



Rural Equities Limited

Independent Adviser's Report

Prepared in Relation to the Proposed Share Buyback

February 2021

Statement of Independence

Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code.



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Cover photo supplied by Rural Equities Limited
Marchfield property, Central Hawke's Bay



Abbreviations and Definitions

ASC	Available subscribed capital
Buyback Resolution	The ordinary resolution of REL Non-associated Shareholders to approve the Proposed Buyback
Code	The Takeovers Code
Cushing Family Interests	H&G Limited and shareholders of REL associated with the Cushing family
FY	In relation to REL, financial year ending 30 June
IAR	This independent adviser report prepared by Northington Partners
NAV	Net asset value
Non-associated Shareholders	Shareholders who are not associates of the Cushing Family Interests
Northington Partners	Northington Partners Limited
Notice of Meeting	The notice of special meeting of REL shareholders and accompanying material in relation to the Proposed Buyback
Proposed Buyback	The proposed buyback to purchase up to 3,302,833 REL shares at \$5.35 that opens on 23 February 2021 and closes 17 March 2021
REL	Rural Equities Limited
USX	Unlisted Securities Exchange, an unlicensed market operated by Efficient Market Services Limited



1.0 Executive Summary

1.1. Introduction

Rural Equities Limited (“REL” or the “Company”) is a rural property investor which invests in and manages rural property for long term capital growth and income. REL’s shares are quoted and tradeable on the unlicensed market, Unlisted Securities Exchange (“USX”), and held by approximately 500 shareholders. REL is majority owned by H&G Limited (71.9%) and other interests associated with Sir Selwyn and David Cushing (together the “Cushing Family Interests”), which collectively control 74.59% of REL’s voting rights.

The Company intends to implement a share buyback for up to 3,302,833 REL shares at \$5.35 per share (the “Proposed Buyback”), as detailed in the notice of meeting dated 23 February 2021 that has been sent to all REL shareholders. The overriding limit to the size of the Proposed Buyback is based on REL’s available subscribed capital (“ASC”) of \$17,670,158.

The Proposed Buyback will open on 23 February 2021 and close on 17 March 2021. If the level of acceptances under the Proposed Buyback at \$5.35 is less than 3,302,833 shares, then REL could implement further buybacks before 11 March 2022, such that the total value of the Buyback does not exceed REL’s ASC. If any shares are repurchased and cancelled as a consequence of the Proposed Buyback, the number of shares on issue in REL will decrease and the proportion of the remaining shares owned by the Cushing Family Interests will increase. The Proposed Buyback is therefore subject to the provisions of the Takeovers Code and will require shareholder approval (see Section 2.0 for further details of the regulatory requirements).

1.2. Summary of the Proposed Buyback

The Proposed Buyback is subject to approval by ordinary resolution (“Buyback Resolution”) of the REL shareholders who are not associated with the Cushing Family Interests (“Non-associated Shareholders”). If the Proposed Buyback is not approved by a simple majority of Non-associated Shareholders, the Proposed Buyback will not proceed. Participation in the Proposed Buyback is entirely voluntary and there is no compulsion for any shareholders to accept the Proposed Buyback offer.

While the total number of shares that may be repurchased within a 12-month period following approval of the Proposed Buyback Resolution is 3,302,833 shares, the actual number repurchased will depend on the uptake of the Proposed Buyback at \$5.35 per share. Consequently, there are two possible outcomes of the Proposed Buyback:

1. **Shareholders approve the Proposed Buyback Resolution and the Proposed Buyback is fully subscribed at \$5.35:** the Proposed Buyback would result in the acquisition and cancellation of 3,302,833 shares, with the Cushing Family Interests increasing their control position to 83.29% of the voting rights on issue; or
2. **Shareholders approve the Proposed Buyback Resolution, but the Proposed Buyback is not fully subscribed at \$5.35:** the Proposed Buyback will result in the acquisition and cancellation of such shares that are accepted into the Proposed Buyback which will be less than 3,302,833. The Cushing Family Interests will maintain a controlling position in REL of between 74.59% and 83.29%. REL could then continue with further buyback offers before 11 March 2022 such that the total value of the shares repurchased does not exceed REL’s ASC. The ultimate number of shares repurchased will therefore depend on whether REL implements further buybacks and the offer price for those subsequent buybacks.

Table 1 sets out the potential impact on the voting control of REL under the Proposed Buyback. This highlights that the Cushing Family Interests will have voting control between 74.59% - 83.29% depending on with the Buyback Resolution is approved and the subsequent take-up in the Proposed Buyback at \$5.35.



Table 1: Shareholdings and Possible Buyback Outcomes on the Relative Control of REL

Shareholders	Current		Max. under Proposed Buyback with shareholder approval	
	# Shares	%	# Shares	%
Cushing Family Interests	23,586,562	74.59%	23,586,562	83.29%
Non-associated Shareholders	8,033,515	25.41%	4,730,682	16.71%
Total REL Shares	31,620,077	100.00%	28,317,244	100.00%

1.3. Requirements of the Takeovers Code

REL is a Code Company for the purposes of the Takeovers Code (“Code”). The Code is relevant because, subject to certain exceptions, the “fundamental rule” is that:

- (a) a person who holds or controls no voting rights, or less than 20% of the voting rights, in a Code Company may not become the holder or controller of an increased percentage of the voting rights in REL unless, after that event, that person and that person’s associates hold or control in total not more than 20% of the voting rights in the Code Company; and
- (b) a person who holds or controls 20% or more of the voting rights of a Code Company may not become the holder of controller of an increased percentage of the voting rights in the Code Company.

One exception to the fundamental rule is that shareholders who own more than 50%, but less than 90%, of the voting rights can increase their shareholding by up to 5% in any 12 month period (“**Creep Exception**”).

H&G Limited is the only shareholder that may rely on the Creep Exception. The other entities of the Cushing Family Interests cannot rely on the Creep Exception as they do not hold or control more than 50% of the voting rights in REL. H&G Limited’s proportionate voting rights will increase by more than 5% within the current 12 month period if more than 541,926 shares are repurchased under the Proposed Buyback. The proportionate voting rights of the other Cushing Family Entities will also increase as a consequence of shares being repurchased under the Proposed Buyback. There are other exceptions to the fundamental rule – the Creep Exception is only one of the exceptions.

The Proposed Buyback is being effected under Clause 4 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 (the “**Class Exemptions Notice**”). A condition of the Class Exemptions Notice is that the notice of meeting containing the proposed resolution to approve the buyback must contain, or be accompanied by a report from an independent adviser (“**IAR**”) in relation to the buyback that complies with Rule 18 of the Code.

Consequently, in order for the Proposed Buyback to proceed without the Cushing Family Interests having to sell down their shares, shareholder approval is required by ordinary resolution of the Non-associated Shareholders. The Cushing Family Interests do not intend to participate in the Proposed Buyback, and are seeking to rely on the Class Exemptions Notice to retain any increases in voting control resulting from the Proposed Buyback.

The directors of REL have engaged Northington Partners to prepare this IAR in accordance with the Code.

1.4. Conclusion Regarding the Merits of the Proposed Buyback

Taking all of the key elements of the Proposed Buyback into account, we conclude that the positive aspects of the Proposed Buyback outweigh the potential negative aspects from the perspective of Non-associated Shareholders.

The key factors leading to our opinion include:

- The rationale for the Proposed Buyback is financially sound and continues a long history of REL undertaking share buybacks. REL currently has significant surplus capital (as evidenced by its 30 June 2020 net cash balance of over \$37.8 million). The Proposed Buyback is an efficient use of that capital and represents an attractive investment option relative to other



potential uses such as further investment in rural property. Effectively it is signalling that in the current environment, REL would obtain a better return on investment from acquiring its own shares than further rural property investment.

- We note that the Cushing Family Interests already have effective control of the company and can determine key strategic decisions of REL including its dividend policy, growth strategy and its decision to remain quoted on USX. Even if the Buyback Resolution is not approved, the Cushing Family Interests can effectively pass special resolutions requiring 75% shareholder approval¹. This means that the Cushing Family Interests will be in a position to unilaterally approve special shareholder resolutions irrespective of whether the Proposed Buyback is approved.
- The Proposed Buyback price of \$5.35 is higher than recent trading prices for REL shares. The Proposed Buyback price of \$5.35 represents a premium of 3.5% to the most recent trading price of REL shares on the USX (\$5.17). REL shares are highly illiquid and the ability for shareholders to realise \$5.35 per share is highly uncertain in the absence of the Proposed Buyback or a full takeover offer from the Cushing Family Interests. The Proposed Buyback price also represents a discount of 4.5% to REL's current NAV of \$5.60, which compares favourably to REL's historic trading relative to NAV – over the last three years, REL has traded at an average discount of 18% with a discount range of 8% - 32%.
- Given the current ownership position of the Cushing Family Interests, the Proposed Buyback is unlikely to have any impact on the attraction of REL as a takeover target. While the likelihood of a takeover offer for REL is highly uncertain, it would most likely be made by the Cushing Family Interests unless they also accept an offer from a third party. The prospects of either outcome are difficult to determine and may not occur for some time, if at all. If the Cushing Family Interests do have the intention of taking over REL, they will have to either:
 - i. make a full takeover offer for the remaining REL shares after the Proposed Buyback. Such a takeover offer would require an independent appraisal report as to the merits of the takeover and include an assessment of the fair market value of REL shares. The assessed value may be higher or lower than \$5.35; or
 - ii. use the “creep” provisions under the Code and acquire up to 5% of the shares per year. Depending on the level of shares able to be obtained, it may take several years to creep to a dominant control position (over 90% of the voting rights). If the Cushing Family Interests obtained dominant control through the creep provisions, the price payable for remaining shares acquired under the compulsory acquisition provisions of the Code must be for a sum certified as fair and reasonable by an independent adviser.
- While Non-associated Shareholders could reject the Proposed Buyback Resolution and hold out for a takeover offer at a higher value, the Cushing Family Interests have not signalled an intention to make a takeover offer. The Proposed Buyback may therefore be the only avenue by which to realise a value of \$5.35 per share in the short to medium term.
- If the Proposed Buyback is fully subscribed, REL will utilise all of its current ASC. The Company will then have no ability to undertake further share repurchases in a tax efficient manner and subsequent returns of capital are therefore likely to be in the form of dividends (if any) and shareholders will have to sell their shares on USX to realise the value of their shares. We anticipate that REL's share liquidity will reduce further following the Proposed Buyback and therefore it may not be possible for shareholders to readily sell their shares.
- The financial impacts of the Proposed Buyback are positive for the Non-associated Shareholders who do not participate in the Proposed Buyback. REL's NAV will increase from \$5.60 to approximately \$5.65 as a consequence of the Proposed Buyback which will also increase earnings by up to 7% on a 30 June 2020 pro forma basis. However, we note that these shareholders may not immediately benefit from the improved financial impacts of the

¹ If only a small number of minority shareholders do not vote, the shares voted by the Cushing Family Interests will represent more than 75% of the votes that are cast allowing them to pass special resolutions. We note that the Cushing Family Interests could also achieve more than 75% of the voting interests if they obtain approximately 128,500 more REL shares via on-market purchases.



Proposed Buyback; the very low liquidity in the REL shares means that the remaining shareholders may be unable to sell their shares at a higher price, and the improved earnings per share is unlikely to translate to materially higher dividend payments.



2.0 Scope of Report

2.1. Takeovers Code Requirements and Purpose of IAR

Rule 18 of the Code relates to increased voting control that is achieved through a buyback (under 7(c) of the Code), and requires that REL obtain a IAR on the merits of the Proposed Buyback for shareholders that are non-associated with the Cushing Family Interests. The notice of meeting containing the proposed resolution to approve the Proposed Buyback must contain, or be accompanied by, the IAR.

Northington Partners was approved by the Takeovers Panel on 19 October 2020 to prepare the IAR. We have issued the IAR to the Board of REL for the benefit of Non-associated Shareholders to assist them in forming their own opinion on whether or not to approve the Proposed Buyback Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Proposed Buyback and of the Cushing Family Interests increasing their voting rights in relation to each shareholder's personal position. Our advice and opinions are necessarily general in nature.

The report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 2.

2.2. Basis of Assessment and Evaluation

The content required to be included in the IAR is a "merits" assessment of the Proposed Buyback. Although there is no statutory definition of *merits* in this context, our assessment of the Proposed Buyback is based on consideration of:

- The Takeovers Panel Guidance Note on Independent Advisers and Rule 18 independent reports required under Rule 7(c), dated 21 April 2020;
- The consequences for Non-associated Shareholders if the Proposed Buyback is approved or not approved; and
- The overall terms of the Proposed Buyback.

We have evaluated the Proposed Buyback by reviewing the following factors:

- The rationale for the Proposed Buyback;
- A comparison of the offer price of \$5.35 to both the recent trading history and the NAV of the REL shares;
- Possible outcomes of the Proposed Buyback and the advantages and disadvantages of the Proposed Buyback proceeding;
- Comparison of relevant financial information pre and post Buyback;
- The potential impact on the liquidity for REL shares post Buyback and the merits of the Proposed Buyback providing an immediate liquidity event for existing shareholders;
- The potential for REL's ASC to potentially limit REL's ability to make future buybacks in a tax effective manner and the implications for shareholders;
- The impact on the control position of REL under a range of outcomes for the Proposed Buyback;
- The prospects of the Cushing Family Interests making a Code offer to all shareholders and their future ability to "creep" under the Code; and
- Other considerations that may be necessary for shareholders to make an informed decision in relation to the Proposed Buyback.



3.0 Profile of REL

3.1. Overview of the Company

REL is a New Zealand rural property investment and management company. Through its 100% wholly owned subsidiary, the New Zealand Rural Property Trust, REL owns a diversified portfolio of seventeen rural properties located throughout New Zealand, comprising a total of 6,867 hectares.

REL's shares are traded on the unregistered securities trading facility, USX. The total market capitalisation of the Company was approximately \$163.5 million as at 12 February 2021, and the audited financial statements for the year ended 30 June 2020 reported total equity attributable to equity holders of approximately \$182.5 million.

The farms are a combination of sheep and beef, dairy, deer and arable and are located throughout the country from Southland to Waikato. There are 12 farms in the South Island and five in the North Island. Eight farms are leased to individual farmers while the remaining nine are directly managed.

Six of the directly managed properties are dairy farms, with approximately 4,800 cows milked in conjunction with 50/50 sharemilkers. There are two directly managed sheep and beef properties, and one dairy support grazing property. REL also participates in tree planting programmes in strategic New Zealand locations.

3.2. Property Portfolio

A summary of REL's property portfolio is set out in Table 3.

Table 2: Property Portfolio (as at 30 June 2020)

Region	Property	Type	Management	Approximate Livestock Nos	Area (ha)
Southland	Shenstone	Dairy	Sharemilker	930 cows	313
	Tatarepa	Dairy	Sharemilker	420 cows	153
South Canterbury	Dalmuir ¹	Arable	Leased	n/a	102
	Milford	Dairy	Sharemilker	720 cows	177
	Woodlands	Arable/Sheep Finishing	Leased	n/a	142
Canterbury	Eiffelton North	Dairy	Sharemilker	1,200 cows	313
	Eiffelton South	Dairy Grazing	Managed	1,100	83
	Flimby	Arable	Leased	n/a	266
	Highlands	Deer/Beef/Dairy Grazing	Leased	3,800	380
	Rocklea	Dairy	Sharemilker	720 cows	185
	Wentworth	Arable	Leased	n/a	161
	Rollesby	Sheep/Beef Finishing	Leased	3,500	323
	Penshurst	Dairy	Sharemilker	800 cows	289
Hawkes Bay	Marchfield	Sheep/Beef/Deer Finishing	Leased	5,000	481
	Middle Hills	Arable/Sheep/Beef Finishing	Managed	6,000	545
	Pukekura	Sheep/Beef Finishing	Leased	3,700	444
Waikato	Waikoha	Sheep/Beef Breeding/Finishing	Managed	15,000	2,510
					6,867

¹ This property has subsequently been sold and is due to settle on 31 March 2021.



3.3. Significant Historical Events

REL has conducted a series of share buybacks over the last 10 years. Key features of REL's recent capital management activities and a brief history of REL is summarised below.

Date	Event
Apr-04	Announcement of partial takeover by H&G. 2,303,551 shares purchased at \$1.25 per share taking ownership from 25.3% to 40.8%, with the Cushing Family Interests collectively owning 50.1%.
Jul-07	Announcement of H&G partial offer for 2,223,791 shares at \$2.75 per share in REL taking ownership to 50.8% of REL with the Cushing Family Interests collectively owning 60.1%.
Mar-08	REL - Pacific Equity Trust (trust established by REL) acquire 1,371,184 shares from St Laurence Property & Finance Ltd representing 5.1% of the REL Shares on Issues.
Dec-09	REL and the New Zealand Rural Property Trust (NZRPT) merge, unifying ownership and internalising management structure.
Sep-11	Buyback of 2,036,108 shares at \$3.15 from Citation Insurance Company and Physicians Insurance Company ("PICO"). Taking total on issue to 40,132,824 shares.
Mar-12	Buyback of 1,725,000 shares at \$3.20 held on behalf of Rotorua Energy Charitable Trust ("RECT") taking total on issue to 38,407,824 shares on issue.
Oct 12	Further buyback of 1,000,000 shares held on behalf of RECT at \$3.27 per share taking total on issue to 37,407,824.
Apr-13	Buyback of 1,568,669 shares at \$3.55. Taking remaining total to 35,839,155 shares on issue.
Aug-13	REL acquires an 11% stake in Tandou Limited.
Aug-15	Webster Limited announces an off-market takeover to acquire 100% of shares in Tandou Ltd.
Jan-16	Buyback of 1,515,677 REL shares at \$4.20 held on behalf of RECT taking total on issue to 34,323,478 shares.
Oct-16	Buyback of 999,636 REL shares at \$4.40, taking remaining total to 33,323,842 shares on issue.
Oct-18	Buyback of 650,000 REL shares at \$4.90, taking remaining total to 32,673,842 shares on issue
Mar-19	Buyback of 650,000 REL shares at \$4.75, taking remaining total to 32,023,842 shares on issue.
Feb-20	Announcement of successful resolution approving acquisition of Webster Ltd by PSP Investments.
Oct-20	Buyback of 403,765 shares at \$4.70, taking remaining total to 31,620,077 shares on issue.
Feb-21	Announced Proposed Buyback of 3,302,833 REL shares at \$5.35.

Source: REL company announcements.

3.4. Capital Structure and Ownership

Following the settlement of the most recent share buyback on 6 October 2020, REL currently has 31,620,077 ordinary shares on issue. The Cushing Family Interests have a combined shareholding of 74.59%. The remaining shares are held by a relatively small group of minority shareholders, with the second largest individual shareholder accounting for just 2.9% of total shares outstanding. The relative holdings of the Cushing Family Interests and the remaining minority shareholders are set out in Table 3 (as at 12 February 2021).

Table 3: Cushing Family Interests

Entity	Holding	%
Total Cushing Family Interests	23,586,562	74.59%
Minority Shareholders	8,033,515	25.41%
Total Shares	31,620,077	100.00%

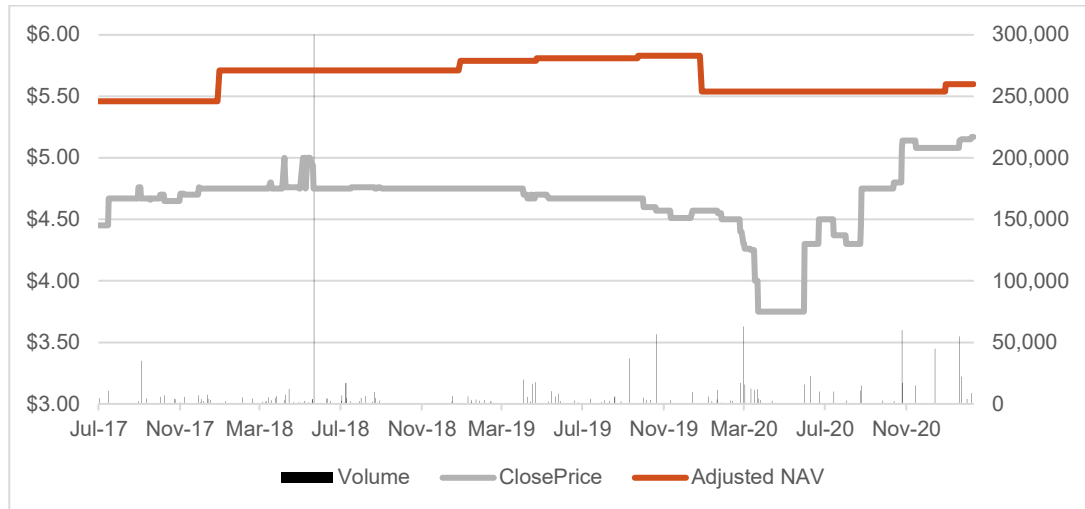
REL's largest shareholder is H&G Limited, which holds a 71.9% shareholding following the most recent share buyback. There are no other substantial security holders (those with a beneficial interest of 5% or more). A breakdown of the Cushing Family Interests can be found in Section 4.1.



3.5. Share Price Performance

Figure 1 summarises REL's share price performance for the period between 1 January 2017 and 12 February, as well as the NAV for the same period. Across the assessed timeframe, REL has traded at an average discount to NAV of 18%, with a discount range between 8% and 32%.

Figure 1: Rural Equities Share Price vs NAV and associated trading volume



Source: IRESS, Northington Partners. Period starting 01 January 2017 to 12 February 2021. Adjusted NAV reflects reported NAV as of 30 June in each financial year adjusted for the NAV impact of buybacks completed during the period.

3.6. Liquidity

Given the majority control position of the Cushing Family Interests and the multiple share buybacks over the last few years, the available free float shares in REL has gradually diminished through time. This has made it increasingly difficult for shareholders to realise their investment by selling the shares on USX.

An analysis of REL's liquidity, share price and volume weighted average price ("VWAP") is provided below in Table 4. This demonstrates that over the past 12 months, an average of approximately \$8,400 of REL shares were traded on a daily basis, with 89,860 shares trading in the last 30 days. This modest value of share trading demonstrates that REL is highly illiquid, meaning it would be difficult for an investor to sell a large parcel of shares at the price observed in the market.

Table 4: Share Trading History

	30 Days	3 Month	1 Year	3 Year
Total Volume	89,860	149,732	462,405	1,240,309
Average Daily Volume	3,744	2,269	1,785	1,590
VWAP	\$5.15	\$5.12	\$4.70	\$4.71
High Price	\$5.17	\$5.17	\$5.17	\$5.17
Low Price	\$5.14	\$5.08	\$3.75	\$3.75

Source: IRESS, trading data as of 12 February 2021.



3.7. Summary Financial Results

3.7.1. Financial Performance

A summary of REL's recent financial performance is set out in Table 5 below. This covers the financial years ending in June 2018, 2019 and 2020.

Table 5: Summary of Historical Financial Performance (\$000)

Financial Year Ending 30 June	2018	2019	2020
Revenue	12,254	12,026	11,547
Operating expenses	(7,224)	(7,095)	(6,562)
Operating surplus/ (deficit) before interest and taxes	5,030	4,931	4,985
Less interest expense	(636)	(438)	(3)
Operating surplus/ (deficit) before tax	4,394	4,493	4,982
Gain on sale of shares	-	-	4,618
Loss on sale of property, plant and equipment	-	(2,676)	(1,209)
Revaluation movements	1,103	(8,561)	(5,071)
Operating surplus/ (deficit)	5,497	(6,744)	3,320
Less taxation (expense)/ credit	(977)	(967)	(1,028)
Surplus attributable to parent interests	4,520	(7,711)	2,292

Source: REL annual reports.

The main features of REL's historic financial performance can be summarised as follows:

- Net operating income and corporate expenses have declined modestly. This reflects the sale of investment property and the subsequent decline in rental income, which has been partly offset by improved farm income and dividend returns;
- A reduction in the value of REL's rural property has had a significant impact on reported profitability in FY2019 and FY2020, although we note that these reflect non-cash movements;
- Losses on disposal of investment properties between FY2019 and FY2020 have also had a negative impact on earnings; and
- During FY2020, REL disposed of shares in Webster Limited and PGG Wrightson Limited with a carrying value of \$15.5 million for combined consideration of \$20.2 million. This resulted in a realised gain of \$4.6 million.

3.7.2. Financial Position.

A summary of REL's recent financial position is set out in Table 6 below.

Table 6: Historical Financial Position (\$000)

Current Assets	2018	2019	2020
Cash and cash equivalents	20	22,701	37,826
Accounts receivable and prepayments	2,004	2,063	2,266
Held for trading instruments	127	161	149
Properties held for sale	8,815	-	-
Livestock	2,111	138	821
Feed and produce on hand	797	624	475
Total Current Assets	13,874	25,687	41,537
Non-current Assets			
Investment properties	145,798	122,398	104,144
Property, plant and equipment	31,354	18,102	27,375



Livestock	2,637	2,249	2,440
Forest	220	379	468
Investments	15,894	11,333	6,543
Total Non-current Assets	195,903	154,461	140,970
Total Assets	209,777	180,148	182,507
Current Liabilities			
Accounts payable and accrued expenses	1,390	882	931
Lease liabilities		-	177
Provision for tax	720	598	391
Bank Loans	12,800	-	-
Total Current Liabilities	14,910	1,480	1,499
Non-current liabilities			
Lease liabilities	-	-	295
Deferred tax liability	1,765	1,327	1,253
Total Non-current liabilities	1,765	1,327	1,548
Equity			
Fully paid up ordinary shares	75,537	69,251	69,251
Asset revaluation reserve	11,388	11,258	12,046
Retained earnings	106,177	96,832	98,163
Total Equity	193,102	177,341	179,460

Sources: REL annual reports. Totals may not sum due to rounding.

The main features of REL's historic financial position can be summarised as follows:

- REL's total assets have reduced from \$209.8 million in FY2018 to \$182.5 million in FY2020, primarily as a result of property sales and revaluations. REL sold six of its properties in FY2019, raising combined proceeds of approximately \$39.7 million; and
- Cash balances have risen steadily not only in conjunction with property sales but also due to the sale of shares in investments totalling \$20.2 million (i.e. the disposal of shares in ASX listed Webster Limited and sale of REL's 3.8% stake in PGG Wrightson Limited).

3.8. Buyback History

Since the Cushing Family Interests gained control of REL in 2004, there have been nine buybacks of REL shares with the first taking place in September 2011. Over this period, H&G's total ownership has steadily increased from 50.1% to 70.6%. The buybacks have been predominantly funded from the cash proceeds of asset disposals which have amounted to a gross value of approximately \$80 million over this period. A retrospective exemption was granted by the Panel to the Cushing Family Interests, excluding H&G Limited, in respect of those increases resulting from the historic buybacks. The Cushing Family Interests remedied these increases by transferring their increased interests to H&G Limited in accordance with the Code.

There have been no new property acquisitions over this period.

Table 7: Recent Buyback History

Date	Action	Value (000)	Shares (000)	Buyback Price	NAV	Buyback Price Discount to NAV
September 2011	Buyback from PICO	\$6,414	2,036	\$3.15	\$3.95	20%
March 2012	Buyback from RECT	\$5,520	1,725	\$3.20	\$3.95	19%



October 2012	Buyback from RECT	\$3,270	1,000	\$3.27	\$4.47	27%
April 2013	Buyback from 266 s/hers	\$5,569	1,569	\$3.55	\$4.47	21%
January 2016	Buyback from RECT	\$6,366	1,516	\$4.20	\$5.57	25%
October 2016	Buyback from 135 s/hers	\$4,398	1,000	\$4.40	\$5.46	19%
October 2018	Buyback from 122 s/hers	\$3,185	650	\$4.90	\$5.79	15%
March 2019	Buyback from 57 s/hers	\$3,088	650	\$4.75	\$5.81	18%
October 2020	Buyback from 38 s/hers	\$1,898	404	\$4.70	\$5.60	16%
Total / average buybacks to date		\$39,707	10,549	\$3.76		21%



4.0 Buyback Terms and Impact on Control

4.1. Associated Shareholders

Rule 4(1) of the Code sets out the meaning of “associate”, with a person being an associate of another person if:

- the persons are acting jointly or in concert; or
- the first person acts, or is accustomed to act, in accordance with the wishes of the other person; or
- the persons are related companies; or
- the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates; or
- the first person is an associate of a third person who is an associate of the other person (in both cases under any of paragraphs above) and the nature of the relationships between the first person, the third person, and the other person (or any of them) is such that, under the circumstances, the first person should be regarded as an associate of the other person.

For the purposes of the Code, the persons detailed in Table 8 below are the associated entities which comprise the Cushing Family Interests.

Table 8: Cushing Family Interests' Voting Rights

Entity	REL Voting Rights	%
H & G Limited	22,740,567	71.92%
Seajay Securities Limited	235,169	0.74%
KD Cushing Family Trust	197,328	0.62%
Makowai Farm Limited	156,691	0.50%
Ashfield Properties Limited	133,891	0.42%
Ben Jonathan Cushing	76,351	0.24%
Fairway Finance Limited	46,565	0.15%
Total Cushing Family Interests	23,586,562	74.59%

Collectively, the Cushing Family Interests currently control 74.59% of the voting rights in REL. This represents an increase in voting rights of approximately 3.0% from 12 months ago as a result of small on-market share purchases by H & G Limited and the impact of the previous buyback which closed on 6 October 2020.

4.2. Terms of the Proposed Buyback

For the Proposed Buyback, the terms include:

- The acquisition of up to 3,302,833 REL shares.
- The consideration for each share acquired will be \$5.35 per share.
- The Proposed Buyback will be open for acceptance from 23 February 2021 and subject to not being cancelled or suspended, close at 2.00pm on 17 March 2021.
- If the Proposed Buyback receives acceptances for less than 3,302,833 shares at \$5.35 by the close date of 17 March 2021 then REL could implement further buybacks before 11 March 2022, such that the total value of the Proposed Buyback does not exceed REL's ASC.
- If the Proposed Buyback receives acceptances for more than 3,302,833 shares at \$5.35 then REL will, at its discretion, elect the criteria for scaling acceptances.
- Shareholders may accept the Proposed Buyback for all or some of their shareholding but must accept for at least 15% of their shares that they hold and also must continue to comply with



REL's minimum shareholding requirement of 2,000 shares. The proceeds of the Proposed Buyback should be a non-taxable return of capital unless the shares are held on revenue account. Shareholders may also choose not to accept the Proposed Buyback at all.

We consider the terms of the Proposed Buyback to be in line with normal commercial terms for a transaction of this nature.

4.3. Impact on Control of REL

If REL successfully repurchases shares under the Proposed Buyback, any shareholder that does not participate will see an increase in their respective percentage shareholding of REL despite not increasing the actual number of shares held. This is because the total number of shares and voting rights in REL will reduce as a consequence of the Proposed Buyback.

Assuming that the Cushing Family Interests do not participate in the Proposed Buyback, their voting control will also increase. The impact on the voting control of REL will depend on whether the Proposed Buyback is approved by shareholders and the subsequent uptake under the Proposed Buyback. Table 9 and Table 10 below illustrate the relative control of the Cushing Family Interests for the potential outcomes under the Proposed Buyback, including if the Proposed Buyback is not approved or does not proceed.

Table 9: Buyback not approved and H&G Limited creep to its 5% limit under the Code

Shareholders	Current		Cushing Family Interests Creep up to current limit	
	# Shares	%	# Shares	%
Cushing Family Interests	23,586,562	74.59%	23,983,101	75.85%
Non-associated Shareholders	8,033,515	25.41%	7,636,976	24.15%
Total REL Shares	31,620,077	100.00%	31,620,077	100.00%

Table 10: Buyback approved and REL receives acceptances up to maximum available shares under the Proposed Buyback

Shareholders	Current		Maximum Acceptances under the Proposed Buyback	
	# Shares	%	# Shares	%
Cushing Family Interests	23,586,562	74.59%	23,586,562	83.29%
Non-associated Shareholders	8,033,515	25.41%	4,730,682	16.71%
Total REL Shares	31,620,077	100.00%	28,317,244	100.00%

Table 9 highlights that the Cushing Family Interests could obtain up to a 75.85% interest in REL irrespective of whether the Proposed Buyback is approved by Non-associated Shareholders. This outcome can be achieved either through the Company acquiring as few as 541,926 shares under the Proposed Buyback (if approved), or by on-market purchases by the Cushing Family Interests of up to 396,539 shares.

If the Proposed Buyback is approved and sufficient shareholders accept the Proposed Buyback, the Cushing Family Interests may ultimately control between 74.59% and 83.29% of the REL shares on issue (as illustrated in Table 10). Consequently, and irrespective of the outcome of the Proposed Buyback, the Cushing Family Interests are likely to be in a position to unilaterally control the outcome of both ordinary and special resolutions of the Company's shareholders.

We note that at their current shareholding of 74.59% of the shares on issue, the Cushing Family Interests already have effective control of REL. They have sufficient voting rights to pass ordinary resolutions of the Company and are also very likely to be in a position to pass special resolutions (which require support of over 75% of the votes cast). If only a small number of the minority shareholders do not vote, the shares voted by the Cushing Family Interests will represent more than 75% of the votes that are cast.

Special resolutions are required to approve or adopt the following under the Companies Act:

- Adopt, alter or revoke a company's constitution;



- Approve a major transaction;
- Approve an amalgamation; and
- Place the company in liquidation.

The Cushing Family Interests also already exert control over key decisions of REL, including:

- The Company's dividend policy and capital structure;
- The overall strategy of the Company; and
- Deciding whether to remain listed on USX.

Formally moving to a control position whereby the Cushing Family Interests own more than 75% of the shares on issue will have no impact on the effective control of REL. As noted above, the Cushing Family Interests can move to a shareholding position greater than 75% without shareholder approval. While shareholder approval may result in the Cushing Family Interests owning up to 83.29% of the shares on issue, we don't believe that there is any difference from a control point of view between a control position of 75% and 83.29%.



5.0 Evaluation of the Merits of the Proposed Buyback

5.1. Rationale for the Proposed Buyback

The Proposed Buyback represents a continuation of the Company's long running policy of providing liquidity and returning surplus capital to shareholders through buybacks. As highlighted in Table 7, the Proposed Buyback will be REL's tenth buyback since 2011.

The Board has also been conscious of the very infrequent trading in REL's shares and the considerable discount in prices paid for the shares compared to the assessed asset backing of REL. The REL Board considers the continuation of the Company's share repurchases through the Proposed Buyback to be in the best interests of the Company and its shareholders. In forming this view, the Board considered:

- For a shareholder who accepts the Proposed Buyback, the offer price of \$5.35 represents a premium of \$0.18 per share to the last market price of REL shares on USX prior to announcement of the Proposed Buyback;
- For shareholders who do not accept the Proposed Buyback, the offer price of \$5.35 is less than REL's NAV (\$5.60 as of 30 June 2020). Acquiring shares where the share price is less than the NAV of those shares is considered to be an efficient use of capital;
- Shareholders have total discretion to choose whether to participate in the Proposed Buyback. They can choose to take some or all of their investment back in the form of cash or continue to hold their shares; and
- The Proposed Buyback provides a liquidity option for shareholders that is not available by selling shares on market. We also note that shareholders who participate in the Proposed Buyback will not pay brokerage or any other transaction costs.

We share the Board's view that the economic rationale for the Proposed Buyback is sound. In reaching this conclusion, we considered:

- As of 30 June 2020, REL had over \$37.8 million of net cash. This is a consequence of a series of asset sales over the last few years. We also understand that while REL has reviewed potential acquisition opportunities to reinvest these proceeds, the Board has determined that returning the surplus capital to shareholders is a better alternative;
- REL can return excess capital to shareholders either through buybacks or dividends (including special dividends). In assessing each option, important considerations include:
 - REL's dividend imputation balance following the November 2020 dividend of \$0.03 per share is approximately \$2.8 million. Therefore, the most REL could pay as a fully imputed special dividend is approximately \$7.2 million in cash (with the \$2.8 million in imputation credits attached). This would equate to approximately \$0.23 per REL share. Any investor with a marginal tax rate greater than 28% would incur additional tax up to their marginal tax rate (e.g. 33% or 39% (after introduction of the new top marginal tax rate on 1 April 2021)); and
 - While a special dividend may provide additional income to shareholders, the key objective of REL was to provide liquidity to shareholders wanting to realise their investment in REL at a premium to market prices and return significantly more capital than the \$7.2 million that could be returned tax-effectively through a special dividend.

Consequently, in this particular case, a buyback is more appropriate than a special dividend.

- The Proposed Buyback is an efficient use of capital and reflects that REL's own shares are the best investment opportunity available to REL relative to retaining surplus capital or investing in additional rural property opportunities. The rural property sector faces significant uncertainty in the medium term, exacerbated by foreign ownership restrictions and the on-going strategy of New Zealand banks to reduce their exposure to the sector. Furthermore, there is the risk of stricter environmental standards, additional compliance costs and increased capital expenditure to maintain these new standards. It can therefore be reasonably argued that returning REL's surplus cash to shareholders via a purchase of its own shares at a discount to



NAV is a better investment than purchasing more rural property in the current environment; and

- Following completion of the Proposed Buyback, REL will maintain significant levels of liquidity (likely to retain cash in excess of \$18 million) and will be in a strong financial position. The Company is therefore not exposing itself to any undue financial risks by implementing the Proposed Buyback.

5.2. Benefits and Disadvantages to Non-Associated Shareholders

The key benefits to Non-associated Shareholders of the Proposed Buyback include:

- For those that accept the Proposed Buyback, it provides an opportunity to fully or partially realise value for their shares at a premium to market traded prices on USX. In the absence of the Proposed Buyback, this liquidity is unlikely to be available;
- For those that do not accept the Proposed Buyback and retain their shares, the financial implications for shareholders are positive (see Section 5.3). For those shareholders that may not require liquidity and hold their investment in REL with a longer-term view, the Proposed Buyback is of no financial disadvantage; and
- Given the current ownership position of the Cushing Family Interests, the Proposed Buyback is unlikely to have any impact on the attractiveness of REL as a takeover target. While the possibility of a takeover offer for REL is highly uncertain, it would most likely be made by the Cushing Family Interests unless they also accept an offer from a third party.

The main disadvantages or issues to consider for Non-associated Shareholders include:

- As highlighted in Section 4.3, the Cushing Family Interests are likely to increase their relative control in REL from approximately 74.59% up to 83.29%. However, the Cushing Family Interests already have effective control of the Company, and we suggest that the control position will not materially change if the Proposed Buyback Resolution is approved. Furthermore, the Cushing Family Interests can obtain a 75.85% controlling position in REL irrespective of whether the Proposed Buyback Resolution is approved or not; and
- The REL shares are already very illiquid. For shareholders who do not participate in the Proposed Buyback or still retain some REL shares after the Proposed Buyback, REL's liquidity on USX is likely to reduce further. Shareholders may then not be able to readily trade their shares and their ability to realise a value of \$5.35 in the short to medium term may be significantly reduced. In the absence of further buybacks (which may not be possible if REL has no ASC) or a takeover offer from the Cushing Family Interests or another third party, there may be limited ability for shareholders to sell their shares.

5.3. Financial Implications of the Proposed Buyback

Table 11 below summarises the pro-forma impact of both the recently completed buyback and the Proposed Buyback on REL's "normalised" earnings (removing the impact of realised and non-realised gains and losses on property, plant, equipment and investments), balance sheet and NAV for FY2020.

Table 11: FY2020 Pro Forma Financial Impact of Buyback

(\$'000)	FY2020	Impact of 6 October Buyback	Impact of Proposed Buyback	Pro forma FY2020
Earnings:				
Operating Income (excluding interest income)	4,494			4,494
Net interest ¹	488	(31)	(285)	172
Normalised profit before tax ²	4,982	(31)	(285)	4,666
Tax	(1,028)	9	80	(940)
Normalised profit after tax ²	3,954	(22)	(205)	3,727
Normalised EPS²	0.1235			0.1316
Number of shares outstanding ('000)	32,024	(404)	(3,303)	28,317



Balance Sheet:				
Cash	37,826	(1,898)	(17,670)	18,258
Other assets	144,681			144,681
Total assets	182,507	(1,898)	(17,670)	162,939
Total liabilities	3,047			3,047
Net assets	179,460	(1,898)	(17,670)	159,892
NAV/share	\$5.60			\$5.65

¹ Interest income assumed at 1.6% for the pro forma interest adjustments (consistent with REL's interest income in FY2020, divided by the opening and closing cash balance for FY2020).

² Normalised profit before tax, after tax and EPS are adjusted to remove revaluation losses, the loss on the sale of property plant and equipment and the gain on the sale of shares in FY2020 (total net losses of \$1.7 million).

Table 11 shows that following the buyback completed 6 October 2020 and assuming the Proposed Buyback is fully subscribed:

- The normalised earnings of REL will increase by approximately 7% from 12.35 cents per share to 13.16 cents per share on an FY2020 pro forma basis;
- REL's NAV will increase by about 1.0% from \$5.60 per share to \$5.65 per share on a pro forma FY2020 basis; and
- REL will still have significant cash reserves of over \$18 million and maintain a strong solvency position.

We suggest that this analysis demonstrates that the Proposed Buyback has positive financial implications for REL. This is largely due to the Proposed Buyback price being below REL's FY2020 NAV of \$5.60 and the significant reduction in REL's cash balances which, in the absence of value-enhancing investment opportunities, is capital inefficient.

If REL does not repurchase the maximum number of shares under the Proposed Buyback and repurchases a lower number, the Proposed Buyback will remain financially positive to Non-associated Shareholders who do not participate in the Proposed Buyback. REL's earnings and NAV will increase on a like-for-like basis irrespective of the size of the Proposed Buyback as the price for acquired shares will not exceed \$5.35.

5.4. Implications of the Proposed Buyback not Being Approved

In the event that the Proposed Buyback Resolution is not approved, the Proposed Buyback will not proceed. Such a scenario is potentially disadvantageous to Non-associated Shareholders as it may lead the Board to reconsider the degree to which it undertakes buybacks and hence reduce the future opportunities for Non-associated Shareholders to sell their shares. In this scenario given the limited liquidity for REL shares on USX, shareholders may have to wait for a takeover offer from the Cushing Family Interests or a third party to realise value for their shares at a price at or above \$5.35. The likelihood of a takeover occurring is highly uncertain, may be at a price above or below \$5.35 and may not eventuate at all.

Furthermore, REL could also decide to proceed with the Proposed Buyback without shareholder approval in order to utilise all REL's ASC. Under this scenario, the Cushing Family Interests would be required to sell down their holdings to 75.85%. Depending on the size of the buyback and consequent sell down by the Cushing Family Interests, this may create significant selling pressure for REL shares which may reduce their market value and limit other shareholders' ability to sell REL shares on USX. However, we consider it is unlikely that REL would proceed with a buyback under this scenario.

Appendix 1. Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is reliant on the following sources of information:

- REL's annual reports and announcements.
- Discussions with senior personnel of REL.
- Information supplied to us from REL.
- Various other documents that we considered necessary for the purposes of our analysis.

Appendix 2. Declarations, Qualifications and Consents

Declarations

This report is dated 12 February 2021 and has been prepared by Northington Partners at the request of the directors of REL to fulfil the reporting requirements pursuant to Rule 18 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to REL for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the Non-associated Shareholders of REL that are being asked to consider the Proposed Buyback, and Northington Partners consents to the distribution of this report to those people.

Our engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Jonathan Burke B.Com (Hons), BCM. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

Northington Partners has not been previously engaged by REL or (to the best of our knowledge) by any other party to the Proposed Buyback in relation to any matter for the Proposed Buyback that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the Proposed Buyback.

The preparation of this independent report will be Northington Partners' only involvement in relation to the Proposed Buyback. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by REL. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Indemnity

REL has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

REL has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

