



INVESTMENT STATEMENT  
AND  
SHORT FORM PROSPECTUS

3 MAY 2005

ONE FOR TWO PRO-RATA NON-RENOUNCEABLE RIGHTS ISSUE  
OF ORDINARY SHARES AT \$1.00 PER SHARE

## DIRECTORY

### Registered Office

Willet House  
Shakespeare Road  
NAPIER  
Ph: 06 – 834 3196  
Fax: 06 – 835 2444  
Email: enquiries@ruralequities.co.nz

### Directors

Sir Selwyn Cushing (Chairman)  
Murray Gough (Deputy Chairman)  
Roger Bonifant  
Sir Ronald Carter  
David Cushing  
Brian Martin  
Gerald Weenink

### Underwriter

ABN AMRO Craigs Limited  
Farming House  
102 - 104 Spring Street  
TAURANGA

### Solicitors for REL

Russell McVeagh  
48 Shortland Street  
AUCKLAND

### Share Registrar

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

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as at 31 December 2004

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Financial Statements  
as at 30 June 2004



## OFFER TIMETABLE

Record Date	5.00 pm on 20 May 2005
Opening Date	23 May 2005
Closing Date*	3 June 2005
Allotment*	10 June 2005
Notification of Allotments*	14 June 2005

*\*REL may amend these dates at its discretion.*

## GLOSSARY

"**Acceptance Form**" means the letter of entitlement and acceptance form attached to this Offer Document.

"**Closing Date**" means 3 June 2005 or such other date as may be determined by REL.

"**Companies Act**" means the Companies Act 1993.

"**Director**" means a director of REL.

"**Group**" means REL and its subsidiary NZRPTML.

"**NZRPTML**" and "**Trust Manager**" mean New Zealand Rural Property Trust Management Limited.

"**Offer**" means the offer of Shares pursuant to this Offer Document.

"**Offer Document**" means this combined short form prospectus and investment statement.

"**Opening Date**" means 23 May 2005.

"**Record Date**" means 20 May 2005.

"**REL**" means Rural Equities Limited.

"**Securities Act**" means the Securities Act 1978.

"**Securities Regulations**" means the Securities Regulations 1983.

"**Share**" means an ordinary share of REL.

"**Shareholder**" means persons whose names were entered in the share register of REL as the holder of one or more Shares as at 5.00 pm on the Record Date.

"**Trust**" means the New Zealand Rural Property Trust.

"**Trustee**" means the trustee of the Trust, being The New Zealand Guardian Trust Company Limited.

"**Underwriting Agreement**" means the agreement dated 2 May 2005 between REL and the Underwriter relating to the underwriting of the Offer.

"**Underwriter**" means ABN AMRO Craigs Limited.

"**Unit**" means a unit in the Trust.

"**Unitholder**" means a person who holds Units.

"**W&K**" means Williams & Kettle Limited.

# CHAIRMAN'S LETTER

3 May 2005

Dear Shareholder



WILKET HOUSE  
SHAKESPEARE ROAD  
PO BOX 154, NAPIER  
NEW ZEALAND  
TELEPHONE 0-6-834 3196  
FREEPHONE 0800 100 042  
FACSIMILE 0-6-835 2444

## ONE FOR TWO PRO-RATA NON-RENOUCEABLE RIGHTS ISSUE

On behalf of the Board of Rural Equities Limited, I am pleased to offer you the opportunity to participate in this rights issue.

The Directors wish to increase the capital of REL by offering this one for two pro-rata non-renounceable rights issue for cash at \$1.00 per Share. The offer is being underwritten by ABN AMRO Craigs Limited who will subscribe for any Shares relating to any entitlements which are not taken up by Shareholders.

The Group has in the period since February 2004 increased its unitholding in the New Zealand Rural Property Trust from 31.9% to 52.43%. This has been largely funded by increasing bank debt. The funds received from this rights issue, of approximately \$7,400,000, will be used to repay bank debt and position REL with the flexibility to embark on other investment strategies when appropriate.

The offer is non-renounceable. This means that you cannot sell or transfer your entitlement to another person. If you do not wish to take up your entitlement, you may wish to consider selling some or all of your Shares before the Record Date, 20 May 2005. The Share price prior to the Record Date may reflect some value for this entitlement.

The Directors remind Shareholders of the minimum shareholding requirement of 1,000 Shares. This was approved at the 2004 Annual Meeting of REL. If you hold less than 1,000 Shares this Offer may provide you with the opportunity to increase your holding to, or above, the minimum shareholding. While Directors have no immediate plans to enforce the minimum shareholding requirement this may well be considered in the future.

REL's current business activities are its investments in Trust Units and in New Zealand Rural Property Trust Management Limited which manages the Trust. The Trust reported a strong full year result to 30 June 2004 – a surplus after tax of \$17,897,000. The majority of the surplus (\$16,898,000) was derived from the increase in value of the Trust's rural properties, which have shown continuing growth in recent years. Rural land values remain firm with solid buyer support for farms offered for sale in all districts. There is sustained global demand for most New Zealand farm products, and prices for milk products, mutton, lamb and beef remain firm despite the high value of the New Zealand dollar. The Directors accordingly believe there will be continuing capital growth in the long term from the diverse portfolio of quality properties owned by the Trust.

The Directors of REL note that while investment in rural property provides long term capital growth, revenue returns from rural property are relatively low. Dividends are accordingly not expected to be paid by REL in the foreseeable future.

If you intend to take up all or some of your entitlement, please remember to complete and return the Letter of Entitlement and Acceptance Form and ensure it is received by Computershare Investor Services Limited by the Closing Date of 3 June 2005 (unless extended).

On behalf of the Board I commend this offer to you and encourage you to participate.

Sir Selwyn Cushing  
CHAIRMAN



# MAIN TERMS OF OFFER

## **Offer**

Shares in REL are being offered on a non-renounceable basis at \$1.00 each to persons who are registered Shareholders of the Company as at 5.00 pm on 20 May 2005 (the "Record Date") in the ratio of one new Share for every two Shares held (subject to rounding).

Any Shares purchased after the Record Date will not entitle the purchaser to participate in the Offer.

Each Shareholder who is offered the right to subscribe for Shares pursuant to the Offer may elect not to exercise that entitlement. As the offer is non-renounceable, the entitlement may not be transferred to another person for that person to exercise. The Underwriter will subscribe for the Shares relating to any entitlements which are not taken up.

## **Purpose of the Issue**

Over the past twelve months REL has acquired additional Units in the New Zealand Rural Property Trust, primarily through two offers to Unitholders, one in September 2004 and the other in March / April 2005. As a result the Group's unitholding in the Trust has increased to 52.43%.

When REL was separated from W&K in February 2004, REL's term debt was \$6,000,000. To facilitate the additional Unit purchases, increased facilities have been arranged with Westpac Banking Corporation. As at 20 April 2005 the Westpac facilities were drawn to a level of \$21,830,000, with a current limit of \$24,500,000.

The proceeds from this issue will be used to reduce the level of the Westpac debt and position REL with the flexibility to embark on other investment strategies when appropriate.

## **Your entitlement**

Your entitlement is set out in the Letter of Entitlement and Acceptance Form accompanying this Offer Document. If you buy, sell or transfer any Shares between 3 May 2005 and the Record Date your entitlement will alter – refer to the back of the Letter of Entitlement and Acceptance Form for further details.

The number of Shares which Shareholders are entitled to apply for, in the case of fractional entitlements, has been rounded up to the nearest whole number.

Applications must be on the Letter of Entitlement and Acceptance Form accompanying this Offer Document.

## **Acceptance or renunciation of entitlement**

You may accept your entitlement either in full or in part. If you wish to accept your entitlement in part only, or do not wish to accept it, your entitlement is non-renounceable and, as such, your entitlement cannot be sold or transferred in whole or in part. You may however sell some or all of your Shares prior to the Record Date in which case the purchaser of your Shares may accept the entitlement.

Entitlements not taken up will revert to the Underwriter and you will receive no benefit.

Completed Letters of Entitlement and Acceptance Forms should be returned to Computershare Investor Services Limited at Level 2, 159 Hurstmere Road, Takapuna, Private Bag 92119, Auckland to be received no later than 5.00 pm Friday, 3 June 2005 (unless extended).

## **Underwriting**

The Offer is fully underwritten by ABN AMRO Craigs Limited for a nominal fee of \$1.00.

## **Overseas Shareholders**

Shareholders who are not resident in New Zealand may not be eligible to participate in the Offer because of taxation or legal constraints that apply in their country of residence. Such Shareholders should first seek professional advice before electing to participate in the Offer. It is the responsibility of each Shareholder to obtain any such advice. Any person outside New Zealand who participates in the Offer will be deemed to represent and warrant to REL that they are a person to whom an offer may lawfully be made in their jurisdiction pursuant to this Offer Document and that they may lawfully participate in the Offer. Neither REL nor any of its officers or advisers accept any responsibility to determine whether a Shareholder is able to participate in the Offer.

## **Important Document**

If you are in any doubt as to how to deal with this Offer Document, please immediately contact an accountant or a financial adviser.



# BUSINESS OVERVIEW

## Background

REL was established in 1989 under its previous name of New Zealand Farmlands Limited and was formerly a listed company on the New Zealand Stock Exchange. The Company changed its name to New Zealand Rural Properties Limited in 1992. Williams & Kettle Limited made a share takeover offer for the Company in 1996, pursuant to which it acquired approximately 72% of the shares in the Company. The remainder of the shares were acquired subsequently for cash.

In February 2004 W&K carried out a court approved scheme of arrangement under Part XV of the Companies Act 1993 pursuant to which it transferred the Units it owned in the New Zealand Rural Property Trust to REL in return for further shares in REL and \$6,000,000 in cash. W&K then made a distribution of shares in REL to each W&K shareholder pro-rata to their shareholding in W&K.

As at 20 April 2005, REL had 14,825,260 shares on issue. Details of REL's Shareholders as at 20 April 2005 are:

Shareholders	Number of shares	% of shares on issue
H&G Limited	6,052,851	40.83
St Laurence Property & Finance Limited	2,639,295	17.81
RECT Funds Management Limited	490,964	3.31
David Cushing	357,948	2.41
New Zealand Central Securities Depository Limited	316,202	2.13
Brian Martin	208,580	1.41
Sir Selwyn Cushing	203,876	1.37
Other shareholders (approx 1,924)	4,555,544	30.73
<b>Total</b>	<b>14,825,260</b>	

None of the above persons guarantees the Shares being offered.

Collectively H&G Limited and other interests directly associated with the Cushing family own 50.1% of the total number of REL shares on issue.

REL's primary assets are a holding of 52.43% of the total number of Trust Units on issue and 100% of the shares in New Zealand Rural Property Trust Management Limited, the Trust Manager. Further details are contained in the sections *Profile of the New Zealand Rural Property Trust* on page 6 and *Trust Management* below.

REL has no employees. W&K provides services, including property management, rent collection, company secretarial services and information technology facilities, pursuant to a Service Provision Agreement with Williams & Kettle Limited. Further details are contained in the section *Service Provision Agreement with Williams & Kettle Limited* on page 6.

## REL's financial statements

Interim financial statements for REL for the six month period to 31 December 2004 are included as Appendix I of this Offer Document.

The financial statements of REL for the 11 month period to 30 June 2004 are included as Appendix II of this Offer Document. A full copy of REL's 2004 annual report can be obtained by contacting the registered office of REL (refer to the Directory for contact details).

## Trust Management

The terms and conditions governing the management of the Trust by the Trust Manager are embodied within the Trust Deed for the Trust last modified on 30 June 2000 (the "Trust Deed"). The Trust terminates in 2067.

Essentially, the Trust Manager's role is to administer and supervise the investments of the Trust in the best interests of Unitholders and to ensure developments are carried out in a proper manner. With regard to acquisitions and disposals, investment proposals are prepared by the Trust Manager and subject to the approval of the Trustee of the Trust, The New Zealand Guardian Trust Company Limited.

In consideration for the services provided by the Trust Manager it receives a management fee calculated on a sliding scale based on the gross value of the Trust. Part of the management fee is paid in cash and part in Trust Units.



### Service Provision Agreement with Williams & Kettle Limited

W&K provides services under this agreement to REL and New Zealand Rural Property Trust Management Limited to enable them to carry out their respective business functions.

Specific services provided by the W&K staff under this agreement include:

- Property management, investment, administrative and other services to NZRPTML to enable NZRPTML to properly carry out its obligations as manager of the Trust.
- Administrative services to REL and NZRPTML including preparation of accounting records and reports, collection of debts, managing any litigation in respect of REL or NZRPTML and responsibility for the negotiation and supervision of all financial indebtedness of NZRPTML and REL.

The initial term of the Agreement is until 30 September 2007.

The fee payable by REL to W&K is currently \$561,000 per annum. From 1 July 2005, the fee will be adjusted each year for any increase in the consumer price index.

### Profile of the New Zealand Rural Property Trust

The Trust is registered under the Unit Trusts Act 1960. It was established in 1987 for the express purpose of developing and holding a diverse long-term portfolio of prime rural property assets.

The Trust now operates as a closed trust, whereby Unitholders seeking to purchase or sell Units effect their transaction via secondary markets.

As at 20 April 2005, the Trust had 46,533,283 Units on issue. Details of the Trust Unitholders as at 20 April are:

Unitholders	Number of Units	% of Units on issue
REL	23,126,658	49.70
Ashfield Farm Limited	2,873,799	6.18
New Zealand Central Depository Limited	1,814,416	3.90
NZRPTML	1,274,009	2.73
RECT Funds Management Limited	1,187,255	2.55
Selba Holdings Limited	964,232	2.07
W&K Staff Pension Fund Limited	775,036	1.67
W J Greenwood	655,045	1.41
Other Unitholders (approx 1,603)	13,862,833	29.79
<b>Total</b>	<b>46,533,283</b>	

Collectively the interest in Trust Units of REL and NZRPTML is 52.43%.

The principal purpose of the Trust is to invest in rural property and forestry investments. The Trust Deed states that the Trustee shall invest the Trust's funds in accordance with this policy so that any appreciation or diminution in value of a Unitholder's investment shall primarily reflect the investment risk associated with this policy.

The Trust owns 30 rural properties throughout New Zealand and one forest at Ngaruawahia. Twenty-three of the rural properties are leased to farmers who undertake a wide range of rural activities. Six dairy farming properties are managed by resident sharemilkers. Fox's Peak, a large scale sheep and beef grazing operation, is directly managed by the Trust. The forest at Ngaruawahia is currently being harvested.



# INVESTMENT STATEMENT INFORMATION - ANSWERS TO IMPORTANT QUESTIONS

## 1. WHAT SORT OF INVESTMENT IS THIS?

Shares in REL are being offered on a non-renounceable basis at \$1.00 each to Shareholders in the ratio of one new Share for every two Shares held, with partial entitlements being rounded up. No person or entity guarantees the Shares offered.

The Shares offered will rank equally in all respects with the existing Shares. Each Share gives the holder the right to: (a) attend and vote at a meeting of REL, including the right to cast one vote per Share on a poll on any resolution, including but not limited to a resolution to:

- appoint or remove a director or auditor;
- adopt or alter REL's constitution;
- approve a major transaction;
- approve the amalgamation of REL; or
- put REL into liquidation;

- (b) dividends paid by REL in respect of that Share;
- (c) an equal share with other Shares in the distribution of surplus assets in any liquidation of REL;
- (d) be sent certain information about REL; and
- (e) the other rights as a Shareholder conferred by the Companies Act and REL's constitution.

The above is a simplified and general description of some of the rights of Shareholders. All terms of the Offer, and the Shares, except those rights and obligations implied by law, are set out in this Offer Document and REL's constitution, both of which are available for public inspection on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz) or at the registered office of REL (refer to the Directory for contact details).

## 2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

Rural Equities Limited is the issuer of the Shares. The registered office of REL is at Wilket House, Shakespeare Road, Napier, New Zealand.

Details of the activities carried on by REL and its history are set out under Business Overview on pages 5 to 6.

## 3. HOW MUCH DO I PAY?

The Shares are to be issued for \$1.00 each. The subscription price for the Shares is payable by applicants to "Rural Equities Limited Rights Issue" and must be forwarded to:

Rural Equities Limited  
c/- The Registrar  
Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road  
Takapuna  
Private Bag 92 119  
AUCKLAND

to arrive no later than 5.00 pm on 3 June 2005.

## 4. WHAT ARE THE CHARGES?

Shareholders are not required to pay any charges to REL in relation to the Offer.

Details of the expenses of the Offer are set out on page 10. These expenses will be paid by REL.



## 5. WHAT RETURNS WILL I GET?

Nothing contained in this Offer Document should be construed as a promise of profitability, and REL can give no assurance about the level of dividends, if any. Nor can any assurances be given as to the level of imputation credits or the level of supplementary dividends. No amount of returns is promised by REL or any other person. As noted in the Chairman's letter on page 3, dividends are not expected to be paid by REL in the foreseeable future.

Shareholders are entitled to receive any dividends that may be paid in the future. Shareholders are also entitled to any other returns attaching to the Shares. Shareholders may also benefit from any increase in the market price of their Shares if they sell them. The price of Shares may also decline.

The key factor that will determine returns will be the financial performance of REL (which will reflect the financial performance of the underlying assets held by REL). REL may elect to establish or enhance reserves or retentions, reducing the amount available to be distributed to shareholders. New Zealand taxes may affect the return to investors. Prospective investors must seek their own taxation advice in relation to their personal taxation position.

The information set out in this section should be read in conjunction with the information set out below in the section entitled "What are my risks?". The factors described in that section could reduce or eliminate returns intended to be derived from holding the Shares.

In the event that any dividends are declared, REL will be legally liable to pay such dividends on the Shares. If a Shareholder sells Shares, the purchaser of those Shares will be legally liable to pay the purchase price for those Shares. Returns on the Shares are not payable on fixed dates.

## 6. WHAT ARE MY RISKS?

The principal risk to holders of shares in REL is the inability to recover some or all of their investment. This could occur for a number of reasons including:

- If the business operations of REL are unsuccessful.
- If REL is placed into liquidation and the value of its assets are insufficient to enable repayment to Shareholders of the price paid by Shareholders for their Shares.
- If the value of Trust Units which REL holds and/or the value of the assets of the Trust decrease. This would also result in a decrease in the amount of the management fee received by NZRPTML. These values can be decreased:
  - If the performance of the rural sector and/or the value of properties owned by the Trust declines. This may be caused by factors such as exchange rates and farm product prices in world markets. Historically the rural sector has seen cyclical phases of growth and decline which are expected to continue.
  - Seasonal climatic conditions in New Zealand or unforeseen natural disasters. The properties owned by the Trust are geographically spread thereby minimizing the effect of adverse climatic variations.
  - If there is an outbreak of a significant disease that would affect the ability to produce or sell farm products.
  - By changes in the taxation treatment of the Trust. The Trust has recently been subject to a review by the Inland Revenue Department of the tax treatment of gains recorded on historic sales of the Trust properties. Although the review resulted in the IRD not disputing the tax treatment on all property sales up until 2004, the IRD made no commitment about its position in respect to future years.
- If NZRPTML ceases to manage the Trust. The Trust Deed provides for NZRPTML to continue as the Trust Manager until 2067. NZRPTML may however be removed or retire in certain circumstances.

If the secondary markets on which the Shares are currently traded cease to exist, or exist in a different form, there may not be a ready market for the Shares. There are currently calls for Unlisted to become regulated as a securities exchange.

Shareholders will not have any liability upon the insolvency of REL to pay money to any person as the Shares that will be issued to you pursuant to the Offer will be issued fully paid.

In the event of REL being put into liquidation, claims by secured creditors and other creditors will rank ahead of claims by Shareholders, as will any prior ranking shares (no such shares are currently on issue). The holders of Shares will rank equally with each other in a liquidation of REL.



## 7. CAN THE INVESTMENT BE ALTERED?

Full terms of the Offer are set out in this Offer Document. The terms may be altered by an amendment to this Offer Document by REL. Details of any such amendment must be filed with the Companies Office.

The rights attaching to Shares are governed by REL's constitution. That constitution may only be altered by a special resolution of Shareholders subject to the rights of interest groups under the Companies Act or in certain circumstances by court order. Section 117 of the Companies Act requires that a company must not take any action that affects the rights attached to shares unless that action has been approved by a special resolution of each interest group (as defined in the Companies Act).

## 8. HOW DO I CASH IN MY INVESTMENTS?

A Shareholder may sell the Shares held by that Shareholder. There is currently an established market for such sales on two unregistered securities trading facilities, Unlisted\* and ShareMart\*. No charges are payable to REL on the sale of Shares, however, brokerage may be payable by you in respect of any sale.

\* Neither Unlisted nor ShareMart is a registered or authorised securities exchanges, or regulated under New Zealand securities exchanges law. Unlisted and ShareMart accept no responsibility for any statement made in this Offer Document.

## 9. WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Enquiries in relation to the Shares may be made to:

James Wright	Ph: 06 – 834 3196
Rural Equities Limited	Fax: 06 – 835 2444
Wilket House	Email: enquiries@ruralequities.co.nz
Shakespeare Road	
Napier	
New Zealand	

## 10. IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints about the Shares can be made to:

James Wright	Ph: 06 – 834 3196
Rural Equities Limited	Fax: 06 – 835 2444
Wilket House	Email: enquiries@ruralequities.co.nz
Shakespeare Road	
Napier	
New Zealand	

There is no ombudsman to whom complaints about the Shares can be made.

## 11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Information about the Shares and REL is contained in this Offer Document and in the financial statements of REL.

A copy of this Offer Document and of the most recent financial statements of REL can be obtained free of charge from the registered office of REL (refer to the Directory for contact details) during normal business hours or from REL's website <http://www.ruralequities.co.nz>. Those documents, and other documents of or relating to REL, are also available for public inspection on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz). Holders of Shares will receive an annual report of REL, incorporating the most recent audited financial statements, in accordance with the requirements of the Companies Act.

Holders of Shares in REL may request the following documents from REL:

- A copy of the most recent annual report of REL.
- A copy of the most recent financial statements of REL.
- A copy of this Offer Document.

Those documents will be provided free of charge.

- The Information required to be made available under sections 215 and 216 of the Companies Act, section 52(1) of the Securities Act and regulation 23A of the Securities Regulations.

Pursuant to section 218 of the Companies Act, a reasonable copying and administration fee may be charged for these documents.

A request for those documents should be made to the Company Secretary at the registered office of REL (refer to the Directory for contact details).



# STATUTORY INFORMATION

The information in this section includes, or refers to, the information required by Regulation 4(2) and the First Schedule of the Securities Regulations 1983.

## 1. MAIN TERMS OF OFFER

### Issuer

The issuer of the Shares is Rural Equities Limited which has its registered office at Wilket House, Shakespeare Road, Napier, New Zealand.

### Description

REL is offering ordinary shares in REL on a non-renounceable basis to Shareholders in the ratio of one new Share for every two Shares held. The Shares offered will be identical to existing Shares. The Shares are described in greater detail on page 7. Listing of the Shares on the New Zealand Stock Exchange or the alternate market operated by New Zealand Exchange Limited is not being sought.

### Maximum Number

The maximum number of Shares offered is up to 7,414,630.

### Price or other consideration

The issue price of each Share is \$1.00, payable in full upon application.

## 2. PROSPECTS AND FORECASTS

It is expected that the Group will continue to undertake its current activities as described in Business Overview on page 5. The unaudited interim financial statements of the Group for the 6 month period to 31 December 2004, provide details of the Group's performance during that period and the financial position as at 31 December 2004. Subject to the impact of the transactions detailed in the paragraph below, it is the Directors' expectation that REL will continue to perform satisfactorily for the remainder of the financial year.

Since 31 December 2004, REL has acquired an additional 4,424,908 Units at \$1.84 per Unit, which has increased the value of its investments and the level of REL's term bank facility. This facility, however, will be reduced with the proceeds of this Offer.

The purpose of the Offer is to provide finance for the repayment of REL's term bank facility used to finance the purchase of Units in the Trust and to provide capital to embark on other investment strategies when appropriate. The value of the Units recently purchased, and those previously held by the Group, are expected to appreciate over time.

Special trade factors and risks that could materially affect the prospects of the Group and which are not likely to be known or anticipated by the general public, are set out under "What are my risks?" on page 8.

## 3. PRELIMINARY AND ISSUE EXPENSES

The estimated amount of expenses of the Offer is \$62,000 (including GST). That amount comprises legal fees and other fees associated with the Offer, registry expenses, printing and distribution of this Offer Document. No commission or brokerage is payable in connection with the Offer.

## 4. OTHER TERMS OF OFFER AND SECURITIES

All the terms of the Offer, and all the terms of the Shares being offered, are set out in this Offer Document, except for those implied by law or set out in a document that:

- is registered with a public official; and
- is available for public inspection; and
- is referred to in this Offer Document.

## 5. FINANCIAL STATEMENTS

The date of the statement of financial position included in the financial statements of the Group most recently sent to the Shareholders of REL in accordance with the Companies Act 1993 is 30 June 2004.

## 6. PLACES OF INSPECTION OF DOCUMENT

During the currency of this Offer Document, copies of the financial statements of the Group for the financial year ending 30 June 2004 can be obtained without fee from the registered office of REL (refer to the Directory for contact details) during normal business hours of 9.00 am to 5.00 pm on a working day (as defined in the Companies Act). These statements are also included in this Offer Document as Appendix II.

The public file in respect of REL can be viewed on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz).

## 7. INTERIM STATEMENT OF FINANCIAL POSITION

Included in this Offer Document as Appendix I are the interim financial statements for the Group for the period from 1 July 2004 to 31 December 2004, that comply with the Financial Reporting Act 1993 (except that they are not audited).

## 8. DIRECTORS' STATEMENT

The Directors, after due enquiry by them in relation to the period between 31 December 2004 and the date of registration of this Offer Document, are of the opinion that no circumstances have arisen that materially adversely affect:

- the trading or profitability of the Group; or
- the value of the Group's assets; or
- the ability of the Group to pay its liabilities due within the next 12 months.

Signed by:



Sir Selwyn Cushing  
Director



David Cushing  
Director  
by his authorised agent James Wright



Murray Gough  
Director



Brian Martin  
Director



Roger Bonifant  
Director



Gerald Weenink  
Director



Sir Ronald Carter  
Director





## Appendix I

UNAUDITED INTERIM  
FINANCIAL STATEMENTS  
OF RURAL EQUITIES LIMITED  
FOR THE 6 MONTHS ENDED  
31 DECEMBER 2004

## Statement of Financial Performance

for the 6 months ended 31 December 2004

	Note	GROUP			PARENT		
		Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
		\$000	\$000	\$000	\$000	\$000	\$000
		6 Months	11 months	12 months	6 Months	11 months	12 months
<b>Total operating revenue</b>	3	<u>1,182</u>	<u>2,055</u>	<u>2,043</u>	<u>1,848</u>	<u>2,031</u>	<u>1,988</u>
<b>Operating surplus before Associate's Surplus</b>	3	<u>375</u>	<u>998</u>	<u>1,756</u>	<u>1,057</u>	<u>1,062</u>	<u>1,788</u>
Share of Associate's Surplus	5	73	5,514	-	-	-	-
Discount on acquisition of interest in Associate	5	4,842	10,636	-	-	-	-
<b>Operating surplus (deficit) before taxation</b>		<u>5,290</u>	<u>17,148</u>	<u>1,756</u>	<u>1,057</u>	<u>1,062</u>	<u>1,788</u>
Taxation expense	4	334	427	565	385	482	565
<b>Surplus (deficit) after taxation</b>		<u>4,956</u>	<u>16,721</u>	<u>1,191</u>	<u>672</u>	<u>580</u>	<u>1,223</u>

## Statement of Movements in Equity

for the 6 months ended 31 December 2004

	Note	GROUP			PARENT		
		Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
		\$000	\$000	\$000	\$000	\$000	\$000
		6 Months	11 months	12 months	6 Months	11 months	12 months
<b>Equity at start of period</b>		<u>35,174</u>	<u>6,017</u>	<u>4,826</u>	<u>18,975</u>	<u>5,959</u>	<u>4,736</u>
Surplus after taxation		4,956	16,721	1,191	672	580	1,223
<b>Total recognised revenue and expenses</b>		<u>4,956</u>	<u>16,721</u>	<u>1,191</u>	<u>672</u>	<u>580</u>	<u>1,223</u>
Share issue	7	-	15,384	-	-	15,384	-
Distributions	6	-	(2,948)	-	-	(2,948)	-
<b>Equity at end of period</b>		<u>40,130</u>	<u>35,174</u>	<u>6,017</u>	<u>19,647</u>	<u>18,975</u>	<u>5,959</u>

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



## Statement of Financial Position

as at 31 December 2004

	Note	GROUP			PARENT		
		Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000	Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000
<b>Assets</b>							
Current assets							
Cash on hand and at bank		-	-	1,292	-	-	1,292
Accounts receivable and accrued income		783	1,298	755	26	257	12
Receivable from subsidiary		-	-	-	2,752	2,374	1,471
<b>Total current assets</b>		<b>783</b>	<b>1,298</b>	<b>2,047</b>	<b>2,778</b>	<b>2,631</b>	<b>2,775</b>
Non current assets							
Property, plant and equipment	12	1	2	155	1	2	155
Management contract	11	1,960	1,976	2,005	-	-	-
Investments	13	51,600	38,542	1,903	31,082	22,986	3,122
<b>Total non current assets</b>		<b>53,561</b>	<b>40,520</b>	<b>4,063</b>	<b>31,083</b>	<b>22,988</b>	<b>3,277</b>
<b>Total assets</b>		<b>54,344</b>	<b>41,818</b>	<b>6,110</b>	<b>33,861</b>	<b>25,619</b>	<b>6,052</b>
<b>Liabilities</b>							
Current liabilities							
Bank overdraft	10	296	302	-	296	302	-
Accounts payable and accrued expenses		235	190	85	235	190	85
Provision for taxation		183	152	8	183	152	8
<b>Total current liabilities</b>		<b>714</b>	<b>644</b>	<b>93</b>	<b>714</b>	<b>644</b>	<b>93</b>
Non current liabilities							
Bank term facility	9	13,500	6,000	-	13,500	6,000	-
<b>Total non current liabilities</b>		<b>13,500</b>	<b>6,000</b>	<b>-</b>	<b>13,500</b>	<b>6,000</b>	<b>-</b>
<b>Total liabilities</b>		<b>14,214</b>	<b>6,644</b>	<b>93</b>	<b>14,214</b>	<b>6,644</b>	<b>93</b>
<b>Shareholders' funds</b>							
Share capital	7	29,569	29,569	14,185	29,569	29,569	14,185
Retained earnings	8	10,561	5,605	(8,168)	(9,922)	(10,594)	(8,226)
<b>Total shareholders' funds</b>		<b>40,130</b>	<b>35,174</b>	<b>6,017</b>	<b>19,647</b>	<b>18,975</b>	<b>5,959</b>
<b>Total liabilities and shareholders' funds</b>		<b>54,344</b>	<b>41,818</b>	<b>6,110</b>	<b>33,861</b>	<b>25,619</b>	<b>6,052</b>

On behalf of the Directors, who approve the issue of the annual report, dated 28 February 2005.



S J Cushing  
Director



R A Bonifant  
Director

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



## Statement of Cash Flows

for the 6 months ended 31 December 2004

	Note	GROUP			PARENT		
		Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
		\$000 6 Months	\$000 11 months	\$000 12 months	\$000 6 Months	\$000 11 months	\$000 12 months
<b>Cash flows from operating activities</b>							
Cash was provided from							
Receipts from customers		1,689	1,707	1,847	222	-	-
Receipts from subsidiary		-	-	-	849	1,109	1,324
Dividends received		667	31	28	622	-	-
Other income		-	20	63	-	20	63
		<u>2,356</u>	<u>1,758</u>	<u>1,938</u>	<u>1,693</u>	<u>1,129</u>	<u>1,387</u>
Cash was applied to							
Payments to suppliers and employees		393	1,033	282	393	974	226
Taxation paid		354	338	566	354	338	566
Interest paid		344	134	1	344	134	1
		<u>1,091</u>	<u>1,505</u>	<u>849</u>	<u>1,091</u>	<u>1,446</u>	<u>793</u>
<b>Net cash flows from operating activities</b>	16	<b>1,265</b>	<b>253</b>	<b>1,089</b>	<b>602</b>	<b>(317)</b>	<b>594</b>
<b>Cash flows from investing activities</b>							
Cash was provided from							
Sale of property, plant & equipment		-	151	-	-	151	-
Sale of investment		-	590	-	-	590	-
		<u>-</u>	<u>741</u>	<u>-</u>	<u>-</u>	<u>741</u>	<u>-</u>
Cash was applied to							
Purchase of investments		-	-	1,030	-	-	535
Purchase of associate	5	8,759	6,570	-	8,096	6,000	-
		<u>8,759</u>	<u>6,570</u>	<u>1,030</u>	<u>8,096</u>	<u>6,000</u>	<u>535</u>
<b>Net cash flows from investing activities</b>		<b>(8,759)</b>	<b>(5,829)</b>	<b>(1,030)</b>	<b>(8,096)</b>	<b>(5,259)</b>	<b>(535)</b>
<b>Cash flows from financing activities</b>							
Cash was provided from							
Share issue		-	2	-	-	2	-
Term loan advance		7,500	6,000	-	7,500	6,000	-
		<u>7,500</u>	<u>6,002</u>	<u>-</u>	<u>7,500</u>	<u>6,002</u>	<u>-</u>
Cash was applied to							
Payment of dividend		-	2,020	-	-	2,020	-
		<u>-</u>	<u>2,020</u>	<u>-</u>	<u>-</u>	<u>2,020</u>	<u>-</u>
<b>Net cash flows from financing activities</b>		<b>7,500</b>	<b>3,982</b>	<b>-</b>	<b>7,500</b>	<b>3,982</b>	<b>-</b>
<b>Net increase (decrease) in cash held</b>		<b>6</b>	<b>(1,594)</b>	<b>59</b>	<b>6</b>	<b>(1,594)</b>	<b>59</b>
Cash at start of period		(302)	1,292	1,233	(302)	1,292	1,233
<b>Cash at end of period</b>		<b>(296)</b>	<b>(302)</b>	<b>1,292</b>	<b>(296)</b>	<b>(302)</b>	<b>1,292</b>
Comprised of							
Cash at bank		-	-	1,292	-	-	1,292
Bank overdraft		(296)	(302)	-	(296)	(302)	-
		<u>(296)</u>	<u>(302)</u>	<u>1,292</u>	<u>(296)</u>	<u>(302)</u>	<u>1,292</u>

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



## Notes to the Financial Statements

### NOTE 1 STATEMENT OF ACCOUNTING POLICIES

#### REPORTING ENTITY

Rural Equities Limited is a Company registered under the Companies Act 1993. This Company was formerly known as New Zealand Rural Properties Limited and changed its name to Rural Equities Limited during the 2004 financial year.

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

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

#### MEASUREMENT BASE

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

#### SPECIFIC ACCOUNTING POLICIES

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

##### *(a) Basis of Consolidation - Purchase Method*

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

##### *(b) Associated Entities*

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

##### *(c) Fixed Assets*

All fixed assets are initially recorded at cost.

##### *(d) Depreciation*

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

Office equipment                      at 20% of cost price

Plant and equipment                  at 10% of cost price

##### *(e) Receivables*

Receivables are stated at their estimated realisable value.



## Notes to the Financial Statements

### NOTE 1 (continued)

#### *(f) Taxation*

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

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

#### *(g) Management Contract*

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

#### *(h) Financial Instruments*

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

#### **CHANGE OF BALANCE DATE**

During the 2004 financial year the Company changed its balance date from 31 July to 30 June, to bring it in line with the balance date of its major investment, the New Zealand Rural Property Trust.

#### **CHANGES IN ACCOUNTING POLICIES**

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



## Notes to the Financial Statements

	GROUP			PARENT		
	Dec 2004 \$000 6 Months	Jun 2004 \$000 11 months	Jul 2003 \$000 12 months	Dec 2004 \$000 6 Months	Jun 2004 \$000 11 months	Jul 2003 \$000 12 months
<b>NOTE 2 CONTINUING AND DISCONTINUED ACTIVITIES</b>						
No activities were discontinued during the current financial period or during the previous financial year.						
<b>NOTE 3 OPERATING SURPLUS includes:</b>						
Management fees	1,182	2,004	1,951	-	-	-
Inter Group Administration Fee	-	-	-	1,226	1,976	1,896
Dividends received from associate	667	31	28	622	-	-
Dividends received from subsidiary company	-	-	-	-	35	-
<b>EXPENSES include:</b>						
Interest paid - term loans	389	134	1	389	134	1
Depreciation - on plant	1	2	3	1	2	3
Loss on sale of property, plant & equipment	-	1	-	-	1	-
Directors' fees	39	59	56	38	-	-
Audit fees	6	12	-	6	12	-
Fees paid to auditor for other services	2	2	3	2	2	3
Amortisation of management contract	16	29	31	-	-	-
Administration and management fees	281	191	-	281	191	-
Group restructuring costs	-	467	-	-	467	-
Operating Surplus	375	998	1,756	1,057	1,062	1,788
<b>NOTE 4 TAXATION CHARGED AGAINST SURPLUSES</b>						
Operating surplus before taxation	5,290	17,148	1,756	1,057	1,062	1,788
Prima facie taxation	1,746	5,659	579	349	350	590
Plus (less) taxation effect of timing differences - not recognised	-	(5)	(6)	-	(5)	(6)
Plus (less) taxation effect of other permanent differences	(1,412)	(5,227)	(8)	36	137	(19)
Current tax expense	334	427	565	385	482	565

There are no recognised or unrecognised deferred tax items (2004 nil, 2003 \$5,000 deferred tax asset).

There are no income tax losses carried forward.

**IMPUTATION CREDIT ACCOUNT**

Opening Balance	180	1,301	707
Imputation credits attaching to dividends paid in the period	-	(1,452)	-
Write off balance due to change in shareholding	-	(1)	-
Imputation credits attaching to dividends received in the period	-	-	27
Income tax paid during the period	354	332	567
Closing Balance	534	180	1,301

At balance date the imputation credits available to the shareholders of the Company were:

Through direct shareholding in the Company	534	180	1,301
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## Notes to the Financial Statements

### NOTE 5 INVESTMENT IN ASSOCIATE

The Company holds 19,975,788 units in the New Zealand Rural Property Trust. This represents 42.9% of the units on issue. This investment holding makes the Trust an associate entity and it is required to be equity accounted in accordance with FRS38.

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

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

During the 6 months ended 31 December 2004 the Company purchased a further 5,227,759 units in the Trust at a cost of \$8,759,000. A discount on acquisition of \$4,842,000 is recorded reflecting the difference between the purchase cost and the fair value of the equity interest in underlying assets acquired.

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

	GROUP			PARENT		
	Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000	Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000:
Opening balance	38,542	1,313		20,454	-	
Cost of units acquired during the period	8,759	21,024		8,096	20,454	
	47,301	22,337		28,550	20,454	
Less Distribution received	(667)	-				
Share of Surplus before taxation	73	5,514				
Discount on acquisition of interest in Associate	4,842	10,636				
Income tax credit	51	55				
Closing balance	<u>51,600</u>	<u>38,542</u>		<u>28,550</u>	<u>20,454</u>	

There is no goodwill included in the carrying value of investment in associate.

#### Acquisition of Associate

Details of the acquisition of units in New Zealand Rural Property

Trust are as follows:

Consideration:

Shares issued	-	14,454	-	-	14,454	-
Cash paid	8,759	6,570	-	8,096	6,000	-
Cost of units acquired	<u>8,759</u>	<u>21,024</u>	-	<u>8,096</u>	<u>20,454</u>	-

### NOTE 6 DISTRIBUTIONS TO WILLIAMS & KETTLE LIMITED

Dividends paid	-	2,020	-	-	2,020	-
Bonus issue	-	928	-	-	928	-
	<u>-</u>	<u>2,948</u>	-	<u>-</u>	<u>2,948</u>	-



## Notes to the Financial Statements

	GROUP & COMPANY		GROUP & COMPANY		GROUP & COMPANY	
	Dec 2004	Dec 2004	Jun 2004	Jun 2004	Jul 2003	Jul 2003
	Number	Value	Number	Value	Number	Value
	000	\$000	000	\$000	000	\$000
<b>NOTE 7 SHARE CAPITAL</b>						
There are 14,825,260 (2004 14,825,260 , 2003 17,441,000) ordinary shares on issue						
Fully paid ordinary shares						
Balance at beginning of period	14,825	29,569	17,441	14,185	17,441	14,185
Taxable bonus issue	-	-	-	928	-	-
Issued for cash	-	-	1	2	-	-
Issued to acquire units in the New Zealand Rural Property Trust - refer Note 5	-	-	32,628	14,454	-	-
	-	-	32,629	15,384	-	-
Share consolidation (1:3.377)	-	-	(35,245)	-	-	-
Balance at end of period	<u>14,825</u>	<u>29,569</u>	<u>14,825</u>	<u>29,569</u>	<u>17,441</u>	<u>14,185</u>

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

	GROUP			PARENT		
	Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
	\$000	\$000	\$000	\$000	\$000	\$000
<b>NOTE 8 RESERVES</b>						
Retained Earnings						
Opening balance	5,605	(8,168)	(9,359)	(10,594)	(8,226)	(9,449)
Operating surplus attributable to the shareholders of the Parent Company	4,956	16,721	1,191	672	580	1,223
	<u>10,561</u>	<u>8,553</u>	<u>(8,168)</u>	<u>(9,922)</u>	<u>(7,646)</u>	<u>(8,226)</u>
Bonus issue	-	(928)	-	-	(928)	-
Dividends	-	(2,020)	-	-	(2,020)	-
Closing balance	<u>10,561</u>	<u>5,605</u>	<u>(8,168)</u>	<u>(9,922)</u>	<u>(10,594)</u>	<u>(8,226)</u>
<b>NOTE 9 TERM LIABILITIES</b>						
Term loans - repayable within 36 months	<u>13,500</u>	<u>6,000</u>	<u>-</u>	<u>13,500</u>	<u>6,000</u>	<u>-</u>
The weighted average interest rate is:	7.14%	6.40%				

## NOTE 10 CURRENT AND TERM BANKING FACILITIES

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

	GROUP			PARENT		
	Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
	\$000	\$000	\$000	\$000	\$000	\$000
<b>NOTE 11 MANAGEMENT CONTRACT</b>						
Management Contract - to manage the New Zealand Rural Property Trust						
Cost	2,354	2,354	2,354	-	-	-
Accumulated amortisation	(394)	(378)	(349)	-	-	-
	<u>1,960</u>	<u>1,976</u>	<u>2,005</u>	<u>-</u>	<u>-</u>	<u>-</u>



## Notes to the Financial Statements

	GROUP			PARENT		
	Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000	Dec 2004 \$000	Jun 2004 \$000	Jul 2003 \$000
<b>NOTE 12 PROPERTY, PLANT &amp; EQUIPMENT</b>						
Forestry Right	-	-	150	-	-	150
Plant, machinery, furniture & fittings						
Cost	10	10	178	10	10	178
Accumulated depreciation	(9)	(8)	(173)	(9)	(8)	(173)
	<u>1</u>	<u>2</u>	<u>5</u>	<u>1</u>	<u>2</u>	<u>5</u>
	<u>1</u>	<u>2</u>	<u>155</u>	<u>1</u>	<u>2</u>	<u>155</u>
<b>NOTE 13 INVESTMENTS</b>						
<b>Subsidiary companies</b>						
Shares at cost				2,532	2,532	2,532
<b>Associated entities</b>						
Units in the New Zealand Rural Property Trust at Cost	31,096	22,337	-	28,550	20,454	-
Share of post acquisition surplus	20,504	16,205	-	-	-	-
	<u>51,600</u>	<u>38,542</u>	<u>-</u>	<u>28,550</u>	<u>20,454</u>	<u>-</u>
<b>Other investments</b>						
Units in the New Zealand Rural Property Trust	-	-	1,313	-	-	-
Other shares at cost	-	-	590	-	-	590
	<u>-</u>	<u>-</u>	<u>1,903</u>	<u>-</u>	<u>-</u>	<u>590</u>
	<u>51,600</u>	<u>38,542</u>	<u>1,903</u>	<u>31,082</u>	<u>22,986</u>	<u>3,122</u>

### NOTE 14 COMMITMENTS

There are no future capital expenditure commitments .

#### Operating lease commitments

There are no lease commitments under non-cancelable operating leases:

### NOTE 15 SEGMENT INFORMATION

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

The Group also owns 43% of the units in the New Zealand Rural Property Trust. The Trust owns a forest and a number of farms, most of which are leased to third parties with the balance farmed directly. The operations are carried out entirely in New Zealand.



## Notes to the Financial Statements

	GROUP			PARENT		
	Dec 2004 \$000 6 Months	Jun 2004 \$000 11 months	Jul 2003 \$000 12 months	Dec 2004 \$000 6 Months	Jun 2004 \$000 11 months	Jul 2003 \$000 12 months
<b>NOTE 16 CASH FLOW STATEMENT</b>						
<b>Reconciliation of Net Cashflows from Operating Activities with Net Surplus after Tax</b>						
Net surplus after tax for period	4,956	16,721	1,191	672	580	1,223
Add/(deduct) items not involving cash flows						
Depreciation	1	2	3	1	2	3
Loss/(gain) on sale of property, plant & equipment	-	1	-	-	1	-
Amortisation of intangible assets	16	29	32	-	-	-
Equity accounted earnings of associates	(4,299)	(16,205)	-	-	-	-
	<u>(4,282)</u>	<u>(16,173)</u>	<u>35</u>	<u>1</u>	<u>3</u>	<u>3</u>
Add/(deduct) movement in working capital items:						
Creditors and accruals	45	105	(31)	45	105	(31)
Taxation provision	31	143	(1)	31	143	(1)
Debtors and prepayments	515	(543)	(105)	230	(245)	12
Receivable from subsidiary	-	-	-	(377)	(903)	(612)
	<u>591</u>	<u>(295)</u>	<u>(137)</u>	<u>(71)</u>	<u>(900)</u>	<u>(632)</u>
Net cashflows from operating activities	<u>1,265</u>	<u>253</u>	<u>1,089</u>	<u>602</u>	<u>(317)</u>	<u>594</u>

### NOTE 17 RELATED PARTIES

The Group earned management fees from the New Zealand Rural Property Trust during the 6 months ending 31 December 2004 of \$1,182,000 (11 months to June 2004 \$2,004,000 , 12 months to Jul 2003 \$1,951,000). The amount owing to the Group in relation to these fees is \$757,000 (June 2004 \$1,041,000 , July 2003 \$744,000).

"The Company is party to a service agreement with Williams & Kettle Limited to provide administrative and management services for a three and a half year period from 27 February 2004. The amount of the fees under the agreement for the six month period to 31 December 2004 was \$281,000 (four months ended 30 June 2004 \$191,000). The amount outstanding as at 31 December 2004 was \$140,000 (30 June 2004 \$140,000). This has since been paid in full."

### NOTE 18 SUBSIDIARY and ASSOCIATE ENTITIES

	Percentage Held	Balance Date	Trading Activity
<b>Subsidiary Company</b>			
New Zealand Rural Property Trust Management Limited	100%	30-Jun	"Manages the New Zealand
<b>Associate Entity</b>			
New Zealand Rural Property Trust	42.9%	30-Jun	Rural Property Ownership

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



## Notes to the Financial Statements

### NOTE 19 FINANCIAL INSTRUMENTS

#### Credit Risk

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

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

Maximum exposures to credit risk as at balance date are:

	GROUP			PARENT		
	Dec 2004	Jun 2004	Jul 2003	Dec 2004	Jun 2004	Jul 2003
	\$000	\$000	\$000	\$000	\$000	\$000
Bank balances	-	-	1,292	-	-	1,292
Accounts receivable	782	1,298	755	26	257	12
	<u>782</u>	<u>1,298</u>	<u>2,047</u>	<u>26</u>	<u>257</u>	<u>1,304</u>

#### Credit Facilities

The New Zealand Rural Property Trust is the major debtor, with 96.7% of receivables due from management fees.

#### Fair Values

The estimated fair values of the following Financial Instruments is equal to their carrying values for both the Group and the Parent Company:

Term Loan	Accounts Receivable
Short Term Borrowing	Cash Balances
Creditors	





## Appendix II

AUDITED FINANCIAL STATEMENTS  
OF RURAL EQUITIES LIMITED  
FOR THE 11 MONTHS ENDED  
30 JUNE 2004

## Statement of Financial Performance

for the 11 months ended 30 June 2004

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

## Statement of Movements in Equity

for the 11 months ended 30 June 2004

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

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



## Statement of Financial Position

as at 30 June 2004

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

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



Sir Selwyn Cushing  
Chairman



Roger Bonifant  
Director

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



## Statement of Cash Flows

for the 11 months ended 30 June 2004

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

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



## Notes to the Financial Statements

### NOTE 1 STATEMENT OF ACCOUNTING POLICIES

#### REPORTING ENTITY

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

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

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

#### MEASUREMENT BASE

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

#### SPECIFIC ACCOUNTING POLICIES

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

##### *(a) Basis of Consolidation - Purchase Method*

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

##### *(b) Associated Entities*

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

##### *(c) Fixed Assets*

All fixed assets are initially recorded at cost.

##### *(d) Depreciation*

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

Office equipment                      at 20% of cost price

Plant and equipment                  at 10% of cost price

##### *(e) Receivables*

Receivables are stated at their estimated realisable value.



## Notes to the Financial Statements

### NOTE 1 (continued)

#### *(f) Taxation*

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

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

#### *(g) Management Contract*

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

#### *(h) Financial Instruments*

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

#### **CHANGE OF BALANCE DATE**

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

#### **CHANGES IN ACCOUNTING POLICIES**

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



## Notes to the Financial Statements

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



## Notes to the Financial Statements

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





## Notes to the Financial Statements

### NOTE 14 COMMITMENTS

There are no future capital expenditure commitments .

#### Operating lease commitments

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

### NOTE 15 SEGMENT INFORMATION

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

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

### NOTE 17 RELATED PARTIES

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

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

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



## Notes to the Financial Statements

### NOTE 18 SUBSIDIARY and ASSOCIATE ENTITIES

a) Subsidiary Company		Percentage Held		Balance Date
New Zealand Rural Property Trust Management Limited		100%		30 June
New Zealand Rural Property Trust Management Limited manages the New Zealand Rural Property Trust.				
b) Associate Entity				
Entity Name	Balance Date & Date Accounted to	Equity Held		Trading Activity
New Zealand Rural Property Trust	30 June	31.9%		Rural Property Ownership
The Company's voting interest in the New Zealand Rural Property Trust is proportionate to its equity interest.				

### NOTE 19 FINANCIAL INSTRUMENTS

#### Credit Risk

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

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

Maximum exposures to credit risk as at balance date are :

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

#### Credit Facilities

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

#### Fair Values

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

## AUDITOR'S REPORT



### To the Shareholders of Rural Equities Limited

We have audited the financial statements on pages 1 to 10. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 4 and 5.

### Directors' Responsibilities

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

### Auditor's Responsibilities

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

### Basis of Opinion

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

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

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

Ernst & Young provides taxation services to the Company and Group.

### Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 1 to 10:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 30 June 2004 and their financial performance and cash flows for the eleven months ended on that date.

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

A stylized, handwritten-style signature of 'Ernst &amp; Young' in a dark blue color.

Auckland

