150
David Cushing	263,160	21,981,409[1]
Sir Selwyn Cushing	85,673	22,119,173[1]
Rodger Finlay	-	937,781
Murray Gough	-	216,488
John Green	-	35,640
Andrew Train	3,574	-

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

DIRECTORS' INDEMNITY AND INSURANCE

On 31 May 2011 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2011 to 31 May 2012. On 31 May 2012 REL renewed this policy for a further year until 31 May 2013.

DONATIONS

REL did not make any donations during the financial year ended 30 June 2012.

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 2012 three employees received remuneration and other benefits of between $220,000 and $230,000.

Shareholder Information

As at 7 September 2012

TOP TWENTY SHAREHOLDERS

Holder	Number of Shares Held	%
H&G Limited	21,092,762	54.92
RotoruaTrust Perpetual Capital Fund Limited	2,515,677	6.55
RGH Holdings Limited	917,293	2.39
WJ Greenwood & ISM Robertson & AJ Mansell (Squirrel Trust)	593,544	1.55
FE Mayell & DA Young (FE & H Mayell Trust)	500,000	1.30
BJ Martin	394,127	1.03
Seajay Securities Limited	313,625	0.82
New Zealand Methodist Trust Association	300,000	0.78
BD Cushing & SJ Cushing (KD Cushing Family Trust)	263,160	0.69
JW & MV Spiers	245,492	0.64
Makowai Farm Limited	208,966	0.54
B&S Custodians Limited	182,000	0.47
Ashfield Properties Limited	178,560	0.46
LM Marx-Sheather, WB Sheather, PV Sheather & SM Palmer (Sheather Family Trust)	169,179	0.44
JB Were (NZ) Nominees Limited	165,626	0.43
Sky Hill Limited	150,000	0.39
Riddell Funds Management Limited	148,000	0.39
MGS Fund Limited	124,234	0.32
RG Goodrick	120,000	0.31
New Zealand Central Securities Depository Limited	116,336	0.30

ANALYSIS OF SHAREHOLDING BY SIZE

	Number of Shareholders	%	Number of Shares Held	%
1 – 999	195	13.23	87,899	0.22
1,000 - 4,999	767	52.04	1,918,832	5.00
5,000 – 9,999	263	17.84	1,793,694	4.67
10,000 – 49,999	198	13.43	3,683,913	9.59
50,000 – 99,999	28	1.90	1,912,132	4.98
100,000 and over	23	1.56	29,011,354	75.54
Total	**1,474**		**38,407,824**	

ANALYSIS OF SHAREHOLDING BY LOCATION

	Number of Shareholders	%	Number of Shares Held	%
Upper North Island	683	46.32	7,853,859	20.46
Gisborne	44	2.99	254,912	0.66
Hawke's Bay	174	11.81	23,863,209	62.12
Manawatu/Wanganui/Wairarapa	86	5.83	414,790	1.08
Wellington	158	10.72	2,248,081	5.86
South Island	251	17.03	3,241,889	8.44
Overseas	78	5.30	531,084	1.38
Total	**1,474**		**38,407,824**	

Corporate Governance

ROLE OF THE DIRECTORS

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

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

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

APPOINTMENT AND MEETINGS

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

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

AUDIT COMMITTEE

REL has constituted a Group Audit Committee which is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing the external audit, liaison with the auditor and making recommendations to the Directors as to their appointment and their remuneration. The Committee's responsibility encompasses REL and each of its subsidiaries.

Members of the Audit Committee are Rodger Finlay (Chairman), David Cushing, Murray Gough and John Green.

DIRECTORY

DIRECTORS

David Cushing
(Executive Chairman)

Rodger Finlay
(Deputy Chairman)

Sir Ronald Carter

Sir Selwyn Cushing

Murray Gough

John Green

Andrew Train

EXECUTIVE

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Chief Operating Officer

REGISTERED OFFICE

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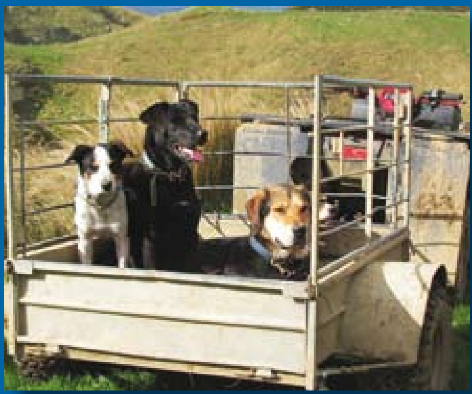
Telephone 06 870 4672
Facsimile 06 870 4673
Email enquiries@ruralequities.co.nz
Website www.ruralequities.co.nz

AUDITOR

PricewaterhouseCoopers
36 Munroe Street, Napier 4110
PO Box 645, Napier 4140
Telephone 06 835 6144
Facsimile 06 835 0360

SHARE REGISTRY

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622
Private Bag 92119, Auckland 1142
Telephone 09 488 8700
Facsimile 09 488 8787



Dogs ready to work at Waikoha

Choy Sum seed crop under irrigation at Flimby

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LIMITED