# rural equities LIMITED

# ANNUAL REPORT 2023

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*Cover: Angus cattle at Waikoha*

# NOTICE OF ANNUAL SHAREHOLDERS' MEETING

Notice is given that the Annual Shareholders' Meeting of Rural Equities Limited will be held in the The Annex, The George Hotel, 50 Park Terrace, Christchurch on Wednesday 6 December 2023 at 10.00 am.

### ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2023 with the reports of the Directors and the Auditor.
2. To re-elect a Director. In accordance with clause 13.8 of the Company's constitution, Nigel Atherfold retires by rotation and is seeking re-election. Nigel Atherfold's profile is on page 24 of this report.
3. To authorise the Directors to fix the remuneration of the Auditor for the ensuing year.

### GENERAL BUSINESS

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

### NOTES

1. All Shareholders are entitled to attend and vote at the Meeting.
2. Any Shareholder entitled to attend and vote at the Meeting may appoint another person or persons as their proxy or, in the case of corporate shareholders, a representative to attend and vote on their behalf. A proxy or representative need not be a shareholder of the Company.
3. A proxy form is enclosed. The constitution of the Company requires, so as to be valid, that any proxy form must be deposited at the registered office of the Company (127 Queen Street East, Hastings 4122 or PO Box 783, Hastings 4156) to be received not less than 48 hours before the commencement of the Meeting.

James Wright
CHIEF OPERATING OFFICER

## A TRIBUTE ON RETIREMENT

Sir Selwyn Cushing retired as a Director at last year's Annual Shareholders' Meeting having completed 18 years of governance with REL. Sir Selwyn was initially appointed Chairman in 2004 when it was separated from Williams & Kettle Limited.

Sir Selwyn is renowned for his track record of outstanding commercial success over many years in diverse industries. He developed a particular empathy with the rural sector while serving on the boards of Williams & Kettle Limited, Fruitfed Supplies Limited, PGG Wrightson Limited and of course REL.

Sir Selwyn Cushing's governance has contributed significantly to the evolution of REL through that 18-year period.

## Executive Chairman's Report

**THE YEAR IN REVIEW**

The Directors of Rural Equities Limited (REL) are pleased to present the 2023 Annual Report for the REL Group (the Group).

The Group's audited Total Comprehensive Income for the year ended 30 June 2023 was $719,000. This compares with $16.665 million recorded the previous year.

Important features of the year were:

- The Group's operating income was $8.131 million.
- Net Asset Value per share (NAV) at 30 June 2023 was a record $6.68 which is a three cent gain on last year's NAV of $6.65.
- The Group has no bank debt and held cash assets of $11.535 million as at 30 June 2023.
- The Group's property portfolio reduced in value by $7.123 million compared to revaluation gains of $15.040 million recorded last year.
- In contrast, the Group's equity investment portfolio saw an increase of $1.831 million whereas there was a reduction in value of $3.529 million last year.
- The Group's seven dairy farms produced 2.310 million kilograms of milk solids.
- A fully imputed dividend of 15 cents per share will be paid on 11 October 2023.

The Group's operating income was $8.131 million which is a pleasing increase on the $6.814 million recorded last year. It is positive to note that following ongoing investment in the farms over several years, steady improvement in the Group's operating performance is evident.

Property revaluation losses at year end were $7.123 million resulting mostly from corrections in the value of the Group's sheep and beef properties. The Group's equity investment portfolio increased in value by $1.831 million which contrasts with a reduction in value of $3.529 million last year.

The Group's seven dairy farms, including the new Isleworth property which was purchased in June 2022, performed well producing 2.310 million kilograms of milk solids. For the sheep and beef farms, Waikoha (Waikato) and Middle Hills (Hawke's Bay) had favourable seasons with good pasture production but were impacted by falling livestock values and schedules for both beef and sheep meat, plus higher farm operating costs.

Fonterra's final milk price for the season ended 31 May 2023 was $8.22 per kilogram of milk solids which is a reduction of $1.08 from the record milk price of $9.30 paid last season. Synlait also paid $8.22 per kilogram ($9.30 last season). As in prior years, premiums in addition to the base milk price were received from Synlait for a2 milk and for Lead With

*Marchfield*

Pride accreditation. International dairy prices have continued to fall since March 2022. Global demand for dairy products is subdued and is particularly impacted by ongoing difficult economic conditions in China which is New Zealand's main dairy market.

The Group remains in a strong financial position. There is no bank debt and as at 30 June 2023 the Group had cash assets of $11.535 million. At balance date total assets were $193.811 million and net equity was $189.662 million.

**ASSET PORTFOLIO**

During the year the Group sold two farms, Tatarepo a smaller scale 153 hectare dairy farm in Southland and the remaining 142 hectares of Woodlands in South Canterbury. The proceeds of these sales were approximately $10 million. This was a pleasing result in a tight rural real estate market with fewer sales transactions coming from the combined effects of higher interest rates, tightening bank liquidity and declining farm profitability.

The 227 hectare Isleworth dairy farm that was purchased on 1 June 2022 performed well and made a significant contribution to the Group's profit. Some strategic capital expenditure, including building an additional house, additional grain storage and other infrastructure improvements, brings Isleworth to a similar standard to the other Canterbury dairy farms. Isleworth is now well placed to generate further profits in the coming years.

The Directors remain pleased with the Group's equity investment portfolio. Declining global economic conditions through the year have impacted on equity markets around the world, however the selection of equities held by the Group helped produce a gain in the value of the portfolio of $1.831 million in the year ended 30 June 2023 – which is on top of the regular dividends received. The equity investment portfolio will provide some diversification and a different income stream alongside the Group's core rural property portfolio.

This winter, a further 50 hectares has been planted in radiata pine and redwood trees at Waikoha along with a small area of mixed native species. The total area of forestry at Waikoha for both production forestry and long-term carbon sequestration is approximately 415 hectares. Land used for forestry at Waikoha is lower producing hill country where gorse infestation has been difficult and expensive to control. Carbon credits from the forest will be earned in the financial year ending 30 June 2024 and annually thereafter. Some planting may also occur on other properties within the Group's portfolio over the next few years. Reducing and offsetting the greenhouse gas emissions from the Group's farms is essential and this forestry plan is part of that strategy.

**DIVIDEND**

After considering the Group's current cash position and future investment opportunities, Directors have declared a fully imputed dividend of 15 cents per share. The dividend will be paid on 11 October 2023 to shareholders on the register at 5pm on 28 September 2023. No dividend was paid last year.

**DIRECTORS**

In accordance with REL's constitution Nigel Atherfold retires by rotation at this year's Annual Shareholders' Meeting on 6 December 2023 and is seeking re-election.

**SUMMARY AND OUTLOOK**

The sheep, beef and dairy sectors are facing a challenging year ahead with falling prices in our export markets for dairy products, lamb and beef combined with higher farm operating costs. Wool continues to sell at low prices, which do not cover shearing costs, with no significant improvement anticipated.

*Dairy shed – Isleworth*

*Angus cattle – Middle Hills*

Directors are of the view that the rural property market will continue to be subdued due to lower commodity prices, the Chinese economic slowdown, environmental legislation uncertainty and other economic factors. However, there are some indications Chinese demand for New Zealand dairy products could increase during 2024 assisted by the removal of tariffs early next year. Pleasingly, the cost of certain types of fertiliser have fallen significantly in recent months however other farm input costs are not expected to reduce. The tight farm labour market is expected to continue.

REL is a long-term investor with a diversified portfolio of quality prime agricultural properties and equity investments. Dividends from the equity investment portfolio are expected to materially increase in the year ahead and will partially offset lower milk prices. The Directors will continue to invest to grow and enhance the income earning capability and value of the property and equity portfolios.

The financial year ended 30 June 2023 was challenging in many ways, however the operating income showed a pleasing increase with an overall satisfactory result for the Group. The Directors look forward cautiously to the year ahead noting the economic and climatic challenges that are evident.

David Cushing
EXECUTIVE CHAIRMAN

# Farming Review

### SCOPE OF OPERATIONS

REL is a company which primarily invests in and manages rural property for long term capital growth and income. REL owns fifteen farms comprising 6,693 hectares. The farms are a mix of sheep and beef, deer, dairy and arable farms that are spread throughout New Zealand from Waikato to Southland. There are ten properties in the South Island and five in the North Island. Six farms (2,051 hectares) are leased to external operators and the other nine farms (4,642 hectares) are directly managed.

Six of the directly managed farms are dairy farms comprising 1,504 hectares and approximately 5,020 cows are milked in conjunction with 50-50 sharemilkers. There is one dairy grazing property in Canterbury. The other directly managed properties are two sheep and beef properties in Waikato and Hawke's Bay. These two farms comprise 3,055 hectares and run approximately 17,500 stock units with some forestry.

### FARMED PROPERTIES

The directly managed farms continue to make a solid contribution to profit at $5.227 million in the year to 30 June 2023. This is $2.273 million (30%) lower than last year, mostly attributable to lower milk prices. With the addition of the Isleworth dairy farm total milk production increased by 12% to 2.310 million kilograms of milk solids. The lower milk prices however, meant the profit contribution from those farms reduced accordingly. Difficult conditions in the early part of the season impacted milk production for the whole season. The sheep and beef farm result was lower than last year due to falling livestock values and meat schedules together with higher farm operating costs in some areas, which also applied to the dairy farms. The sheep and beef farms had a favourable season, which allowed hill country pastures at Waikoha to regenerate after droughts in the two previous years.

Livestock prices were above five year average levels for the first half of the year, but steadily declined through the second half. The lamb and mutton schedules declined proportionately more than the prime and bull beef schedules in response to falling global demand for protein, particularly from China. Wool prices remain at historically low levels and do not cover the cost of shearing. This additional cost is no longer sustainable, hence a decision to commence breeding sheep that do not require shearing and which convert pasture to meat protein more efficiently than traditional wooled sheep. Wiltshire rams have been purchased and more will be added to the breeding flock over the next few years.

Improving environmental outcomes is an important part of farm planning and operations on all farms in the Group. This includes moderating fertiliser and nitrogen use, riparian fencing and tree planting, winter crop management plans and introducing strategies to reduce green house gas emissions. The latter are part of the Synlait Lead With Pride accreditation audit and are also applicable across the other farms. Shelter planting with mixed native species and some ornamental trees has been ongoing initially around the boundaries of the dairy farms, for aesthetic purposes and stock shelter. In conjunction with the a2 Milk Farm Sustainability Fund, several kilometres of internal shelter planting has been completed over the last two years. The trees planted on the four Canterbury dairy farms are low growing or can be trimmed to allow centre pivot irrigators to pass over them, yet still provide meaningful shade and shelter for the cows.

*Shelter planting – Rocklea*

### DAIRY FARMS

This season 2.310 million kilograms of milk solids were supplied to Fonterra and Synlait from the seven dairy farms. The early season was cold and very wet which created difficult ground conditions for both the cows and farm staff and impacted on early season milk production. Unfortunately that production could not be made up, thus total milk produced for the season was less that anticipated.

The Isleworth dairy farm which was purchased on 1 June 2022 performed well in its first season. Although it had good infrastructure when purchased, including an automated 60 bale rotary dairy shed, a modern and compliant effluent system with solids separation, and full irrigation capability, one additional house was required. This was built during the year meaning all staff are now housed on-farm. Some additional grain storage and other infrastructure improvements mean the farm is now at the same high standard as the other Group dairy farms in Canterbury. Isleworth has also achieved Lead With Pride accreditation for Synlait.

Milk prices for the 2022-23 season were $8.22 from both Fonterra and Synlait which is $1.08 less than the record milk price of $9.30 per kilogram of milk solids paid in the 2021-22 season. Premiums from Synlait for a2 milk (20 cents) and Lead With Pride accreditation (up to a further 20 cents) totalling up to 40 cents per kilogram of milk solids were received in addition to the base milk price for the four Canterbury dairy farms.

For the new dairy season ending 31 May 2024 the current forecast milk price from Fonterra is in the range from $6.00 to $7.50 (mid-point $6.75) and $7.00 per kilogram of milk solids from Synlait.

**SHEEP AND BEEF FARMS**

The directly managed sheep and beef farms are Middle Hills in Hawke's Bay and Waikoha in Waikato. In total approximately 17,500 stock units are carried on both farms on approximately 2,020 effective hectares.

Middle Hills, located at Ashley Clinton in Central Hawke's Bay, operates as a finishing unit in association with Waikoha which is located near Whatawhata, in close proximity to Hamilton. Waikoha is a sheep and cattle breeding and trading unit with approximately 5,500 ewes, 1,400 ewe hoggets and 1,000 cattle. The cattle policy now has trading cattle with rising yearling cattle wintered on the better country with improved pastures and annual ryegrass forage, plus rising two year old heifers finished for slaughter in the spring. The cattle policy has changed from breeding cows in response to frequently recurring summer droughts and with much of the country that was used to graze beef cows being planted in forestry. In addition, winter pasture growth is more reliable than summer growth at Waikoha meaning target weight gains can more readily be achieved in that season.

Wiltshire sheep are one of several non-wool breeds that are gaining increasing prominence in New Zealand in response to continuing unsustainably low prices for strong wool

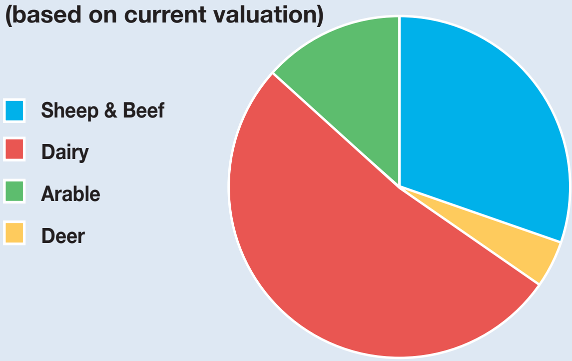
*Moving sheep - Waikoha*

and the high cost of shearing sheep. At Waikoha, the first Wiltshire-cross lambs were born in the 2023 spring. In addition, some Wiltshire-cross ewe lambs were purchased which have lambed as hoggets. It is planned that the whole ewe flock will contain Wiltshire-cross sheep within five years, meaning that shearing can be reduced from twice to once annually. With further cross-breeding, it is expected that shearing will be eliminated in eight to ten years. In addition, other costs including animal health, dagging, crutching and dipping for fly strike will also be reduced or eliminated meaning stock handling through the yards will be minimised. As these sheep grow only a small amount of wool, which is shed, more dietary protein is converted to meat meaning improved growth rates.

The integrated livestock policy between the two sheep and beef farms allows surplus store lambs and male yearling cattle from Waikoha to be transferred and farmed at Middle Hills until they are ready for slaughter, thereby obtaining maximum value for all livestock.

Middle Hills had a favourable early season. Although there was only minimal damage to the farm from Cyclone Gabrielle, the autmn and winter were very wet meaning establishing winter ryegrass paddocks was difficult and pasture utilisation was poor. The livestock transferred from Waikoha was finished to target weights and additional lambs were purchased. Approximately 6,000 lambs and 450 cattle were traded in the 2022-23 season. An ongoing summer forage crop (chicory) and pasture renewal programme is central to the livestock finishing programme. A programme to replace some internal fencing and establish laneways to improve stock movement is well advanced, as are improvements to the farm water scheme.

**PORTFOLIO BY SECTOR**
**(based on current valuation)**



## FORESTRY

The forestry programme at Waikoha provides diversity of both income and land use. There is now approximately 415 hectares of forest including radiata pine, redwoods and mixed natives (mostly totara and manuka). This area includes approximately 50 hectares planted this winter. Around 17% of the total area at Waikoha is planted in forest. There are also significant areas of native forest that have never been cleared or farmed which are fenced off and protected from livestock. The mix of pinus radiata, redwoods and natives means the tree species best suit the land aspect, contour and location. They will provide greater biodiversity and a mix of both production and permanent forestry for timber and carbon sequestration. The forested areas are registered in the Emissions Trading Scheme and all post-1989 planted areas will earn carbon credits which will provide income in addition to log sales revenue when harvested.

The forestry areas at Waikoha are predominantly planted on lower producing hill country where gorse infestation has been difficult and expensive to control. Livestock numbers have been reduced by around 2,000 stock units as the effective grazable area has reduced.

## LEASED PROPERTIES

The Group has six properties totalling 2,051 hectares that are leased which provide monthly rental income. These properties provide both sector diversity and geographical spread in the farm portfolio and are located in Hawke's Bay and Canterbury. They are leased to experienced farmers predominantly with other farming interests which provides operational scale for them and stability of tenure for the Group. Rent reviews are completed every two years using a valuer to provide an independent rental assessment with rents generally following an upward trend. Monthly rental income provides regular cash flow to the Group and is unaffected by fluctuating farm product prices in the various sectors.

The name, location, size and type of property in the Group portfolio are shown in the Farm Property Schedule and Location Map on page 6.

*Forestry – Waikoha*

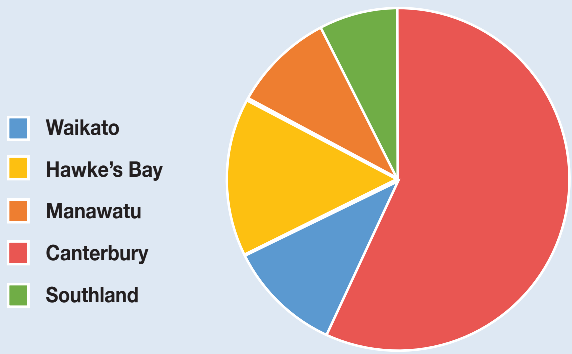
## HEALTH & SAFETY

The Group has joined the Farm Without Harm health and safety campaign and strategy to help reduce injuries and accidents on farms. The programme has been developed by Safer Farms, the agricultural leaders health and safety action group. As part of the initiative, primary industry leaders and farmers all over New Zealand, including the Group, have signed a pledge to keep those working on farms physically and mentally healthy and safe and to ensure everyone returns home unharmed at the end of each day.

This fits well with the Group's proactive stance in regard to farm worker safety on all farms. The Group's safety record is sound with relatively few incidents and accidents reported. The Board Health and Safety Committee oversees this important area of the Group's activities.

Brian Burrough
CHIEF EXECUTIVE OFFICER

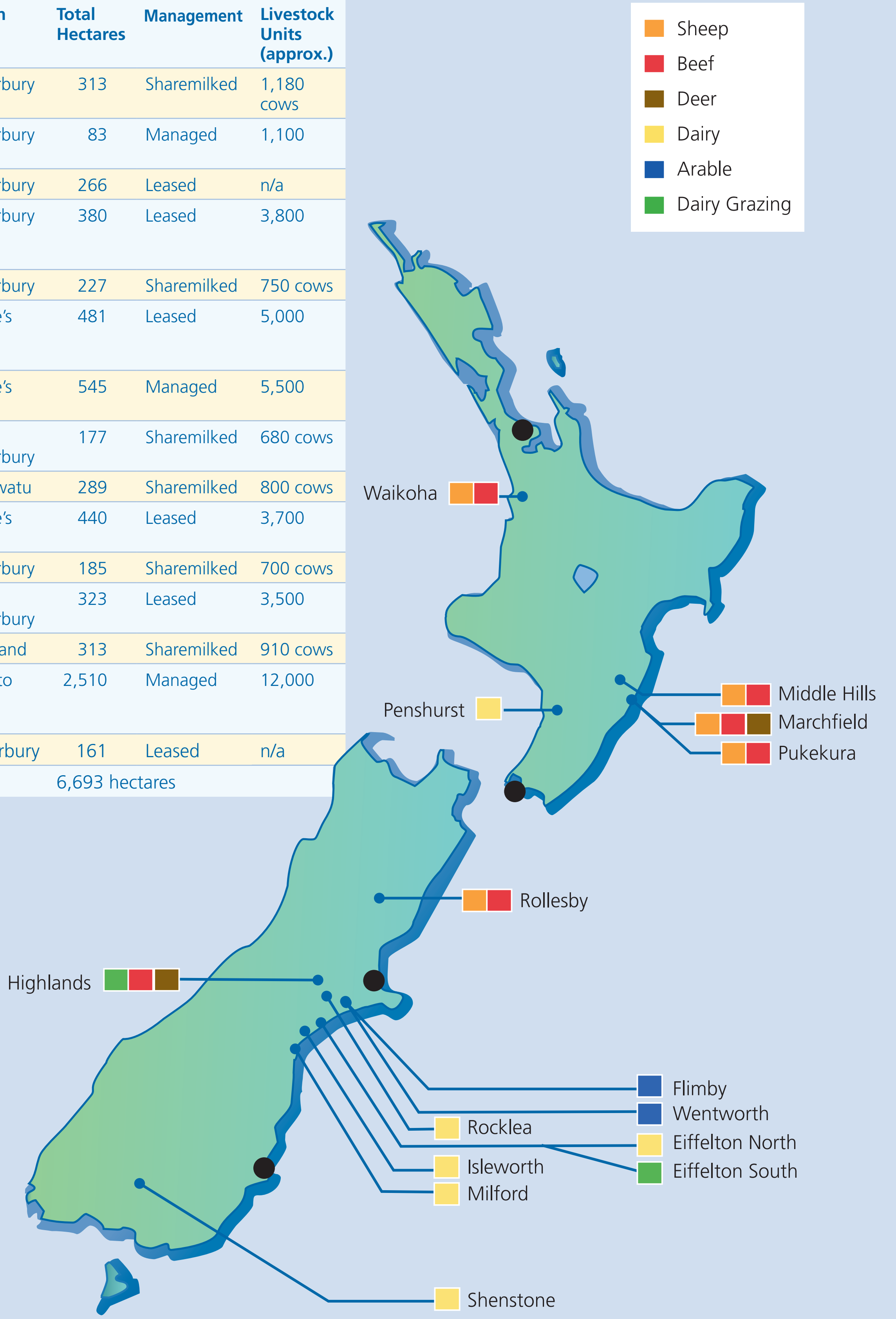
**PORTFOLIO BY REGION**
**(based on current valuation)**



## Farm Property Schedule and Location Map

*As at 30 June 2023*

| Property | Type | Region | Total Hectares | Management | Livestock Units (approx.) |
|---|---|---|---|---|---|
| Eiffelton North | Dairy | Canterbury | 313 | Sharemilked | 1,180 cows |
| Eiffelton South | Dairy Grazing | Canterbury | 83 | Managed | 1,100 |
| Flimby | Arable | Canterbury | 266 | Leased | n/a |
| Highlands | Deer/ Beef/Dairy Grazing | Canterbury | 380 | Leased | 3,800 |
| Isleworth | Dairy | Canterbury | 227 | Sharemilked | 750 cows |
| Marchfield | Sheep/ Beef/Deer Finishing | Hawke's Bay | 481 | Leased | 5,000 |
| Middle Hills | Sheep/Beef Finishing | Hawke's Bay | 545 | Managed | 5,500 |
| Milford | Dairy | South Canterbury | 177 | Sharemilked | 680 cows |
| Penshurst | Dairy | Manawatu | 289 | Sharemilked | 800 cows |
| Pukekura | Sheep/Beef Finishing | Hawke's Bay | 440 | Leased | 3,700 |
| Rocklea | Dairy | Canterbury | 185 | Sharemilked | 700 cows |
| Rollesby | Sheep/Beef Finishing | North Canterbury | 323 | Leased | 3,500 |
| Shenstone | Dairy | Southland | 313 | Sharemilked | 910 cows |
| Waikoha | Sheep/Beef Breeding/ Finishing | Waikato | 2,510 | Managed | 12,000 |
| Wentworth | Arable | Canterbury | 161 | Leased | n/a |
| **Total** | | | 6,693 hectares | | |



## Consolidated Statement of Comprehensive Income

*For the year ended 30 June 2023*

| | Notes | 2023 $000 | 2022 $000 |
|---|---|---|---|
| **Revenue** | | | |
| Farm income | 5 | 11,843 | 12,978 |
| Leased property income | | 1,226 | 1,121 |
| Dividend income | | 1,220 | 806 |
| Interest income | | 169 | 178 |
| Gain on derivatives | 10 | 1,845 | - |
| Other income | | 297 | 275 |
| | | **16,600** | **15,358** |
| **Expenses** | | | |
| Farm working expenses | 6 | 6,616 | 5,478 |
| Leased property expenses | | 63 | 82 |
| Loss on derivatives | 10 | - | 1,290 |
| Other expenses | 6 | 1,790 | 1,694 |
| | | **8,469** | **8,544** |
| **Operating income** | | **8,131** | **6,814** |
| Interest expense | | (17) | (13) |
| Gain / (loss) on sale of property, plant and equipment | | (137) | 52 |
| Gain / (loss) in value of assets at fair values | 4 | (383) | 7,601 |
| | | **(537)** | **7,640** |
| **Net profit before tax** | | **7,594** | **14,454** |
| Income tax expense | 8 | 1,969 | 1,675 |
| **Net profit after tax** | | **5,625** | **12,779** |
| **Other comprehensive income** | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Gain / (loss) in fair value of property, plant and equipment | 4 | (4,909) | 3,910 |
| Tax benefit / (expense) on other comprehensive income | 8 | 3 | (24) |
| **Total other comprehensive income net of tax** | | **(4,906)** | **3,886** |
| **Total comprehensive income** | | **719** | **16,665** |

Earnings per share for profit attributable to the ordinary shareholders of the Company during the period.

| | Notes | 2023 | 2022 |
|---|---|---|---|
| Basic earnings - cents per share | 17 | 19.80 | 44.47 |
| Diluted earnings - cents per share | 17 | 19.80 | 44.47 |

## Consolidated Statement of Changes in Equity

*For the year ended 30 June 2023*

| | Notes | Share Capital $000 | Asset Revaluation Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2021** | | **57,191** | **14,365** | **109,208** | **180,764** |
| Net profit after tax for the year | | - | - | 12,779 | 12,779 |
| Other comprehensive gain net of tax | | - | 3,886 | - | 3,886 |
| **Total comprehensive gain** | | **-** | **3,886** | **12,779** | **16,665** |
| Share repurchase and cancellation | | (7,634) | - | - | (7,634) |
| Dividend paid | | - | - | (852) | (852) |
| **Balance at 30 June 2022** | 11 | **49,557** | **18,251** | **121,135** | **188,943** |
| **Balance at 1 July 2022** | | **49,557** | **18,251** | **121,135** | **188,943** |
| Net profit after tax for the year | | - | - | 5,625 | 5,625 |
| Other comprehensive loss net of tax | | - | (4,906) | - | (4,906) |
| **Total comprehensive gain/(loss)** | | **-** | **(4,906)** | **5,625** | **719** |
| **Balance at 30 June 2023** | 11 | **49,557** | **13,345** | **126,760** | **189,662** |

The accompanying notes form part of these financial statements.

## Consolidated Statement of Financial Position

*As at 30 June 2023*

| | Notes | 2023 $000 | 2022 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 11,535 | 1,714 |
| Accounts receivable and prepayments | 10 | 2,550 | 3,279 |
| Held for trading instruments | 10 | 423 | 317 |
| Livestock | 14 | 2,089 | 1,132 |
| Feed and produce on hand | | 877 | 778 |
| | | 17,474 | 7,220 |
| **Non-current assets** | | | |
| Investment properties | 12 | 118,392 | 129,534 |
| Property, plant and equipment | 13 | 27,176 | 31,943 |
| Livestock | 14 | 1,210 | 1,989 |
| Forest | | 1,085 | 897 |
| Investments | 15 | 28,474 | 21,272 |
| | | 176,337 | 185,635 |
| **Total assets** | | **193,811** | **192,855** |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | | 1,478 | 1,460 |
| Lease liabilities | 19 | 84 | 136 |
| Provision for tax | | 787 | 671 |
| | | 2,349 | 2,267 |
| **Non-current liabilities** | | | |
| Lease liabilities | 19 | 9 | 48 |
| Deferred tax liability | 8 | 1,791 | 1,597 |
| | | 1,800 | 1,645 |
| **Equity** | | | |
| Share capital | | 49,557 | 49,557 |
| Asset revaluation reserve | | 13,345 | 18,251 |
| Retained earnings | | 126,760 | 121,135 |
| | 11 | 189,662 | 188,943 |
| **Total liabilities and equity** | | **193,811** | **192,855** |

On behalf of the Directors, who authorised the issue of these consolidated financial statements, dated 31 August 2023.

David Cushing
EXECUTIVE CHAIRMAN

Rodger Finlay
DIRECTOR

The accompanying notes form part of these financial statements.

## Consolidated Statement of Cash Flows

*For the year ended 30 June 2023*

| | Notes | 2023 $000 | 2022 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| *Cash was provided from:* | | | |
| Receipts from customers | | 15,762 | 14,633 |
| Dividends received | | 1,220 | 807 |
| Interest received | | 160 | 220 |
| | | 17,142 | 15,660 |
| *Cash was applied to:* | | | |
| Payments to suppliers and employees | | 8,041 | 8,884 |
| Taxation paid | | 1,657 | 1,378 |
| Interest paid | | 18 | 8 |
| | | 9,716 | 10,270 |
| **Net cash flows from operating activities** | 7 | **7,426** | **5,390** |
| **Cash flows from investing activities** | | | |
| *Cash was provided from:* | | | |
| Proceeds from sale of property, plant and equipment | | 9,876 | 69 |
| | | 9,876 | 69 |
| *Cash was applied to:* | | | |
| Purchase and improvements to investment properties | | 1,076 | 11,641 |
| Improvements to other properties | | 682 | 308 |
| Purchases of plant and equipment | | 189 | 1,131 |
| Purchase of shares | 15 | 5,370 | 4,766 |
| | | 7,317 | 17,846 |
| **Net cash flows used in investing activities** | | **2,559** | **(17,777)** |
| **Cash flows from financing activities** | | | |
| *Cash was applied to:* | | | |
| Repayments of borrowings and leasing liabilities | | 164 | 176 |
| Share repurchase and cancellation | 11 | - | 7,634 |
| Dividend paid | | - | 852 |
| | | 164 | 8,662 |
| **Net cash flows used in financing activities** | | **(164)** | **(8,662)** |
| **Net change in cash and cash equivalents** | | **9,821** | **(21,049)** |
| Cash and cash equivalents at beginning of year | | 1,714 | 22,763 |
| **Cash and cash equivalents at end of year** | | **11,535** | **1,714** |

The accompanying notes form part of these financial statements.

# Consolidated Notes to the Financial Statements

*For the year ended 30 June 2023*

## 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 reporting entity under the Financial Markets Conduct Act 2013. These financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. Rural Equities Limited shares are traded on the Unlisted Securities Exchange, a financial product market operating under an exemption from the Financial Markets Conduct Act 2013.

The Group ("the Group") consists of:

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

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

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

The Group owns fifteen farms (2022: Seventeen). Two of the farms are sheep and beef farms operated directly by the Group. The other farms are leased to third parties or operated under share milking agreements.

### MEASUREMENT BASE

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

The financial statements have been prepared using a historical cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

The consolidated financial statements have been prepared on the basis that the Group is a going concern.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP. For the purpose of complying with NZ GAAP, the Group is a for-profit entity that has elected to apply the Tier 1 for profit reporting requirements set out by the External Reporting Board, in its "Accounting Standards Framework". They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand Financial Reporting Standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for profit-oriented entities issued by the New Zealand Accounting Standards Board.

### CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies during the reporting period.

Accounting policies set out below have been applied consistently to both periods presented in these financial statements.

### NZ IFRS ISSUED BUT NOT YET EFFECTIVE

There are no standards, amendments or interpretations that have been issued but are not yet effective that are expected to materially impact the Group's financial statements.

### SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

#### *(a) Basis of Consolidation*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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

The acquisition of subsidiaries is accounted for using the acquisition method. All subsidiaries have a reporting date of 30 June.

#### *(b) Investment Properties*

Properties which are held primarily to earn rentals and/or for capital appreciation are classified as investment properties at their acquisition date. Investment properties are initially recorded at cost. Subsequent to initial recognition, investment properties are revalued to fair value based on annual valuations prepared by registered independent valuers, with sufficient experience with respect to both the location and nature of investment properties.

All investment properties are revalued annually as at 30 June.

Changes in value are recorded within profit and loss in the Consolidated Statement of Comprehensive Income for the reporting period.

#### *(c) Property, Plant and Equipment*

**Land and Buildings**

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

All properties are revalued annually as at 30 June.

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

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

Depreciation is not charged on investment buildings as the future residual value is not expected to be less than the carrying amount.

#### Plant and Equipment

Plant and equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of use. Plant and equipment are subsequently measured using the cost model 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 equipment assets range from three to twenty years. Plant and equipment is depreciated at rates between 5% - 33% (2022: 5% - 33%)

Gains or losses arising on the disposal of plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets, and are recognised in profit or loss.

### *(d) Leased Assets*

#### *The Group as a lessee*

The Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets two key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.

The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

#### Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

On the consolidated statement of financial position, right-of-use assets have been included in investment properties, and property, plant and equipment. Lease liabilities have been shown separately.

#### *The Group as a lessor*

Income from operating lease agreements are recognised as income on a straight-line basis over the lease term.

### *(e) Livestock*

Livestock are recorded at fair value as assessed by an independent valuer, less estimated point of sale costs. Changes in fair value including animal growth and changes in livestock numbers are recorded within profit or loss in the Consolidated Statement of Comprehensive Income. Livestock are classified as a current asset if they are likely to be sold within one year.

### *(f) Taxation*

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

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

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

### *(g) 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.

### *(h) Statement of Cash Flows*

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash at bank and short term deposits which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

### *(i) Revenue Recognition*

Revenue arises from farm income (the sale of livestock, wool and milk), and lease rental revenue from investment properties. Rental income is recognised in accordance with NZ IFRS 16 Leases.

To determine whether to recognise revenue, the Group follows a 5-step process:

1 Identifying the contract with a customer

2 Identifying the performance obligations

3 Determining the transaction price

4 Allocating the transaction price to the performance obligations

5 Recognising revenue when and as its performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. Revenue from the sale of goods is recognised when goods are transferred to the customer and the customer has control of the goods, which is upon delivery, therefore revenue is recognised in the Statement of Comprehensive Income at the time of delivery.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods when the performance obligation has been satisfied.

Milk revenue is recognised following collection by the milk processor and using the processors most recent forecast price and dividend information. Differences between forecast and actual revenue for the current year are accounted for in the following financial year. The company holds NZX milk price futures in order to manage commodity risk. The fair value gains or losses on these futures are reported in the Consolidated Statement of Comprehensive Income at balance date.

### *(j) Feed on Hand*

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

Cost includes all expenses directly attributable to the manufacturing process. NRV is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### *(k) Impairment testing of property, plant and equipment*

Individual assets not held at fair value are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the asset's recoverable amount exceeds its carrying amount.

### *(l) Financial Instruments*

#### Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Financial assets at fair value through other comprehensive income (FVOCI)
- Financial liabilities at amortised cost

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

#### Financial assets at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less an allowance for credit losses. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

#### Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. The Group's shares in publicly traded equities and derivative financial instruments used to economically hedge exposure to interest rates and milk futures fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### Financial assets at FVOCI

Financial assets at FVOCI include financial assets that are either classified as available for sale or that meet certain conditions and are designated at FVOCI upon initial recognition. The Group's investments in shares other than those included in FVTPL fall into this category.

#### Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trade and other payables. The Group has no borrowings.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

## NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the accounting policies, management continually evaluate judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, 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 judgements, estimates and assumptions made by management. Significant judgements made in the preparation of these financial statements are outlined below:

i) Investment properties - The majority of the Group's assets consist of investment properties. The fair values are based on market values, as assessed by independent registered valuers who estimate the amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment properties. The carrying value of investment properties is $118,392,000 (2022: $129,534,000).

ii) Land and buildings - The fair values of land and buildings are based on market values, as assessed by independent registered valuers who estimate the amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of land and buildings. The carrying value of land and buildings is $26,614,000 (2022: $31,215,000).

iii) Deferred Tax - The Group has investment properties measured at fair value. NZ IAS 12, as amended, includes a rebuttable presumption that investment property measured at fair value is recovered entirely through sale. The presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time rather than through sale.

The Group does not rebut the presumption.

Deferred tax in relation to investment properties is therefore calculated on a sale basis. See note 8 Taxation for the impact.

iv) Livestock - The fair value of livestock is based on market values, as assessed by an independent valuer. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand. Trading stock is carried on the Statement of Financial Position as a current asset of $2,089,000 (2022: $1,132,000), and breeding stock is carried on the Statement of Financial Position as a non current asset of $1,210,000 (2022: $1,989,000).

v) Milk Proceeds - The Group estimates and accrues the final milk proceeds for the dairy season using the latest forecast milk price announced by the dairy companies prior to the finalisation of their financial statements. The final amount received could be different from the amount accrued. Total milk income accrued in the financial statements is $2,050,000 (2022: $2,935,000).

## NOTE 3 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The Group's financial assets and liabilities are classified as follows:

| | |
|---|---|
| **Assets:** | |
| Accounts receivable | Amortised Cost |
| Cash and cash equivalents | Amortised Cost |
| Shares - Level 1 fair value hierarchy | Fair Value Through Profit or Loss |
| Derivatives - Level 2 fair value hierarchy | Fair Value Through Profit or Loss |
| Other investments | Fair Value Through Other Comprehensive Income |
| **Liabilities:** | |
| Bank loans and overdraft | Liabilities at Amortised Cost |
| Accounts payable and accruals | Liabilities at Amortised Cost |

## NOTE 4 REVALUATIONS

| | 2023 | 2022 |
|---|---|---|
| Revaluations recognised in profit and loss: | $000 | $000 |
| Fair value gain / (loss) in value of: | | |
| Investment properties | (2,214) | 11,109 |
| Property, plant and equipment (refer note 1(c)) | - | 21 |
| Investments in shares | 1,831 | (3,529) |
| | (383) | 7,601 |
| Revaluations recognised in other comprehensive income: | | |
| Investment properties | - | (19) |
| Property, plant and equipment (refer note 1(c)) | (4,909) | 3,929 |
| | (4,909) | 3,910 |

## NOTE 5 FARM INCOME

| | 2023 | 2022 |
|---|---|---|
| Farm income comprises: | $000 | $000 |
| Milk income | 9,958 | 10,780 |
| Livestock income (refer note 14) | 1,781 | 2,109 |
| Other farm income | 104 | 89 |
| | 11,843 | 12,978 |

All revenue is New Zealand based, and all revenue is recognised at a point in time.

## NOTE 6 EXPENSES

Farm operating expenses include the costs of operating the farms that the Group manages directly or under sharemilking agreements.

| Farm expenses comprise: | 2023 $000 | 2022 $000 |
|---|---|---|
| Animal health | 128 | 142 |
| Depreciation | 168 | 132 |
| Feed | 1,281 | 870 |
| Fertiliser | 1,130 | 940 |
| Grazing | 937 | 791 |
| Farm salaries and wages | 416 | 402 |
| Repairs and maintenance | 902 | 719 |
| Weed and pest | 114 | 168 |
| Other farm expenses | 1,540 | 1,314 |
| | 6,616 | 5,478 |
| Other expenses comprise: | | |
| Depreciation - on plant and equipment | 16 | 8 |
| Depreciation - on buildings | 5 | 4 |
| Depreciation - on right of use assets | 167 | 170 |
| Directors' fees | 390 | 416 |
| Operating lease costs | 14 | 14 |
| Statutory audit fees | 40 | 37 |
| Key management remuneration - short term benefits | 902 | 846 |
| Other expenses | 256 | 199 |
| | 1,790 | 1,694 |

## NOTE 7 CASH FLOW RECONCILIATION

| | 2023 $000 | 2022 $000 |
|---|---|---|
| **Net profit after tax** | 5,625 | 12,779 |
| **Add / (deduct) non-cash items:** | | |
| Depreciation | 197 | 170 |
| Milk Price Futures mark to market | (106) | (161) |
| Fair value movements | 383 | (7,601) |
| | 474 | (7,592) |
| **Changes in assets and liabilities:** | | |
| Increase in accounts payable | 262 | 247 |
| Increase in current tax liability | 118 | 65 |
| Increase in deferred taxation liability | 194 | 231 |
| Decrease in right of use assets | 3 | 2 |
| (Increase) / decrease in livestock and feed on hand | (278) | 574 |
| (Increase) / decrease in accounts receivable | 729 | (1,041) |
| | 1,028 | 78 |
| **Add / (deduct) non-operating items**: | | |
| Lease payments classified as financing cashflows | 164 | 177 |
| Realised (profit) / loss on asset sales | 135 | (52) |
| | 299 | 125 |
| Net cash flows from operating activities | 7,426 | 5,390 |

## NOTE 8 TAXATION

| | 2023 $000 | 2022 $000 |
|---|---|---|
| **Statement of Comprehensive Income** | | |
| **Net profit before tax** | 7,595 | 14,454 |
| Tax at the statutory rate of 28% | 2,127 | 4,047 |
| **Adjusted for the tax effect of:** | | |
| Non (assessable) / deductible asset revaluations and realisations | 221 | (1,938) |
| Non assessable livestock revaluations | (11) | (149) |
| Non assessable dividend income | (14) | (14) |
| Depreciation on land improvements | (155) | (170) |
| Depreciation on buildings | - | (18) |
| Imputation credits | (200) | (85) |
| Other items | 1 | 2 |
| **Tax expense** | 1,969 | 1,675 |
| **Represented by:** | | |
| Current tax | 1,772 | 1,467 |
| Deferred tax | 197 | 208 |
| | 1,969 | 1,675 |
| **Statement of Financial Position** | | |
| **Deferred tax assets and liabilities relate to the following:** | | |
| Buildings depreciation and revaluation | 1,275 | 1,100 |
| Forest operations and revaluation | 304 | 251 |
| Plant depreciation | 199 | 188 |
| Livestock revaluation | (12) | 27 |
| Leases | 1 | 2 |
| Other items | 24 | 29 |
| | 1,791 | 1,597 |
| To be recovered after more than 1 year | 1,767 | 1,568 |
| To be recovered within 1 year | 24 | 29 |
| | 1,791 | 1,597 |
| **Disclosed as:** | | |
| Deferred tax liability | 1,791 | 1,597 |
| Deferred tax asset | - | - |
| | 1,791 | 1,597 |
| **Changes to deferred tax liability:** | | |
| 1) Recognised in profit or loss: | | |
| Buildings depreciation and revaluation | 163 | 197 |
| Forest operations and revaluation | 53 | 79 |
| Plant depreciation | 25 | 71 |
| Livestock revaluation | (39) | (160) |
| Leases | (1) | - |
| Other items | (4) | 21 |
| | 197 | 208 |
| 2) Recognised in other comprehensive income | (3) | 24 |
| **Total change in deferred tax liability** | 194 | 232 |

## NOTE 9 IMPUTATION CREDIT ACCOUNT

| | 2023 $000 | 2022 $000 |
|---|---|---|
| Imputation credits available for subsequent reporting periods | 7,387 | 5,380 |

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

The consolidated amounts include imputation credits that would be available to the parent if the subsidiaries paid dividends to the parent entity. However, the parent entity and all its subsidiaries form a consolidated group for income tax purposes. As such all imputation credit amounts are directly available to the parent entity.

## NOTE 10 FINANCIAL RISK MANAGEMENT

### Fair value estimation

Assets and liabilities recorded at fair value are valued according to the fair value hierarchy as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

There have been no transfers of assets between levels during the financial year.

### Financial Instrument Classification

The carrying amounts of financial instruments by category are listed below. For those held at fair value the applicable level in the fair value hierarchy is shown.

| The carrying amounts of financial instruments by category are: | 2023 $000 | 2022 $000 |
|---|---|---|
| **Amortised cost:** | | |
| Accounts receivable | 2,404 | 3,159 |
| Cash and cash equivalents | 11,535 | 1,714 |
| **Fair value through profit or loss:** | | |
| Investment equity shares - Level 1 fair value hierarchy | 28,472 | 21,270 |
| Derivatives - Level 2 fair value hierarchy | 423 | 317 |
| **Fair value through other comprehensive income:** | | |
| Other investments | 2 | 2 |
| **Liabilities at amortised cost:** | | |
| Accounts payable and accruals | 1,297 | 1,352 |

### Interest rate risk

The Group can be exposed to changes in interest rates on its bank term deposits which are fixed for a period of time and do not fluctuate as interest rates change. There were no term deposits at 30 June 2023 (2022: Nil).

### Commodity Price Risk

| | 2023 $000 | 2022 $000 |
|---|---|---|
| Finance receivable / (payable) with Jarden Securities | (1,092) | 1,606 |
| Derivative asset / (liability) | 1,515 | (1,289) |
| Held for Trading Instruments | 423 | 317 |

The Group is exposed to price risk on a number of agricultural commodities including wool, meat and milk solids. The Directors have identified changes to milk solid prices as having a material impact on profit. The effect of an increase/decrease in the price of milk solids of $1.00 per kilogram on the Group's profit after tax and the Group's equity would be an increase/decrease of $831,000 (2022: $739,000).

Singapore Stock Exchange ("SGX") offers fixed price contracts in the form of milk price futures. There are also Put options available from time to time which secure a minimum price. The Group evaluates milk price futures and Put options and uses them to manage commodity price risk by securing a fixed or a minimum price for a determined proportion of the expected milk solids production for the season.

At financial year end the Group has locked in the following milk revenue by selling milk price futures.

| | 2023 $000 | 2022 $000 |
|---|---|---|
| 2022 Milk Price Futures - expire 1 October 2022 | - | 2,893 |
| 2023 Milk Price Futures - expire 1 October 2023 | 6,529 | 4,213 |
| 2024 Milk Price Futures - expire 1 October 2024 | 3,201 | - |

These have been revalued to market at reporting period end which resulted in a gain of $1,845,000 (2022: loss of $1,289,000).

### Market Price Risk

Investment Equity Shares reported at market value are valued at the market price at the reporting period ending 30 June 2023. If the price increased/decreased by 10% the effect on the Group's profit after tax and the Group's equity would be an increase/decrease of $2,847,000 (2022: $2,127,000).

### Credit Risk

Credit risk is the risk of loss arising from a counterparty to a contract failing to discharge its obligation. Financial instruments which potentially subject the Group to credit risk, consist of bank term deposits, derivative financial instruments and accounts receivable.

There are no term deposits included in cash and cash equivalents (2022: nil).

Included in accounts receivable is $687,000 (2022: $781,000) receivable from Fonterra Co-operative Group Ltd and $1,109,000 (2022: $1,146,000) receivable from Synlait Milk Ltd. There are accruals for milk escalation repayments from the sharemilkers of $284,000 (2022: $1,057,000). There are no other significant concentrations of credit risk.

The Directors do not consider there to be any credit losses or expected credit loss to be recognised in respect of accounts receivable.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. There is no history of customer default and management consider the credit quality of trade receivables to be good. On this basis, the Group does not feel it necessary to have a written credit policy in place, however management continue to monitor this risk.

| | 2023 | 2022 |
|---|---|---|
| Maximum exposures to credit risk are: | $000 | $000 |
| Accounts receivable | 2,404 | 3,159 |
| Derivatives (milk price futures margin account) | 423 | 317 |

The Group does not expect the non-performance of any obligations to date.

| The status of accounts receivable at balance date was: | | |
|---|---|---|
| Not yet due | 2,404 | 3,159 |
| Past due - up to 30 days | - | - |
| Past due - more than 31 days | - | - |
| | 2,404 | 3,159 |

**Fair values**

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

**Liquidity risk**

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

Liquidity is assessed by using all information known, expected cash flows and the availability of collateral which could be used to secure additional funding if required. The Company's bank facility runs until 31 October 2024.

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

| | 2023 | 2022 |
|---|---|---|
| | Less than 12 months | Less than 12 months |
| | $000 | $000 |
| Accounts payable and accrued expenses | 1,297 | 1,352 |
| | 1,297 | 1,352 |

**Currency risk**

The Group does not have any direct exposure to currency risk.

The Group does not enter into any foreign currency hedging to mitigate the risk of currency movements.

**Held for trading instruments**

Derivative financial instruments are used by the Group to hedge commodity price risks. The Group has elected not to apply hedge accounting. This means that all derivative financial instruments are accounted for at fair value through profit and loss.

## NOTE 11 EQUITY

| | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Share capital - see below | 49,557 | 49,557 |
| Asset revaluation reserve | 13,345 | 18,251 |
| Retained earnings | 126,760 | 121,135 |
| **Total** | 189,662 | 188,943 |

**Share capital**

There are 28,404,784 ordinary shares on issue (2022: 28,404,784). All shares are fully paid up. All shares participate equally in dividends and any surpluses on winding up the Company. All shares have equal voting rights and have no par value.

On 27 October 2021 the Company repurchased 1,338,115 shares from 46 shareholders at $5.70 per share, totalling $7,627,000. The repurchased shares were then cancelled.

There were no transaction fees relating to capital matters this financial year (2022: $6,000).

**Capital Maintenance**

The Group's capital is primarily invested in rural property and equity investments which are held for long term capital appreciation, and investment decisions to rebalance the portfolio are periodically made based upon long term future yield expectations. Operational cash inflows are broadly expected to match outflows and where differences arise this is managed within the available banking facilities. The Group's capital consists of share capital, asset revaluation reserve and retained earnings.

The Group is not exposed to any borrowing covenants.

## NOTE 12 INVESTMENT PROPERTIES

All investment property balances are represented by land and buildings.

| | 2023 $000 | 2022 $000 |
|---|---|---|
| **Gross carrying amount** | | |
| Opening balance | 129,974 | 104,440 |
| Additions | 1,085 | 12,532 |
| Disposals | (9,898) | - |
| Property previously classified as property, plant and equipment | - | 1,913 |
| Fair value gain / (loss) | (2,214) | 11,089 |
| **Closing balance** | 118,947 | 129,974 |
| **Depreciation of right-of-use assets** | | |
| Opening balance | (439) | (304) |
| Depreciation added back on end of lease | 21 | - |
| Depreciation | (137) | (136) |
| **Closing balance** | (555) | (440) |
| **Carrying amount** | 118,392 | 129,534 |

All rural investment properties held as non current assets were valued as at 30 June 2023 by independent registered valuers Property Advisory Limited (2022: by independent registered valuers Property Advisory Limited or Curnow Tizard 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. This is level 2 of the fair value hierarchy - refer to note 10.

The commercial land and building was valued as at 30 June 2023 by independent registered valuer Added Valuation Limited. The valuation is on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties of comparable size and location. This is level 2 of the fair value hierarchy - refer to note 10.

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.

| **Valuations by valuer** | 2023 $000 | 2022 $000 |
|---|---|---|
| Added Valuation Limited | 1,200 | 450 |
| Curnow Tizard Limited | - | 27,250 |
| Property Advisory Limited | 117,118 | 101,440 |
| | 118,318 | 129,140 |
| Right-of-use assets | 51 | 182 |
| Assets not yet completed | 23 | 212 |
| Carrying amount | 118,392 | 129,534 |

## NOTE 13 PROPERTY, PLANT AND EQUIPMENT

| | 2023 $000 | 2022 $000 |
|---|---|---|
| **Land and Buildings** | | |
| Opening balance | 31,215 | 27,048 |
| Additions | 386 | 290 |
| Reclassed to Forestry | - | (49) |
| Reclassed from Plant and Equipment | - | 10 |
| Fair value gain / (loss) | (4,987) | 3,916 |
| **Closing balance** | 26,614 | 31,215 |
| **Plant and Equipment** | | |
| Opening balance | 728 | 2,541 |
| Additions | 108 | 259 |
| Reclassed to Investment Properties | - | (1,913) |
| Reclassed to Land and Buildings | - | (10) |
| Disposals | (114) | (17) |
| Depreciation | (160) | (132) |
| **Closing balance** | 562 | 728 |
| Cost | 1,986 | 2,107 |
| Accumulated depreciation | (1,424) | (1,379) |
| Net carrying amount | 562 | 728 |
| **Total property, plant and equipment** | 27,176 | 31,943 |

| | **Plant and equipment** $000 | **Land and buildings** $000 | **Total** $000 |
|---|---|---|---|
| **Gross carrying amount** | | | |
| Balance 1 July 2022 | 6,294 | 31,832 | 38,126 |
| Additions | 128 | 385 | 513 |
| Disposals | (156) | - | (156) |
| Fair value loss | - | (4,909) | (4,909) |
| **Balance 30 June 2023** | 6,266 | 27,308 | 33,574 |
| **Depreciation and impairment** | | | |
| Balance 1 July 2022 | (5,566) | (617) | (6,183) |
| Disposals | 22 | - | 22 |
| Depreciation | (160) | (78) | (238) |
| **Balance 30 June 2023** | (5,704) | (694) | (6,398) |
| **Carrying amount 30 June 2023** | 562 | 26,614 | 27,176 |
| **Included in the above are the following:** | | | |
| Property plant and equipment | 562 | 26,550 | 27,112 |
| Assets not yet completed | - | 17 | 17 |
| Right-of-use assets | - | 47 | 47 |
| | 562 | 26,614 | 27,176 |

| | Plant and equipment | Land and buildings | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Gross carrying amount** | | | |
| Balance 1 July 2021 | 8,014 | 27,632 | 35,646 |
| Property previously classified as investment property | (1,923) | 10 | (1,913) |
| Property reclassed to Forestry | - | (49) | (49) |
| Additions | 258 | 289 | 547 |
| Disposals | (55) | - | (55) |
| Fair value gain | - | 3,950 | 3,950 |
| **Balance 30 June 2022** | 6,294 | 31,832 | 38,126 |
| **Depreciation and impairment** | | | |
| Balance 1 July 2021 | (5,473) | (584) | (6,057) |
| Disposals | 39 | - | 39 |
| Depreciation | (132) | (33) | (165) |
| **Balance 30 June 2022** | (5,566) | (617) | (6,183) |
| **Carrying amount 30 June 2022** | 728 | 31,215 | 31,943 |

Rural land and buildings were valued as at 30 June 2023 by independent registered valuer Property Advisory Limited (2022: Curnow Tizard 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. This is level 2 of the fair value hierarchy - refer to note 10.

| **Valuations by valuer** | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Curnow Tizard Limited | - | 31,200 |
| Property Advisory Limited | 26,550 | - |
| | 26,550 | 31,200 |

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

| | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Land | 4,695 | 4,410 |
| Buildings | 1,676 | 1,669 |
| Less accumulated depreciation | (583) | (550) |
| Net carrying amount | 5,788 | 5,529 |

## NOTE 14 LIVESTOCK

The Group has operated two sheep and beef farms during the financial year (2022: Two). Livestock are held for meat and wool production.

| | 2023 No. of Head | 2022 No.of Head |
|---|---|---|
| **Livestock on hand:** | | |
| Sheep | 10,968 | 8,922 |
| Cattle | 1,315 | 1,287 |

| | $000 | $000 |
|---|---|---|
| **Sheep value** | | |
| Opening balance | 1,667 | 2,157 |
| Increases due to purchases | 741 | 268 |
| Decreases due to sales | (1,258) | (1,696) |
| Gains due to net births and deaths | 547 | 742 |
| Fair value gains/(losses) | (52) | 196 |
| **Closing balance** | 1,645 | 1,667 |
| **Cattle value** | | |
| Opening balance | 1,454 | 1,852 |
| Increases due to purchases | 1,109 | 484 |
| Decreases due to sales | (1,325) | (1,330) |
| Gains due to net births and deaths | (25) | 89 |
| Fair value gains/losses | 441 | 359 |
| **Closing balance** | 1,654 | 1,454 |
| **Total livestock** | 3,299 | 3,121 |
| **Classified as:** | | |
| Current asset | 2,089 | 1,132 |
| Non current asset | 1,210 | 1,989 |
| | 3,299 | 3,121 |

Livestock were valued as at 30 June 2023 by independent livestock valuers, PGG Wrightson Limited. The valuation is on the basis of current fair value less point of sale costs. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality, condition and age in the region the Group's livestock is located. This is level 2 of the fair value hierarchy - refer to note 10.

| **Livestock Income** | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Sheep | 861 | 1,196 |
| Beef | 920 | 913 |
| | 1,781 | 2,109 |

| **Livestock Income** | | |
|---|---|---|
| Livestock Sales | 3,458 | 4,393 |
| Book value of livestock sold | (2,587) | (3,670) |
| Births | 678 | 1,035 |
| Losses | (157) | (204) |
| Increase in value | 389 | 555 |
| | 1,781 | 2,109 |

### **NOTE 15** INVESTMENTS

| | 2023 $000 | 2022 $000 |
|---|---|---|
| Shares in public companies held at fair value | 28,472 | 21,270 |
| Shares in private companies held at cost | 2 | 2 |
| | 28,474 | 21,272 |

Shares at market value are valued at quoted prices in active markets. This is level 1 of the fair value hierarchy - refer to note 10.

During the year there were no shares sold (2022: nil).

### **NOTE 16** BANK LOANS

The Company has undrawn loan facilities with ANZ Bank New Zealand Limited totalling $480,000 (2022: $480,000).

A global security deed has been provided to ANZ Bank New Zealand Limited covering all the Group's assets. The facility expires on 31 October 2024.

### **NOTE 17** EARNINGS PER SHARE

**Basic Earnings Per Share**

Basic earnings per share are calculated by dividing the earnings attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

| | 2023 | 2022 |
|---|---|---|
| Net profit after tax ($000) | 5,625 | 12,779 |
| Basic Earnings - cents per share | 19.80 | 44.47 |
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at the beginning of the year | 28,404,784 | 29,742,899 |
| Issued ordinary shares at the end of the year | 28,404,784 | 28,404,784 |
| Weighted average number of ordinary shares | 28,404,784 | 28,739,313 |
| Weighted average number of ordinary shares (diluted) | 28,404,784 | 28,739,313 |

**Diluted Earnings Per Share**

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding and to assume conversion of all dilutive potential ordinary shares.

| | | |
|---|---|---|
| Diluted Earnings - cents per share | 19.80 | 44.47 |

### **NOTE 18** RELATED PARTY DISCLOSURES

Rodger Finlay, who is a director of REL, was appointed a director of PGG Wrightson Limited (PGW) in 2019 and retired as a director on 30 June 2022. REL is party to an Administration and Secretarial Services Agreement with the Trustee of the PGG Wrightson Employee Benefits Plan (the Plan). REL received fees from the Plan for the provision of these services of $185,000 during the financial year ended 30 June 2022. The Group also purchased goods and services, paid livestock commissions and wool brokerage to PGW to the value of $2,180,000 in the financial year ended 30 June 2022.

REL provides accounting and administration services to H&G Limited and related entities. H&G Limited is REL's parent company. David Cushing is a director of REL and is a director and shareholder of H&G Limited. Sir Selwyn Cushing was a director of REL until 23 November 2022 and is a director and shareholder of H&G Limited. The fees received during the financial year were $55,000 (2022: $33,000). The amount owing at balance date was $10,000 (2022: $10,000) and has since been paid in full.

The Company leases its office premises at 127 Queen Street East, Hastings from Seajay Securities Limited. David Cushing is a director of REL and is a director and shareholder of Seajay Securities Limited. Sir Selwyn Cushing was a director of REL until 23 November 2022 and is a director and shareholder of Seajay Securities Limited. The lease expired on 30 September 2022 and was renewed for a further term of two years period until 30 September 2024. The amount of rental paid to Seajay Securities Limited during the financial year was $42,000 (2022: $42,000).

During the financial year the Group purchased livestock and cattle grazing from Makowai Farm Limited for a total value of $120,000 (2022: $304,000). David Cushing is a director of REL and is a director and shareholder of Makowai Farm Limited. Sir Selwyn Cushing was a director of REL until 23 November 2022 and is a director and shareholder of Makowai Farm Limited.

Nigel Atherfold, who is a director of REL, is a director of Landcorp Farming Limited. Landcorp Farming Limited leases one of the Group's properties. Rent paid by Landcorp Farming Limited for lease of that property during the financial year was $124,000 (2022: $124,000). The rent is set by reference to an assessment completed by an independent registered valuer.

### **NOTE 19** LEASES

The Group has a lease for the head office and two property leases adjoining two of the farms which are subject to sharemilking contracts. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its investment property (see note 12), and property, plant and equipment (see note 13). The Group had three right-ofuse asset leases at 30 June 2023 with terms ranging from 1-2 years and an average remaining lease term of one year (2022: The Group had three right-of-use asset leases with terms ranging from 1-2 years and an average remaining lease term of one year).

Lease payments are generally fixed.

**Lease liabilities**

Lease liabilities are presented in the statement of financial position as follows:

| | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Current | 84 | 136 |
| Non-current | 9 | 48 |
| | 93 | 184 |

| Maturity analysis of lease liabilities | Within 1 year | 1-2 years | 2-3 years | 4-5 years |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Land and buildings | 84 | 9 | - | - |

**Additional cashflow information**

Total cash outflow in respect of leases in the year is $181,000 (2022: $181,000).

## NOTE 20 COMMITMENTS AND CONTINGENT LIABILITIES

**Operating lease commitments receivable as lessor**

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

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

| | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Within one year | 912 | 1,047 |
| After one year but not more than five years | 298 | 477 |
| More than five years | - | - |
| **Total** | 1,210 | 1,524 |

**Property, Plant and Equipment and Investment Properties Commitments**

As at 30 June 2023, there are no land transactions in progress (2022: none).

**Contingent Liabilities**

There are no contingent liabilities as at 30 June 2023 (2022: $nil).

## NOTE 21 SEGMENT REPORTING

The Group's internal reporting to the Directors is focused on each of the Group's individual rural properties. Due to the nature of the Group's rural properties they can all be grouped into one reportable segment. All farm revenue as reported in note 5 is derived from New Zealand domiciled entities. Income from investment in shares is derived from investments held in New Zealand publicly traded companies.

The Directors are the decision makers who assess the segment reporting and decide on the resource allocation.

**Major Customers**

The Group had seven dairy farms producing milk during the financial year ending 30 June 2023 (2022: seven). Three supplied Fonterra Cooperative Group and four supplied Synlait Milk Limited. The Group obtained $3,678,000 which is 28% (2022: $4,077,000 - 29%) of its revenue from Fonterra, and $5,985,000 which is 46% (2022: $5,563,000 - 39%) of its revenue from Synlait. One of the Synlait farms was acquired on 1 June 2022 and therefore did not produce milk for the Group during 2022. One of the Fonterra farms was sold on 1 June 2023 and therefore will not produce milk for the Group in 2024.

## NOTE 22 EVENTS SUBSEQUENT TO THE REPORTING DATE

On 31 August 2023 the Directors approved the payment of a dividend of fifteen cents per share.

Grant Thornton

**Grant Thornton New Zealand Audit Limited**
L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140
**T** +64 9 308 2570
www.grantthornton.co.nz

## To the Shareholders of Rural Equities Limited

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Rural Equities Limited and its controlled subsidiaries, "the Group", on pages 7 to 20 which comprise the consolidated statement of financial position as at 30 June 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') issued by the New Zealand Accounting Standards Board.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA) Code*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Why the audit matter is significant

**Investment Property and Property, Plant & Equipment held at fair value – Valuation and classification.**

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about the classification and carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on the primary purpose of the asset or liability, use of historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements.

As at 30 June 2023, Investment Property is carried at fair value of $118m and Property Plant and Equipment, land and buildings is carried at fair value of $27m.

The Group engages third party independent property valuers (specifically Property Advisory Limited and Added Valuation Limited) to perform their independent valuations of property held by the Group at year end to determine their fair value. There are a number of risks that can have a material impact on the Investment Property and Property, Plant and Equipment balance in the consolidated financial statements, principally:

- Valuations of property may not be performed by qualified and experienced commercial property valuers and or the methods and assumptions used may not be considered appropriate.
- The calculation of the fair value amount for each property as well as the revaluation adjustment for the year may not be correct.
- The data provided to the property valuers may not be appropriate; and
- Management's classification of property plant and equipment versus investment property may not be accurate.

#### How our audit addressed the key audit matter

We evaluated the appropriateness and classification of the fair value of the Group's property held at year end by:

- Obtained and agreed the schedule of revalued property to the respective independent valuation reports, performed by valuation experts.
- Evaluated the qualifications and work of each valuation expert.
- Inquired about and documented the methods and assumptions used by the expert and considered the appropriateness of those assumptions and methods used, for each property valuation.
- Confirmed each property valuation was performed in accordance with appropriate accounting standards for use in determining the carrying value of investment property or property, plant and equipment as at 30 June 2023.
- Recalculated the revaluation adjustment to be recorded for the year of each revalued property as at 30 June 2023.
- Assessed the appropriateness of data provided to the expert, for each property valuation.
- Considered the classification of property as investment property or property, plant and equipment and the adequacy of disclosures made in Note 2 Significant Accounting Judgement, Estimates and Assumptions and Note 12 Investment Property and Note 13 Property, Plant and Equipment which sets out the key judgements and estimates including valuation techniques.

Chartered Accountants and Business Advisers
Member of Grant Thornton International Limited

### Information Other than the Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report if we conclude that there is a material misstatement, we are required to communicate the matter to those charged with governance for resolution.

### Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with the New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-3/

### Restriction on use of our report

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

**Grant Thornton New Zealand Audit Limited**

Grant Thornton

**K. Price**
**Partner, Auckland**
**31 August 2023**

## Shareholder Information

*As at 26 September 2023*

### TOP TWENTY SHAREHOLDERS

| Holder | Number of shares held | % |
|---|---|---|
| H&G Limited | 24,157,743 | 85.05 |
| RGH Holdings Limited | 729,186 | 2.57 |
| Custodial Services Limited (A/c 4) | 283,226 | 1.00 |
| BD Cushing & SJ Cushing (K D Cushing Family Trust) | 197,328 | 0.69 |
| Investment Custodial Services Limited (A/c C) | 175,354 | 0.62 |
| Forsyth Barr Custodians Limited (1-Custody) | 158,385 | 0.56 |
| Makowai Farm Limited | 156,691 | 0.55 |
| JH Eriksen | 81,000 | 0.29 |
| BJ Cushing | 76,351 | 0.27 |
| R Sami | 75,476 | 0.27 |
| JR Gabor | 72,416 | 0.25 |
| AM Grace, AI Grace & PM Reese (A M Grace Family Trust) | 60,139 | 0.21 |
| Custodial Services Limited (A/c 12) | 56,500 | 0.20 |
| JB Were (NZ) Nominees Limited (NZ Resident A/c) | 49,000 | 0.17 |
| Fairway Finance Limited | 46,565 | 0.16 |
| DA Streeter, EB Streeter & MD Torrie (Coley Investment Trust A/c) | 46,162 | 0.16 |
| Madison Star Investments Limited | 45,735 | 0.16 |
| JM Arthur | 44,775 | 0.16 |
| Avalon Family Trustee Limited & E Leman | 38,000 | 0.13 |
| BK Otto | 37,684 | 0.13 |

### ANALYSIS OF SHAREHOLDING BY SIZE

| | Number of Shareholders | Number of shares held | % |
|---|---|---|---|
| 2,000 - 4,999 | 134 | 404,801 | 1.43 |
| 5,000 - 9,999 | 75 | 513,595 | 1.81 |
| 10,000 - 49,999 | 54 | 1,206,593 | 4.25 |
| 50,000 - 99,999 | 6 | 421,882 | 1.49 |
| 100,000 and over | 7 | 25,857,913 | 91.02 |
| **Total** | **276** | **28,404,784** | **100.00** |

### ANALYSIS OF SHAREHOLDING BY LOCATION

| | Number of Shareholders | Number of shares held | % |
|---|---|---|---|
| Upper North Island | 100 | 1,078,928 | 3.80 |
| Gisborne | 8 | 78,748 | 0.28 |
| Hawke's Bay | 28 | 24,710,342 | 86.99 |
| Waikato / Bay of Plenty | 45 | 705,124 | 2.48 |
| Manawatu/Whanganui/Wairarapa | 17 | 154,646 | 0.54 |
| Wellington | 21 | 291,693 | 1.03 |
| South Island | 41 | 1,240,580 | 4.37 |
| Overseas | 16 | 144,723 | 0.51 |
| **Total** | **276** | **28,404,784** | **100.00** |

# Additional Disclosures

## DIRECTORS AND REMUNERATION

The Directors of Rural Equities Limited (REL) on 30 June 2023 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman) and Nigel Atherfold.

The Directors of REL – Trust Management Limited on 30 June 2023 were David Cushing, Nigel Atherfold, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Management Limited on 30 June 2023 were David Cushing, Nigel Atherfold, Rodger Finlay and James Wright.

The Directors of REL Trustee Services Limited on 30 June 2023 were David Cushing, Nigel Atherfold, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Nominees Limited as at 30 June 2023 were David Cushing, Nigel Atherfold, Rodger Finlay and James Wright.

Sir Selwyn Cushing retired as a Director of REL and each of REL's four subsidiary companies on 23 November 2022.

The table below details the remuneration received by the Directors from REL during the year ended 30 June 2023.

| Name | $ |
|---|---|
| Nigel Atherfold | 60,000 |
| David Cushing | 200,000 |
| Sir Selwyn Cushing<br>(Retired on 23 November 2022) | 30,000 |
| Rodger Finlay | 100,000 |

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

The total amount of remuneration paid to REL's Directors during the financial year ended 30 June 2023 was $390,000. The total Directors' fee pool, approved at the 2021 Annual Shareholders' Meeting, is $445,000 per annum.

REL's constitution allows for a cessation payment to be made when a Director ceases to hold office. Any payment must be approved by an ordinary resolution of REL shareholders. No such payments are contemplated.

## ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the Group's Interests Register during the year ended 30 June 2023:

Nigel Atherfold is a director of Landcorp Farming Limited.

David Cushing is a director and shareholder of H&G Limited.

David Cushing is a director and shareholder of Seajay Securities Limited.

Rodger Finlay ceased being a director of Ngai Tahu Holdings Corporation Limited on 30 January 2023.

Sir Selwyn Cushing retired as a Director of REL and its four subsidiaries on 23 November 2022 therefore Sir Selwyn's entries in the Interests Register are not required to be disclosed in this Annual Report.

### *REL share transactions undertaken by the Directors of REL during the year ended 30 June 2023*

On 31 October 2022, H&G Limited (of which David Cushing and Sir Selwyn Cushing are directors and shareholders) received acceptances to a written offer made to REL shareholders and acquired 762,164 REL shares at $6.35 per share.

On 1 November 2022, H&G Limited (of which David Cushing and Sir Selwyn Cushing are directors and shareholders) acquired 655,012 REL shares through off-market transfers at $6.35 per share.

### *Directors' relevant interest in REL shares as at 30 June 2023*

| Name | Held Beneficially | Held by Associated Persons |
|---|---|---|
| Nigel Atherfold | - | - |
| David Cushing | 197,328 | 24,437,350 |
| Rodger Finlay | - | 729,186 |

No share options have been issued to REL's Directors.

There is no requirement in REL's constitution for REL Directors to hold REL shares.

### *Directors' indemnity and insurance*

On 31 May 2022, REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2022 to 31 May 2023. On 31 May 2023 REL renewed this policy for a further year until 31 May 2024.

## DONATIONS

REL did not make any donations during the financial year ended 30 June 2023.

## EMPLOYEES

For the year ended 30 June 2023 employees received remuneration and other benefits from REL as follows:

| | |
|---|---|
| 1 employee | $150,000 and $160,000 |
| 1 employee | $240,000 and $250,000 |
| 1 employee | $280,000 and $290,000 |
| 1 employee | $290,000 and $300,000 |

A portion of these employees' remuneration is a discretionary bonus, to be determined at the sole discretion of the Remuneration Committee. Historically this has not exceeded 20% of any employee's annual remuneration.

## AUDITOR

REL's Auditor is Grant Thornton New Zealand Audit Limited (GT), whose initial appointment was confirmed by shareholders at REL's 2017 Annual Shareholders' Meeting. Pursuant to audit standards, as the GT partner responsible for REL's audit has now completed the maximum seven years, the audit partner will rotate prior to the 30 June 2024 audit.

Annually, REL's shareholders consider a resolution that authorises REL's Directors to set the Auditor's remuneration.

During the year ended 30 June 2023, GT did not provide any non-audit services to the Group.

## Director Profiles

**DAVID CUSHING** BCom, ACA

***Executive Chairman***

David was appointed a director of REL in 2004 when REL was separated from Williams & Kettle Limited. He was appointed REL's Executive Chairman in 2012. He is a former investment banker with the BNZ and has over 20 years' experience as a director of listed companies.

David is currently an independent director for Skellerup Holdings Limited and Managing Director of private investment company H&G Limited. He has experience across a broad range of industries having previously been a director of Fruitfed Supplies Limited, Williams & Kettle Limited, ASX listed Webster Limited, Tourism Holdings Limited, Acurity Health Group Limited, PGG Wrightson Limited, Red Steel Limited and NPT Limited.

David is a member of the REL Audit, Health and Safety and Remuneration Committees.

**RODGER FINLAY** BCom, FCA, CFInstD

***Deputy Chairman***

Rodger has been a director of REL since 2008 and has extensive private and public sector governance experience. He is currently Deputy Chair of the Reserve Bank of New Zealand, Chair of Mundane Asset Management Limited and a director or trustee of several other New Zealand and internationally based entities.

Previous governance roles include Chair of listed company PGG Wrightson Limited, Chair of NZ Post, Chair of the Independent Advisory Panel of the Provincial Growth Fund, Chair of New Zealand Oil and Gas Limited and Kiwi Group Holdings Limited, a director of Public Trust and ASX listed Tandou Limited, a Governor of Radio New Zealand and Audit Chair and director of Ngai Tahu Holdings. He has significant agricultural knowledge having previously part-owned and farmed a dry stock and arable operation in South Canterbury.

Rodger is a member of the REL Audit, Health and Safety and Remuneration Committees.

**NIGEL ATHERFOLD** MBS, BMS

***Director***

Nigel joined the board in 2016 and is an experienced director. In the last 15 years he has served on boards that have covered the spectrum from farming to manufacturing to consumer-branded goods, from start-ups to rapid growth to mature companies.

Nigel is currently Deputy Chair of Landcorp Farming Limited and a director of Melody Dairies GP Limited, Spring Sheep Dairy NZ Management Limited, Terracostosa Limited, Hopkins Farming Group Limited and Shopping Centre Investments Limited.

The early part of his career was spent in the property finance and corporate banking areas of New Zealand's major banks before spending five years in the treasury division of the New Zealand Dairy Board. He has been self-employed since 2006 and is part-owner of an economics and treasury risk management advisory firm, TDB Advisory Limited.

Nigel is a member of the REL Audit and Health and Safety Committees.

**CORE COMPETENCIES**

- Agriculture
- Capital Markets
- Finance & Accounting
- Governance
- Growth
- Health & Safety
- International
- Risk Management
- Regulatory

## Corporate Governance

### ROLE OF THE DIRECTORS

The Directors of REL are responsible to Shareholders for the performance of the REL Group, 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 operating subsidiaries.

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

### BOARD MEMBERSHIP

The Directors of REL are appointed by the REL Shareholders. Profiles of the Directors of REL are set out on page 24.

The Directors of REL meet approximately seven times during the year for scheduled meetings, with additional meetings held if necessary to consider urgent issues. The REL Board has a broad mix of skills and experience relevant to the guidance of the Group's business.

### AUDIT COMMITTEE

The Directors have constituted an Audit Committee. Its responsibilities are to:

- Ensure that the Company has adequate risk management controls in place.
- Advise on accounting policies, practices and disclosure.
- Review the scope and outcome of the external audit.
- Make recommendations to the Directors on the appointment of the Auditor and the Auditor's remuneration.
- Review the annual financial statements prior to approval by the Directors.

The committee's responsibilities include REL and each of its subsidiaries.

### HEALTH AND SAFETY COMMITTEE

The Directors have constituted a Health and Safety Committee to ensure that health and safety is an integral component of the Group's everyday business. Its responsibilities are to:

- Provide leadership and policy for health and safety management within the Group.
- Advise on health and safety strategy and policy.
- Review management systems to ensure that they are appropriate to manage hazards and risks within the business.
- Monitor and review performance by specifying and receiving timely reports on incidents, investigations and resultant actions, with the assistance of internal and external audits.

### REMUNERATION COMMITTEE

The Directors have constituted a Remuneration Committee. Its responsibilities are to:

- Review and set the remuneration arrangements for the Group's three executives.
- Make recommendations to Shareholders in relation to the appropriate level of REL's Directors' fee pool.
- Make recommendations to the Directors of REL as to how the approved Directors' fee pool should be allocated.

## DIRECTORY

### DIRECTORS

David Cushing
*Executive Chairman*

Rodger Finlay
*Deputy Chairman*

Nigel Atherfold

### EXECUTIVES

Brian Burrough
*Chief Executive Officer*

Shona Devescovi
*Chief Financial Officer*

James Wright
*Chief Operating Officer*

### REGISTERED OFFICE

Rural Equities Limited
127 Queen Street East, Hastings
PO Box 783, Hastings 4156
Telephone 06 870 4672
Email enquiries@ruralequities.co.nz
Website www.ruralequities.co.nz

### AUDITOR

Grant Thornton
Level 4, Grant Thornton House,
152 Fanshawe Street,
PO Box 1961, Auckland 1140
Telephone 09 308 2570

### SHARE REGISTRY

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

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