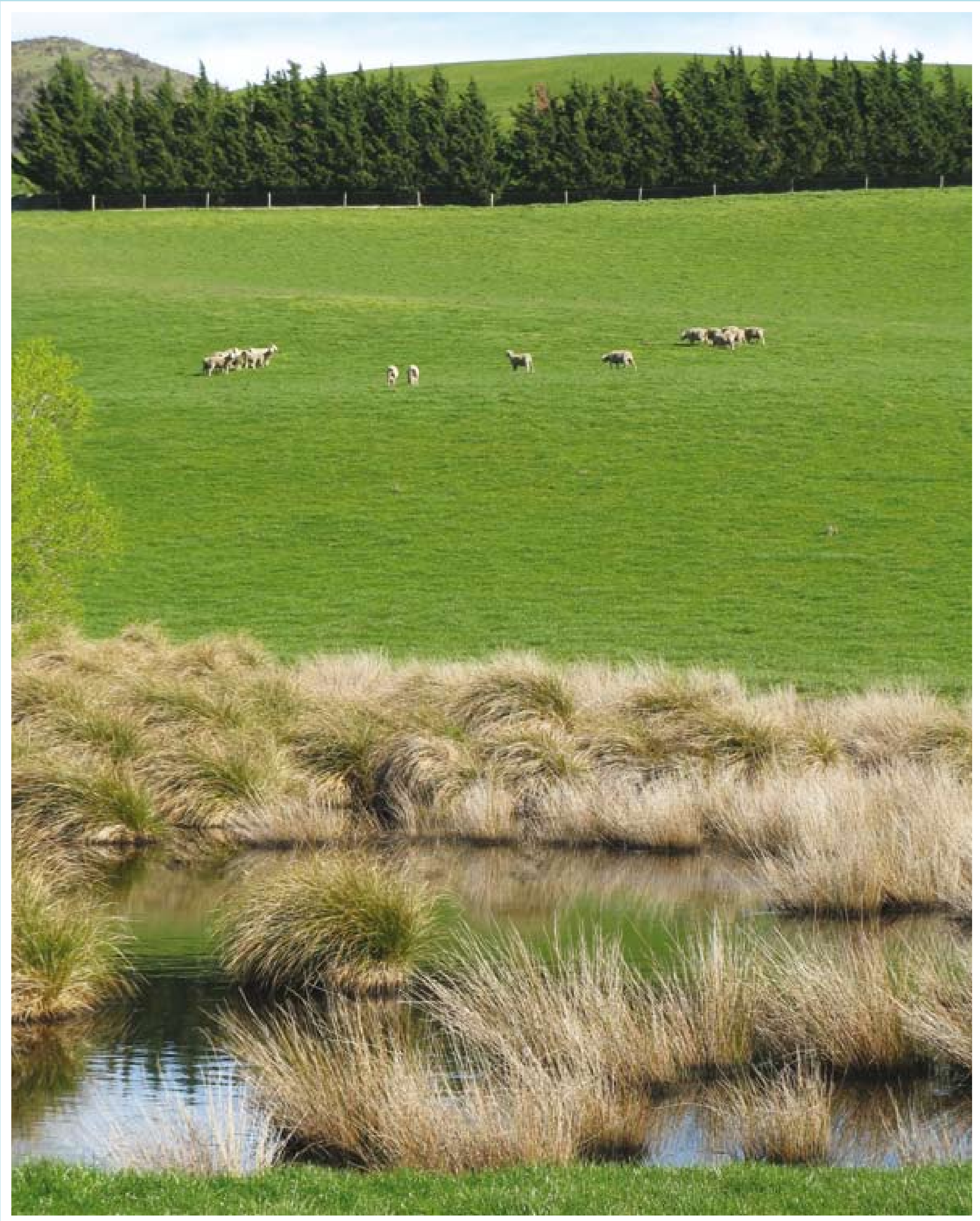
rural equities LIMITED

ANNUAL REPORT 2009



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Company Business Activities & Structure

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

REL has a fully owned subsidiary company called New Zealand Rural Property Trust Management Limited (NZRPTML) which is the manager of the New Zealand Rural Property Trust (NZRPT). Together REL and NZRPTML own 62.76% of the units in NZRPT.

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

NZRPT is an unlisted unit trust with net assets of $182.8 million at 30 June 2009. NZRPT owns a diverse portfolio of 30 high quality rural properties spread throughout New Zealand as well as a pine forest near Ngaruawahia. Ten of the farms are directly farmed with six of these being dairy farms, and 20 are leased. On the dairy farms approximately 3,700 cows are milked in conjunction with 50/50 sharemilkers. Milk production for the 2008/09 season was over 1.4 million kilograms of milk solids. The pine forest is mature and is currently being harvested. The harvest is expected to be completed by 30 June 2010. The forest is being replanted following harvest.

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

COVER: Clifton, Waikari, North Canterbury

REPORT TO SHAREHOLDERS 2009

By the Chairman & Chief Executive Officer

Introduction

Rural Equities Limited incurred an after tax loss of $19.8 million for the year ended 30 June 2009. This compares with a profit of $32.4 million reported last year and reflects the impact of the global financial crisis on New Zealand's farming industry.

The substantial increase in the value of the New Zealand Rural Property Trust's (NZRPT) farm properties was the main contributor to the record profit last year. This year's result reflects a downward correction in farm values equating to approximately 60% of the gains achieved last year. Despite the fall this year, NZRPT's farms have shown consistent growth in value over the last ten years with the Net Asset Value of NZRPT units increasing from $1.38 to $3.84 over that period. This demonstrates the strength of rural property as a sound long term investment. While there have been significant short term adjustments in value, both up and down, rural property has provided strong returns over time .

There was a welcome improvement in returns from sheep and beef farms this year, primarily from much higher lamb prices. Dairy farm incomes reduced significantly however, following the 32% drop in Fonterra's payout to $5.20 per kilogram of milk solids. Arable crop prices were also markedly lower.

Financial Overview & Operations

The Income Statement for the Group includes the full financial results of NZRPT as well as those of REL, the parent company. The figures for REL are shown separately as the Parent. Revenue includes forestry, lease, and farm income. NZRPT's result largely reflects the significant downward revaluation movements in its farm properties, together with lower earnings from directly managed farms.

Group Revenue from farm lease income rose by 12% this year to $2.7 million. Over time farm rentals tend to follow property value trends although there is often a lag phase. After adjusting rents received for properties that are now directly farmed, the actual increase was 23% and arose primarily from scheduled two-yearly rent reviews from those properties capable of supporting arable and dairy support activities. Rent increases from sheep and beef properties were also achieved, but at lower levels.

Farm revenue decreased from $6.5 million to $5.8 million (11%) due to the lower Fonterra payout and a 6.5% decrease in total milk production. Higher lamb prices and an increase in the value of sheep on hand offset a portion of this decline.

The significant increase in log sales revenue arose from a 36% increase in net stumpage and a greater volume of logs sold from the Ngaruawahia forest. Harvesting occurred for the full year, but only over an eight month period in the 2007-08 year. The higher log returns are welcome after several years of low prices, and reflect better demand for export logs and lower shipping costs.

Group expenses increased from $10.9 million to $14.7 million over the year. This includes higher operating costs attributable to the directly managed farms, where a further two farms comprising 1,660 hectares are now being operated as part of an integrated farming group in the Waikato. In total this group comprises three sheep and beef properties totalling 4,170 hectares and runs 30,000 stock units. Group interest costs and other expenses were also higher.

Revaluation losses totalled $30.2 million, attributable mainly to lower valuations of the NZRPT farms. The Ngaruawahia forest increased in value by $1.0 million as the growth in the new tree crop now exceeds the depletion of the first tree crop which will all be harvested towards the end of the coming financial year. Shares held in Fonterra to support production from the six NZRPT dairy farms also lost $1.5 million in value following new share values set by Fonterra.

Earnings per share were negative 74.3 cents following the revaluation losses.

Total equity for the Group is now $168.3 million, a reduction of $34.9 million.

Total Group liabilities were $33.5 million, an increase of $1.8 million over last year. This largely reflects an increase in debt to fund increased direct farming activities in NZRPT.

Dividend Policy

As in previous years, cash returns from rural property investment remain low. Taking this into account, as well as the debt carried by REL, Directors have decided that no dividend will be paid.

REL – Pacific Equity Trust

REL - Pacific Equity Trust was formed in 2006 as part of a strategy to expand the funds management aspect of REL's business. The performance of this Trust over the past year was good in comparison to other equity investment funds, but Directors believe growth opportunities are limited for the foreseeable future and have decided to liquidate the Trust. The decision to liquidate was made in June 2009 and funds have been repaid to Unitholders equivalent to their initial investment. REL, which had been an investor in the fund, received $4.0 million on 26 June 2009 which was used to reduce bank debt.

Directors

Two Directors retired during the year. In September 2008 Brian Martin retired having been a Director of REL and the Manager of NZRPT for fifteen years. Roger Bonifant also retired in March 2009 having been a Director of REL and the Manager of NZRPT since 1990. Both retiring Directors have made an outstanding contribution, and we thank them for that on behalf of all shareholders.

In November 2008 Rodger Finlay and John Green were appointed to the Board of REL, both having previously been Directors of REL's subsidiary, New Zealand Rural Property Trust Management Limited. Their input into the wider Group is appreciated.

Andy Train was appointed a Director of REL in April 2009. Andy is a Central Hawke's Bay farmer with a strong background in agriculture through his own farming interests, farm supervisory roles, and extensive experience as a director in a variety of agricultural companies.

In accordance with the Company's constitution, Sir Ronald Carter retires by rotation at the Annual Meeting and is seeking re-election. Rodger Finlay, John Green and Andy Train, having filled casual vacancies during the year, will also be seeking election.

Outlook

The improvement seen in overseas lamb prices over the past year is expected to be maintained in the coming year, and beef prices are expected to be stable. The arable and dairy sectors hold considerable promise for the future despite the rapid decline in prices seen this year. Dairy farmers throughout the world are experiencing financial difficulty, with low profitability under current price and cost structures. Global milk supply is likely to reduce in the short term, and improving prices are then expected to follow. Some improvement in world dairy prices is already evident.

Fonterra announced an opening forecast payout of $4.55 per kilogram of milk solids for the 2009-10 season but has recently revised this to $5.10 per kilogram of milk solids. This is lower than the expected final payout for the 2008-09 season of $5.20 and significantly lower than the record $7.66 (net of retentions) received for the 2007-08 season. The profitability of NZRPT's dairy farms will be considerably constrained while the Fonterra payout remains at the current level.

Directors believe the medium and long term outlook for New Zealand's rural sector remains encouraging. Underlying global demand for protein and grain remains strong, and we expect an improving global economy to result in recovery and further gains in farm product prices. With REL's strong financial position, we expect healthy returns over time from our investment in NZRPT – in our view NZRPT's portfolio of high quality farms is unquestionably the best large-scale diversified farming investment available in New Zealand.

Proposed Merger with the New Zealand Rural Property Trust

REL has recently announced a proposal to merge REL with NZRPT.

REL Directors believe the proposed merger is a logical and positive step. It would result in a single and efficient entity, with an internalised management structure, for New Zealand's only publicly available portfolio of rural properties. The merger would provide material benefits to both REL shareholders and NZRPT unitholders and the Directors anticipate widespread support.

It is proposed that REL will issue shares to all unitholders (other than itself) in NZRPT in the ratio of one REL share for 1.15 NZRPT units.

A meeting of REL shareholders will be held to consider and approve, by ordinary resolution, the issuing of REL shares to NZRPT unitholders. It is expected that this resolution will be considered by shareholders in conjunction with the REL Annual Meeting which is being held in Hastings on Friday 27 November 2009. It is anticipated that shareholders will be provided with full details of the proposed merger, together with the meeting documents, early in November 2009.

A meeting of NZRPT unitholders to consider the merger is also expected to be held in the second half of November 2009.

Sir Selwyn Cushing
CHAIRMAN

Brian Burrough
CHIEF EXECUTIVE OFFICER

Income Statement

For the year ended 30 June 2009

	Notes	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Revenue					
Lease income		2,705	2,410	-	-
Farm income		5,808	6,559	-	-
Log sales		4,438	2,340	-	-
Management fees		379	378	224	212
Inter group administration fee		-	-	3,906	3,516
Distribution from New Zealand Rural Property Trust		-	-	1,043	237
Other income		48	34	31	3
Total		**13,378**	**11,721**	**5,204**	**3,968**
Less Expenses					
Farm operating expenses		4,481	3,420	-	-
Logging cost of sales		4,438	2,340	-	-
Interest costs		3,276	2,820	1,983	1,875
Other expenses		2,547	2,355	1,790	1,423
Total	3	**14,742**	**10,935**	**3,773**	**3,298**
Net surplus (deficit) before other income & expenses		(1,364)	786	1,431	670
Share of associate's profit (loss) after tax	15	(199)	(26)	-	-
Revaluations	2	(30,236)	46,977	-	-
Discount on units purchased in the New Zealand Rural Property Trust		-	2,659	-	-
Net profit (loss) before tax		**(31,799)**	**50,396**	**1,431**	**670**
Income tax (expense) credit	5	192	30	(407)	(230)
Net profit (loss) after tax		**(31,607)**	**50,426**	**1,024**	**440**
Net profit (loss) attributable to minority interests		(11,771)	18,034	-	-
Net profit (loss) attributable to parent interests		**(19,836)**	**32,392**	**1,024**	**440**
Earnings per share - basic & diluted - $ per share	19	**$ (0.74)**	**$ 1.30**		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2009

	Notes	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Equity at start of year		**203,263**	**151,887**	**41,474**	**28,803**
Net profit (loss) attributable to:					
Parent interest		(19,836)	32,392	1,024	440
Minority interest		(11,771)	18,034	-	-
Total net profit (loss) after tax		**(31,607)**	**50,426**	**1,024**	**440**
Revaluation of land & buildings - net of tax					
Parent interest		(1,669)	1,361	-	-
Minority interest		(999)	821	-	-
Total revaluation of land & buildings		**(2,668)**	**2,182**	**-**	**-**
Total recognised income & expenses		**(34,275)**	**52,608**	**1,024**	**440**
Proceeds of share issue		-	12,231	-	12,231
Distribution to minority interests		(677)	(216)	-	-
Changes in minority interests		-	(13,247)	-	-
Equity at end of year	9	**168,311**	**203,263**	**42,498**	**41,474**

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2009

	Notes	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Current Assets					
Cash at bank		62	335	-	-
Bank term deposit		1,563	-	1,563	-
Accounts receivable		1,971	1,421	108	108
Derivative financial instruments		241	151	252	147
Feed on hand		357	270	-	-
Total		4,194	2,177	1,923	255
Non Current Assets					
Investment properties	10	147,233	196,094	-	-
Property, plant & equipment	11	37,187	20,240	36	41
Livestock	12	3,597	1,535	-	-
Forest	13	2,208	1,493	-	-
Management contract	17	681	696	-	-
Deferred tax asset	5	-	-	6	9
Receivable from subsidiary		-	-	7,365	6,242
Shares in Fonterra Co-operative Group Limited	16	6,518	8,347	-	-
Investment in associate	15	-	4,199	-	4,000
Other investments	16	233	207	50,923	50,923
Total		197,657	232,811	58,330	61,215
Total Assets		**201,851**	**234,988**	**60,253**	**61,470**
Current Liabilities					
Bank overdraft		20	9	20	9
Accounts payable & accrued expenses		1,254	1,450	135	378
Provision for tax		155	64	155	64
Bank loans	18	14,600	-	-	-
Total		16,029	1,523	310	451
Term Liabilities					
Bank loans	18	17,445	29,545	17,445	19,545
Deferred tax liability	5	66	657	-	-
Total		17,511	30,202	17,445	19,545
Equity					
Equity attributable to:					
Parent company shareholders		99,881	121,386	42,498	41,474
Minority interests		68,430	81,877	-	-
Total Equity	9	168,311	203,263	42,498	41,474
Total Liabilities & Equity		**201,851**	**234,988**	**60,253**	**61,470**

On behalf of the Directors, who authorise the issue of these financial statements, dated 2 September 2009.

Sir Selwyn Cushing
CHAIRMAN

Rodger Finlay
DIRECTOR

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2009

	Notes	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		13,392	11,544	240	215
Other receipts		-	-	2,710	2,395
Dividends received		-	-	1,130	237
Tax refund		4	-	-	-
Other income		17	19	-	-
		13,413	11,563	4,080	2,847
Cash was applied to:					
Payments to suppliers and employees		12,172	6,828	1,099	1,232
Taxation paid		313	199	313	199
Interest paid		3,610	2,830	2,258	1,875
		16,095	9,857	3,670	3,306
Net cash flows from operating activities	4	**(2,682)**	**1,706**	**410**	**(459)**
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of associate	15	4,000	-	4,000	-
Proceeds from sale of assets		5	3	-	-
		4,005	3	4,000	-
Cash was applied to:					
Capital expenditure including farm improvements		1,120	1,007	11	-
Purchase of units in NZRPT	14	-	10,588	-	10,588
		1,120	11,595	11	10,588
Net cash flows from investing activities		**2,885**	**(11,592)**	**3,989**	**(10,588)**
Cash flows from financing activities					
Cash was provided from:					
Share issue		-	12,231	-	12,231
Term loan advance		1,580	-	-	-
		1,580	12,231	-	12,231
Cash was applied to:					
Investment in term deposit		1,390	-	1,390	-
Term loan reduction		-	1,850	3,020	1,050
Income distribution		677	216	-	-
		2,067	2,066	4,410	1,050
Net cash flows from financing activities		**(487)**	**10,165**	**(4,410)**	**11,181**
Net increase (decrease) in cash held		(284)	279	(11)	134
Cash at start of period		326	47	(9)	(143)
Cash at end of period		**42**	**326**	**(20)**	**(9)**
Comprised of:					
Cash at bank		62	335	-	-
Bank overdraft		(20)	(9)	(20)	(9)
		42	**326**	**(20)**	**(9)**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

The Group ("the Group") consists of:

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

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

(c) The associate, the REL – Pacific Equity Trust (disposed of on 26 June 2009).

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

MEASUREMENT BASE

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

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

STATEMENT OF COMPLIANCE

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

NZ IAS 1: Presentation of Financial Statements (Revised) will affect the Group's 2010 financial statements. This standard deals with the naming of the financial statements and changes some disclosure requirements (including the presentation of a Statement of Comprehensive Income) and is expected to have minimal impact on the financial statements.

NZ IFRS 8: Operating Segments will affect the Group's 2010 financial statements. This standard will require some additional disclosure but is expected to have minimal impact on the financial statements.

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies. The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

(a) Basis of Consolidation

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

Notes to the Financial Statements

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

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

(b) Investment in Associates

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

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

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

(c) Investment Properties

Investment properties are recorded at fair value.

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

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

Additions between each valuation are stated at cost.

(d) Property, Plant & Equipment

Land & Buildings

Land and buildings are recorded at fair value, based on annual valuations.

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

Land and buildings are valued by independent registered public valuers.

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

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

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

Plant & Machinery

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

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

Notes to the Financial Statements

(e) Forest Assets

The forest is recorded at fair value, less estimated point of sale costs, based on annual valuations by external independent valuers.

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

(f) Investments

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

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

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

(g) Livestock

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

(h) Taxation

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation. In accordance with the NZ SIC-21: Income taxes – Recovery of Revalued Non-Depreciable Assets, it is the Directors' view that deferred tax is not recognised on non depreciable assets (including all land) because the tax rate on the realisation of those assets would be 0%.

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

(i) Goods and Services Tax

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

(j) Trade and Other Receivables

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

(k) Trade and Other Payables

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

(l) Cash and Cash Equivalents

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

(m) Revenue Recognition

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

Revenue from the sale of goods, including livestock and logs, is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer. Milk sales income is recognised at the time of delivery of milk to Fonterra Co-operative Group Limited at their declared payment rate.

Notes to the Financial Statements

(n) Interest-bearing Loans and Borrowings

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

(o) Derivative Financial Instruments

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

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

(p) Management Contract

The contract to manage the New Zealand Rural Property Trust is governed by a trust deed dated 30 January 1987 and a number of subsequent deeds of modification, the latest of which 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.

(q) Foreign Currency Translation

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

All exchange differences are taken to the Income Statement.

NOTE 2 REVALUATIONS

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Revaluation of investment properties	(25,584)	50,818	-	-
Revaluation of land & buildings	(4,212)	-	-	-
Revaluation of investments	(1,479)	(1,785)	-	-
Revaluation of forest assets	1,039	(2,056)	-	-
	(30,236)	46,977	-	-

NOTE 3 EXPENSES

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

Logging cost of sales includes harvesting and transporting costs.

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Specific disclosures are as follows:				
Depreciation - on plant	374	340	16	16
Depreciation - on buildings	41	22	-	-
Directors' fees	184	141	170	125
Operating lease costs	240	198	50	44
Audit fees	47	47	20	20
Fees paid to Ernst & Young for tax compliance	-	22	-	-
Key management remuneration - short term benefits	623	593	623	593
Other employee remuneration	505	271	10	-
Amortisation of management contract	15	166	-	-
Unrealised exchange loss	762	245	762	245
Loss (gain) in fair value of derivatives	(12)	167	(23)	77

Notes to the Financial Statements

		GROUP	GROUP	PARENT	PARENT
NOTE 4	**CASH FLOW RECONCILIATION**	2009	2008	2009	2008
		$000	$000	$000	$000
	Net profit (loss) after tax	(31,607)	50,426	1,024	440
	Add (deduct) non-cash items:				
	Depreciation	415	362	16	16
	Amortisation of intangible assets	15	166	-	-
	Forest depletion	560	245	-	-
	Equity accounted loss of associate	199	26	-	-
	Unrealised exchange loss	762	245	762	245
	Interest income accrued	(15)	-	(15)	-
	Discount on units purchased in the New Zealand Rural Property Trust	-	(2,659)	-	-
	Revaluation movements	30,236	(46,977)	-	-
		32,172	(48,592)	763	261
	Changes in assets & liabilities:				
	Change in accounts payable	(196)	(36)	(243)	(94)
	Change in derivatives	(90)	15	(105)	(75)
	Change in provision for taxation	91	64	91	64
	Change in deferred taxation	(591)	(293)	3	(33)
	Change in livestock & feed	(2,149)	156	-	-
	Change in receivable from subsidiary	-	-	(1,123)	(1,168)
	Change in accounts receivable	(550)	(289)	-	146
		(3,485)	(383)	(1,377)	(1,160)
	Add (deduct) non-operating items:				
	Non-operating items in accounts payable	(108)	255	-	-
	Non-operating items in accounts receivable	349	-	-	-
	Realised gains on asset sales	(3)	-	-	-
		238	255	-	-
	Net cash flows from operating activities	(2,682)	1,706	410	(459)
NOTE 5	**TAXATION**				
	Income Statement				
	Net profit (loss) before tax	(31,799)	50,396	1,431	670
	Tax at the statutory rate of 30% (2008 33.0%)	(9,540)	16,630	429	221
	Adjusted for tax effect of:				
	Non assessable land revaluations	8,808	(16,413)	-	-
	Non assessable investment revaluations	444	589	-	-
	Depreciation on land improvements	(150)	(143)	-	-
	Other items	246	(693)	(22)	9
	Tax expense (credit)	(192)	(30)	407	230
	Represented by :				
	Current tax	404	263	404	263
	Deferred tax	(596)	(293)	3	(33)
		(192)	(30)	407	230
	Deferred tax debited (credited) directly to equity				
	Revaluation of buildings	3	(9)	-	-

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

Notes to the Financial Statements

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Balance Sheet				
Deferred tax (assets) & liabilities relate to the following:				
Buildings depreciation & revaluation	1,806	1,854	-	-
Forest operations & revaluation	613	339	-	-
Plant depreciation	(81)	(56)	1	3
Livestock revaluation	(19)	(54)	-	-
Recognition of tax losses	(1,732)	(899)	-	-
Unused prepaid tax credits	(504)	(507)	-	-
Other items	(17)	(20)	(7)	(12)
Total	66	657	(6)	(9)
Disclosed as:				
Deferred tax liability	66	657	-	-
Deferred tax asset	-	-	(6)	(9)
	66	657	(6)	(9)
Changes to deferred tax recognised in the Income Statement				
Buildings depreciation & revaluation	(50)	406	-	-
Forest operations & revaluation	274	(598)	-	-
Plant depreciation	(25)	(8)	(2)	-
Livestock revaluation	35	(10)	-	-
Recognition of tax losses	(833)	(19)	-	-
Other items	3	(64)	5	(33)
	(596)	(293)	3	(33)

NOTE 6 IMPUTATION CREDIT ACCOUNT

	PARENT 2009 $000	PARENT 2008 $000
Balance at beginning of period	1,763	1,744
Change of shareholding continuity adjustment	-	(180)
Income tax paid during the period	313	199
Balance at end of period	2,076	1,763

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

NOTE 7 SEGMENT REPORTING

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

Notes to the Financial Statements

NOTE 8 FINANCIAL INSTRUMENTS

Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. All interest rates are fixed for periods of 90 days or less. To manage this interest rate risk the Group enters into interest rate swaps. The Group does not apply hedge accounting. At balance date these swaps hedge approximately 29% (2008 89%) of the Group's borrowings.

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

The effect on Group profit after tax and equity of a 1% change in interest rates is $160,000. There was no significant sensitivity to interest rates in 2008.

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

	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	$000	$000	$000	$000
Less than one year	9,195	4,000	6,195	-
Between one and two years	-	5,276	-	5,276
Between three and five years	-	17,000	-	11,000
	9,195	26,276	6,195	16,276

Currency Risk

The Group is exposed to currency risk through a loan denominated in US dollars. The amount of the loan is US$4,000,000 (2008 US$4,000,000). To mitigate the currency risk the Group entered into a NZ dollar put/US dollar call option for US$2,000,000 (2008 US$2,000,000) with a strike rate of US$0.70. The Group also has a deposit of US$1,000,000 (2008 nil). As a result of the currency option and the deposit held by the Group, there is no significant sensitivity to changes in foreign exchange rates.

Commodity Price Risk

The Group is exposed to price risk on a number of agricultural commodities including logs, wool, meat and milk solids. The directors have identified changes to milk solid prices as having a material impact on profit. The effect on profit after tax and equity of a change in the price of milk solids of $1.00 per kilogram would be $493,000 (2008 $505,000).

Credit Risk

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

Included in accounts receivable is $1,091,000 (2008 $685,000) receivable from Fonterra Cooperative Group Limited. There are no other significant concentrations of credit risk.

Maximum credit exposures are:	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	$000	$000	$000	$000
Cash at bank	62	335	-	-
Bank deposits	1,563	-	1,563	-
Derivative financial instruments	241	151	252	147
Accounts receivable	1,971	1,421	108	108

Fair values

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

Notes to the Financial Statements

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 facility runs until 30 September 2011.

The loans of the subsidiary, the New Zealand Rural Property Trust, are drawn for 90 day terms or less to take advantage of current low interest rates. The Trust Manager is in discussions with the Trust's bankers to establish the terms of an appropriate future borrowing structure for the Trust. The Trust's current bank loans as at 30 June 2009 are 7.3% of total assets (2008 4.4%).

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

	2009	2009	2008	2008
	Less than 12 months	1 to 3 years	Less than 12 months	1 to 3 years
	$000	$000	$000	$000
Accounts payable and accrued expenses	1,254	-	1,450	-
Interest bearing loans (including contracted interest)	32,501	-	7,762	22,275
	33,755	-	9,212	22,275

	GROUP	GROUP	PARENT	PARENT
	2009	2008	2009	2008
	$000	$000	$000	$000
Financial Instrument Classification				
The carrying amounts of financial instruments by category are:				
Loans & receivables:				
Accounts receivable	1,971	1,421	7,473	6,350
Bank deposits	1,563	-	1,563	-
Cash at bank	62	335	-	-
Financial assets at fair value through profit or loss:				
Designated - shares	6,751	8,554	-	-
Held for trading - derivatives	241	151	252	147
Financial liabilities measured at amortised cost:				
Bank loans	32,065	29,554	17,465	19,554
Accounts payable & accruals	1,254	1,450	135	378

Capital Risk Maintenance

The Group's capital is primarily invested in farms and a forest which are held for long term capital appreciation. No dividends have been paid to shareholders in recent years. Operational cash inflows are broadly expected to match outflows and where differences arise this is managed within the available banking facilities.

Market Price Risk

Shares in Fonterra Co-operative Group Limited are valued at a price set by Fonterra each year. If the price changed by 10% the effect on profit after tax and equity would be $652,000 (2008 $835,000).

Notes to the Financial Statements

NOTE 9 EQUITY

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Share capital	49,213	49,213	49,213	49,213
Revaluation reserve	2,504	4,173	-	-
Retained earnings (accumulated deficit)	48,164	68,000	(6,715)	(7,739)
	99,881	121,386	42,498	41,474
Minority interests	68,430	81,877	-	-
Total	168,311	203,263	42,498	41,474

Share capital

There are 26,685,612 shares on issue (2008 26,685,612).

	GROUP & COMPANY NUMBER OF SHARES		GROUP & COMPANY VALUE	
	2009 000	2008 000	2009 $000	2008 $000
Opening balance	26,686	22,238	49,213	36,982
Shares issued for cash	-	4,448	-	12,231
Closing balance	26,686	26,686	49,213	49,213

All shares participate equally in dividends and any surpluses on winding up the Company. All shares have equal voting rights and have no par value.

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Revaluation reserve				
Opening balance	4,173	2,812	-	-
Revaluation of land & buildings	(1,669)	1,361	-	-
Closing balance	2,504	4,173	-	-
Retained earnings				
Opening balance	68,000	35,608	(7,739)	(8,179)
Net profit (loss) after tax	(19,836)	32,392	1,024	440
Closing balance	48,164	68,000	(6,715)	(7,739)

NOTE 10 INVESTMENT PROPERTIES

	GROUP 2009 $000	GROUP 2008 $000
Opening balance	196,094	145,075
Additions	301	201
Transferred to property, plant & equipment	(23,578)	-
Revaluations	(25,584)	50,818
Closing balance	147,233	196,094

All investment properties were valued as at 30 June 2009 by independent registered valuers Telfer Young Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

Notes to the Financial Statements

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 $3,153,000 (2008 $5,608,000).

NOTE 11 PROPERTY, PLANT & EQUIPMENT	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Land & Buildings				
Opening balance	19,126	16,757	-	-
Additions	243	218	-	-
Transferred from investment properties	23,578	-	-	-
Depreciation	(41)	(22)	-	-
Revaluations	(6,878)	2,173	-	-
Closing balance	36,028	19,126	-	-
Plant & Equipment				
Opening balance	1,114	1,374	41	56
Additions	421	80	11	1
Disposals	(2)	-	-	-
Depreciation	(374)	(340)	(16)	(16)
Closing balance	1,159	1,114	36	41
Cost	3,399	2,995	86	76
Accumulated depreciation	(2,240)	(1,881)	(50)	(35)
Net carrying amount	1,159	1,114	36	41
Total property, plant & equipment	37,187	20,240	36	41

During the year two additional properties (2008 Nil) became directly farmed by the Group and so were transferred from investment properties to property, plant and equipment.

Land and buildings were valued as at 30 June 2009 by independent registered valuers Telfer Young Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

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

	GROUP 2009 $000	GROUP 2008 $000
Land	7,837	4,445
Buildings	2,312	1,180
Less depreciation	(724)	(343)
Net carrying amount	9,425	5,282

Notes to the Financial Statements

NOTE 12 LIVESTOCK

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

	GROUP 2009 No. of Head	GROUP 2008 No. of Head
Livestock on hand		
Sheep	13,473	13,126
Cattle	3,418	1,494

	2009 $000	2008 $000
Sheep value		
Opening balance	674	665
Increases due to purchases	115	13
Decreases due to sales	(583)	(289)
Revaluation gains net of births & deaths	1,019	285
Closing balance	1,225	674
Cattle value		
Opening balance	861	982
Increases due to purchases	2,284	78
Decreases due to sales	(1,352)	(394)
Revaluation gains net of births & deaths	579	195
Closing balance	2,372	861
Total livestock	3,597	1,535

Livestock was valued as at 30 June 2009 by independent livestock valuers. The valuation is on the basis of current fair value less point of sale costs. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality and condition in the regions the Group's livestock is located.

NOTE 13 FOREST ASSET

The Group owns a 848 hectare forest of pinus radiata trees. As at 30 June 2009 83 hectares (2008 199 hectares) of the first crop rotation was still to harvested.

	GROUP 2009 $000	GROUP 2008 $000
Opening balance	1,493	3,609
Forest redevelopment	236	185
Forest harvest depletion	(560)	(245)
Revaluation	1,039	(2,056)
Closing balance	2,208	1,493

The forest was valued as at 30 June 2009 by independent registered valuers. The valuation is on the basis of current fair value less point of sale costs. For mature trees fair value is determined by assessing the present value of the projected net cash flow from the harvest of the forest. An assessment of the appropriate market discount rates is made by the valuer. Trees under six years old are valued at replacement cost which approximates fair value.

Notes to the Financial Statements

	GROUP 2009	GROUP 2008
Valuation details are as follows:		
Valuer	Chandler Fraser Keating Ltd	Chandler Fraser Keating Ltd
Discount rate		
Mature trees	10.0% (pre tax)	16.0% (pre tax)
Immature trees	10.0% (pre tax)	10.0% (pre tax)

Although the discount rate for the mature trees has been reduced by the valuer, it has little impact on the value as the trees are expected to be harvested within a year of balance date.

NOTE 14 INVESTMENT IN THE NEW ZEALAND RURAL PROPERTY TRUST

REL and its subsidiary, New Zealand Rural Property Trust Management Limited ("NZRPTML"), hold 29,747,156 units (2008 29,496,657) in its subsidiary, the New Zealand Rural Property Trust. This represents 62.6% (2008 62.4%) of the units on issue.

In September 2008, NZRPTML subscribed for 250,499 units (2007 260,953 units), as part of the management fee in accordance with the Trust Deed.

NOTE 15 INVESTMENT IN REL - PACIFIC EQUITY TRUST

The REL - Pacific Equity Trust is an unlisted investment trust formed to take advantage of investment opportunities in New Zealand and Australia. The Company had significant influence over the REL - Pacific Equity Trust and it was therefore treated as an associate using the equity method of accounting until the date of disposal. On 26 June 2009 the Company sold its 4,000,000 units in the REL - Pacific Equity Trust.

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

	GROUP 2009 $000	GROUP 2008 $000
Opening balance	4,199	4,225
Loss after tax for the period	(199)	(26)
Proceeds from disposal of associate	(4,000)	-
Closing balance	-	4,199

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

	GROUP 2009 $000	GROUP 2008 $000
Current assets	-	36
Investments	-	18,713
Current liabilities	-	(904)
Net assets	-	17,845
Revenue	551	667
Net loss after tax	(2,367)	(61)
Value per unit - $ per unit	$ -	$ 1.05

During the year ending 30 June 2009 the Group earned fees for managing the REL - Pacific Equity Trust of $155,000 (2008 $178,000).

The REL - Pacific Equity Trust is in the process of being liquidated thus the Group will not receive any further fees for managing this Trust.

Notes to the Financial Statements

NOTE 16 INVESTMENTS

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Subsidiary Entities				
Shares in New Zealand Rural Property Trust				
Management Limited - 100% owned	-	-	2,532	2,532
Shares in REL - Trust Management Limited - 100% owned	-	-	-	-
Units in the New Zealand Rural Property Trust - refer note 14	-	-	48,391	48,391
			50,923	50,923
Associate Entity				
Units in the REL - Pacific Equity Trust - refer note 15	-	4,199	-	4,000
Other Investments				
Shares in Fonterra Co-operative Group Limited	6,518	8,347	-	-
Other shares at valuation	233	207	-	-
	6,751	12,753	50,923	54,923

NOTE 17 MANAGEMENT CONTRACT

	GROUP 2009 $000	GROUP 2008 $000
Management Contract to manage the New Zealand Rural Property Trust		
Cost	2,354	2,354
Amortisation		
Opening balance	(1,658)	(1,492)
Current year	(15)	(166)
Closing balance	(1,673)	(1,658)
Net carrying value	681	696

NOTE 18 BANK LOANS

The Group has loan facilities with Westpac Banking Corporation totalling $42.0M (2008 $38.0M). As at 30 June 2009 the facility was drawn to $32.0M (2008 $29.5M) at an average interest rate of 4.04% (2008 6.51%). This is made up of loans classed as current liabilities of $14,600,000 (2008 Nil) and loans classed as non current liabilities of $17,445,000 (2008 $29,545,000).

The Company has provided the bank with a first ranking all obligations debenture over all the Company's assets. The facility runs to 30 September 2011 with interest rates reset every 90 days or less.

Bank loans for the subsidiary, the New Zealand Rural Property Trust, are classified as current liabilities while the Manager and the Trust's bankers are in discussions to establish the terms of an appropriate future borrowing structure for the Trust.

See note 8 for interest rate risk management.

NOTE 19 EARNINGS PER SHARE

	GROUP 2009	GROUP 2008
Numerator - $000		
Earnings attributable to parent company interests	(19,836)	32,392
Denominator - 000 shares		
Weighted average number of shares on issue	26,686	24,832
Earnings (loss) per share - $ per share	$ (0.74)	$ 1.30

Notes to the Financial Statements

NOTE 20 RELATED PARTY DISCLOSURES

The Company has entered into a Deed of Lease with Ecco Building Partnership for the lease of the Company's office premises at 120 Karamu Road, Hastings. Sir Selwyn Cushing, a director of REL, is one of the partners of Ecco Building Partnership. The lease is for a term from 13 February 2006 until 28 February 2011 with a further right of renewal until 25 November 2014. The annual rent is $22,400 reviewable on 28 February 2010 and every two years thereafter. The amount of rental paid by the Company to Ecco Building Partnership during the financial year was $22,400 (2008 $20,887). There was no amount owing as at 30 June 2009 (30 June 2008 Nil).

During the year REL provided accounting and administration services to H&G Limited. H&G Limited is REL's parent company. Sir Selwyn Cushing and David Cushing, who are directors of REL, are directors and shareholders of H&G Limited. The fees, charged at commercial rates, were $15,600 (2008 $12,000). The amount owing at balance date was $5,600 (2008 $12,000) and has since been paid in full.

In June 2009 H&G Limited made an offer to all the Unitholders in the REL - Pacific Equity Trust to purchase all the units that were not already owned by H&G Limited for $1 per unit. The Company accepted the offer and sold its 4,000,000 units to H&G Limited on 26 June 2009 - refer note 15. H&G Limited is in the process of liquidating the REL - Pacific Equity Trust.

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

NOTE 21 COMMITMENTS & CONTINGENT LIABILITIES

Operating Lease Commitments

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

Lease commitments under these non-cancellable leases are:

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Not later than one year	229	157	50	50
Later than one year and not later than two years	196	99	27	50
Later than two years and not later than five years	275	67	-	27
Total future minimum lease payments	700	323	77	127

Property, Plant & Equipment Commitments

The Group had no commitments contracted but not provided for as at 30 June 2009 (2008 $242,000).

Contingent Liabilities

There are no contingent liabilities as at 30 June 2009 (2008 Nil).

NOTE 22 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS

In applying the accounting policies management continually evaluate judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions made by management. Significant judgements made in the preparation of these financial statements are outlined below:

i) Investment Properties - The majority of the Group's assets consist of investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment properties.

Notes to the Financial Statements

NOTE 22 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS - CONTINUED

ii) Sharemilking Arrangements - The Group has sharemilking agreements in place on six (2008 six) of its properties. The essential nature of these agreements is that of a tenancy and so these properties are treated as investment properties. Therefore all changes in value are recorded in the Income Statement.

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

AUDITOR'S REPORT

To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 4 to 22. The financial statements provide information about the past financial performance of Rural Equities Limited (the "Company") and group (the "Group") and their financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 8 to 11.

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

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the Company and Group as at 30 June 2009 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.

Other than in our capacity as auditor we have no relationship with, or interest in, the Company.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 4 to 22:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Stands; and
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 2 September 2009 and our unqualified opinion is expressed as at that date.

Ernst + Young

Auckland

ADDITIONAL DISCLOSURES

Directors and Remuneration

The Directors of Rural Equities Limited ("REL") as at 30 June 2009 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), Sir Ronald Carter, David Cushing, Rodger Finlay (appointed 13 November 2008), John Green (appointed 13 November 2008) and Andy Train (appointed 28 April 2009).

Brian Martin retired as a director of REL on 2 September 2008. Roger Bonifant retired as at director of REL on 31 March 2009.

The Directors of New Zealand Rural Property Trust Management Limited ("NZRPTML") as at 30 June 2009 were Sir Selwyn Cushing (Chairman), Murray Gough (Deputy Chairman), David Cushing, Rodger Finlay (appointed 1 July 2008), John Green and Andy Train (appointed 28 April 2009).

Brian Martin retired as a director of NZRPTML on 2 September 2008. Roger Bonifant retired as at director of NZRPTML on 31 March 2009.

The directors of REL – Trust Management Limited as at 30 June 2009 were Sir Selwyn Cushing (Chairman), Sir Ronald Carter, David Cushing, Murray Gough and James Wright (Alternate for Sir Selwyn Cushing).

The table below details the remuneration received by the Directors during the year ended 30 June 2009.

Name	REL $	NZRPTML $
Roger Bonifant	20,000	-
Sir Ronald Carter	22,750	-
David Cushing	22,750	-
Sir Selwyn Cushing	37,500	-
Rodger Finlay	15,625	7,125
Murray Gough	27,500	-
John Green	15,625	7,125
Brian Martin	3,150	-
Andy Train	4,688	-

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 2009:

Sir Selwyn Cushing is a director of PGG Wrightson Limited.

John Green is a director of Perpetual Capital Management Limited.

Rodger Finlay is a member of the Public Trust Board.

Disclosure of share dealing by Directors and Directors' relevant interest in REL shares as at 30 June 2009

On 19 June 2009 REL-Pacific Equity Trust (an associate of Sir Selwyn Cushing and David Cushing) sold 72,684 REL shares to RGH Holdings Limited (an associate of Rodger Finlay) for $2.55 per share.

On 26 June 2009 REL-Pacific Equity Trust (an associate of Sir Selwyn Cushing and David Cushing) distributed 1,298,500 REL shares to H&G Limited (an associate of Sir Selwyn Cushing and David Cushing) as an initial distribution as part of the termination of the REL-Pacific Equity Trust.

H&G Limited (an associate of Sir Selwyn Cushing and David Cushing) purchased the following REL shares: on 30 March 2009 5,088 shares for $2.50 per share, on 2 April 2009 4,000 shares for $2.50 per share, on 21 April 2009 20,000 shares for $2.50 per share, on 29 April 2009 912 shares for $2.50 per share, on 1 May 2009 5,688 shares for $2.50 per share.

RGH Holdings Limited (an associate of Rodger Finlay) purchased the following REL shares: on 23 September 2008 2,400 shares for $3.50 per share, on 22 January 2009 19,366 shares for $2.50 per share, on 4 February 2009 499 shares for $2.50 per share, on 4 February 2009 2,500 shares for $2.50 per share, on 9 February 2009 3,250 shares for $2.50 per share, on 18 February 2009 16,555 shares for $2.50 per share.

Directors' relevant interest in REL shares as at 30 June 2009

Name of Director	Beneficial	Held by an Associated person
Sir Ronald Carter	-	200,000
David Cushing	907,467	15,868,864 [1]
Sir Selwyn Cushing	452,650	16,173,380 [1]
Rodger Finlay	-	917,293
Murray Gough	-	216,488
John Green	-	30,000
Andy Train	2,002	-

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

Directors' Indemnity and Insurance

On 31 May 2008 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2008 to 31 May 2009. On 31 May 2009 REL renewed this policy for a further year until 31 May 2010.

Donations

REL did not make any donations during the financial year ended 30 June 2009.

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 2009 (including Brian Burrough through the secondment agreement) employees received remuneration as follows:

$200,001 - $210,000	1
$210,001 - $220,000	2

SHAREHOLDER INFORMATION

As at 10 September 2009

Top Twenty Shareholders

Holder	Number of Shares Held	%
H&G Limited	14,897,870	55.82
RotoruaTrust Perpetual Capital Fund Limited	3,500,000	13.11
RGH Holdings Limited	917,293	3.43
David Cushing	644,307	2.41
New Zealand Central Securities Depository Limited	535,552	2.00
Brian Martin	375,444	1.40
Sir Selwyn Cushing	366,977	1.37
Seajay Securities Limited	313,625	1.17
Selba Holdings Limited – A/C 50	263,160	0.98
Riddell Funds Management Limited	220,000	0.82
Makowai Farm Limited	208,966	0.78
B&S Custodians Limited	182,000	0.68
Ashfield Properties Limited	178,560	0.66
David Cushing & Sir Selwyn Cushing (G Cushing Settlement Account)	166,752	0.62
MGS Fund Limited	124,234	0.46
Rodney Goodrick	120,000	0.44
Ben Cushing	101,823	0.38
Mary-Ellen Gough	92,254	0.34
FE Mayell & DA Young	90,000	0.33
Paul Clothier & David Cushing (Ashfield A/C)	85,673	0.32

Analysis of Shareholding by Size

	Number of Shareholders	%	Number of Shares Held	%
1,000 - 4,999	342	66.93	751,047	2.81
5,000 – 9,999	72	14.09	504,801	1.89
10,000 – 49,999	64	12.52	1,175,438	4.40
50,000 – 99,999	16	3.13	1,137,763	4.26
100,000 and over	17	3.33	23,116,563	86.62
Total	**511**		**26,685,612**	

Analysis of Shareholding by Location

	Number of Shareholders	%	Number of Shares Held	%
Upper North Island	143	28.01	5,195.414	19.47
Gisborne	49	9.59	263,174	0.99
Hawke's Bay	167	32.68	17,606,848	65.97
Manawatu/Wanganui/Wairarapa	40	7.83	173,884	0.65
Wellington	59	11.55	1,351,853	5.06
South Island	50	9.79	2,084,907	7.81
Overseas	3	0.60	9,532	0.03
Total	**511**		**26,685,612**	

CORPORATE GOVERNANCE

Role of the Board of Directors

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

REL has two wholly owned subsidiaries each with their own boards:

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

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

Board Membership

The composition of the three Boards is set out on page 24 of this report. Each Board meets approximately eight times during the year for scheduled meetings, with additional meetings held if necessary to consider urgent issues. Within each Board is a broad mix of skills and experience relevant to the guidance of the businesses.

Board Committees

Each Board has a constituted Audit Committee.

The REL Audit Committee is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing the external audit, liaison with REL's auditor and making recommendations to the Board as to their appointment and their remuneration. The responsibilities of this committee encompass REL, NZRPTML and REL-TML but not NZRPT or REL-PET.

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

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

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

DIRECTORY

Directors

Sir Selwyn Cushing
Chairman

Murray Gough
Deputy Chairman

Sir Ronald Carter

David Cushing

Rodger Finlay

John Green

Andy Train

Executive

Brian Burrough
Chief Executive Officer

Owen Trimmer
Chief Financial Officer

James Wright
Chief Operating Officer

Registered Office

Rural Equities Limited
First Floor, 120 Karamu Road North
PO Box 783, Hastings 4156

Telephone	0800 100 042
Facsimile	06 870 4673
Email	enquiries@ruralequities.co.nz
Website	www.ruralequities.co.nz

Share Registry

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119
Auckland 1020

Telephone	0800 228 811
Facsimile	09 488 8787

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