rural equities LIMITED

ANNUAL REPORT 2020

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Deer at Marchfield

Cover: *Middle Hills*

NOTICE OF ANNUAL SHAREHOLDERS' MEETING

Notice is given that the Annual Shareholders' Meeting of Rural Equities Limited will be held in the Triple Peaks Room, Porters Hotel, 4 Te Aute Road, Havelock North on Monday 16 November 2020 at 3.30 pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2020 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, David Cushing retires by rotation and is seeking re-election.
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 with this notice. The constitution of the Company requires, so as to be valid, that any proxy form must be deposited at the registered office of the Company (127 Queen Street East, Hastings 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

INVITATION

The Directors invite shareholders to join them for refreshments at the conclusion of the Meeting.

Executive Chairman's Report

THE YEAR IN REVIEW

The Directors of Rural Equities Limited (REL) are pleased to present the 2020 Annual Report for the REL Group (the Group).

The Group's audited Total Comprehensive Income for the year ended 30 June 2020 was $3.08 million.

Important features of the year were:

- Net Asset Value (NAV) per share at 30 June 2020 was $5.60 which is a six cents per share gain on last year's NAV of $5.54.
- The Group's operating earnings before interest and tax was $4.99 million.
- A three cents per share dividend will be paid on 3 November 2020 for the year ended 30 June 2020.
- The Group has no bank debt and as at 30 June 2020 had cash assets of $37.83 million.
- The Group produced 2.07 million kilograms of milk solids from its six dairy farms.

Group operating earnings before interest and tax were $4.99 million which is a slight increase on the $4.93 million recorded last year. During the year, property revaluation losses and a loss on the sale of one property amounted to $5.71 million. This was partially offset by gains in the Group's equity investments of $4.83 million.

The Group's six dairy farms performed well producing 2.07 million kilograms of milk solids, slightly ahead of last season from the six continuing dairy farms. The two sheep and beef properties were negatively impacted by the widespread and severe drought in the North Island which resulted in the early sale of some stock at lower values, as well as the purchase of additional feed.

The contribution from the Group's leased properties was $1.32 million. This is a reduction on the $1.84 million contributed last year due to property sales in the 2019 year.

Fonterra's final milk price for the season ended 31 May 2020 was $7.14 per kilogram of milk solids. This is a $0.79 increase on last season's milk price and the fourth highest milk price since Fonterra was established in 2002. Synlait's final base milk price was $7.05 per kilogram ($6.40 last season). The Group continues to receive premiums in addition to the base milk price from Synlait for a2 Milk and Lead With Pride accreditation. This year international dairy prices have been impacted by the Covid-19 pandemic and uncertainty in world markets. Supply chains have remained open for food distribution and global demand for milk products, particularly from China, remains strong. There is, however, some growth in global milk supply from Europe and the USA. We expect continuing volatility in milk prices over the coming season.

Angus cows and calves at Waikoha

The Group remains in a strong financial position. There is no bank debt and as at 30 June 2020 the Group had cash assets of $37.83 million. At balance date total assets were $182.51 million and net equity was $179.46 million.

ASSET PORTFOLIO

During the financial year the Group sold 308 hectares of the 451 hectare Woodlands property in South Canterbury. The proceeds from this sale were $4.91 million compared to the 30 June 2019 book value of $6.12 million. This is a satisfactory result in a challenging rural property market where low numbers of sales at restricted values are occurring.

The Group sold its shares in ASX listed Webster Limited through a successful scheme of arrangement. The scheme resulted in PSP Investments Limited, a large Canadian pension investment manager, assuming control of Webster. REL's 3.77% stake in rural services company PGG Wrightson Limited was also sold.

Further plantings of radiata pine have been completed on unproductive land at Waikoha where there is now approximately 220 hectares in forestry. This will provide future income from production forestry and carbon credits.

As previously advised, the Directors have been considering alternative investment opportunities. Several small holdings have been accumulated during the year.

CAPITAL MANAGEMENT

In September 2020 the Company made an offer to all shareholders to repurchase up to 750,000 REL shares at $4.70 per share. The offer closes on 6 October 2020.

DIVIDEND

A fully imputed dividend of three cents per share (last year three cents) will be paid. Due to modest operating cash flows, uncertainty in the markets caused by the Covid-19 pandemic and the desire by the Directors to retain cash for further investment, the dividend has remained the same as last year. The record date is Thursday 22 October 2020 and the dividend will be paid on Tuesday 3 November 2020.

DIRECTORS

In accordance with REL's constitution, David Cushing retires by rotation at this year's Annual Shareholders' Meeting and is seeking re-election as a Director.

OUTLOOK

After what has been a challenging year from a climatic, regulatory and global markets perspective, the Directors look forward with caution. Farming in New Zealand continues to produce food for the world which is in demand and reasonable prices are being received. There are, however, challenges ahead with the continuing global pandemic which is causing volatility and a degree of uncertainty in financial markets. The rural property market continues to be subdued due to increasing environmental regulations and costs, a lack of foreign investment capital and tight bank lending criteria. We expect these factors to continue to impact on the rural property market in the short to medium term.

Ewe and triplet lambs at Waikoha

Swede crop with baleage – Tatarepo

Prices for agricultural commodities are expected to remain at reasonable levels which are around five-year averages for the year ahead. These, however, could change rapidly as the impact of the Covid-19 pandemic on global trade evolves.

REL is a long term investor with a diversified quality portfolio of prime agricultural properties. The Directors will continue to invest to enhance the income earning ability and value of the existing portfolio. Further investment opportunities in alternative asset classes will be considered, however Directors will continue with a cautious approach due to elevated asset prices and significant uncertainty caused by the current global pandemic.

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 seventeen farms comprising 6,867 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 twelve properties in the South Island and five in the North Island. Eight farms (2,299 hectares) are leased to external operators and the other nine farms (4,568 hectares) are directly managed.

Six of the directly managed farms are dairy farms comprising 1,430 hectares and approximately 4,800 cows are milked in conjunction with 50-50 sharemilkers. There is one dairy grazing property in Canterbury. There are two directly farmed sheep and beef properties, Waikoha in Waikato and Middle Hills in Central Hawke's Bay. These two farms comprise 3,055 hectares and run approximately 21,000 stock units.

FARMED PROPERTIES

The directly managed farms continue to make a solid contribution to profit at $3.78 million in the year to 30 June 2020. This is $106,000 (3%) lower than last year. The dairy farms showed an improved result from higher milk prices and total milk production of 2.07 million kilograms of milk solids. The milk prices paid by Fonterra and Synlait increased by 79 cents and 65 cents per kilogram respectively. The sheep and beef farm result decreased reflecting the severe impact of the widespread autumn and early winter drought. At Waikoha, trading livestock (store lambs and cattle), were sold early and at lower prices due to the dry conditions and feed shortages. Additional supplementary feed was also purchased. Middle Hills became directly managed in February 2020 and only limited numbers of lambs and cattle could be farmed prior to the end of the financial year. The drought conditions continued over an extended period from late January until June in many parts of the North Island, particularly Hawke's Bay. The combined effects of the Covid-19 pandemic on world and local markets and the drought saw livestock prices rapidly decline from near-record highs in November 2019 to very low levels through the late summer and autumn before recovering to near five year average levels by 30 June 2020. Wool prices declined further from already historically low levels and are not sufficient to cover the cost of shearing the flock.

Improving environmental outcomes is a normal part of farm planning and operations in the Group. New regulations under the Action for Healthy Waterways plan have recently been introduced by the Government. The impact of these regulations will necessitate best management practices becoming normal farm practice with particular emphasis on winter forage crop grazing, stock exclusion from waterways, feedpad and effluent management plus nitrogen fertiliser use. These will not only apply to the dairy farms, but all farms in the Group to varying degrees. All waterways on the dairy farms have been fenced to exclude stock for many years. Farm Environment Plans are in place for several farms and others are being developed.

We are also looking more at our carbon footprint. Planting both native and pinus radiata trees at Waikoha will offset a significant proportion of carbon produced from other farms in the Group. We will look to adopt new research techniques where appropriate which may include plant and animal genetics, animal health products and new pasture species that will reduce methane emissions from ruminant animals. Plantain, a herb which has been shown to reduce methane production in sheep and cattle, is now recognised in Overseer modelling and has been used in our pasture seed mixes for several years.

DAIRY FARMS

This season 2.07 million kilograms of milk solids were supplied to Fonterra and Synlait. This is lower than in the previous season due to the sale of Delorain in May 2019, however milk production from the six remaining dairy farms was slightly higher than in 2019.

Dairy cows at Milford

Following relative stability for the previous three seasons, the milk prices for the 2019-20 season increased significantly and have been confirmed at $7.14 per kilogram of milk solids from Fonterra and $7.05 from Synlait. 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 was received in addition to the base milk price.

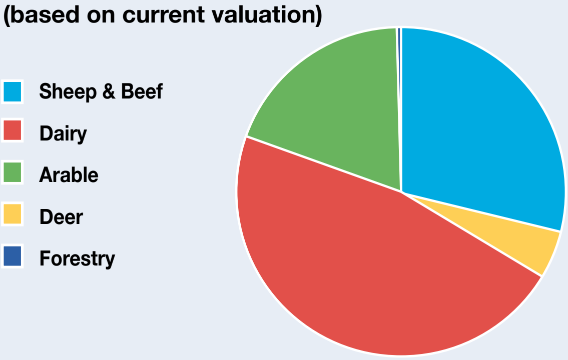
Dairy heifers at Eiffelton

Milk Price Futures for a proportion of the milk produced were again used as a risk management strategy to provide certainty for a portion of the Group's milk income. Additional Milk Price Futures have been placed for the season ending 31 May 2021 and we expect this will continue in coming seasons.

For the current season ending 31 May 2021, the opening forecast milk price from Fonterra is in the range of $5.90 to $6.90 (mid-point $6.40) and $6.40 per kilogram from Synlait.

Stock count at Middle Hills

PORTFOLIO BY SECTOR
(based on current valuation)



Two new houses were built on the dairy farms during the year. A new sharemilker's house was built at Shenstone, replacing an older homestead that was demolished as it was uneconomic to refurbish. At Rocklea, a new farm worker's house was built as part of an overall upgrade of housing there.

SHEEP AND BEEF FARMS

The directly managed sheep and beef farms now comprise Waikoha in Waikato and Middle Hills in Hawke's Bay. In total approximately 21,000 stock units can be carried.

Middle Hills is a 545 hectare property in the Ashley Clinton district in Central Hawke's Bay which has been a leased farm in the Group for over 30 years. In February 2020 when the Middle Hills lease ended, a farm manager was appointed and the property became directly managed as part of the sheep and beef farm group. The takeover occurred in the early stages of what became a serious drought, which restricted farming operations for the remainder of the financial year. The farm has since recovered and is now fully stocked, selling finished lambs and cattle. Adding Middle Hills to the sheep and beef group will primarily enable finishing of store lambs from Waikoha, over most of the season. Surplus cattle from Waikoha will also be finished at Middle Hills allowing full value to be obtained from the livestock bred at Waikoha.

Waikoha will continue to operate as a predominantly sheep and beef cattle breeding property. It has however been impacted by two successive very dry seasons. With the ability to now transfer stock to Middle Hills, the stock policy has been revised so that both farms are closely integrated with more trading stock wintered at Waikoha which is sent to Middle Hills in the spring, meaning stock numbers at Waikoha are lower during the summer period.

Fenced Kahikatea bush with perimeter native planting – Waikoha

Bridge crossing at Middle Hills

The forestry programme at Waikoha is continuing. There is now approximately 220 hectares of production pine forest including 87 hectares planted in the 2019 winter and 43 hectares planted in the 2020 winter. There are a further 10 hectares of manuka plantings which are intended for honey production. The forestry areas are low productive hill country including some gorse areas. With the development of the higher producing sections of the farm, livestock numbers and farm production have not been impacted by the use of some land for forestry. Further areas of Waikoha have been identified that will be planted in both native and pinus radiata trees over the next two years. The forest will provide future income from production forestry and sequester carbon to earn income from carbon credits or offset the carbon footprint from other farms in the Group. This makes optimum use of different land classes and adds diversity to the property portfolio with another income stream.

Four years of farm environment plan work has now been completed in conjunction with the Waikato Regional Council. This commenced with the permanent retirement from grazing of 190 hectares of native bush and now includes an extensive stream bank and wetland fencing and planting programme. Much of the work that will be required at Waikoha under the recently enacted Action for Healthy Waterways regulations has already been completed as part of this environmental work.

LEASED PROPERTIES

The Group now has eight properties totaling 2,299 hectares that are leased and which provide rental income. These properties form an integral part of the sector and geographical diversity in the farm portfolio and are located in Hawke's Bay and Canterbury. The steady income base these properties provide to the Group is significant. They are leased predominantly to farmers with other farming interests. This is beneficial to both parties, providing operational scale for their businesses and stability of tenure for the Group. Monthly rental income provides regular cash flow to the Group and is unaffected by fluctuating farm product prices in the various sectors.

Rent reviews are completed every two years. As has been the policy for many years, a fair market rental reflecting other rentals in the district, the land class, productive capacity and facilities provided at each farm, is set using a valuer to provide an independent rental assessment. Farm rentals tend to follow property value trends over time. The rental yields from the leased farms tend to be in the range from two to three percent.

The name, location, size and type of property in the Group portfolio are shown in the Farm Property Schedule on page 7 and the Property Location Map on page 7.

Discing cereal stubble – Wentworth

OTHER FARM MATTERS

Health and Safety

The daily operation of our farms exposes our own farm staff and other people who work there to a wide range of risks. The Health and Safety at Work Act 2015 provides that all businesses have the primary responsibility for the health and safety of their workers and are required to take all practical steps to eliminate or mitigate risks.

The Group takes a proactive stance in regard to worker safety with a health and safety programme on all the Group's properties. The Group's safety record is sound with relatively few incidents and accidents reported. A Board Committee oversees this important area of the Group's activities – further details are provided under Corporate Governance on page 24.

Action for Healthy Waterways

The Government has recently enacted the Action for Healthy Waterways plan which includes regulations to improve the quality of freshwater in New Zealand. This has implications to varying degrees for almost all farms in New Zealand and will involve changes to some farm practices as well as significant costs over the next five years.

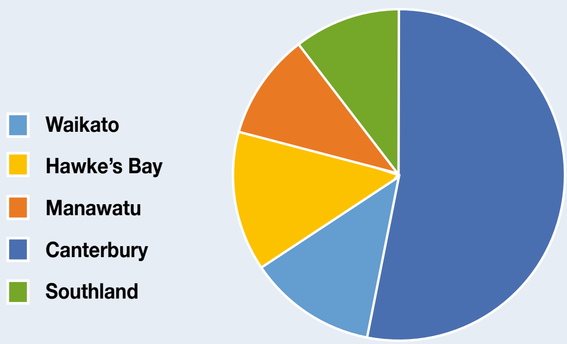
The programme mandates stock (cattle, pigs and deer but not sheep) exclusion from waterways, new rules around feedlots and stock holding areas, new consent requirements for intensive farming practices (including winter crop grazing), a cap on nitrogen fertiliser use and farm environment plans for all farms.

Fenced water storage dam at Waikoha

There will be an impact and additional costs on all farms. However, the Group has already been voluntarily undertaking a range of initiatives, committing significant capital and working within existing Regional Plans and nitrogen reduction rules to achieve improved environmental outcomes. There is more work to do, particularly with additional waterway and wetland fencing on sheep and beef farms. Other examples are developing and implementing strategies to reduce nitrogen fertiliser use on dairy farms, ensuring winter grazing practices are compliant or consented plus completing and updating farming environment plans. Excluding stock from waterways will necessitate the installation of reticulated farm water schemes. At Waikoha, for example, mini farm water schemes are being developed by progressively fencing off farm water storage dams and planting the surroundings. The dam water is syphoned into troughs. This improves the quality of drinking water as well as providing aesthetic and environmental benefits.

Brian Burrough
CHIEF EXECUTIVE OFFICER

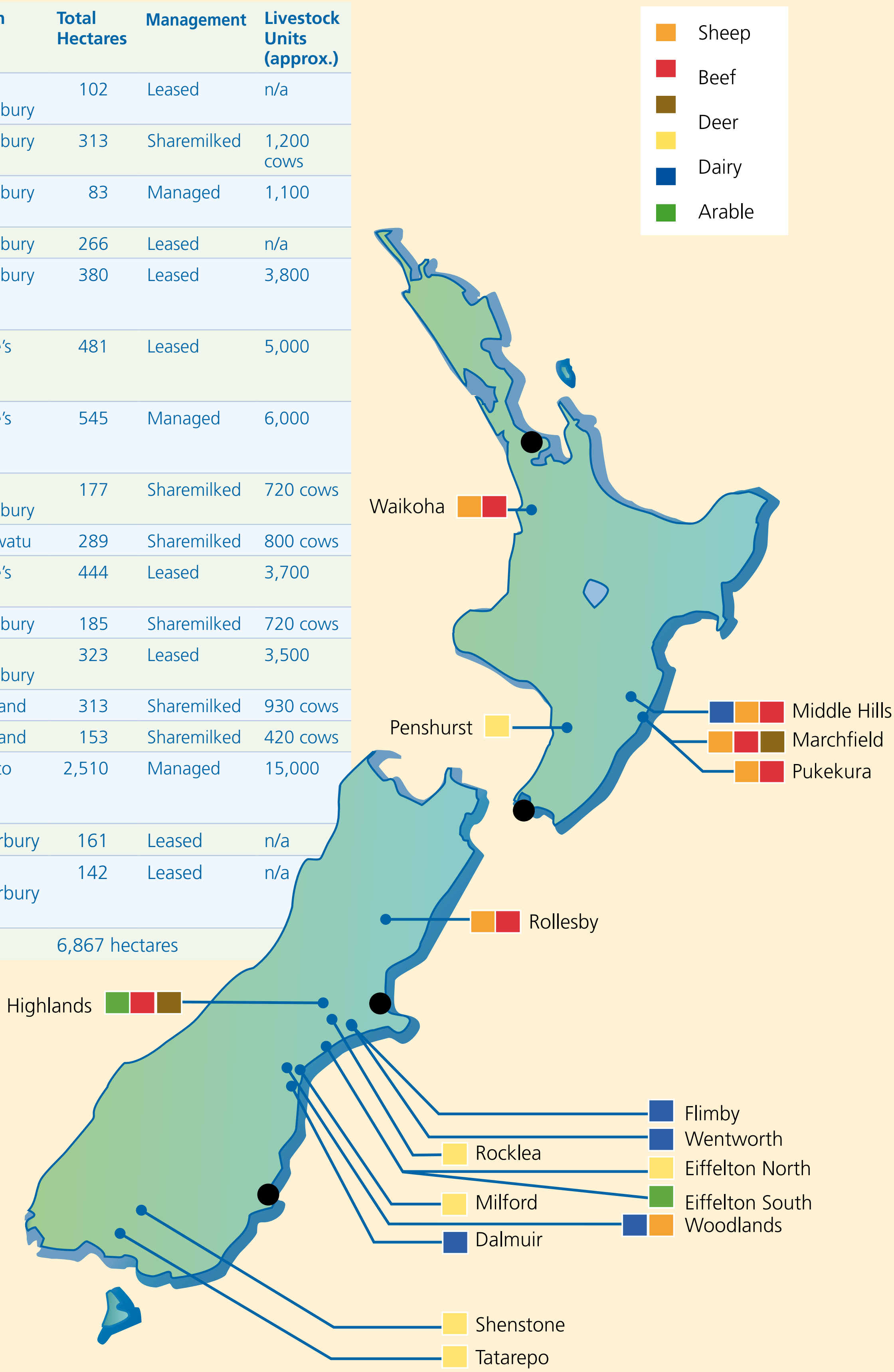
PORTFOLIO BY REGION
(based on current valuation)



Farm Property Schedule and Location Map

As at 30 June 2020

Property	Type	Region	Total Hectares	Management	Livestock Units (approx.)
Dalmuir	Arable	South Canterbury	102	Leased	n/a
Eiffelton North	Dairy	Canterbury	313	Sharemilked	1,200 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
Marchfield	Sheep/ Beef/Deer Finishing	Hawke's Bay	481	Leased	5,000
Middle Hills	Arable/ Sheep/Beef Finishing	Hawke's Bay	545	Managed	6,000
Milford	Dairy	South Canterbury	177	Sharemilked	720 cows
Penshurst	Dairy	Manawatu	289	Sharemilked	800 cows
Pukekura	Sheep/Beef Finishing	Hawke's Bay	444	Leased	3,700
Rocklea	Dairy	Canterbury	185	Sharemilked	720 cows
Rollesby	Sheep/Beef Finishing	North Canterbury	323	Leased	3,500
Shenstone	Dairy	Southland	313	Sharemilked	930 cows
Tatarepo	Dairy	Southland	153	Sharemilked	420 cows
Waikoha	Sheep/Beef Breeding/ Finishing	Waikato	2,510	Managed	15,000
Wentworth	Arable	Canterbury	161	Leased	n/a
Woodlands	Arable/ Sheep Finishing	South Canterbury	142	Leased	n/a
Total			6,867 hectares		



Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Revenue			
Farm income	5	8,827	9,528
Leased property income		1,390	1,889
Dividend income		552	175
Interest income		491	60
Other income		287	374
		11,547	**12,026**
Expenses			
Farm working expenses	6	5,051	5,642
Leased property expenses		71	53
Other expenses	6	1,440	1,400
		6,562	**7,095**
Operating income		**4,985**	**4,931**
Interest expense		(3)	(438)
Gain on sale of shares	15	4,618	-
Loss on sale of property, plant and equipment		(1,209)	(2,676)
Revaluations	4	(5,071)	(8,561)
		(1,665)	**(11,675)**
Net profit / (loss) before tax		**3,320**	**(6,744)**
Income tax expense	8	1,028	967
Net profit / (loss) after tax		**2,292**	**(7,711)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain / (loss) on revaluation of property, plant and equipment	4	781	(270)
Tax credit on other comprehensive income	8	7	140
Total other comprehensive income / (loss) net of tax		788	(130)
Total comprehensive income / (loss)		**3,080**	**(7,841)**
Earnings / (losses) per share for profit / (loss) attributable to the ordinary equity holders of the Company during the period.			
Basic earnings / (losses) - cents per share	17	7.16	(23.60)
Diluted earnings / (losses) - cents per share	17	7.16	(23.60)

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Notes	Share Capital $000	Asset Revaluation Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2018		**75,537**	**11,388**	**106,177**	**193,102**
Net loss after tax for the year		-	-	(7,711)	(7,711)
Other comprehensive loss net of tax		-	(130)	-	(130)
Total comprehensive loss		**-**	**(130)**	**(7,711)**	**(7,841)**
Share repurchase and cancellation		(6,286)	-	-	(6,286)
Dividend paid		-	-	(1,634)	(1,634)
Balance at 30 June 2019	11	**69,251**	**11,258**	**96,832**	**177,341**
Balance at 1 July 2019		69,251	11,258	96,832	177,341
Net profit after tax for the year		-	-	2,292	2,292
Other comprehensive gain net of tax		-	788	-	788
Total comprehensive gain		**-**	**788**	**2,292**	**3,080**
Dividend paid		-	-	(961)	(961)
Balance at 30 June 2020	11	**69,251**	**12,046**	**98,163**	**179,460**

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	2020 $000	2019 $000
Current assets			
Cash and cash equivalents		37,826	22,701
Accounts receivable and prepayments	10	2,266	2,063
Held for trading instruments	10	149	161
Livestock	14	821	138
Feed and produce on hand		475	624
		41,537	25,687
Non Current Assets			
Investment properties	12	104,144	122,398
Property, plant and equipment	13	27,375	18,102
Livestock	14	2,440	2,249
Forest		468	379
Investments	15	6,543	11,333
		140,970	154,461
Total assets		**182,507**	**180,148**
Current liabilities			
Accounts payable and accrued expenses		931	882
Lease liabilitilies	19	177	-
Provision for tax		391	598
		1,499	1,480
Non-current liabilities			
Lease liabilitilies	19	295	-
Deferred tax liability	8	1,253	1,327
		1,548	1,327
Equity			
Fully paid up ordinary shares		69,251	69,251
Asset revaluation reserve		12,046	11,258
Retained earnings		98,163	96,832
	11	179,460	177,341
Total liabilities and equity		**182,507**	**180,148**

On behalf of the Directors, who authorised the issue of these consolidated financial statements, dated 24 August 2020.

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 2020

	Notes	2020 $000	2019 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		10,662	15,049
Dividends received		552	176
Interest received		382	15
		11,596	15,240
Cash was applied to:			
Payments to suppliers and employees		6,825	7,885
Taxation paid		1,317	1,384
Interest paid		3	621
		8,145	9,890
Net cash flows from operating activities	7	**3,451**	**5,350**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of shares		20,157	315
Proceeds from sale of property, plant and equipment		4,895	39,201
		25,052	39,516
Cash was applied to:			
Improvements to investment properties		1,085	646
Improvements to other properties		261	465
Purchases of plant and equipment		346	353
Purchase of shares	15	10,528	-
		12,220	1,464
Net cash flows from investing activities		**12,832**	**38,052**
Cash flows from financing activities			
Cash was applied to:			
Repayments of borrowings and leasing liabilities		197	12,800
Share repurchase and cancellation	11	-	6,287
Dividend paid		961	1,634
		1,158	20,721
Net cash flows used in financing activities		**(1,158)**	**(20,721)**
Net change in cash and cash equivalents		**15,125**	**22,681**
Cash and cash equivalents at beginning of year		22,701	20
Cash and cash equivalents at end of year		**37,826**	**22,701**

The accompanying notes form part of these financial statements.

For the year ended 30 June 2020

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 Limired 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 and the New Zealand Rural Property Trust ("the Trust").

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

The Group owns seventeen farms (2019: seventeen). Two of the farms are sheep and beef farms operated directly by the Group (2019: one farm was 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

In 2020 the Group has adopted NZ IFRS 16 Leases. The Group has chosen to apply NZ IFRS 16 using the modified retrospective approach. Prior periods have not been affected by NZ IFRS 16.

There have been no other 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.

NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR

NZ IFRS 16 LEASES

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For lessees, the adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

For lessors, the accounting and disclosure for leases under NZ IFRS 16 is substantially unchanged from NZ IAS 17.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of NZ IFRS 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated.

On transition to NZ IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under NZ IFRS 16 was 3.05%.

The following is a reconciliation of the financial statement line items from NZ IAS 17 to NZ IFRS 16 at 1 July 2019:

	Carrying amount at 30 June 2019	Re-measure-ment	Carrying amount at 1 July 2019
Property, plant and equipment	18,102	111	18,213
Investment properties	122,398	557	122,955
Lease liabilities	-	(668)	(668)
Total	140,500	-	140,500

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

Total operating lease commitments disclosed at 30 June 2019	-
Reasonably certain extension options	708
Operating lease liabilities before discounting	-
Discounted using incremental borrowing rate	(40)
Total lease liabilities recognised under NZ IFRS 16 at 1 July 2019	668

NZ IFRS ISSUED BUT NOT YET EFFECTIVE

No other standards, amendments or interpretations that have been issued but are not yet effective 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

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.

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 it 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.

Table of Categories and Rates

Plant and equipment	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

For any new contracts entered into on or after 1 July 2019, 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 three 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 assess 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 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

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

Income from operating lease agreements is 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 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 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 statement of profit or loss at balance date.

Livestock revenue includes the recognition of net gains or losses arising from sales, as well as volume changes arising due to birth, growth, and death of livestock.

(j) Interest-bearing Loans and Borrowings

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

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

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

(k) 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.

(l) Impairment testing of property, plant and equipment

Individual assets 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.

(m) 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 Fonterra Co-operative Group Limited, shares in Webster Limited 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 borrowings and trade and other payables.

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 $104,144,000 (2019: $122,398,000).

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 $24,548,000 (2019: $15,200,000).

iii) Extension options for leases - When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

iv) 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 Income Tax for the impact.

v) 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 $821,000 (2019: $138,000), and breeding stock is carried on the statement of financial position as a non current asset of $2,440,000 (2019: $2,249,000).

vi) 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 $1,537,000 (2019: $1,483,000).

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

Revaluations recognised in profit and loss:	2020 $000	2019 $000
Investment properties	(5,302)	(4,253)
Property, plant and equipment (refer note 1(c))	18	-
Investments in shares	213	(4,308)
	(5,071)	(8,561)
Revaluations recognised in other comprehensive income:		
Property, plant and equipment (refer note 1(c))	781	(270)

NOTE 5 FARM INCOME

Farm income comprises:	2020 $000	2019 $000
Milk income	7,409	6,973
Livestock income (refer note 14)	1,328	2,112
Other farm income	90	443
	8,827	9,528

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

NOTE 6 EXPENSES

Expenses include:	2020 $000	2019 $000
Depreciation - on plant and equipment	422	393
Depreciation - on buildings	36	25
Directors' fees	275	275
Operating lease costs	161	235
Statutory audit fees	34	33
Other fees to auditor	-	-
Key management remuneration - short term benefits	730	717
Other employee remuneration	343	500
Loss (profit) in fair value of derivatives	51	(64)

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

Farm expenses include:	2020 $000	2019 $000
Animal health	119	152
Depreciation	421	384
Feed	858	845
Fertiliser	776	798
Grazing	718	758
Farm salaries and wages	343	500
Repairs and maintenance	518	711
Weed and pest	174	105
Other farm expenses	1,124	1,389
	5,051	5,642

NOTE 7 CASH FLOW RECONCILIATION

	2020 $000	2019 $000
Net profit / (loss) after tax	2,292	(7,711)
Add / (deduct) non-cash items:		
Depreciation	459	418
Milk Price Futures mark to market	9	1
Rebates received as shares	(8)	(62)
Exchange rate adjustment	-	-
Revaluation movements	5,071	8,144
	5,531	8,501
Changes in assets and liabilities:		
Increase / (decrease) in accounts payable	53	(513)
Increase / (decrease) in current tax liability	(200)	20
Decrease in deferred taxation liability	(74)	(438)
Increase in right of use assets	(479)	-
Increase in lease liability	472	-
Decrease / (increase) in livestock and feed on hand	(725)	2,533
Increase in accounts receivable	(192)	(90)
	(1,145)	1,512
Add / (deduct) non-operating items:		
Lease payments classified as financing cashflows	197	-
Realised (profit) / loss on asset sales	(3,424)	3,048
	(3,227)	3,048
Net cash flows from operating activities	3,451	5,350

NOTE 8 TAXATION

Statement of Comprehensive Income	2020 $000	2019 $000
Net profit / (loss) before tax	3,320	(6,744)
Tax at the statutory rate of 28%	930	(1,888)
Adjusted for the tax effect of:		
Non assessable asset revaluations and realisations	451	3,063
Non assessable livestock revaluations	130	(40)
Change of use	114	-
Depreciation on land improvements	(137)	(169)
Depreciation on buildings	(308)	-
Imputation Credits	(149)	-
Other items	(3)	1
Tax expense	1,028	967
Represented by:		
Current tax	1,095	1,265
Deferred tax	(67)	(298)
	1,028	967

Statement of Financial Position **Deferred tax assets and liabilities relate to the following:**	2020 $000	2019 $000
Deferred tax assets and liabilities relate to the following:		
Buildings depreciation and revaluation	913	1,132
Forest operations and revaluation	127	93
Plant depreciation	120	109
Livestock revaluation	76	(39)
Leases	2	-
Other items	15	32
	1,253	1,327
To be recovered after more than 1 year	1,238	1,295
To be recovered within 1 year	15	32
	1,253	1,327
Disclosed as:		
Deferred tax liability	1,253	1,327
Deferred tax asset	-	-
	1,253	1,327
Changes to deferred tax liability:		
1) Recognised in profit or loss:		
Buildings depreciation and revaluation	(211)	(345)
Forest operations and revaluation	34	31
Plant depreciation	11	18
Livestock revaluation	114	18
Leases	2	-
Other items	(17)	(20)
	(67)	(298)
2) Recognised in other comprehensive income	(7)	(140)
Total change in deferred tax liability	(74)	(438)

Certain buildings and other long lived assets have not been eligible for tax depreciation since 2011, however with effect from the 2020/21 income tax year these assets will once again be depreciable. This change was enacted as part of the business continuity package of tax relief to taxpayers as part of the COVID19 response. Although the impact on current tax is nil for the reporting period, the reinstatement of depreciation has a deferred tax impact of $309,000 which has been recognised in income tax expense and deferred tax asset at 30 June 2020.

NOTE 9 IMPUTATION CREDIT ACCOUNT

	2020 $000	2019 $000
Imputation credits available for subsequent reporting periods	3,030	2,102

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:	2020 $000	2019 $000
Amortised cost:		
Accounts receivable	2,166	1,975
Cash and cash equivalents	37,826	22,701
Fair value through profit or loss:		
Shares - Level 1 fair value hierarchy	6,543	11,331
Derivatives - Level 2 fair value hierarchy	149	161
Fair value through other comprehensive income:		
Other investments	2	2
Liabilities at amortised cost:		
Accounts payable and accruals	789	690

Interest rate risk

The Group is exposed to changes in interest rates on its bank term deposits. The effect of a 1% increase/decrease in interest rates on the Group's profit after tax and the Group's equity is an increase/decrease of $249,000 (2019: $126,000).

Commodity price risk

The Group is exposed to price risk on a number of agricultural commodities including wool, meat and milk solids. The Directors have identified changes to milk solid prices as having a material impact on profit. The effect 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 $745,000 (2019: $772,000).

New Zealand Stock Exchange ("NZX") offers fixed price contracts in the form of milk price futures. The Group evaluates milk price futures and uses them to manage commodity price risk by securing a fixed 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.

	2020 $000	2019 $000
2019 Milk Price Futures - expire 1 October 2019	-	3,134
2020 Milk Price Futures - expire 1 October 2020	3,292	2,130
2021 Milk Price Futures - expire 1 October 2021	1,951	-

These have been revalued to market at reporting period end which resulted in a loss of $51,000 (2019: profit of $64,000).

Market price risk

Shares reported at market value are valued at the market price at the reporting period ending 30 June 2020. 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 $654,000 (2019: $1,133,000).

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.

Included in cash and cash equivalents are term deposits of $34,650,000 (2019: $11,500,000). These are held with the ANZ and the BNZ banks, both of which are registered trading banks prudentially supervised by the Reserve Bank of NZ. Both ANZ and BNZ have a Standard & Poor's credit rating of AA-.

Included in accounts receivable is $631,000 (2019: $672,000) receivable from Fonterra Co-operative Group Ltd and $887,000 (2019: $811,000) receivable from Synlait Milk Ltd. 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.

Maximum exposures to credit risk are:	2020 $000	2019 $000
Accounts receivable	2,166	1,975
Term Deposits	34,650	11,500
Derivatives (milk price futures and interest rate swaps)	(60)	-

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	2,166	1,975
Past due - up to 30 days	-	-
Past due - more than 31 days	-	-
	2,166	1,975

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 2022.

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

	2020 Less than 12 months $000	2019 Less than 12 months $000
Accounts payable and accrued expenses	789	690
	789	690

Currency risk

Foreign currency risk arose on the Group's investment in Australian listed company Webster Limited. This investment in Webster Limited was sold in Feburary 2020.

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

	2020 $000	2019 $000
Share capital - see below	69,251	69,251
Revaluation reserve	12,046	11,258
Retained earnings	98,163	96,832
Total	179,460	177,341

Share capital

There are 32,023,842 authorised shares on issue (2019: 32,023,842). 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 25 October 2018 the Company repurchased 650,000 shares from 122 shareholders at $4.90 per share, totalling $3,185,000. The repurchased shares were then cancelled. On 27 March 2019 the Company repurchased 650,000 shares from 57 shareholders at $4.75 per share, totalling $3,087,500. The repurchased shares were then cancelled.

There were no transaction fees relating to capital matters this financial year (2019: $12,000).

Capital maintenance

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

NOTE 12 INVESTMENT PROPERTIES

All investment property balances are represented by land and buildings.

	2020 $000	2019 $000
Gross carrying amount		
Opening Balance	122,431	145,828
Adjustment on transition to IFRS 16	557	-
Additions	1,046	599
Disposals	(6,105)	(19,650)
Property now classified as property, plant and equipment	(8,315)	-
Revaluations	(5,302)	(4,346)
Closing balance	104,312	122,431
Depreciation and impairment		
Opening Balance	(33)	(30)
Adjustment on transition to IFRS 16	-	-
Depreciation	(135)	(3)
Closing Balance	(168)	(33)
Carrying amount	104,144	122,398
Included in the above are the following:		
Land and buildings - Fixed Asset Register	103,718	122,398
Land and buildings - Right-of-use assets	426	-
	104,144	122,398

All rural investment properties held as non current assets were valued as at 30 June 2020 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 2020 by independent registered valuer Logan Stone Limited. The valuation is on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties of comparable size and location. 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	2020 $000	2019 $000
Curnow Tizard Limited	21,900	30,115
Logan Stone Limited	500	560
Property Advisory Limited	81,318	91,723
	103,718	122,398

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2020 $000	2019 $000
Land and Buildings		
Opening balance	15,200	28,200
Adjustment on transition to IFRS 16	87	-
Additions	218	281
Disposals	-	(13,500)
Reclassed from Investment Property	8,315	-
Revaluations and depreciation	728	219
Closing balance	24,548	15,200
Plant and Equipment		
Opening balance	2,902	3,154
Adjustment on transition to IFRS 16	24	-
Additions	342	338
Disposals	-	(197)
Depreciation	(441)	(393)
Closing balance	2,827	2,902
Cost	7,883	7,574
Accumulated depreciation	(5,061)	(4,672)
Right-of-use asset	24	-
Right-of-use asset accumulated depreciation	(19)	-
Net carrying amount	2,827	2,902
Total property, plant and equipment	27,375	18,102

	Plant and equipment	**Land and buildings**	**Total**
Gross carrying amount			
Balance 1 July 2019	7,574	15,641	23,215
Adjustment on transition to IFRS 16	24	87	111
Property previously classified as investment property	-	8,315	8,315
Additions	342	218	560
Disposals	(33)	-	(33)
Revaluations	-	800	800
Balance 30 June 2020	7,907	25,061	32,968
Depreciation and impairment			
Balance 1 July 2019	(4,672)	(441)	(5,113)
Disposals	33	-	33
Depreciation	(441)	(72)	(513)
Balance 30 June 2020	(5,080)	(513)	(5,593)
Carrying amount 30 June 2020	2,827	24,548	27,375
Included in the above are the following:			
Fixed Asset Register	2,822	24,500	27,322
Right-of-use assets	5	48	53
	2,827	24,548	27,375

Rural land and buildings were valued as at 30 June 2020 by independent registered valuer 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	2020 $000	2019 $000
Curnow Tizard Limited	24,500	15,200
	24,500	15,200

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

	2020 $000	2019 $000
Land	3,985	2,784
Buildings	1,561	997
Less accumulated depreciation	(474)	(441)
Net carrying amount	5,072	3,340

NOTE 14 LIVESTOCK

The Group has operated two sheep and beef farms during the financial year. One of those sheep and beef farms was taken over when the lease expired in February 2020. In the prior year one of the sheep and beef farms farmed throughout the year was sold as at 30 June 2019. Livestock are held for meat and wool production.

	2020 No. of Head	2019 No. of Head
Livestock on hand:		
Sheep	13,017	8,763
Cattle	1,337	822
	$000	$000
Sheep value		
Opening balance	1,551	2,246
Increases due to purchases	273	233
Decreases due to sales	(714)	(1,515)
Gains due to net births and deaths	749	407
Revaluation gains	161	180
Closing balance	2,020	1,551
Cattle value		
Opening balance	836	2,503
Increases due to purchases	352	634
Decreases due to sales	(155)	(2,453)
Gains due to net births and deaths	84	(16)
Revaluation gains	124	168
Closing balance	1,241	836
Total livestock	3,261	2,387
Classified as:		
Current asset	821	138
Non current asset	2,440	2,249
	3,261	2,387

Livestock were valued as at 30 June 2020 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	2020 $000	2019 $000
Sheep	1,045	1,310
Beef	283	802
	1,328	2,112
Livestock Sales	1,077	5,342
Book value of livestock sold	(1,027)	(4,308)
Births	1,004	685
Losses	(170)	(295)
Increase in value	444	688
	1,328	2,112

NOTE 15 INVESTMENTS

	2020 $000	2019 $000
Shares at market value	6,541	11,331
Shares at cost	2	2
	6,543	11,333

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 shares with a carrying value of $15,539,000 were sold for $20,157,000 giving a realised gain of $4,618,000.

NOTE 16 BANK LOANS

The Company has loan facilities with ANZ Bank New Zealand Limited totalling $480,000 (2019: $480,000). As at 30 June 2020 the facility was not drawn on (2019: $nil).

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 2022.

See note 10 for interest rate risk management.

The fair value of borrowings equals their carrying amount.

NOTE 17 EARNINGS PER SHARE

Basic Earnings Per Share

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

	2020	2019
Net profit / (loss) after tax ($000)	2,292	(7,711)
Basic Earnings / (loss) - cents per share	7.16	(23.60)
Weighted average number of ordinary shares		
Issued ordinary shares at the beginning of the year	32,023,842	33,323,842
Issued ordinary shares at the end of the year	32,023,842	32,023,842
Weighted average number of ordinary shares	32,023,842	32,673,842
Weighted average number of ordinary shares (diluted)	32,023,842	32,673,842

Diluted Earnings Per Share

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

Diluted Earnings / (loss) - cents per share	7.16	(23.60)

NOTE 18 RELATED PARTY DISCLOSURES

David Cushing and Rodger Finlay, who are directors of REL, were appointed directors of PGG Wrightson Limited (PGW) on 30 April 2019. REL is party to an Administration and Secretarial Services Agreement with the Trustee of the PGG Wrightson Employee Benefits Plan (the Plan). During the year REL received fees for the provision of these services of $185,000 (2019: $31,000 for the period from 1 May 2019 to 30 June 2019). In the year to 30 June 2019, REL also received $30,000 from PGW for additional services related to the administration of the Plan. The Group also purchased goods and services from, sold livestock and wool to, and paid real estate commission to PGW to the value of $1,982,000 excuding GST (2019: During the period from 1 May 2019 to 30 June 2019 these transactions totalled $342,000).

During the year REL provided accounting and administration services to H&G Limited and related entities. H&G Limited is REL's parent company. Sir Selwyn Cushing and David Cushing, who are directors of REL, are directors and shareholders of H&G Limited. The fees were $36,000 (2019: $36,000). The amount owing at balance date was $9,000 (2019: $10,000) and has since been paid in full.

On 1 October 2016 the Company entered into a Deed of Lease with Seajay Securities Limited for the lease of its office premises at 127 Queen Street East, Hastings. David Cushing and Sir Selwyn Cushing, who are directors of REL, are shareholders and directors of Seajay Securities Limited. The lease was for an initial term of three years that expired on 30 September 2019 and has been renewed until 30 September 2021. The annual rental is $40,000 (plus outgoings). The amount of rental paid to Seajay Securities Limited during the financial year was $40,000 (2019: $40,000).

During the financial year the Group purchased $44,000 (2019: $93,000) of livestock from Makowai Farm Limited. Sir Selwyn Cushing and David Cushing, who are directors of REL are directors and shareholders 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. Rental paid by Landcorp Farming Limited for lease of that property during the year was $111,000 (2019: $107,000). The rental 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, two property leases adjoining two of the farms which are subject to sharemilking contracts, and two vehicle leases. 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).

Leases of property generally have a lease term ranging from 2 years to 5 years. Lease payments are generally fixed.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Land and buildings	3	1 - 4 years	3 years	-	-	-	-
Vehicles	2	2 months	2 months	-	-	-	-

Right-of-use assets

Additional information on the right-of-use assets by class of assets is as follows:

	Asset	Carrying Amount	Additions	Depreciation	Impairment
Land and buildings	644	474	-	(170)	-
Vehicles	24	5	-	(19)	-
	668	479	-	(189)	-

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:	2020	2019
	$000	$000
Current	177	-
Non-current	295	-
	472	-

Maturity analysis of lease liabilities	Within 1 year	1-2 years	2-3 years	4-5 years	5-10 years
Land and buildings	172	130	117	48	-
Vehicles	5	-	-	-	-
	177	130	117	48	-

Additional cashflow information

Total cash outflow in respect of leases in the year is $199,000.

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 or two years' notice to terminate the lease within the contract term.

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

	2020	2019
	$000	$000
Within one year	929	1,372
After one year but not more than five years	522	454
More than five years	-	-
Total	1,451	1,826

Property, plant and equipment and investment properties commitments

As at 30 June 2020 the Group had entered into two land transactions. One is a conditional agreement to purchase four hectares of land that adjoins one of the Group's properties. The second agreement is a boundary adjustment that will result in the Group selling approximately nine hectares so that the properties' legal title reflect the current fence lines.

Contingent liabilities

There are no contingent liabilities as at 30 June 2020 (2019: $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 revenue is derived from New Zealand domiciled entities, other than income from the investment domiciled in Australia and which was sold in February 2020 (refer to note 15).

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

Major customers

The Group has six dairy farms. Three supply Fonterra Co-operative Group and three supply Synlait Milk Limited. The Group obtained $3,106,000 which is 27% (2019: $3,198,000 - 31%) of its revenue from Fonterra, and $4,331,000 which is 38% (2019: $31,768,00 - 31%) of its revenue from Synlait.

NOTE 22 EVENTS SUBSEQUENT TO THE REPORTING DATE

Dividend

On 24 August 2020 the Directors approved the payment of a dividend of three cents per share.

COVID 19

On 11 March 2020, the World Health Organisation ("WHO") declared a global pandemic in respect to the COVID-19 virus outbreak. The country-wide lockdown which commenced on 26 March 2020 for several weeks and the ongoing lockdowns experienced internationally, is expected to have a significant economic impact on New Zealand. As an 'essential service' in the primary industries sector the Group's operations are not significantly impacted. There has not been a significant financial impact upon the financial statements arising from COVID19 for the reporting period ended 30 June 2020.

Grant Thornton

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Independent Auditor's Report

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 on pages 8 to 21 which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Rural Equities Limited as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with 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.

Other Information

The Directors are responsible for all other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the those charged with governance 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 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/assurance-standards/auditors-responsibilities/audit-report-7/.

Restriction on use of our report

This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group'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 Group and the Group's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership

Grant Thornton

K. Price
Partner
Auckland

24 August 2020

Chartered Accountants and Business Advisers
Member of Grant Thornton International Limited

Additional Disclosures

DIRECTORS AND REMUNERATION

The Directors of Rural Equities Limited ("REL") on 30 June 2020 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman), Nigel Atherfold and Sir Selwyn Cushing.

The Directors of REL – Trust Management Limited on 30 June 2020 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Management Limited on 30 June 2020 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing and Rodger Finlay.

The Directors of REL Trustee Services Limited on 30 June 2020 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Nominees Limited as at 30 June 2020 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

There were no resignations or appointments to REL or any of REL's four subsidiary companies during the year ended 30 June 2020.

The table below details the remuneration received by the Directors from REL during the year ended 30 June 2020.

Name	$
Nigel Atherfold	45,000
David Cushing	120,000
Sir Selwyn Cushing	45,000
Rodger Finlay	65,000

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

ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the Group's Interests Registers during the year ended 30 June 2020:

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 of PGG Wrightson Limited.

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

David Cushing ceased being a director of Webster Limited on 18 February 2020.

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

Sir Selwyn Cushing is a director and shareholder of Seajay Securities Limited.

Rodger Finlay is a director of PGG Wrightson Limited.

Share transactions undertaken by the Directors of REL during the year ended 30 June 2020

During the period from 16 September 2019 and 15 June 2020 H&G Limited (an associate of David Cushing and Sir Selwyn Cushing) acquired 769,986 REL shares either on market or by private treaty for an average price of $4.06 per share.

Directors' relevant interest in REL shares as at 30 June 2020

Name	Held Beneficially	Held by Associated Persons
Nigel Atherfold	-	-
David Cushing	263,160	23,327,729
Sir Selwyn Cushing	85,673	23,399,066
Rodger Finlay	-	924,811

Directors' indemnity and insurance

On 31 May 2019 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2019 to 31 May 2020. On 31 May 2020 REL renewed this policy for a further year until 31 May 2021.

DONATIONS

REL did not make any donations during the financial year ended 30 June 2020.

EMPLOYEES

For the year ended 30 June 2020 employees received remuneration and other benefits from REL as follows:

1 employee	$210,000 and $220,000
1 employee	$250,000 and $260,000
1 employee	$260,000 and $270,000

Shareholder Information

As at 24 September 2020

LARGEST SHAREHOLDERS

Holder	Number of shares held	%
H&G Limited	22,372,655	69.86
RGH Holdings Limited	924,811	2.89
BJ Martin	394,127	1.23
JN Pearson and AJ Mansell (Sam Pearson Family Trust)	393,804	1.23
Seajay Securities Limited	313,625	0.98
New Zealand Methodist Trust Association	300,000	0.94
BD Cushing and SJ Cushing (K D Cushing Family Trust)	263,160	0.82
Makowai Farm Limited	208,966	0.65
Winders Investments Limited	203,789	0.64
B&S Custodians Limited	182,000	0.57
SL Pearson and AJ Mansell (Jake Pearson Family Trust)	179,332	0.56
Ashfield Properties Limited	178,560	0.56
CAZNA (2904) Limited (Douglas Goodfellow Charitable Trust)	165,854	0.52
Sky Hill Limited	150,000	0.47
Custodial Services Limited (A/C 3)	113,930	0.36
BJ Cushing	101,823	0.32
Villarcia Limited	100,790	0.31
RP Carter and Staples Roadway Trustee Limited (RP Carter Family No 2 Trust)	100,000	0.31
RG Goodrick	100,000	0.31
SJ Cushing	85,673	0.27

ANALYSIS OF SHAREHOLDING BY SIZE

	Number of shareholders	%	Number of shares held	%
2,000 - 4,999	215	42.41	655,592	2.05
5,000 - 9,999	151	29.78	1,040,566	3.25
10,000 - 49,999	102	20.12	2,209,349	6.90
50,000 - 99,999	20	3.94	1,371,109	4.28
100,000 and over	19	3.75	26,747,226	83.52
Total	**507**	**100.00**	**32,023,842**	**100.00**

ANALYSIS OF SHAREHOLDING BY LOCATION

	Number of shareholders	%	Number of shares held	%
Upper North Island	171	33.73	2,099,142	6.55
Gisborne	13	2.56	157,938	0.49
Hawke's Bay	72	14.20	24,574,264	76.75
Waikato / Bay of Plenty	88	17.37	955,689	2.98
Manawatu/Whanganui/Wairarapa	28	5.52	288,102	0.90
Wellington	42	8.28	1,398,989	4.37
South Island	68	13.41	2,135,677	6.67
Overseas	25	4.93	414,041	1.29
Total	**507**	**100.00**	**32,023,842**	**100.00**

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. Details of the Directors of REL and its subsidiaries are set out on page 23.

The Directors of REL meet approximately eight 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

REL has 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.

The Audit Committee comprises Rodger Finlay (Chairman), Nigel Atherfold and David Cushing.

HEALTH AND SAFETY COMMITTEE

REL has constituted a Health and Safety Committee to ensure that health and safety is an integral component of the Group's everyday business. The Committee's 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.

The Committee meets in conjunction with the Directors' meetings. The committee comprises Nigel Atherfold (Chairman), David Cushing, Sir Selwyn Cushing and Rodger Finlay.

REMUNERATION COMMITTEE

The Remuneration Committee reviews the remuneration arrangements for the Group's three Executives.

The Remuneration Committee comprises Rodger Finlay (Chairman) and David Cushing.

DIRECTORY

DIRECTORS

David Cushing
Executive Chairman

Rodger Finlay
Deputy Chairman

Nigel Atherfold

Sir Selwyn Cushing

EXECUTIVE

Brian Burrough
Chief Executive Officer

Shona Devescovi
Chief Financial Officer

James Wright
Chief Operating Officer

REGISTERED OFFICE

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Angus heifers at Waikoha

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equities
LIMITED