



This Information Memorandum has been prepared for the purposes of the listing of Ricegrowers Limited on the Australian Securities Exchange (ASX). Please note this is not a disclosure document and no offer of securities is being made pursuant to this document. If after reading this Information Memorandum in its entirety, you have any questions, whether about the Company, its Shares or otherwise, you should contact your independent professional adviser. In particular, you should consider the risks that could affect the financial performance of the SunRice Group (including the risks set out in Section 6) in detail before deciding whether or not to invest in the Company.

## **IMPORTANT NOTICES**

#### General

This Information Memorandum has been prepared by Ricegrowers Limited ACN 007 481 156 (**Company**) and is dated 1 March 2019. This Information Memorandum has been prepared for the purposes of the listing of the Company on the ASX and the quotation of its B Class Shares on the securities exchange operated by the ASX.

This document is not a disclosure document lodged with the Australian Securities and Investments Commission (ASIC) under the Corporations Act 2001 (Cth). This document does not constitute or contain an offer of securities or any invitation to apply for the issue of securities, either expressly or by implication. However, this Information Memorandum does contain the information that would be required under section 710 of the Corporations Act if it were a prospectus offering for subscription the same number of B Class Shares for which quotation is sought.

It is important that you read this Information Memorandum carefully and in full before deciding whether to subscribe for Shares and invest in the Company. In particular, you should consider the risk factors set out in Section 6 which could affect the financial performance of the Group in light of your personal circumstances (including financial and taxation issues).

### Interpretatior

In this Information Memorandum:

- a reference to "the Company" is to Ricegrowers Limited (ACN 007 481 156);
- a reference to "we", "our" or "us" is to Ricegrowers Limited (ACN 007 481 156) and, as the context requires, may include its controlled entities;
- "Grower returns", "returns to Growers" and "Paddy returns" all refer to payments received by Growers in the form of Paddy Prices determined in line with SunRice's Paddy Pricing Policy for the Paddy they deliver to the Rice Pool Business in any given crop year;
- a reference to "Section" is to a section of this Information Memorandum;

- the words "include",
  "including", "for example",
  "such as" and similar
  expressions are not used as
  words of limitation and, when
  introducing specific examples,
  do not limit the meaning of the
  words to which those examples
  relate or examples of a similar
  kind; and
- headings, boldings, italics and underlines are for convenience only and do not affect the interpretation of this Information Memorandum.

#### **Defined Terms**

Some of the terms used in this Information Memorandum have defined meanings. These are capitalised and are defined in the Glossary in Section 10.

#### Not Financial Product Advice

The information in this Information Memorandum is not financial product advice and has been prepared without taking into account your financial and investment objectives, financial situation or particular needs (including financial or taxation issues).

It is important that you read this Information Memorandum carefully and in full before deciding whether to invest in the Company. In particular, in considering the prospects of the Group, you should consider the risks that could affect the financial performance of the Group.

You should carefully consider these risks in light of your financial and investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer, tax adviser or other independent and qualified professional adviser if you have any questions.

Some of the risks that prospective investors and their professional advisers should consider before deciding whether to invest in the Company are set out in Section 6. There may be additional risks to those set out in Section 6 that should be considered in light of your personal circumstances.

### **ASX Listing**

The Company will apply for admission to the Official List of

ASX and quotation of the B Class Shares on ASX as soon as practicable.

The fact that ASX may grant approval for the Company to be admitted and the B Class Shares to be quoted on ASX should not be taken as an indication of the merits of the Group or the B Class Shares.

ASX does not take any responsibility for the contents of this Information

Memorandum.

#### **Geographical Restrictions**

The distribution of this Information Memorandum in jurisdictions outside Australia may be restricted by law. Persons residing in any such jurisdiction who come into possession of this Information Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of law.

#### Notice to U.S. Residents

This Information Memorandum may not be distributed to, or relied upon by, persons in the

### Obtaining a Copy of this Information Memorandum

You can obtain a hard copy of this Information Memorandum, free of charge, by calling the Shareholder Information Line on +61 1300 554 474 (toll free within Australia) 8.30am to 7.30pm (AEST), Monday to Friday (excluding public holidays) or via www.sunrice.com.au

### Disclaime

No person is authorised to give any information or make any representation in connection with the ASX Listing which is not contained in this Information Memorandum. Any information or representation not contained in this Information Memorandum may not be relied on as having been authorised by the Company, the Board or any

The Company's website (www.sunrice.com.au) and its contents do not form part of this Information Memorandum and are not to be interpreted as part of, nor incorporated into, this Information Memorandum.

other person in connection with

the ASX Listing.

Except to the extent required by law, no person named in this

Information Memorandum, nor any other person, warrants or guarantees the performance of the Company or any other Group Member, the repayment of capital by the Company, the payment of a return on the Shares or the future value of the Shares. The business, financial condition, operating results and prospects of the Group may change after the date of this Information Memorandum. Any new or change in circumstances that arise after the date of this Information Memorandum will be disclosed by the Company to the extent required and in accordance with the Corporations Act and ASX Listing

### Forward Looking Statements

Some of the statements appearing in this Information Memorandum are in the nature of forward looking statements, including statements of intention, opinion and belief and predictions as to possible future events. Such statements are not statements of fact and are subject to inherent risks and uncertainties (both known and unknown) which may or may not be within the control of the Company. You can identify these statements by words such as "aim", "anticipate", "assume", "believe", "could", "estimate", "expect", "goal", "intend", "may", "objective", "plan", "predict", "potential", "positioned", "should", "target" and other similar expressions that are predictions or indicative of future events and trends.

Although the Directors believe that the expectations reflected by the forward looking statements in this Information Memorandum (including the assumptions on which they are based) are reasonable as at the date of this Information Memorandum, no assurance can be given that such expectations or assumptions will prove to be correct. Actual outcomes, events or results may differ - possibly to a material extent - from the outcomes, events or results expressed or implied in any forward looking statement in this Information Memorandum. Factors that may cause such differences include the risks described in Section 6 of this Information Memorandum.

You are urged to consider these factors carefully in evaluating

the forward looking statements contained in this Information Memorandum, and are cautioned not to place undue reliance on such statements.

None of the Company, any other Group Member or their respective directors, officers, employees or advisers, nor any other person named in or involved in the preparation of this Information Memorandum, makes any representation, warranty or guarantee (expressed or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement in this Information Memorandum, or any outcome expressed or implied in any such statement.

The forward looking statements in this Information
Memorandum reflect views held only as at the date of this Information Memorandum. The Company does not intend to publicly update or revise such statements to reflect new or changes in circumstances arising after the date of this Information Memorandum except to the extent required by law.

### Market Data and Industry Forecasts

Some of the statements in this Information Memorandum have been made based on market data and industry forecasts obtained from industry publications, third party market research and publicly available materials. The Company has not independently verified the accuracy and completeness of such information.

#### Statements of Past Performance

This Information Memorandum includes information regarding the past performance of the Group. You should be aware that past performance is not indicative of future performance.

### Supplementary Information Memorandum

The Company will issue a supplementary information memorandum if it becomes aware of any of the following between the date of this Information Memorandum and the date on which B Class Shares are quoted on the ASX:

 a) a material statement in this Information Memorandum is misleading or deceptive;

- b) there is a material omission from this Information Memorandum;
- c) there has been a significant change affecting a matter included in this Information Memorandum; or
- d) a significant new circumstance has arisen and it would have been required to be included in the Information Memorandum if it had arisen before the date of this Information Memorandum.

#### No New Capital

The Company has not raised any capital during the three months before the date of issue of this Information

Memorandum and will not need to raise any capital for three months after the date of issue of this Information

Memorandum.

#### Privacy

Refer to Section 8.18 for important information about how your personal information will be treated.

### Currency and Time

Unless otherwise specified in this Information Memorandum, a reference to a monetary amount is a reference to that amount in Australian dollars and a reference to a time is a reference to Australian Eastern Standard Time (AEST).

### Rounding Adjustments

Some of the numerical figures included in this Information Memorandum have been subject to rounding adjustments. Accordingly, the numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

### Photographs and Diagrams

Photographs used in this Information Memorandum should not be interpreted to mean that any person shown endorses this Information Memorandum or its contents or that the assets or equipment shown are owned or used by the Group. Diagrams used in this Information Memorandum are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Information Memorandum.

#### **Ouestions**

If you have any other questions in relation to this Information Memorandum or the ASX Listing, please contact the Shareholder Information Line on +61 1300 554 474 (toll free within Australia) 8.30am to 7.30pm (AEST), Monday to Friday (excluding public holidays).

If you have any questions about whether or not to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer, tax adviser or other independent and qualified professional adviser. This is an important document that should be read in its entirety before making any investment decision.

## **CONTENTS**

TIN	/IETA	BLE FOR INVESTORS	2	7.		PEOPLE, INTERESTS, BENEFITS	
ΙF	TTFR	FROM THE CHAIRMAN	3		AND	CORPORATE GOVERNANCE	117
LETTER FROM THE CHAIRMAN					7.1	Board of Directors	118
1.	INV	ESTMENT OVERVIEW	5		7.2	Senior Management	123
2.	IND	USTRIES OVERVIEW	21		7.3	Directors' benefits and interests	124
			22		7.4	Senior management's benefits and interests	127
	2.1	International rice industry overview	22		7.5	Corporate governance	130
	2.2		24		7.6	General meetings	137
	2.3	International rice industry demand drivers International rice industry dynamics and supply factors			7.7	Disciplinary action/insolvencies	137
	2.4	The Australian grocery retail and food service industry	28	_			
	2.6	The stockfeed and companion animal feed industries	33	8.	ADI	DITIONAL INFORMATION	139
	2.0	The Stockleed and companion animal feed industries	33		8.1	Corporate history	140
3.	SIII	NRICE GROUP AND BUSINESS OVERVIEW	37		8.2	SunRice Group Subsidiaries	140
٥.					8.3	Material contracts	141
	3.1	SunRice overview	38		8.4	Related party transactions	143
	3.2	SunRice fast facts (FY18)	44		8.5	SunRice's capital structure	143
	3.3	SunRice's business model	47		8.6	Rights and liabilities attaching to B Class Shares	
	3.4	SunRice's 2022 Growth Strategy	49			and material provisions of the Constitution	144
	3.5	Detailed description of the International Rice segment			8.7	Employee Share Plan	147
	3.6	Detailed description of Rice Food segment	61		8.8	Dividend Reinvestment Plan	148
	3.7	Detailed description of Riviana Foods	63		8.9	Grower Share Purchase Plan	149
	3.8	Detailed description of CopRice	65 67			Ownership restrictions	149
	3.9	Detailed description of the Corporate segment	67			Taxation considerations	150
	3.10	Detailed description of the Rice Pool Business	69			Legal proceedings	151
1	EIN	ANCIAL INFORMATION	75			Regulatory relief	151
4.			_			Interests of advisers	153
	4.1	Historical Financial Information	76			No other interests and benefits	153
	4.2	Historical income statements	79			Consents and liability statements	154
	4.3	Historical cash flows	80			Expenses of the ASX Listing	154
	4.4	Historical balance sheets	81		8.18	Privacy	154
	4.5	Historical segment information	82				4==
	4.6	Management discussion and analysis of Historical Financial Information	02	9.	DIK	ECTORS' AUTHORISATION	157
	4.7	Financial Statements for HY19 and HY18	83 89				
	4.7		95	10	. GLC	DSSARY	159
	4.8 4.9	Material changes since 31 October 2018	96				
		Full year outlook for FY19	98	AN	NEXU	JRE A – OVERVIEW OF	
		Additional financial outlook considerations	98	SIC	INIFI	CANT ACCOUNTING POLICIES	163
		Financing arrangements Dividend Distribution Policy	100		1.	Accounting policies for periods up to 30 April 2018	164
	4.12	Dividend Distribution Folicy	100		2.	Changes in accounting policies	175
5.	IND	EPENDENT LIMITED ASSURANCE REPORT	101				
<b>J</b> .	1110	LI LIDLII LIMILD AGGORANGE KEI OKI	101	CO	RP0	RATE DIRECTORY	177
6.	KEY	RISK FACTORS ASSOCIATED					
			107				
	6.1	Overview	108				
	6.2	Risks specific to an investment in SunRice	108				
	6.3	General risks to the SunRice business	114				
		Risks associated with holding B Class Shares	115				



# — TIMETABLE — FOR INVESTORS



Date of this Information Memorandum

1 March 2019



Holding statements for B Class Shares are dispatched

Early April 2019



Commencement of trading of B Class Shares on the ASX

Early April 2019\*

Unless otherwise indicated, all times are AEST.

Other than the date of this Information Memorandum, the above dates are indicative only and subject to change. Further details of the timetable will be released on the NSX closer to the relevant dates.

\*The quotation and commencement of trading of B Class Shares are subject to ASX confirmation.

# LETTER FROM THE CHAIRMAN OF SUNRICE



WITH MULTIPLE
BUSINESSES, MAJOR
BRANDS IN AROUND
50 COUNTRIES,
APPROXIMATELY 2,000
STAFF AND ANNUAL
REVENUE OF \$1.18
BILLION, SUNRICE IS A
CONSUMER-FOCUSED
AND TRULY GLOBAL
FOOD GROUP.



Dear Investor.

On behalf of the Board of Directors, I am delighted to provide you with this Information Memorandum in connection with SunRice's application for admission to the Official List of the Australian Securities Exchange (ASX) and the quotation of SunRice's B Class Shares on the ASX.

### A strong and diverse global business

SunRice is a consumer-focused and truly global food group comprising multiple businesses. With over 30 major brands in around 50 countries across the world, our operations and assets span Australia, the Middle East, the United States (U.S.), Papua New Guinea (PNG), the Pacific Islands and Asia. We have an annual revenue of \$1.18 billion, around 2,000 staff and a strong focus on the future.

Led by an experienced Board and management team, SunRice has built a diversified business with direct access to the key Riverina Rice growing region, which we consider to be one of the best in the world for producing short and medium grain rice, as well as multiple global supply sources to service a growing portfolio of products and customers. We have a strong track record in innovation and expertise in commercialising value-added products and launching them in high-growth global markets. This is aided by the relationship between the Group's businesses and is underpinned by an expansive international supply chain, an established customer base and long-standing relationships with distribution partners across many geographies that provide local knowledge and cultural insights.

In addition to our specialisation in branded rice and rice-based foods, the SunRice Group has active interests in gourmet Mediterranean foods; food service supply for military, mining and healthcare markets; stockfeed and companion animal feed nutrition expertise; and is a food ingredients supplier to manufacturers of household brands across multiple sectors.

SunRice's processing and marketing capability is supported by our own dedicated rice research and development company, which develops rice varieties and agronomic capability, providing end-to-end transparency from pure seed issued to growers, to landed product in supermarkets around the world. This capability is also being applied to new supply chains, such as those being developed in Asia.

### A Growth Strategy aligned to growers and investors

With a leading market share in select categories in Australia, PNG, the Solomon Islands and the Middle East and a growing presence in Asia, the SunRice Group is now positioned to seek further growth. Our 2022 Growth Strategy is consistent with the objectives set out in our Constitution and focused on our dual goals of:

- Achieving profitability of the Company's businesses; and
- Long term improvement in Grower returns.

As outlined in Section 3, we have identified a suite of opportunities over the next three to five years based on matching global food trends with SunRice's diversified product portfolio and leveraging the Group's competitive advantages. An estimated \$200 - \$300 million in additional capital has been identified to implement SunRice's 2022 Growth Strategy and our ASX Listing is intended to provide us with better access to funding, when it is required, to deliver on these initiatives.

### A capital structure unlike other ASX listed companies

As a prospective investor in SunRice, it is important to understand that our capital structure is not typical when compared to other companies listed on the ASX.

We have a dual class share structure, comprising A Class Shares and B Class Shares, with:

- Different voting rights (including limited voting rights attached to B Class Shares);
- Shareholding limits, which apply to both classes of Shares; and
- A Class Shareholder control over Director elections and Constitutional changes.

Prospective investors should note that by investing in SunRice on the ASX, you will only be able to acquire B Class Shares. Holdings of A Class Shares are restricted to Active Growers<sup>1</sup>.

As explained in detail in Sections 8.5 and 8.6², this structure separates and protects the interests of B Class Shareholders (investors), who have the economic rights to receive dividends from SunRice, which are derived from the Profit Businesses; and A Class Shareholders (Growers) who have Control of the Company and who receive payments for their rice via the Rice Pool Business. While these two business groups are separate, they complement each other, strengthening alignment between A and B Class Shareholders.<sup>3</sup>

This structure is not new to us. As a Board, we have successfully managed the needs of our A Class and B Class Shareholders for over 10 years, including in periods of adversity. However, we appreciate that our structure may be new for future investors

### Please read this document in full before investing

I encourage you to read this Information Memorandum in full and understand the elements of SunRice's dual class share structure, our operating model and our established policies. I also draw your attention to the key risk factors associated with investing in SunRice, as detailed in Section 6. Whilst some of the risk factors may be mitigated by appropriate commercial action, many are either wholly or in part outside of the control of the Group, the Directors and management. If you are considering becoming an investor in our Company, please seek your own financial and other professional advice before acquiring any B Class Shares.

On behalf of the Board, we thank you for your interest in SunRice and look forward to sharing our exciting future with you.





SUNRICE'S STRUCTURE
SEPARATES AND
PROTECTS THE
INTERESTS OF B CLASS
SHAREHOLDERS
(INVESTORS), WHO
HAVE THE ECONOMIC
RIGHTS TO RECEIVE
DIVIDENDS FROM
SUNRICE; AND A CLASS
SHAREHOLDERS
(GROWERS), WHO HAVE
CONTROL OF THE
COMPANY.



Laurie Arthur Chairman

Llush

<sup>&</sup>lt;sup>1</sup> And persons whom the Directors believe, on reasonable grounds, will become Active Growers.

<sup>&</sup>lt;sup>2</sup> See also the implications of SunRice's business model for the interests of A Class Shareholders and B Class Shareholders in Section 3.3 and the risk factors resulting from the dual class share structure in Section 6.2.11.

<sup>&</sup>lt;sup>3</sup> SunRice's dual class share structure means there is a risk that the interests of A Class Shareholders and B Class Shareholders may diverge over time. See the risk factor discussion in Section 6.2.11.



## 1. INVESTMENT OVERVIEW

This Section contains an overview of key information regarding the SunRice Group and its businesses, and highlights matters you should consider in making a decision on whether or not to invest in the Company. This overview is intended to be a summary only and should be read in conjunction with the more detailed information contained in this Information Memorandum. Section content is cross referenced below to help you locate information easily.

Topic	Summary	More Information
INTRODUCTION		
What is SunRice?	An Australian branded global food group – with over 30 major brands in around 50 countries across the world, approximately 2,000 staff and operations in Australia, the Middle East, U.S., PNG, the Pacific Islands and Asia.	Section 3.2
	Solid foundations and strong growth opportunities – SunRice Group has a FY18 revenue of almost \$1.2 billion and since FY12, has delivered strong results in line with its focus on developing supply sources to meet market demand for branded rice products around the world. The Company is now well positioned to seek further growth in line with its 2022 Growth Strategy as outlined in Section 3.4.	Sections 3.1 and 3.4
	A robust business model – with twin objectives to improve dividend and capital growth for B Class Shareholders and improve Grower returns. This is achieved through the division of the Company into two separate but complementary business groups, that strengthen alignment between A and B Class Shareholders, minimise Group risk and provide business resilience. <sup>4</sup>	Section 3.3
	<b>Diverse industry exposure</b> – including Australian and international rice markets in branded and non-branded rice products, and the Australian stockfeed, packaged animal feed, grocery retail and food service sectors.	Section 2
	<b>Leading brands in core categories</b> – SunRice brands occupy leading positions in a number of product categories in the markets in which the Company operates:	Sections 3.5, 3.7 and 3.10
	<ul> <li>#1 rice brand in Australia, New Zealand, PNG and the Solomon Islands;</li> <li>#1 brand in Japonica rice in the Middle East; and</li> <li>#1 brand in Australia in pickled vegetables and premium entertaining biscuits.</li> </ul>	0.10
	A history of innovation and transformation – from its foundations as a rice processor and marketer 68 years ago, today the SunRice Group comprises a diverse portfolio of businesses with a strong track record in innovation and commercialising value added products in high-growth global markets.	Section 3
Why invest in SunRice?	SunRice's established brands and presence in high growth markets across Australia, Asia, the Pacific and the Middle East provides access to growing populations that are increasingly affluent and concerned about provenance. Rice is a staple food in all these markets and SunRice benefits from the combination of Australia's reputation for clean, green supply, established in market relationships, and the Company's credentials for being international experts in rice foods.	Sections 3.1 and 3.4
	The Group's previous (FY12 – FY18) Strategy demonstrated SunRice's ability to identify and execute profitable growth initiatives despite the volatility of	

<sup>&</sup>lt;sup>4</sup> SunRice's dual class share structure means there is a risk that the interests of A Class Shareholders and B Class Shareholders may diverge over time. See the risk factor discussion in Section 6.2.11.

### 1. INVESTMENT OVERVIEW

CONTINUED

Australian weather patterns affecting supply and off-shore sovereign risk affecting demand.

The 2022 Growth Strategy (see Section 3.4) provides a roadmap for future growth and opportunity for diversification. If successful, it will establish SunRice as a multi-national branded food company of scale with market leading positions in a variety of food and companion animal segments across many geographies, sourced from a globally cost competitive, flexible and secure supply network. This will provide opportunities for existing and new investors in SunRice, as the Group takes advantage of the following global themes explained in detail in Section 3.1.2:

- Sushi rice growth opportunities;
- Growth in international demand for snacks;
- Low GI product offerings to cater for the growing obesity epidemic and rise in health conscious consumers;
- Development of new rice-based value-added ingredients;
- Increasing demand for branded rice products as consumer demand evolves, particularly from Asia; and
- Attractive growth opportunities for CopRice in animal nutrition locally and internationally.

#### **KEY FEATURES OF THE SUNRICE GROUP**

### What are the SunRice Group's businesses?

SunRice's operating structure separates and protects the interests of B Class Shareholders, who have the economic rights to receive dividends from SunRice; and A Class Shareholders, who have Control of the Company<sup>5</sup>.

This separation is reflected in the division of the SunRice Group into two broad businesses as follows:

**The Profit Businesses,** which are aligned to B Class Shareholders, comprise the following SunRice business segments:

- International Rice primarily purchases, processes and markets rice to supply SunRice's international branded markets, to service tender markets or to trade to other processors at a profit. International rice is also sold into the Australian market where the varieties cannot be grown in Australia, including during times of low water availability. Depending on supply and demand dynamics, the International Rice segment purchases rice from international sources such as Asia or the U.S., or the Rice Pool Business at commercial prices.
- Rice Food the manufacturing, marketing and distribution domestically and around the world of SunRice's value-added rice-based products, including rice cakes, snacks, rice flour, microwave rice and ready-to-gomeals:
- Riviana Foods specialty gourmet food distributor of both imported and locally manufactured goods to consumer and foodservice customers in Australia and select export markets;
- CopRice the manufacture, distribution and sales of stockfeed and companion animal products, drawing on nutritional expertise, through intermediaries to customers and primary producers across Australia and select export markets; and

Section 3.3, 8.5 and 8.6

Section 3.5

Section 3.6

Section 3.7

Section 3.8

<sup>&</sup>lt;sup>5</sup> See the discussion of rights in Sections 8.5 and 8.6. See also the implications of SunRice's business model for the interests of A Class Shareholders and B Class Shareholders in Section 3.3 and the risk factors resulting from the dual class share structure in Section 6.2.11.

 Corporate – captures charges to the Rice Pool Business for funding access and use of manufacturing and storage assets and charges to all business segments for the use of brands. Section 3.9

The after-tax profits of these businesses, less retained earnings and any losses in the Rice Pool Business in years when a Paddy Price Supplement is required, are available for distribution to B Class Shareholders in the form of dividends that may be declared by the Board from time to time.

Section 3.10

The Rice Pool Business, which is aligned to Growers, the majority of whom are A Class Shareholders, deals with the receival, milling, marketing and selling of Riverina Rice. It forms the basis of the Paddy Pool, which is a financial model through which the Paddy Price payable to Growers for their Riverina Rice is calculated in line with SunRice's Paddy Pricing Policy and Crop Carry-Over and Carry-In Policy.

Section 3.3.3

The Rice Pool Business contributes to the Group's NPBT through payments to the Corporate segment of the Profit Businesses for the use of brands and assets (see Section 3.9). Additionally, some overheads are shared between the Rice Pool Business and the Profit Businesses (see Section 3.3). After these payments are made, the balance of the Rice Pool Business is paid out to Growers in the form of Paddy Prices (and not available to B Class Shareholders in the form of dividends). This results in a nil NPBT for the Rice Pool Business.

Section 3.9

Some of the payments made by the Rice Pool Business to the Corporate segment of the Profit Businesses in line with the Paddy Pricing Policy relate to crop size. This means in small crop years, the Profit Businesses receive lower contributions from the Rice Pool Business and in large crop years, revenue from this source increases. In this way, the ongoing supply of Riverina Rice is in the best interests of B Class Shareholders, as well as A Class Shareholders.

### What does SunRice rely on to generate profit?

Across SunRice's Profit Businesses, there are a range of factors that contribute to profit performance, including:

Sections 3.1 and 3.5

- 3.9

- Great tasting products, brand equity and extensive consumer and distribution reach;
- Timely and profitable global sourcing arrangements;
- Stable local economies and favourable foreign exchange rates with respect to international subsidiaries, as well as Riviana Foods;
- The provenance of Riverina Rice and its availability for supply to high returning markets, contributing to a robust Rice Pool Business to pay the charges levied by the Corporate segment;
- Well located stockfeed mills adjacent to dairy, sheep and beef industries, as well as climatic conditions and general pricing for livestock in the regions in which CopRice operates;
- Cost effective manufacturing and supply chain operations; and
- Ongoing innovation and new product development.

Sections 3.5 - 3.9

## What are the strengths of the Profit Businesses?

- Diversity of earnings across the portfolio;
- Expertise and capability in the global sourcing of rice;
- Well-established leading market positions and brands in many of the markets in which SunRice participates, including the Pacific and Middle East, as well as a growing presence in Asia;
- A leading market position domestically for the microwave rice, pickled vegetables and premium entertaining biscuits categories;
- Well-established food service and food ingredients operations;
- Low cost-base animal feed operations in key Australian dairy regions;
- Storage, manufacturing assets and brands which the Rice Pool Business pays charges to use and access;

## 1. INVESTMENT OVERVIEW

### CONTINUED

	<ul> <li>Asset light approach to developing, launching and testing new products before investing in capital in Australian operations; and</li> <li>Identified opportunities in SunRice's 2022 Growth Strategy aligning with the Profit Businesses' strengths.</li> </ul>	Section 3.4
What are the strengths of the Rice Pool Business?	<ul> <li>Established brand presence and equity, spanning 68 years in some markets;</li> <li>NSW rice vesting and the Sole and Exclusive Export Agreement;</li> <li>Provenance and quality of Riverina Rice;</li> <li>Access to dedicated research and development capabilities;</li> <li>End-to-end traceability systems;</li> <li>Geography and proximity to global supply chains;</li> <li>Established commercial customers and a network of global distributors; and</li> <li>Identified opportunities in SunRice's 2022 Growth Strategy aligning with the Rice Pool Business' strengths.</li> </ul>	Section 3.10 Section 3.4
How do the Rice Pool Business and Profit Businesses interact?	While separate, the Rice Pool Business and Profit Businesses are complementary and deliver shared benefits to both A and B Class Shareholders. These include:	Section 3.3.3
	<ul> <li>Profitable participation in world markets through the Rice Pool Business and International Rice segment;</li> <li>Increased business scale to maintain market share and profitability;</li> <li>Shared investment in SunRice brands; and</li> <li>Providing SunRice with critical mass to compete in a dynamic global market.</li> </ul>	
	The two businesses also contribute directly to one another via the Rice Pool Business payments to the Corporate segment of the Profit Businesses for use of assets and brands. Additionally, the Rice Pool Business and Profit Businesses share some overheads and the Board has a discretionary right to set a Modified Paddy Price, which may result in a loss for the Rice Pool Business. This loss would in turn partly offset the earnings of the Profit Businesses, even though those earnings may benefit from increased trading activity in the International Rice segment.	Sections 3.9 and 7.5.5 (b)
	In this way the two businesses work together to minimise risk across the Group and build resilience for SunRice.	
How reliant is SunRice's 2022 Growth Strategy on a sustainable supply of Riverina Rice?	The Rice Pool Business in the Riverina, which supplies high quality, trusted branded rice food to discerning consumers in its markets, represents SunRice's heritage. SunRice has successfully grown demand for rice volumes to a Paddy tonne equivalent of more than 1 million metric tonnes. As a result, global rice sourcing activities have become increasingly significant to the SunRice Group in recent years. These activities allow SunRice to meet global market demand and contribute to lowering the overall risk to the Group by reducing its reliance on single points of supply such as the Riverina.	Sections 3.1, 3.4 and 3.5.3
When have Paddy Price Supplements been applied?	A Paddy Price Supplement was paid in FY11 and FY17. In both years, the Paddy Price Supplement decisions were undertaken to encourage minimum levels and/or types of rice to be grown to maintain our markets and assets during challenging circumstances.	Section 7.5.5 (b)
Are any Paddy Price Supplements planned for the future?	In August 2018, SunRice announced it would offer Fixed Price Contracts for rice harvested in 2019 (C19) to service SunRice's high value markets and provide a base level milling program for production facilities. This decision	Section 7.5.5 (b)

was undertaken to encourage local rice production in the context of low water allocations and high water prices.

The outlook for the C19 Crop size is approximately 50,000 paddy tonnes and, even when combined with a substantial carry over of Crop from C18, it is highly unlikely that the Rice Pool Business will be self-funded in C19. As such, it is anticipated that a Paddy Price Supplement will be required in FY20 (being the year in which the C19 Crop will be marketed). It's important to note that as a result of the smaller C19 Crop, the markets that would have been serviced by Riverina Rice will instead receive product sourced from SunRice's International Rice segment, which forms part of the Profit Businesses. Profit on these sales, combined with the reconfiguration of operations undertaken in the Rice Pool Business and earnings from other activities are expected to reduce the impact of the anticipated FY20 Paddy Price Supplement. As a result, the anticipated Paddy Price Supplement is not currently expected to impact the Company's capacity to pay a dividend on B Class Shares in FY20. SunRice will inform the market of the likely size of the Paddy Price Supplement when this information becomes available. The current expectation is that the Paddy Price Supplement will be at least as large an amount as that applied in FY17 for the C16 Crop.

Sections 7.5.5 (b) and 4.9.4

Planting for the C20 crop (which will be marketed in FY21) will also commence around October 2019 and will be dependent on the weather outlook for the Riverina over the next few months. Should the dry conditions currently experienced continue up to that time, these could impact the level of Australian crop available in C20, which could in turn materially negatively impact the SunRice Group in FY21. The current expectation is that if such conditions continue, a Paddy Price Supplement is also likely in FY21. Such an impact will only be quantifiable when water availability is firmed up closer to the October 2019 planting window and once the size of the C20 crop can be estimated more reliably.

Sections 7.5.5 (b) and 6.2.3

### What is the Paddy Pricing Policy and how is a Modified Paddy Price set?

The Paddy Pricing Policy sets out how the Paddy Pool (which is a financial model through which the Paddy Price for Riverina Rice is calculated), works in practice. It is an important policy for both A and B Class Shareholders.

Section 7.5.5

Under the policy, the Board retains a discretionary right to set Paddy Prices in a manner different to the Pool methodology (referred to as a Modified Paddy Price).

As a part of the Paddy Pricing Policy, the Board delegates the task of formulating a Modified Paddy Price to the Paddy Supply Committee, which is a Board committee comprising only Non-Grower Directors. The Paddy Supply Committee formulates the Modified Paddy Price and presents it to the Board for adoption.

### **KEY FEATURES OF THE INDUSTRIES IN WHICH SUNRICE OPERATES**

## Which industries does the SunRice Group operate in?

Through its various business units, SunRice operates in or has exposure to a range of dynamic industries, including the international rice market and the Australian grocery retail, food service, stockfeed and companion animal feed sectors. In particular, the sale of branded rice and rice-related products both in Australia and around the world are a central part of the Group's business and its 2022 Growth Strategy.

Section 2

Section 3.4

## What are the key drivers of growth in these industries?

Rice is the staple food of half of the world's population and consumption is set to rise in line with population growth. Additionally, consumption of rice products is being influenced by the increasing affluence in developing Asian countries, the trend towards healthier convenient alternatives driven by

Section 2.3

### 1. INVESTMENT OVERVIEW

CONTINUED

medical necessity (e.g. obesity and diabetes) and lifestyle choices, and a focus on food safety and provenance.

In addition to the increasing global rice consumption, demand for rice-based products including healthy snacks, rice derived ingredients and nutritious animal feed is also expected to increase.

In the grocery retail industry, demand in branded packaged goods is largely being driven by an increasing trend toward entertaining and preparing foods at home, with quality affordable ingredients and a particular focus on convenience, premiumisation, health and well-being, provenance, and 'free from' and organic product ranges. Factors driving Australian rice and rice-based food sales also largely mirror international trends.

Sections 2.5.3 and 2.5.5

In the Australian food service industry, demand in the commercial sector is linked to the strength of the economy and consumer confidence in discretionary spend. Institutional food service growth is relatively flat.

Demand in the domestic stockfeed industry is largely linked to the positive outlook for the Australian dairy industry and high quality red meat protein production, both of which are in high demand from Asia.

Section 2.6.2

In terms of packaged products, there is also significant growth in Asian demand driven by the growing middle class in China and other countries.

In the companion animal feeds sector, demand for rice and rice derivatives (such as rice bran) is linked to animal nutrition and premiumisation.

## Who are the participants in these industries?

In the global rice industry, Ebro, Mars (Uncle Bens) and Wilmar are some of the integrated rice players similar to SunRice with established presence in their respective regions and markets. Section 2.4.1

In the Australian retail grocery industry, market participants in rice and rice-based foods include SunRice, Riviana, private label offerings and specialist participants such as Manassen Foods (Tilda) and Mars (Uncle Bens). With respect to non-rice products, relevant participants include Riviana Foods, Sandhurst Fine Foods, Three Threes, Mondelēz Australia (Captain's Table), Greens General Foods (Waterthins) and private label.

Sections 2.5.2 and 2.5.5

In the Australian food service industry, participants vary from single category companies, such as SunRice, to broad category participants such as Riviana Foods, Sandhurst Fine Foods and FTA Food Solutions.

Sections 2.5.2 and 2.5.5

In stockfeed, CopRice, Ridley Corporation, Reid Stockfeeds and Irwin Stockfeeds have an established presence in the dairy region of Victoria, Australia, along with a number of independent millers.

Section 2.6.1

CopRice also supplies packaged stockfeed and companion animal feed to agricultural retail merchants, offering a complete range of products in this sector. Ridley and a number of other suppliers also supply the agricultural retail sector.

### **SUNRICE'S GROWTH STRATEGY**

## What is the SunRice Group's Growth Strategy?

SunRice's 2022 Growth Strategy identifies a suite of growth opportunities over the next three to five years, based on matching global food trends with SunRice's diversified product portfolio and leveraging the Company's competitive advantages. It details key initiatives and investment areas designed to support SunRice's growth agenda and objectives of improving Paddy Prices for A Class Shareholders and Growers and shareholder returns for B Class Shareholders.

Section 3.4

<b>How is the SunRice</b>
2022 Growth
Strategy intended
to increase value
for B Class Investor
Shareholders?

For B Class Shareholders, value is delivered in the form of capital value and dividend growth<sup>6</sup>, which are derived from the businesses that do not form part of the Rice Pool Business, such as the International Rice and Rice Foods segments, Riviana Foods and CopRice. While these businesses may positively contribute to the Rice Pool Business by purchasing Riverina Rice and, in some circumstances, supplementing Paddy Prices in accordance with the Paddy Pricing Policy, the profits they make are available for the Board to distribute as dividends to B Class Shareholders or to retain within SunRice.

The 2022 Growth Strategy includes a range of initiatives designed to strengthen these businesses, to increase overall business resilience and deliver shareholder value over time. Examples include scaling up CopRice and Riviana Foods; developing an international Food Ingredients business;

and growing SunRice's Healthy Snacks business.

Section 3.4.3

### How is the SunRice 2022 Growth Strategy expected to reduce business risk?

The strategy is designed to strengthen and grow the SunRice Group to provide sufficient scale to navigate challenges and meet the needs of customers in a global dynamic environment. SunRice's diversification strategy also lowers the overall risk for the Group by reducing its reliance on single points of rice supply (such as the Riverina) and specific markets, including PNG and the Pacific Islands. It will allow SunRice to take advantage of global demand and opportunity. Please note, key business, investment and other risks are discussed in detail in Section 6.

Sections 3.4 and 6

### How does the SunRice Group expect to finance its ongoing operations and future growth?

Historically, the SunRice Group has funded operations through cash flow generated from operations, debt financing and (to a limited extent) equity financing.

Sections 3.4.2 and 4

After Listing, the SunRice Group expects to fund its operations and future growth through both cash flow generated from operations, and also through external financing provided by its debt facilities and the raising of capital on the ASX.

### **OVERVIEW OF SUNRICE'S CAPITAL STRUCTURE**

## What is the current capital structure of the Company?

The capital structure of the Company as at the date of this Information Memorandum comprises 706 A Class Shares and 58,725,413 B Class Shares.

Section 8.5

The Company has also granted 868,172 B Class Share Rights under its Employee Share Plan.

Sections 8.5.3 and 8.7

SunRice will not be raising any capital as part of the ASX Listing process.

Section 3.4.2

### What are the nonstandard elements of SunRice's structure?

SunRice has a number of structural elements which are "non-standard" when compared to other companies listed on the ASX. These include:

Sections 6.2.11, 6.2.12 and 8.6

- Dual class share structure (A Class Shares and B Class Shares) with different voting rights;
- Shareholding limits which apply to both A Class Shares and B Class Shares; and
- A Class Shareholder control over Director elections and Constitutional changes.

changes.

<sup>6</sup> Investors should note that the B Class Shares carry no guarantee of growth in capital value or dividends. Please also see Section 6 which contains details of the key risks of investing in SunRice

### 1. INVESTMENT OVERVIEW

**CONTINUED** 

Will any existing B Class Shares be restricted from trading or disposal after Listing? B Class Shares issued to employees and Directors under the share scheme established under the Employee Share Plan are subject to disposal restrictions under the terms of those schemes. These B Class Shares represent approximately 0.74% of the total number of B Class Shares currently on issue.

Section 8.7

None of the other existing B Class Shares will be restricted from trading or disposal after Listing.

### **FINANCIAL INFORMATION**

What was the Group's financial performance over the last three financial years? A selected summary of the Group's financial performance in FY16, FY17 and FY18 is set out below:

Section 4

	FY18	FY17	FY16
REVENUE	\$1.2b	\$1.1b	\$1.3b
NET PROFIT AFTER TAX	\$45.1m	\$34.2m	\$52.0m
RETURN ON CAPITAL EMPLOYED (ROCE)	15.1%	10.3%	15.1%
PADDY PRICE (MEDIUM GRAIN REIZIQ \$/TONNE)	\$378.66	\$415.00	\$403.60
DIVIDEND PER B CLASS SHARE	33c	33c	33c
NET DEBT	\$42.5m	\$84.9m	\$181.9m
GEARING	9%	17%	32%
DIVIDEND PAYOUT RATIO	44%	54%	38%

You should read and consider the above information in conjunction with the more detailed discussion of the Group's financial performance and position set out in Section 4. More information can also be found in Figure 13 (pages 45 and 46).

What were the Company's results for HY19?

A selected summary of the Group's performance for the first half of FY19 and its comparison to the prior first half is set out below:

Section 4.7

	HY19	HY18
REVENUE	\$0.6b	\$0.5b
NET PROFIT AFTER TAX	\$13.9m	\$24.1m
NET DEBT	\$136.7m	\$154.1m
GEARING	24%	27%

You should read and consider the above information in conjunction with the more detailed discussion of the Group's half year financial performance and position set out in Section 4.

## What is the Company's outlook for FY19?

Group NPAT guidance for FY19 is presently in the range of \$30-\$35 million (FY18 NPAT was \$45.1 million). The NPAT guidance reflects actual trading for the nine months to 31 January 2019 and various key assumptions and factors, which are outlined in Section 4.9. The commentary and guidance in Section 4.9 should be read in conjunction with the risks described in Section 6, as well as the general and specific factors affecting SunRice's financial performance outlined in Section 4.

Section 4.9

Investors should be cautioned not to place undue reliance on forward-looking information, which is predictive in nature and may be affected by inaccurate assumptions or by an unexpected outcome of known or unknown risks and uncertainties, and may differ materially from the results ultimately achieved.

## What is the Company's dividend policy?

At the date of this Information Memorandum, it is the Board's intention to maintain its current Dividend Distribution Policy, which targets a dividend payout ratio of up to 50% of its annual NPAT and a consistent dividend per Share year-on-year, subject to the Company's financial position and performance outlook.

Section 4.12

No assurance can be given by any person, including the Board, about the payment or the quantum of future dividends by the Company, or the level of franking or imputation on any such dividend. There may be periods in respect of which dividends are not paid. The Board also retains a discretion to amend or depart from its Dividend Distribution Policy at any time.

### **KEY RISKS**

# What are the key risks specific to an investment in SunRice?

The business, assets and operations of the SunRice Group are subject to certain risk factors that have the potential to influence future operating and financial performance. If any of these risks were to occur, the future operating and financial performance and prospects of the SunRice Group could be materially and adversely affected, and this could impact your investment in the Company.

Section 6

Whilst some of the risk factors may be mitigated by appropriate commercial action, many are either wholly or in part outside of the control of the Group, the Directors and Management. The B Class Shares carry no guarantee as to maintenance of or appreciation in value, the payment of dividends or return of capital. In addition, it is important to understand that there can be no guarantee that the SunRice Group will achieve its stated objectives or that any forward-looking statement will eventuate.

Some of the key risks are summarised below. For more information on these risks as well as information on other business risks SunRice is exposed to and the general risks associated with an investment in SunRice, please see Section 6.

Global commodity markets: Rice is a globally traded commodity and its
price is subject to local and international changes in supply and demand
which are themselves influenced by weather conditions, level of global
stockpiles, tariffs and other trade barriers. Fluctuations in global pricing
of rice may result in volatility in the SunRice Group's operating results
and its ability to remain competitive.

Section 6.2.1

Supply levels of rice from the Riverina: Supply levels of Riverina Rice can impact on international sourcing operations, maintenance of brands and markets and in certain circumstances result in the Board utilising earnings from the Profit Businesses to pay a Modified Paddy Price to secure production. In addition, lower levels of Riverina Rice may impact the Profit Businesses through lower brand charges payable to the Corporate segment, as well as underutilisation of assets and underrecovery of overheads.

Section 6.2.2

## 1. INVESTMENT OVERVIEW

CONTINUED

•	Water availability, water affordability and competing crops: The availability and price of water and financial attractiveness of competing crops may negatively impact the quantity of Riverina Rice produced in any given year. If there are multiple consecutive years of small Riverina crops, this may severely affect SunRice's business model and operations. Restructuring measures to redeploy resources and material impairment charges for underutilised or idle assets may be required, materially impacting on SunRice's balance sheet, profit and cash flows.	Section 6.2.3
•	Foreign exchange risk on transactions and on translation: SunRice is primarily exposed to fluctuations of the U.S. dollar, the Euro, the Vietnamese dong, the Thai baht, the Solomon Islands dollar and the PNG kina. The Profit Businesses may be adversely affected by foreign exchange rates where no hedge exists. Significant intercompany transactions exist between several SunRice Group entities and SunRice's subsidiary in PNG, Trukai Industries, in relation to the supply of rice. The transactions are denominated in U.S. dollars and the level of the intercompany debt is dependent on the availability of U.S. dollars in PNG. The current tightening of market conditions is putting pressure on the ability of Trukai Industries to pay its intercompany trade payable and leaves SunRice exposed to a sudden devaluation of the PNG kina against the U.S. dollar and the Australian dollar.	Section 6.2.4
•	Sovereign and political risk: The SunRice Group operates in, and has ambition to expand into, a number of countries regarded as having a higher risk rating than Australia. Any political, legal, economic or social changes in these countries have the potential to reduce operational returns and the value of the SunRice Group's investment in those countries. This is particularly relevant in countries where rice importation is regulated through 'single desk', government-controlled bodies in order to protect their domestic rice industries.	Section 6.2.5
•	Failure to successfully implement the SunRice 2022 Growth Strategy: SunRice has identified a number of strategic priorities as part of its 2022 Growth Strategy. There is a risk that the benefits associated with those priorities may not occur due to execution risk factors.	Section 6.2.6
•	Access to future funding: If SunRice is unsuccessful in obtaining funds where required, it may be necessary to delay, reduce the scope of or abandon some aspects of the 2022 Growth Strategy. This may adversely impact the value of the Company and B Class Shares.	Section 6.2.7
•	<b>Disruption of operations:</b> SunRice is engaged in manufacturing and distribution activities around the world that are subject to inherent operational risks such as accident, fire, machinery failure, contamination and labour or industrial disputes.	Section 6.2.8
•	Businesses involving other shareholders: SunRice's interests in Trukai Industries and Aqaba Processing Company involve relationships with other shareholders. If these relationships deteriorate or the underlying contractual agreements are terminated, this may adversely affect the SunRice Group.	Section 6.2.9
•	<b>Key personnel:</b> SunRice's success depends on the retention and recruitment of key personnel. Any loss of key personnel without suitable and timely replacement may significantly disrupt the operations of SunRice's business and impede its ability to implement its 2022 Growth Strategy.	Section 6.2.10
•	Dual class share structure, limited voting rights and B Class Shareholding Limit: SunRice's dual class share structure, the limited voting rights attached to B Class Shares, and the B Class Shareholding Limit distinguish it from other ASX listed companies. These non-standard elements may make B Class Shares less attractive as an investment	Sections 6.2.11 and 6.2.12

compared to an investment in shares in a typical ASX listed entity. As a result, B Class Shares may trade at a lower price than if these elements did not exist.

 New South Wales regulation and vesting of rice: Rice grown in NSW is subject to vesting regulation. While SunRice is one of 11 Authorised Buyers of NSW rice domestically, SunRice is the only Authorised Buyer with the right to export NSW-grown rice. Vesting was renewed in 2016 and has effect until June 2022. Section 6.2.17

#### **BOARD AND SENIOR MANAGEMENT**

### What is the Board composition?

Under the Constitution, the SunRice Board can include up to 11 Directors, comprising:

Sections 7.1 and 8.6.2 (e)

- Up to seven Grower Directors (three of whom can be Elected Rice Marketing Board (RMB) Members); and
- Up to four Non-Grower Directors, one of whom may be an Executive Director.

## Who can change the composition of the Board?

The Constitution – and therefore the composition of the Board – can only be changed with the approval of the A Class Shareholders, via a 75% majority of votes cast.

Section 8.6

Section 7.1.5

## Who are the Directors of SunRice?

- Mr Laurie Arthur Chairman, Non-Executive and Grower Director
- Mr Rob Gordon Chief Executive Officer, Executive and Non-Grower Director
- Mr Glen Andreazza Non-Executive and Grower Director
- Mr John Bradford Non-Executive and Grower Director
- Ms Luisa Catanzaro Independent, Non-Executive and Non-Grower Director
- Dr Andrew Crane Independent, Non-Executive and Non-Grower Director
- Mr Ian Glasson Independent, Non-Executive and Non-Grower Director
- Mrs Gillian Kirkup Non-Executive and Grower Director
- Mr Ian Mason Non-Executive and Grower Director
- Mr Mark Robertson Non-Executive and Grower Director
- Dr Leigh Vial Non-Executive and Grower Director

## Who are the senior management of the SunRice Group?

- Mr Rob Gordon Chief Executive Officer
- Mr Dimitri Courtelis Chief Financial Officer
- Ms Simone Anderson General Manager, Integrated Supply Chain
- Ms Mandy Del Gigante Company Secretary
- Mr Stephen Forde Chief Executive Officer, Riviana Foods Pty Ltd
- Mr Tom Howard General Manager, Global Agribusiness and Sustainability
- Mr David Keldie General Manager, Global Consumer Markets
- Mr Peter McKinney General Manager, CopRice
- Mr Matt Alonso Chief Executive Officer, SunFoods LLC
- Mr Greg Worthington-Eyre Chief Executive Officer, Trukai Industries Limited

Section 7.2

## **INVESTMENT OVERVIEW**

CONTINUED

1.

### SIGNIFICANT INTERESTS, BENEFITS AND RELATED PARTY TRANSACTIONS

What significant benefits are payable to related parties of the Company and other persons and what significant interests do they hold?

These are set out below for the following groups of key people:

### **DIRECTORS:**

Director

this Information Memorandum **B Class** A Class 254,622 Mr Laurie Arthur 1 Mr Rob Gordon 108,806 Mr Glen Andreazza 84,525 1 Mr John Bradford 33,236 1 Ms Luisa Catanzaro Nil Dr Andrew Crane Nil Mr Ian Glasson 21,155 Mrs Gillian Kirkup 73,457 1 Mr Ian Mason 143,073 1 Mr Mark Robertson 227,725 1

No. of Shares held at the date of

The Directors are entitled to directors' fees as disclosed further in Section 7.3.2, and the benefit of a deed of indemnity from the Company and directors' and officers' insurance.

119,028

In addition to the sale of rice, Directors may, as Growers, enter into other transactions with SunRice on the same terms as other Growers, including access to finance facilities, the acquisition of rice seed, fertiliser and crop insurance, and the benefit of certain Grower services provided by SunRice as set out in the Paddy Pricing Policy (see SunRice website).

As Managing Director and CEO, Mr Rob Gordon receives a salary of \$1,351,100 per annum (which includes base salary and statutory superannuation contributions) and does not receive any director's fee. An overview of the key terms and conditions of Mr Gordon's employment and his incentive plans with the Company is set out in Section 7.4.1.

### **MANAGEMENT TEAM:**

Dr Leigh Vial

Senior management are employed by SunRice under individual employment agreements. Certain members of senior management may also be eligible to participate in the Company's Short Term Incentive Plan at a specified target level based on annual fixed remuneration and/or receive offers under SunRice's Employee Share Plan.

### ADVISERS AND OTHER SERVICE PROVIDERS:

Section 8.14 Fees for services.

Section 7.3.2

1

Section 7.3.3

Section 7.4.1

Sections 7.4.2 and 7.4.3

### **ADDITIONAL INFORMATION**

## What material contracts are in place?

SunRice's material contracts include the following:

- Pursuant to section 51(1) of the Rice Marketing Act, SunRice has been appointed, since 1 July 2006, by the Rice Marketing Board for the State of New South Wales (RMB) as an authorised buyer of rice grown in NSW under an Authorised Buyer's Licence. The appointment is non-exclusive and non-transferable and operates solely for the purpose of SunRice purchasing on its own account rice grown in NSW and planted on or after 1 July 2006 from a producer of rice or any other person which that producer or other person is entitled to sell rice to. The Rice Marketing Board may suspend or revoke the Authorised Buyer's Licence if SunRice is in breach of any its terms.
- Under the Sole and Exclusive Export Agreement, SunRice is appointed by the RMB as the only Authorised Buyer with the right to export rice produced in New South Wales. This establishes SunRice as the operator of the single export desk for that rice. This Agreement is subject to the continuation of vesting, as regulated by the NSW Government. The current vesting proclamation expires in 2022. The NSW Government will commence a review in 2020 to consider whether to renew its vesting proclamation.
- SunRice has a range of agreements in place with Trukai Industries Limited, in which it owns a 66.23% shareholding. The remaining 33.77% shareholding is held by the Pacific Balance Fund. These agreements include a Managerial Services Agreement, a Franchise Agreement and a Supply Agreement. Under Trukai Industries' constitution, if there is a change of ownership or control of a shareholder of Trukai Industries, they are deemed to have given a transfer notice in respect of all of their shares in Trukai Industries at a fair value specified by the shareholder or determined by the company's auditor. The move from the NSX to the ASX will not result in a change of control of SunRice and therefore will not trigger the change of control provisions under Trukai Industries' constitution.
- SunRice is party to a shareholders' agreement in relation to Aqaba Processing Company (APC), in which SunRice owns an 80% shareholding and Yousef Nader and Sons Co and related parties (the minority shareholder) own a 20% shareholding. Under the shareholders agreement, if there is a change of ownership or control of the minority shareholder, it will be deemed to have given a transfer notice to SunRice in respect of all of its shares in APC at a price negotiated by the parties or determined by an independent valuer. There is no similar provision that applies to a change of control of SunRice.
- SunRice also has a range of finance facilities, which are set out in Section 4.11.

### Section 4.11

Section 8.3.4

Section 8.3.1

Section 8 3 2

Section 8.3.3

# What are the tax implications of investing in B Class Shares?

The taxation consequences of an investment in the Company depend upon the investor's circumstances. You should make your own enquiries or seek personalised professional tax advice about the taxation consequences of an investment in SunRice B Class Shares. A general overview of taxation considerations is provided in Section 8.11.

### Section 8.11

## Where can I find more information?

Investors are encouraged to read this Information Memorandum in full. You can also request information through the Shareholder Information Line on +61 1300 554 474 (toll free within Australia) 8.30am to 7.30pm (AEST), Monday to Friday (excluding public holidays) or via www.sunrice.com.au.



### 1. INVESTMENT OVERVIEW

CONTINUED

Please note the SunRice website and its contents do not form part of this document and are not to be interpreted as part of, or incorporated into, this Information Memorandum.

If you are uncertain as to whether SunRice B Class Shares are a suitable investment for you, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

This page was left intentionally blank





### 2.1 Introduction

Through its various business units, SunRice operates in or has exposure to a range of dynamic industries, including the international rice market and the Australian grocery retail, food service, stockfeed and companion animal feed sectors. In particular, the sale of branded rice and rice-related products both in Australia and around the world are a central part of the Business and its 2022 Growth Strategy (see Section 3.4).

As outlined in Section 3, the returns to B Class Shareholders are derived from the Profit Businesses, while the Rice Pool Business provides returns to Growers. Despite this separation, and that some of the Profit Businesses are not linked directly to the rice industry, B Class Shareholders have a key interest in the rice industry. Specifically, the Profit Businesses include International Rice and the charges paid by the Rice Pool Business to the Profit Businesses for use of the milling, storage and brand assets owned by SunRice. It is therefore also important for B Class Shareholders to understand the industry dynamics within which the Rice Pool Business operates.

This Section summarises key features of the following industry sectors:

- The international rice industry, which is relevant for the International Rice and Corporate segments of the Profit Businesses, as well as the Rice Pool Business;
- The Australian grocery retail and food service industry, which is relevant for the Rice Pool Business and the Riviana Foods and Rice Food segments of the Profit Businesses; and
- The stockfeed and companion animal feed industries, which are relevant for CopRice within the Profit Businesses.

### 2.2 International rice industry overview

Rice is the staple food for over half the world's population and consumption is set to rise in global markets in line with both population size and affluence<sup>7</sup> (see Section 2.3).

Globally, approximately 480 million tonnes of milled rice are produced per annum, with China and India alone accounting for over 50% of the rice growns. Indica rice varieties (long grain) account for 80% of production and Japonica rice varieties (largely medium grain rice) account for 20% of productions.

Despite the significant volumes grown, less than 10% of the milled rice produced globally is traded (see Section 2.4.1(c)). With respect to Japonica varieties, approximately 6% (or 3.2 million tonnes) is traded<sup>10</sup>.

The rice grown in the Riverina region of Australia is predominantly Japonica. Through New South Wales' single desk export arrangements (see Section 8.3.2) and the SunRice Group's global trading activities, the SunRice Group accounts for approximately 10% of the global trade in Japonica, providing significant reach and presence. A significant proportion of the remaining traded Japonica rice is held by China, Japan, the U.S., Korea, Taiwan, Spain, Italy, Egypt and Vietnam<sup>11</sup>. Trade flows and related restrictions are discussed further in Section 2.4.1(d).

SunRice is one of the largest branded rice companies operating worldwide. The Group's largest markets are Australasia (see Section 2.5), the Middle East, PNG, North America, Asia and the Pacific. Consumption of rice and branded value added rice foods in these markets has increased in recent years. Through its international distribution and marketing arrangements, SunRice holds a leading market share of branded rice products in PNG and the Solomon Islands and the leading market share for Japonica rice in the Middle East.

Competitors and industry dynamics are discussed further in Section 2.4.

<sup>&</sup>lt;sup>7</sup> Muthayya, Sumithra & Sugimoto, Jonathan & Montgomery, Scott & F. Maberly, Glen. (2014), "An overview of global rice production, supply, trade, and consumption", Annals of the New York Academy of Sciences, 1324(1), September 2014

<sup>8</sup> World Rice Statistics database (http://ricestat.irri.org:8080/wrsv3/about.html)

 $<sup>^{\</sup>rm 9}$  Jena KK, Hardy B, editors (2012), "Advances in temperate rice research", International Rice Research Institute

<sup>10</sup> World Rice Statistics database ((http://ricestat.irri.org:8080/wrsv3/about.html)

<sup>11</sup> World Rice Statistics database ((http://ricestat.irri.org:8080/wrsv3/about.html)

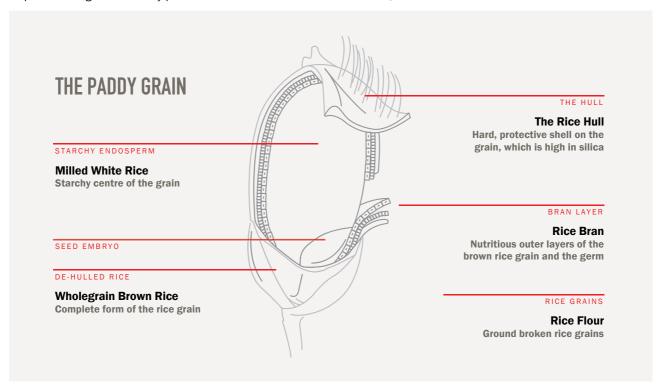
## 2. INDUSTRIES OVERVIEW

**CONTINUED** 

### 2.2.1 Rice and rice-based products

Rice is an important food category in both domestic and international markets. Rice and rice by-products are also sought by food manufacturers for a variety of applications, including beverages (such as rice milk), snacks, gluten-free foods and for use as a binder, carrier and texturising agent.

All parts of the grain and its by-products are able to be used or transformed, as follows:



Rice Grain Product	Used For
Wholegrain brown rice (Complete form of the rice grain)	<ul> <li>Natural brown rice</li> <li>Rice cakes, rice chips and other snacks</li> <li>Microwave rice and rice foods</li> </ul>
Milled white rice (Starchy centre of the grain)	<ul> <li>Wide variety of shelf-stable rice types for cooking and cuisine-matching</li> <li>Rice cakes, rice chips and other snacks</li> <li>Microwave rice and ready to eat meals</li> </ul>
The rice hull (Hard, protective shell on the grain, which is high in silica)	<ul> <li>Animal bedding and pet litter</li> <li>Potting mixes and mulch</li> <li>Stockfeeds</li> </ul>
Rice bran (Nutritious outer layers of the brown rice grain and the germ)	<ul> <li>Ingredient in snacks, baking powders and breakfast cereal manufacture</li> <li>High quality livestock feeds and other animal and industrial products</li> </ul>
Broken rice (During rice milling some rice breaks)	<ul> <li>Manufacture of breakfast cereals and snack bars</li> <li>Ingredient in formulated rice-based livestock feeds and pet foods</li> <li>Other uses similar to milled white rice (above)</li> </ul>
Rice flour (Ground small broken rice grains)	<ul> <li>Baby food manufacture</li> <li>Baking applications, particularly in gluten-free foods</li> <li>Ingredient in snacks, chips and cracker manufacture</li> <li>Bulking agent, binder and flavour carrier in manufactured food products</li> </ul>



### 2.3 International rice industry demand drivers

A range of factors drive rice consumption growth in international markets. These include:

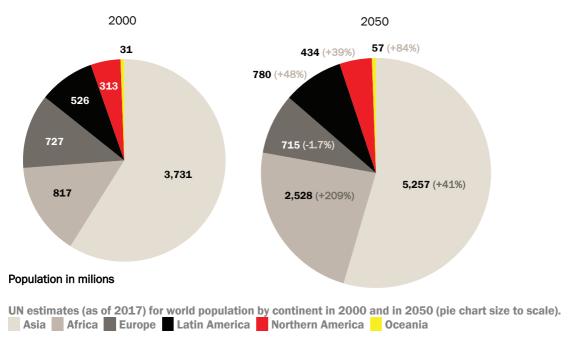
- Population growth; and
- Consumer trends.

These factors are discussed in more detail below.

### 2.3.1 Population growth

Rice consumption around the world is anticipated to grow steadily at around 1.1% per annum to 2025, when it is expected to reach a market volume of 570 million tonnes<sup>12</sup>. This is being driven largely by increasing populations in many rice-eating nations around the world where the grain is part of their staple diet, such as Asia, the Middle East and Africa (see Figure 1). As noted in Section 3.5, SunRice has an established presence, supply chain and market share in several of these markets.

Figure 1: Estimated World Population Growth, United Nations, 2017



### 2.3.2 Consumer trends

A number of consumer trends are influencing consumption worldwide and inform SunRice's 2022 Growth Strategy (see Section 3.4). The key trends relevant to the branded rice industry can be summarised as follows:

### (a) Increasing affluence

The branded rice category is expected to grow in line with increasing affluence. While strong brands have been established in the Pacific and Middle East, branded rice penetration has traditionally been very low in many developing Asian countries. As these countries increase their GDP per capita, these heavy rice consumers are shifting away from traditional bulk rice consumption towards branded and premium packaged rice that can be bought through modern trade channels (e.g. online and supermarkets) rather than via traditional fresh meat and produce markets<sup>13</sup> (see Figure 2). SunRice has a multi-channel presence in South East and North East Asia. In addition, cuisine trends in developed countries are driving demand for premium varieties, such as short grain sushi-style rice. Japanese cuisine restaurants outside Japan increased from 24,000 in 2006 to over 117,000 in 2017<sup>14</sup>.

<sup>&</sup>lt;sup>12</sup> Muthayya, Sumithra & Sugimoto, Jonathan & Montgomery, Scott & F. Maberly, Glen. (2014), "An overview of global rice production, supply, trade, and consumption", Annals of the New York Academy of Sciences, 1324(1), September 2014

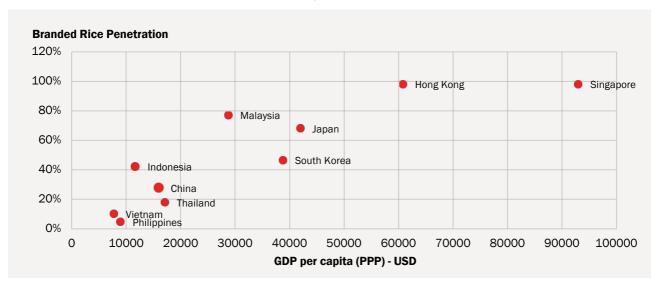
<sup>&</sup>lt;sup>13</sup> Bain & Company, "China's Two-Speed Growth: In and Out of the Home", China Shopper Report 2017, Vol 1

<sup>&</sup>lt;sup>14</sup> Farina, Felice. (2018), "Japan's gastrodiplomacy as softpower: global washoku and national food security", Journal of Contemporary Eastern Asia Vol. 17, No. 1: 153-146, citing the Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF)

### 2. INDUSTRIES OVERVIEW

CONTINUED

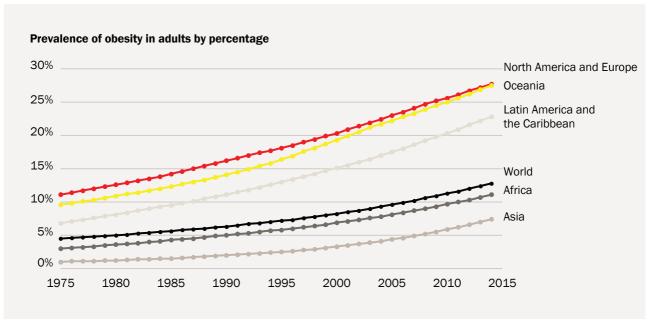
Figure 2: GDP/Capita (PPP) vs branded rice penetration of selected Asian nations (source: SunRice analysis using CIA and Mintel Retail Market and Total Market Volume data, 2017)



### (b) Healthier alternatives

Consumers in developed nations are also migrating towards healthier alternatives, driven by the growth in obesity and diabetes (see Figure 3). In 2016, more than 1.9 billion adults aged 18 years and older were overweight and of these, more than 650 million adults were obese<sup>15</sup>. In 2017, approximately 425 million adults (20-79 years) were living with diabetes and by 2045 this is expected to rise to 629 million<sup>16</sup>.

Figure 3: Prevalence of obesity in adults by region (source: UN Food and Agriculture Organisation/WHO data17)



The increased incidence of diabetes is particularly prevalent in developed nations that are high consumers of white rice, such as parts of Asia. These markets provide an opportunity for 'Low GI' rice (being rice with a glycemic index of less than 55%)<sup>18</sup> as a healthy alternative to the consumption of regular varieties of white rice, which are not as suitable for diabetics given their higher GI. SunRice exports Australia's only Low GI rice grain.

 $<sup>^{\</sup>rm 15}\,\mbox{World}$  Health Organization, Obesity and overweight fact sheet

<sup>&</sup>lt;sup>16</sup> International Diabetes Federation Diabetes Atlas 8th edition

<sup>&</sup>lt;sup>17</sup> Hannah Ritchie and Max Roser, "Obesity", 2018, OurWorldInData.org

 $<sup>^{\</sup>rm 18}$  According to Diabetes Australia, low GI foods are foods with a GI of less than 55%



### Additionally:

- Brown rice has strong health credentials and increasingly consumers are embracing blends of brown rice and healthy
  grains such as quinoa and chia; and
- All rice in its natural form is gluten free. The increase in gluten-free nutrition also serves to underpin demand for rice in these regions.

### (c) Provenance

Consumers are also increasingly prioritising food safety and provenance, while progressively paying a premium for sustainability, natural inputs, quality assurance and trusted standards. For example, approximately 45% of Chinese internet users aged 20-49 who have bought groceries in the past six months rank food safety as a top three concern when choosing a specific supermarket, hypermarket or online retailer and 40% of Chinese parents are concerned about food safety<sup>19</sup>.

In a 2015 Nielsen survey of 30,000 people in 60 countries, two-thirds of respondents were willing to pay more for sustainable brands; up from 50% in 2013<sup>20</sup>, supporting the importance of branded agricultural products that are vertically integrated with a trusted supply chain.

SunRice operates a Pure Seed Rice program and all of SunRice's rice products are subject to a rigorous quality assurance program and are fully traceable, from paddock to plate. In addition, Australia's on farm yields are amongst the highest in the world for medium grain and, on average, Australian rice growers produce twice as much rice per megalitre of water used than the global average<sup>21</sup>. This is largely due to SunRice's dedicated research and development business unit, Rice Research Australia Pty Ltd (RRAPL), which is discussed later in this Section and in Section 3.5.

### 2.3.3 Demand for rice-based products and drivers

In addition to the increasing global rice consumption, demand for rice-based products is also expected to increase. These products include:

- Healthy snacks;
- · Rice-derived ingredients; and
- Nutritious animal feeds.

More detail on each of these products is provided below:

### (a) Healthy snacks

Worldwide snacking has changed traditional eating patterns, with 'three meals a day' increasingly complemented or replaced with snacks<sup>22</sup>. This is a result of a number of trends including reduced formality around eating occasions, changes in lifestyle resulting in more 'eating on the go' and grazing (eating smaller more regular meals) to manage hunger. Globally, snacking grew by USD3.4 billion in 2017<sup>23</sup> and the Australian snack market is worth \$2 billion<sup>24</sup>. Within the broader snacking category, the 'healthy snacking' category, which some SunRice products fall within, has experienced rapid growth, and is expected to reach USD32.8 billion globally by 2025, as consumers become more conscious of weight control, natural ingredients and gluten-free alternatives to traditional packaged snacks<sup>25</sup>.

### (b) Rice-derived ingredients

Rice and rice-derived ingredients are well placed to benefit from consumer concerns around allergens and the trend towards plant-based diets and products 'free from', as evidenced by the increase in gluten-free nutrition noted earlier in this Section.

Overall, worldwide retail sales in the health and wellness market were approximately USD704 billion in 2016, including USD33 billion in 'free from' category sales<sup>26</sup>.

Globally the plant-based protein market is worth USD10.5 billion and is expected to grow to USD16 billion by  $2025^{27}$ . The 'free from' category is currently worth USD33 billion, with a 7% CAGR between  $2011 - 2016^{28}$ .

<sup>19</sup> Mintel, "Global Food & Drink Trends 2018"

<sup>&</sup>lt;sup>20</sup> Nielsen, "The Sustainability Imperative, New Insights on Consumer Expectations", October 2015

<sup>&</sup>lt;sup>21</sup> SunRice internal analysis

<sup>&</sup>lt;sup>22</sup> InsideFMCG, "Healthy snacking trends you need to know" (insidefmcg.com.au/2018/05/24/healthy-snacking-trends-you-need)

<sup>23</sup> Nielsen Insights, "Booming snack sales highlight a growth opportunity in emerging markets" (www.nielsen.com/eu/en/insights/news/2018/booming-snack-sales-highlight-a-growth-opportunity-in-emerging-markets.html)

<sup>&</sup>lt;sup>24</sup> Euromonitor International, "Savoury Snacks in Australia", July 2017

 $<sup>^{25}\,</sup>Natural\,Products\,Insider,\, "Global\,Snacking\,Trends"\,(www.naturalproductsinsider.com/foods/global-snacking\,trends)$ 

<sup>&</sup>lt;sup>26</sup> Euromonitor International, "'Free From' Food Movement: Driving Growth in Health and Wellness Space", September 2017

<sup>&</sup>lt;sup>27</sup> Persistence Market Research, "Plant-Based Proteins Market: Global Industry Analysis (2012-2016) and Forecast (2017-2025)", 2017

<sup>28</sup> Euromonitor International, "'Free From' Food Movement: Driving Growth in Health and Wellness Space", September 2017

### 2. INDUSTRIES OVERVIEW

CONTINUED

Plant-derived nutrition has increased in demand, as consumers appreciate that plant-based powders and plant-based protein sources are often:

- Free from growth hormones associated with animal-derived alternatives;
- Hypoallergenic;
- · Naturally occurring rather than artificial; and
- Gluten free.

As a form of plant protein, rice has all of the above characteristics, underpinning demand for rice-based ingredients solutions.

### (c) Nutritious animal feeds

Rice and rice derivatives (such as rice bran) are considered premium and important ingredients by the animal nutrition industry, especially in dog and equine feed. The demand drivers for healthy animal feed are discussed in the overview of the stockfeed and companion animal feed sector, in which CopRice operates (see Section 2.6.1). While this trend is most relevant to consumption drivers in the animal feed sector, it is also relevant to the rice industry, given rice by-products are key ingredients.

### 2.4 International rice industry dynamics and supply factors

### 2.4.1 Overview

Relevant international rice industry dynamics include:

- Competitors;
- Australian rice industry regulation;
- Global trade flows; and
- · Research and development;

Each of these is discussed in more detail below.

### (a) Competitors

In international markets, SunRice's competitors of scale include Ebro, Mars (Uncle Bens) and Wilmar, which are also integrated rice players. Each of these peers has an established presence in their respective regions, and competes in certain markets. Other competitors include market participants that specialise in a certain rice type (e.g. Manassen Foods's Tilda in relation to Basmati rice) or that have a strong presence in specific markets (e.g. Royal Umbrella in Asia and Tiger Brands in Jordan).

### (b) Australian rice industry regulation

The Riverina region in NSW accounts for approximately 98% of all Australian rice industry production in Average Riverina Crop years. Under the Rice Marketing Act, SunRice is the only Authorised Buyer with the right to export rice produced in NSW. This establishes SunRice as the single desk exporter of NSW rice. Further detail on SunRice's sole and exclusive export rights can be found in Section 8.3.2. Rice industry regulation regarding domestic rice-sales and supply factors in relation to the Australian crop size are detailed in Section 2.5.4.

### (c) Global trade flows

Rice is one of the world's most popular commodities, but its international trade is driven by a number of exporting countries and demand for certain varieties of rice. These drivers can make the international rice trade susceptible to interruption due to various factors, including climatic and political circumstances that may limit the quantities of rice available for export.

While global rice trade has quadrupled since the 1980s, it still only accounts for around 10% of total global rice production. The export of rice comes mainly from 12 countries (including India, Thailand, Vietnam, Pakistan, Myanmar, the U.S., China, Cambodia, Uruguay and Brazil), which account for around 95% of the global rice traded<sup>29</sup>. Annually, the global rice traded is valued at around USD20 billion<sup>30</sup>.

As explained in Section 3.5, in addition to Australia, the SunRice Group procures rice from global sources, including Pakistan, India, Thailand, Vietnam, Cambodia, China and the U.S.. Varieties and tonnages vary based on market dynamics (see Section 3.5.3). SunRice invests in developing new supply chains directly with growers and grower co-operatives globally as required.

Rice is one of the most protected food commodities in world trade, as countries see domestic production as important for food security. However, over the past two decades, changes in demand reflecting economic growth and the simultaneous

<sup>&</sup>lt;sup>29</sup> World Rice Statistics database (http://ricestat.irri.org:8080/wrsv3/about.html) and SunRice internal analysis

<sup>30</sup> Pakistan & Gulf Economist, "Global Rice Market Overview" (www.pakistaneconomist.com/2017/10/30/global-rice-market-overview/)



liberalisation of market structures in developing countries have reduced some of the protectionism historically placed on rice trade, providing further opportunities for branded rice food companies such as SunRice.

### (d) Research and development

The Australian rice industry invests heavily in research and pure seed rice breeding, which has led to the development of increasingly water efficient rice varieties and farming practices, both of which have been adopted by Growers.

Through ongoing research involving SunRice subsidiary RRAPL (see Section 3.5), the Australian rice industry is also at the global forefront of farming systems and methodologies. This includes research and development outcomes focused on:

- Drill seeding and flush irrigation, which minimises water use during the crop establishment;
- Precision farming, which involves applying fertiliser and other inputs at variable rates across a rice paddock, reducing
  inputs and increasing yields; and
- Pest and diseases, to reduce the risks and impacts on crop performance while minimising and optimising the inputs required.

Additionally, SunRice has its own dedicated Geographic Information System (GIS), which allows rice growers to capture spatial agronomic information on farm for use in industry-wide benchmarking and predictive analysis development to improve their yields, while also supporting data capture requirements for sustainability and traceability developments.

### 2.5 The Australian grocery retail and food service industry

### 2.5.1 Overview

Various SunRice Group segments operate in the Australian grocery retail and food service industry.

The Australian grocery retail market is valued at around \$115 billion<sup>31</sup> and sales are primarily made via the four major supermarket participants, being Woolworths, Coles, Aldi and Metcash.

The food service market is valued at approximately \$57 billion<sup>32</sup> and comprises:

- The commercial sector, being full service restaurants, hotels, cafes, quick service restaurant (QSR) chains, caterers, clubs, pubs and function centres, which represent 86% of food service sales; and
- The institutional sector, being health, education, military, correctional and workplace canteens, which represent 14% of food service sales<sup>33</sup>.

The Australian food industry is largely stable, with the supermarket and grocery sector growing at around 3.3% (CAGR) from 2013 to 2018<sup>34</sup>.

The SunRice Group's activities include the following product offerings:

- Core rice (Rice Pool Business Section 3.10 and Profit Businesses: Riviana Foods Section 3.7);
- Rice-based foods, snacks and ingredients (Profit Businesses: Rice Food Section 3.6);
- Food service (Profit Businesses: Riviana Foods Section 3.7 and Rice Pool Business Section 3.10); and
- Dry and packaged goods, such as pickled vegetables and entertaining biscuits and more recently, chilled product (Profit Businesses: Riviana Foods Section 3.7).

For the purpose of this Section, Australian industry activities have been categorised as follows:

- · Rice-based product sales; and
- Non rice-based product sales.

### 2.5.2 Rice-based products in Australian grocery retail and food service

In Australia, SunRice holds one of 11 licences to purchase rice grown in NSW for sale in domestic markets (see Section 2.4.1(b)). There are no restrictions on the domestic sale of rice grown in other parts of Australia or on rice or rice products imported and sold within Australia.

Consumption of rice and branded value added rice foods has also increased in Australia and New Zealand (ANZ) in recent years. Through its supply arrangements, in Average Riverina Crop years SunRice accounts for approximately 98% of Australia's rice production and has large scale manufacturing capability.

 $<sup>^{31}</sup>$  Food Industry Foresight, "The Australian Foodservice Market", February 2018

 $<sup>^{\</sup>rm 32}$  Food Industry Foresight, "The Australian Foodservice Market", February 2018

<sup>33 &#</sup>x27;Food Industry Foresight, "The Australian Foodservice Market", February 2018

<sup>34</sup> USDA Foreign Agricultural Service, Global Agriculture Information Network (GAIN) Australia Retail Food Sector Report 2017; InsideFMCG, "Supermarket industry eyes growth" (insidefmcg.com.au/2018/02/20/supermarket-industry-eyes-growth/); and SunRice internal analysis

## 2. INDUSTRIES OVERVIEW

CONTINUED

SunRice holds a leading market position across all rice and value-added rice categories in Australian grocery retail sales and supplies all four major supermarkets. SunRice's competitors of scale are largely confined to private label offerings. Other competitors include market participants that specialise in a specific type of rice for example Manassen Foods (Tilda) in relation to Basmati rice or a certain product category for example Mars (Uncle Ben's) in relation to microwave rice.

The Australian core rice market is valued at more than \$173 million. SunRice holds the largest market position, with Riviana Foods also having a presence. Further analysis is shown in Figure 4.

\$1,095 (1%)
\$13,920 (8%)
\$18,160 (11%)
\$90,343 (52%)
\$90,343 (52%)
\$49,069 (28%)
\$Mars

Figure 4: Core Rice by Manufacturer (\$ sales '000) (source: Nielsen Scantrack MAT Value Data 4/11/18)

Across the value-added category, the consumer trend of 'convenience' has underpinned increasing demand for quick and easy meals and the Australian microwave rice market is now valued at almost \$119 million according to Nielsen Scantrack MAT Value Data (4 November 2018). SunRice holds the largest share of this category at 48.5%, followed by Mars at 24.5% and private label brands at 18.6% (see Figure 5).

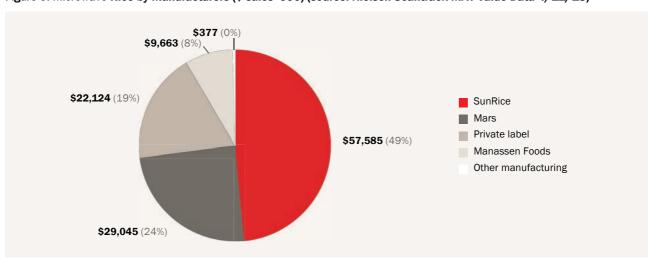


Figure 5: Microwave Rice by Manufacturers (\$ sales '000) (source: Nielsen Scantrack MAT Value Data 4/11/18)

The demand for healthy and on-the-go rice-based snacks is also well suited to SunRice's core competencies. SunRice has a leading position in the \$44 million rice cakes category, along with category leader Real Foods as shown in Figure 6. In addition, SunRice has a growing presence in the \$117 million healthy snacking category, with its range of mini bites and rice chips. Further analysis of this category is shown in Figure 7.

Figure 6: Rice and Other Grain Cakes by Manufacturer (\$ sales '000) (source: Nielsen Scantrack MAT Value Data 4/11/18)

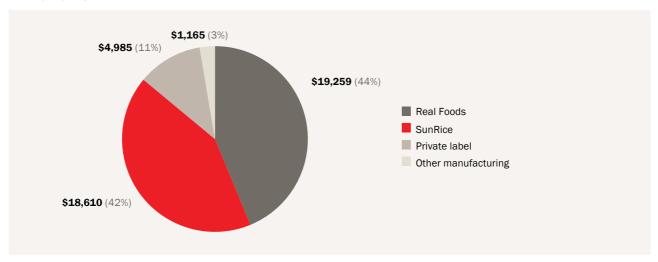
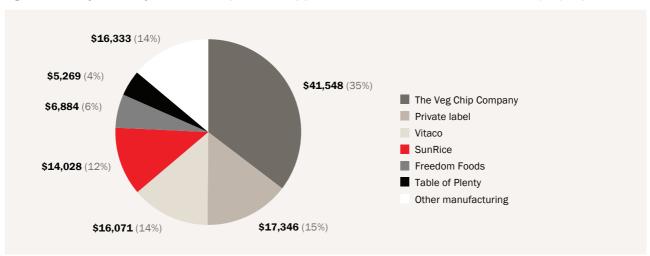


Figure 7: Healthy Snacks by Manufacturer (\$ sales '000) (source: Nielsen Scantrack MAT Value Data 4/11/18)



In the Australian food service industry, SunRice operates in the commercial sector and has long term partnerships with a range of distributors who have extensive reach in the hotel, restaurants and catering segment, in addition to ethnic retailers such as small suburban grocery outlets specialising in Asian food. Sales of SunRice's products in this sector are primarily to Asian restaurants, with growth over the last five years attributable to increasing demand for Japanese cuisine such as sushi<sup>35</sup>. The vast majority of competition in the food service sector is from imported rice from major rice producing countries, including Jasmine from Thailand, medium grain from the U.S. and long grain from South East Asia.

### 2.5.3 Rice product demand drivers in Australia

The demand drivers for rice and rice-based foods in the Australian grocery retail industry align with the following trends detailed earlier in Section 2:

- The demand for 'free from' foods, especially gluten free (see Sections 2.3.2(b) and 2.3.3(b)); and
- Healthy eating tends which drive demand for brown rice, healthy grain blends and rice based snacks (see Sections 2.3.2(b) and 2.3.3(a)).

In addition, the growth in multi-cultural populations living in Australia, particularly from heavy rice consuming Asian countries and the rise in popularity of Asian style cuisine, is reflected in demand in both the grocery and food service sectors, as is the increasing trend towards convenience.

<sup>35</sup> SunRice internal analysis

### 2. INDUSTRIES OVERVIEW

CONTINUED

### 2.5.4 Rice industry dynamics and supply factors in Australia

Relevant Australian rice industry dynamics include:

- Australian supply factors;
- Australian rice industry regulation;
- · Research and development; and
- The concentration of the Australian retail trade.

Each of these is discussed in more detail below, with the exception of research and development, which is detailed in Section 2.4.1(d).

### (a) Australian supply factors

Growers in the NSW Riverina region (predominantly in the Murrumbidgee and Murray Valleys) form the vast bulk of the Australian rice industry's supply base. In FY18, rice was supplied by 628 Growers across 935 Riverina farms. When adequate water allocations are available, the Average Riverina Crop produces between 500,000 - 650,000 paddy tonnes and accounts for approximately 98% of Australian production. Small quantities of rice are also produced in Queensland and in the NSW Northern Rivers' region.

The size and quality of the Riverina Rice Crop is mainly impacted by the availability and cost of water, which is sourced from the Murray-Darling Basin of Australia, and the returns available for rice and/or competitor crops, such as cotton. Given the variances in water availability and attractiveness of competitor crops, the size of the Australian rice crop changes from year-to-year, sometimes significantly (see Figure 8). While during the 'Millennium Drought' the size of the Australian rice crop decreased significantly, it rebounded in 2011. The impact of water availability and/or crop size on SunRice is discussed further in Section 6.2.3.

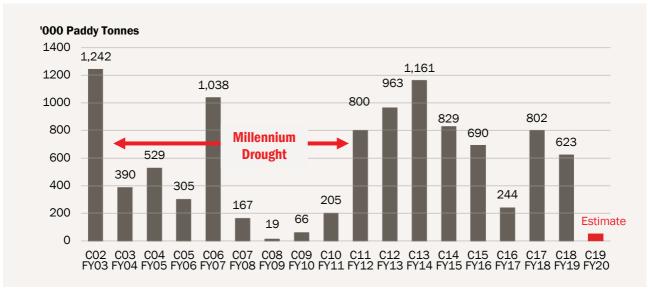


Figure 8: Riverina harvest by tonnes (source: SunRice)

### (b) Australian rice industry regulation

Under the Rice Marketing Act, the marketing of rice grown in NSW is regulated by the Rice Marketing Board for the State of NSW (RMB). This is the last statutory marketing arrangement of its kind in Australia.

By virtue of a vesting proclamation made under the Rice Marketing Act, all rice produced in NSW is divested from growers and becomes absolutely vested in the RMB. However, rice sold by growers to an "Authorised Buyer" appointed by the RMB is exempt from vesting. There are presently 11 Authorised Buyers, including SunRice. SunRice is the only Authorised Buyer with the right to export rice produced in NSW. This establishes SunRice as the single desk exporter of NSW rice. The remaining 10 Authorised Buyers have the right to buy rice grown in NSW and sell that rice within the Australian market, however currently their activity focuses on niche areas. Further detail on SunRice's sole and exclusive export rights can be found in Section 8.3.2.

### (c) The concentration of Australian grocery retail trade

According to Homescan data from 4 November 2018, the Australian grocery retail trade is largely held by two main participants, with Woolworths owning a 37% share of the trade, followed by Coles at 31%, Aldi at 10%, IGA at 7% and all other

Australian supermarkets (3%). The remaining 12% is held by non supermarkets, being outlets such as convenience stores, butchers and green grocers. This concentration is an important dynamic for both existing and new participants in the sector, especially with respect to range and pricing.

### 2.5.5 Australian non-rice product sales

#### (a) Overview

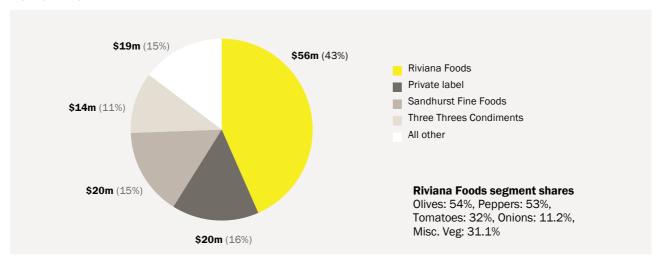
The balance of the SunRice Group's activities in the Australian grocery retail and food service industry relate to Riviana Foods (see Section 3.7) and do not involve rice or rice-based products.

In the Australian grocery retail industry, Riviana Foods operates predominantly in the dry and packaged goods segment, which is valued at around \$30 billion<sup>36</sup>. The Company's recent acquisition of Roza's Gourmet also provides Riviana Foods with a presence in the chilled category across specialty retail. The specialty retail segment is valued at \$8.9 billion in Australia and is predominantly made up of fruit and vegetables, meat and fish sold via specialty food retailers such as Harris Farm, as well as Metcash and IGA<sup>37</sup>.

Riviana Foods is a market leader in Australia grocery retail in pickled vegetables and premium entertaining biscuits. As reported by Nielsen Scantrack MAT Value Data dated 2 September 2018, it has a 43% market share of the \$128 million pickled vegetable category and a 19% market share of the \$68 million premium entertaining biscuit category. Further analysis of Riviana Foods' presence in these categories is provided in Figures 9 and 10.

Like SunRice, Riviana Foods supplies to Woolworths, Coles, Aldi and Metcash, as well as specialty food retailers. With respect to non-rice products, relevant market participants along with Riviana Foods include Sandhurst Fine Foods, Three Threes, Mondelēz Australia (Captain's Table), Green's General Foods (Waterthins) and private label.

Figure 9: Pickled vegetable category share in Australian grocery retail (source: Nielsen Scantrack MAT Value Data 02/09/2018)



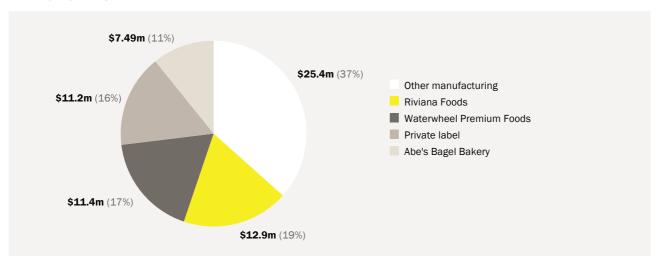
<sup>36</sup> IbisWorld

<sup>37</sup> IbisWorld

### 2. INDUSTRIES OVERVIEW

CONTINUED

Figure 10: Premium entertaining biscuit category share in Australian grocery retail (source: Nielsen Scantrack, MAT Value Data 02/09/2018)



With respect to the food service industry, Riviana Foods has traditionally focused on the institutional sector, in the health, mining, correctional and catering markets. However, it also has a growing presence in the commercial sector, with a focus on quick service restaurants (QSR).

Competitors in the sector vary from single category companies such as SPC Ardmona (fruit) and McKenzie's Foods (rice), to broad category participants such as Sandhurst Fine Foods and FTA Food Solutions, as well as an increasing number of private label offerings from food service distributors. Riviana Foods has a presence in a number of food service categories.

### (b) Demand drivers for non-rice product sales in Australia

The dry and packaged food category is driven by consumer discretionary spend with an increasing trend to entertaining and preparing foods at home, with quality affordable ingredients and a particular focus on provenance, convenience, premiumisation, health and well-being, 'free from' and organic product ranges. In Australia, approximately 86% of people are trying to make a more health conscious decision regarding food they eat and approximately 48% of people are cooking/entertaining more at home<sup>38</sup>, driving demand in Riviana Foods' key segments. The organic market alone was valued at \$2.4 billion in 2018, with a CAGR of 13% since 2012<sup>39</sup> and packaged vegan food is set to increase in value by around \$80 million from around \$136 million in 2016 to around \$215 million by 2020<sup>40</sup>, providing a platform for growth for market participants such as Riviana Foods.

Food service demand in the commercial sector (particularly hotels, restaurants and cafes) largely relies on the strength of the economy and consumer confidence in discretionary spend. While the institutional sector has consistent demand given its largely steady client base, food service can be impacted by wholesale changes in industry sectors.

### (c) Supply drivers for non-rice product sales in Australia

The price and availability of raw materials in the grocery retail sector is influenced by commodity prices, climatic conditions that affect crops and fluctuations in the Australian dollar, which affect the profitability of imported products. The ability to differentiate product and satisfy new or emerging trends is important, particularly to offset the increase in private label products across the dry and packaged grocery category.

### 2.6 The stockfeed and companion animal feed industries

### 2.6.1 Overview

SunRice operates predominantly in the Australian packaged stockfeed and companion animal feed industries through its CopRice business (see Section 3.8). Australia is a significant producer of dairy and red meat products for the domestic and export markets and there is demand for high quality animal feed to support this production. In FY16, Australia's annual stockfeed use was estimated to be 13 million tonnes (excluding pasture grazing, hay and silage or spikes in feed usage in

<sup>38</sup> Core Data, Choosi - Modern Food Trends Report, August 2017

<sup>39</sup> Australian Organic, "Australian Organic Market Report 2018"

<sup>40</sup> Euromonitor International, 2016



times of drought), compared to 1 billion tonnes globally<sup>41</sup>. The U.S., China, Europe and Brazil are the largest stockfeed manufacturers.

In Australia, stockfeed is supplied by:

- Commercial feed mills operated by specialist stockfeed manufacturers;
- Integrated poultry and pig livestock producers;
- · Beef feedlots mixing feeds on-site; and
- On-farm production either in a home-mix mill or simple mixing operations.

While CopRice has a range of stockfeed products (including feed to support beef and sheep production), the business predominantly operates in the dairy sector in Victoria, where two of its three plants are located. Australia is one of the world's four largest dairy exporters (with strong demand for Australian dairy predominantly from China) and approximately 65% of Australia's dairy cow herd is in Victoria<sup>42</sup>. Victorian dairy customers are estimated to utilise approximately 1.7 million tonnes of feed per annum, with the majority of product sold in a bulk format on a 'delivered-to-farm' basis<sup>43</sup>. CopRice, Ridley Corporation, Reid Stockfeeds and Irwin Stockfeeds have an established presence in the region, along with approximately 10 smaller independent millers.

CopRice also operates in the packaged stockfeed and companion animal feed markets in the agricultural retail channel (as well as private label grocery), which represent the key categories of packaged products sold in agricultural retail stores across Australia. This channel is a major source of volume in the dog, equine, dairy calf and layer poultry markets across Australia. Ridley Corporation and CopRice offer a complete range of products in this sector.

CopRice services this same channel in New Zealand via exports and is able to use its extruded pet feed capability to supply private label products in Australian grocery and pet specialty stores. CopRice currently sells small volumes in New Zealand, compared to established major suppliers Farmlands Co-operative, Seales Winslow and Inghams Enterprises, as well as Nestlé and Mars in the dog food sector.

CopRice also has opportunities to export its packaged products into Asian markets, especially China, where it is one of only four Australian based equine feed producers to have gained Chinese accreditation, although it has not yet exported to this market. Similarly, in companion animal feed, CopRice is working closely with Chinese authorities to gain final accreditation to be able to supply cat and dog food into China.

#### 2.6.2 Demand drivers for stockfeed and companion animal feeds

The three key drivers underpinning demand in these industries are:

- Asian demand;
- Nutritional benefits; and
- Premiumisation.

Each of these is discussed in more detail below.

#### (a) Asian demand

The Australian dairy industry has a positive outlook, driven in part by demand from Asia, especially from China (see Figure 11). More than 80% of Australia's dairy exports go to Asia, with the main markets being China, Japan, Indonesia, Singapore and Malaysia<sup>44</sup>. Victoria accounts for 76%<sup>45</sup> of Australian dairy exports and animal feed in this region is underpinned by a strong demand outlook. Likewise, there is strong demand for high quality red meat protein with beef demand underpinned by the key markets of China, Japan and South Korea<sup>46</sup>, with China being a key global market for lamb<sup>47</sup>.

In terms of packaged products there is significant growth in Asian demand driven especially by the growing middle class in China. For example, Euromonitor is projecting China to be the fastest growing global market in pet care through to 2022 as companion animals such as cats and dogs increasingly become popular pets in middle class Chinese homes<sup>48</sup>. This significant growth was a large factor in the Chinese investor led acquisition of Australian business "The Real Pet Food Company" for over \$1 billion in 2017.

<sup>41</sup> Stock Feed Manufacturers' Council of Australia, Facts & Figures (http://www.sfmca.com.au/info\_centre/facts\_and\_figures/)

<sup>&</sup>lt;sup>42</sup> Dairy Australia, "Dairy Situation and Outlook, February 2018"

<sup>&</sup>lt;sup>43</sup> SunRice internal estimate

<sup>44</sup> Dairy Australia, "Australian Dairy Industry in Focus 2017"

 $<sup>^{\</sup>rm 45}$  Agriculture Victoria (http://agriculture.vic.gov.au/agriculture/dairy)

<sup>46</sup> DAWR, MLA forecasts, Australian beef and veal exports

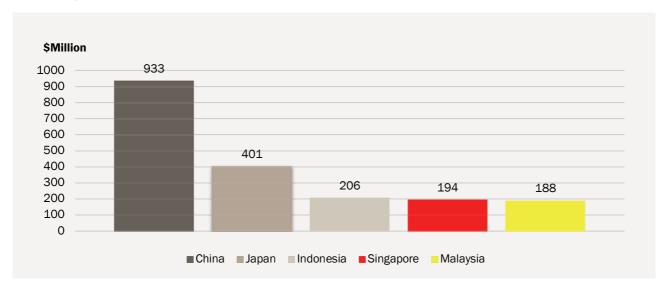
<sup>&</sup>lt;sup>47</sup> DAWR, MLA estimates, Lamb exports by destination

<sup>&</sup>lt;sup>48</sup> Euromonitor International, The State of Global Pet Care: Trends and Growth Opportunities

#### 2. INDUSTRIES OVERVIEW

**CONTINUED** 

Figure 11: Top five export markets for Australian dairy in 2016/17 (source: Dairy Australia, Australian Dairy Industry in Focus 2017)



Total stockfeed consumption is greatly influenced by seasonal conditions, input costs (some of which are influenced by global commodity pricing) and cost of production as noted in Section 2.6.3 below.

#### (b) Nutritional benefits

Australia is a significant producer of stockfeed products for the domestic and export markets and there is demand for high quality ingredients to support this production. Rice and rice derivatives (such as rice bran) are considered premium and important ingredients by the animal nutrition industry, especially in dog and equine feed. Rice in the form of 'rice brokens' created by the rice milling process are a highly valued commodity by international manufacturers in the dog food industry as they are a more digestible and superior form of starch for dogs than wheat. In the equine industry where 'cool feeds' or energy sources with lower starch levels are highly valued, rice bran is also seen as nutritionally superior to wheat-derived mill mix. CopRice has extensive capability in and access to these products in Australia.

#### (c) Premiumisation

In the dog category, customers are increasingly seeking out high-quality products for their pets, influenced by discretionary income. In the agricultural retail space where feed for 'working dogs' on farm is a key niche area, this is resulting in increasing demand for more premium nutritionally-driven products, as evidenced by new product launches.

Similar trends are seen in the equine industry, especially in the leisure rider segment, which is the core source of demand in this channel.

#### 2.6.3 Supply drivers for stockfeed and companion animal feeds

The supply of stockfeed and companion animal feed is dependent on the availability and price of component raw materials and as a result some stockfeed ingredients may be substituted to reflect these variables. The price of raw materials is influenced by a number of factors including fluctuation in the Australian dollar, international commodity prices and crop production levels.

In the dairy industry, demand fluctuates on a cyclical basis based on: farmgate milk price; input costs including feed and grain prices; as well as the impact of weather conditions on the availability and quality of pasture available. Given the established 'direct to farm' sales channel for livestock, proximity of milling assets to customer locations is important.



This page was left intentionally blank



## **SUNRICE GROUP AND BUSINESS OVERVIEW**

#### 3.1 **SunRice overview**

#### 3.1.1 Overview

The SunRice Group is a major Australian branded food company, comprising multiple businesses, with international reach into high growth markets across Asia, the Pacific and the Middle East.

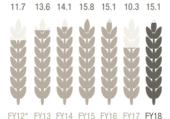
SunRice enjoys a number of market leading positions in the key geographies in which it operates (see Sections 2 and 3.5 - 3.10). This is based on a premium brand equity with consumers that has been established over decades of delivering high quality, great tasting products. It is strengthened by the relationship between the Group's businesses and underpinned by a strong global supply chain network, which includes end-to-end product traceability, rail and shipping channels, an established customer base, and long-standing distributor relationships that provide critical local knowledge and cultural insight. These factors offer the opportunity to leverage SunRice's assets for growth beyond its traditional rice foods remit.

The Rice Pool Business (see Section 3.10), which supplies high quality, trusted branded rice food to discerning consumers in its markets, represents SunRice's heritage. It has positive growth in its own right and provides access to infrastructure and an established consumer base for the launch of a wide range of value added food products to meet emerging food and consumption trends. The SunRice Group's presence, particularly in the Middle East, the Pacific and Asia, provides access to growing and increasingly affluent populations concerned about the provenance of the food they provide to their families (see Section 2.3.1). Rice is an everyday staple in these markets and the SunRice Group benefits from the combination of Australia's strong reputation for clean and green supply and its own credentials as an international expert in rice foods.

SunRice's previous FY12 - FY18 Group Strategy demonstrated the Company's ability to identify and execute profitable growth initiatives despite the volatility of Australian weather patterns affecting supply; and sovereign risk affecting demand (see Figure 12 and the SunRice website for prior presentations). SunRice's 2022 Growth Strategy, detailed in Section 3.4, lays out the pathway for future growth and the opportunity for diversification. If successful, it will establish SunRice as a multinational branded food company of scale with market leading positions in various food and companion animal segments across many geographies, sourced from a globally cost competitive, flexible and secure supply network. This will provide opportunities for existing and new investors in SunRice, as outlined on the following pages.

Figure 12: SunRice results FY12 - FY18

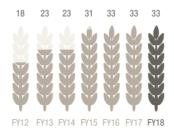
**GROUP REVENUE (\$BN) NET PROFIT AFTER TAX (\$M)** BILLION+ DEMONSTRATED 1.00 1.07 1.15 1.25 1.27 1.11 1.18 36 49 52 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY12\* FY13 FY14 FY15 FY16 FY17 FY18 PADDY PRICE **RETURN ON CAPITAL EMPLOYED (%)** (REIZIQ, YEAR END, \$/TONNE) CONSISTENT HIGHER **PERFORMANCE** & LESS VOLATILE PRICES





DIVIDENDS (YEAR END. ¢)

RECORD **DIVIDENDS** 



SHARE PRICE (YEAR END. \$)

IKUNGER SHARE PRICE



**NET PROFIT AFTER TAX** 

FY12\*-FY18

PADDY PRICE

**DIVIDENDS** 

FY12 - FY18

\*FY12 adjusted to exclude the impact of Paddy Price Retention (~\$11m after tax and ~16m before tax). See Section 7.5.5 (b).

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

**CONTINUED** 

#### 3.1.2 Investment highlights

The SunRice Group is well positioned to take advantage of the following global themes, which were outlined in Section 2 and form the basis of SunRice's 2022 Growth Strategy (see Section 3.4).

## SUSHI RICE GROWTH OPPORTUNITIES



SUNRICE IS UNIQUELY POSITIONED TO TAKE ADVANTAGE OF THE GLOBAL FASCINATION WITH SUSHI

- Japanese and North Asian cuisine have seen significant global growth outside Japan led by the rapid expansion of sushi in high-end food service outlets, as well as the emerging role of sushi in quick service restaurant formats.
- There is an opportunity for Australian rice, which is of a similar quality and
  more affordable than Japanese rice, to penetrate the large existing restaurant
  channel within Japan, as a result of the changing demographic of Japanese
  farmers, which is expected to limit access to locally grown rice in the future.
- Due to the diverse supply sources available to SunRice through the Group's global footprint, the Business will be able to offer a tiered customer offering within a hierarchy of price and quality to meet varying customers' requirements.
- When required, SunRice is also available to deliver dual hemisphere sourcing that offers supply security and a fresh crop twice yearly, which is considered an important attribute by Japanese consumers.

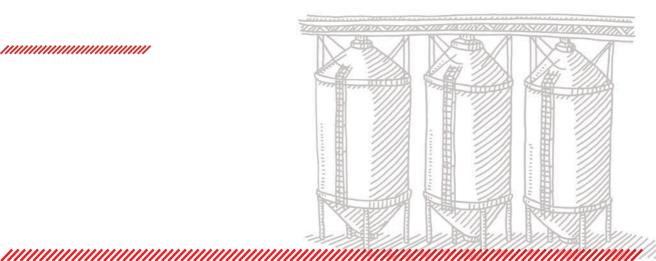
## GROWTH IN INTERNATIONAL DEMAND FOR SNACKS



SNACKING IS A KEY GLOBAL FOOD TREND THAT SUNRICE IS LEVERAGING

- As societies move up the wealth curve, consumers typically become time poor, seek convenience in food formats and move away from formal meal occasions. This trend has led to growth in snacking or grazing (eating on the go) and requires specific food formats (see Section 2.3.3). It is especially evident in a number of the SunRice Group's markets, in which consumers are attracted to snacks derived from a rice base.
- The SunRice Group has a track record of successfully servicing this consumer need in Australia and in FY18 launched these products across its international distributor network.
- With international demand now evident<sup>49</sup> there is an opportunity for the Group to establish a lower cost supply base for these snacks, in addition to identifying other rice-based snack opportunities, and delivering a larger portfolio of products.

<sup>&</sup>lt;sup>49</sup> Mintel, "Annual Salty Snacks Report 2018"



#### **DEVELOPING SUNRICE'S LOW GI PRODUCT OFFERING**



**SUNRICE'S UNIQUE LOW GI RICE** RANGE IS BEING EXPANDED TO HELP **ADDRESS OBESITY AND DIABETES** 

- The global obesity epidemic recognised by most western societies is also evident in many Asian nations (see Section 2.3.2). Whilst white rice has been consumed for millennia in many of these nations, the increasingly health conscious consumer is looking for a healthier solution that still satisfies their cultural cuisine.
- In the west, brown rice has been increasingly adopted as a healthier alternative whilst the Asian palate is still more attuned to long grain and fragrant white rice. SunRice has bred a distinct variety of white rice that has a low glycemic index compared to other rice and when substituted into the diet provides slower energy
- Whilst this science is readily accepted in western markets, it is only just entering most Asian markets. The SunRice Group is well advanced in working in markets that have a growing incidence of diabetes and has successfully launched this product in the influential market of Singapore.
- SunRice's low GI product is sold at a premium to standard rice and, if adopted, would provide a substantial growth platform for this and other healthier rice products.

#### **DEVELOPMENT OF NEW RICE-BASED VALUE-**ADDED INGREDIENTS **PRODUCTS**



SUNRICE WILL PROCESS RICE BRAN FOR SALE IN HEALTHY SNACKING **PRODUCTS** 

- SunRice has provided commercial food manufacturers with their rice and rice derivative ingredient requirements for well over a decade.
- These well-established relationships provide SunRice with the opportunity to:
  - Meet the changing and more sophisticated needs of our customers as they respond to the consumer trends affecting their businesses; and
  - Add further value to rice-based ingredients to facilitate margin expansion and demand growth.
- An example of such an initiative is SunRice's recent investment in a stabilised rice bran manufacturing facility in Leeton, NSW. Once commissioned, this plant will take fresh rice bran by-product from SunRice's standard milling process and using a thermal treatment process stabilise the oil contained in the bran. The resulting highly nutritious ingredient can be included in high value healthy snacking products, in addition to equine feed stock, with considerable margin expansion anticipated.
- In the medium term SunRice has identified an opportunity to combine this technology to produce low GI, gluten free whole meal rice flour and other value added ingredients.

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

**CONTINUED** 





SUNRICE'S KANGAROO BRAND IS GROWING IN POPULARITY IN ASIA

- Rice is the staple carbohydrate and grain of choice for more than half of the
  world's population (see Sections 2.2 and 2.3). Importantly, the majority of
  population growth in the coming decades is anticipated to be in markets in which
  SunRice either:
  - Already has an established presence; or

- Is a near neighbour, but is currently constrained from market entry due to political and cultural sensitivities.
- As populations grow in these regions, food security is increasingly an issue.
   Combined with coincident trends of urbanisation, GDP growth and the increased penetration of the modern trade, it is anticipated that import restrictions to a number of Asian markets will be relaxed and consumers will change their rice shopping habits from traditional wet markets to the expanding supermarket channel<sup>50</sup>.
- This is expected to provide opportunity for branded rice companies with experience in meeting the needs of discerning consumers to establish a trusted branded relationship for rice-based food products.
- The SunRice Group is geographically well-placed in the Asian region. Given the Group's strong product repertoire and choice of certified food safe supply options, it is well-positioned to maximise the market opportunities that arise.

## ATTRACTIVE GROWTH OPPORTUNITIES FOR COPRICE IN ANIMAL NUTRITION LOCALLY AND INTERNATIONALLY



NUTRITION-BASED ANIMAL FEED INNOVATION WILL BE A KEY GROWTH DRIVER FOR COPRICE

- Established originally to process and sell rice milling by-products, today SunRice's
  CopRice business (see Section 3.8) is an animal nutrition business with a strong
  market position in the Victorian dairy industry, complemented by a profitable and
  growing presence in supplying feed for other animal species, particularly sheep. In
  more recent times the CopRice business has demonstrated an ability to
  successfully compete in the high growth companion animal sector of dog and cat
  food.
- CopRice has a cost competitive manufacturing footprint based in Leeton NSW, and Northern and Western Victoria. When combined with specialised animal nutrition support for farmers and a comprehensive range of branded animal nutrition products sold into the agricultural merchant channel, CopRice is well placed to pursue further growth through:
  - Geographical expansion and organic growth in other parts of Victoria and New Zealand; and/or
  - Acquisition.
- In addition, the rise in affluence in various Asian markets with increasing adoption
  of western habits of pet ownership provides an opportunity for the international
  expansion of CopRice's companion animal business, either through strategic
  partnerships or exporting.

 $<sup>^{50}</sup>$  Bain & Company, "China's Two-Speed Growth: In and Out of the Home", China Shopper Report 2017, Vol 1

#### **RIVIANA FOODS IS WELL-PLACED TO SUPPLY GROWING "ENTERTAINMENT** PLATTER" DEMAND

**RIVIANA FOODS IS BUILDING GREATER** PLATTER SHARE THROUGH GROWTH OF **CORE PRODUCTS AND BRAND** DIVERSIFICATION

- Based on the promise of meeting consumers' desire for high quality Mediterranean in home entertainment products, Riviana Foods (see Section 3.7) is a leading market player in ambient stable anti-pasto products and premium entertaining biscuits in the retail channel.
- The recent acquisition of Roza's Gourmet furnishes the business with the infrastructure and customer relationships to expand into the fresh chilled supply chain channel with synergies and opportunities for further expansion of the product portfolio to more comprehensively supply the broader entertainment platter and occasion. With the current trend of 48%<sup>51</sup> of consumers planning to cook or entertain at home, Riviana Foods is well-placed.
- Riviana Foods utilises its large global supplier base and manufacturing operations to optimise its food service product range to meet the needs of customers in this channel, from hotels and pubs, to hospitals and correctional facilities. The business is therefore well-placed to also service the out of home market putting it in a strong position to meet consumer trends and changes in spending patterns, both in and out of home.

#### **EXPANSION OF** INTERNATIONAL SUPPLY SOURCING



**VIETNAM IS KEY TO SUNRICE'S GLOBAL SOURCING SUPPLY CHAIN STRATEGY** 

- The SunRice Group's expansion into Vietnam (see Section 3.5.3) is illustrative of the scale of opportunity available to it as a result of its depth of knowledge in global markets, as well as the opportunity to create a hedge against potential climatic factors that affect the Group's Riverina supply base.
- In just two years, the SunRice Group has established itself as a major player in the Mekong Delta rice industry. From November 2017 to October 2018, the Group accounted for approximately 4% of Vietnam's total rice exports and more than 35% of its Japonica exports. This has been achieved to international food safety standards, from paddy field through to branded packed product.
- The SunRice Group has recently completed the acquisition of its first physical milling asset in the Mekong and has signed memorandums of understanding with two Mekong Delta provincial governments. These agreements facilitate cooperation to build in those provinces a sustainable and traceable supply chain for rice of a quality and specification tailored to our end customers. As part of this, the SunRice Group is also implementing a new variety breeding program in the Mekong Delta which aims to develop proprietary rice varieties bred specifically for the Group.
- The SunRice Group is currently exploring similar footprints in other geographies recognised for their water security and rice growing heritage.

<sup>51</sup> Core Data, Choosi - Modern Food Trends Report, August 2017

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

CONTINUED

#### RESILIENT BUSINESS MODEL AND POTENTIAL FOR PROFIT GROWTH



GUOJUN ZHAO, WHO WORKS FOR SUNRICE MASTER DISTRIBUTOR ETTASON

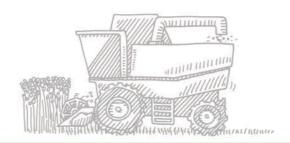
- SunRice's structure and diversification of earnings across the Group provides business resilience, as evidenced by the consistent track record of performance in delivering for both A and B Class Shareholders, even in times of adversity (see Figure 12).
- Led by an experienced Board and senior management team (see Section 7), SunRice's B Class Shareholders have benefited from the consistent delivery of fully franked dividends and share price growth (see Section 4).<sup>52</sup>
- In addition, the increased liquidity anticipated over time due to the removal of the
  previous ownership restrictions on B Class Shares and their listing on the ASX
  means that there is the potential for material improvement in the market price of
  B Class Shares<sup>53</sup> over time.
- While the Rice Pool Business is run to the benefit of Growers and A Class Shareholders, there is a strong alignment between the interests of Growers and investors (see Section 3.3). This includes payments to the Corporate segment of the Profit Businesses by the Rice Pool Business for the use of assets and brands. Additionally, some overheads are shared between the two business groups. The payments noted above reflect a return to B Class Shareholders (see Section 3.9).
- A significant part of SunRice's 2022 Growth Strategy is dedicated to enhancing Paddy Prices for Australian rice sold into premium markets. In line with this, B Class Shareholders are expected to also see an increased dollar return due to the brand charge being levied as a percentage of the revenue of Rice Pool Business branded product, subject to Average Riverina Crop volumes.
- These and other initiatives outlined in this Section and in Section 3.5 have been
  designed with the objective of delivering incremental profit growth for SunRice B
  Class Shareholders and will be assessed against the yield expectations of
  SunRice's current business.

The remainder of Section 3 includes important information about the SunRice Group's operating structure and financial performance, the profiles of each of the Profit Businesses to which B Class Shareholders have exposure, and a profile of the Rice Pool Business. This Section should be read in conjunction with Sections 2, 4 and 6.

<sup>&</sup>lt;sup>52</sup> Investors should note however, that investments can go up and down. Past performance is not necessarily indicative of future performance. No assurance can be given about the payment or the quantum of future dividends by the Company, or the level of franking or imputation on any such dividend. There may be periods in which dividends are not paid

<sup>&</sup>lt;sup>53</sup> It is however important to note that B Class Shares will be subject to market volatility on the ASX, business conditions and other factors, which may result in both positive and negative movements in the share price. The non-standard features of SunRice's structure, including the 10% B Class Shareholding Limit may also negatively impact trading liquidity, which may in turn affect share price (see the risk factor discussion at Section 6.2.11 and Section 6.2.12)





#### 3.2 SunRice fast facts (FY18)



#### \$440 MILLION

REVENUE ATTRIBUTABLE TO RICE POOL BUSINESS (BEFORE INTERSEGMENT ELIMINATION)

#### \$798 MILLION

REVENUE FROM EXTERNAL CUSTOMERS ATTRIBUTABLE TO PROFIT BUSINESSES

#### \$45 MILLION

NET PROFIT AFTER TAX





\$42 MILLION NET DEBT



PADDY PRICE FOR MEDIUM GRAIN REIZIQ





15% RETURN ON CAPITAL EMPLOYED 75.9 CENTS
BASIC & DILUTED
EARNINGS PER
SHARE

\$7.49 NET TANGIBLE ASSET PER SHARE APPROX
2,000
EMPLOYEES
ACROSS EIGHT
COUNTRIES



**BRANDS** 

9%
YEAR-END GEARING
NET DEBT / (NET
DEBT + EQUITY)

#### #1 RICE BRAND

IN AUSTRALIA, NEW ZEALAND, PNG & THE SOLOMON ISLANDS



JAPONICA RICE IN THE MIDDLE EAST



IN PICKLED VEGETABLES, PREMIUM ENTERTAINING BISCUITS



## SUNRICE BUSINESS MODEL & 3 YEAR PERFORMANCE

#### SunRice

Our objective is to optimise returns for both classes of shareholders through the complementary Rice Pool and Profit Businesses, which have mutually beneficial links and purposes

#### A Class Shareholders Grower Shareholders

#### Rice Pool

Receival, milling, marketing and selling of Riverina Rice

Revenue

Expenses

= PADDY PRICE

Shared costs

Asset financing
charge

Brand
use charges
Paddy Price
supplement
(if required)

Revenue

**B Class Shareholders** 

Investors

**Profit Businesses** 

International Rice, Rice Food,

Riviana Foods, CopRice & Corporate

**Expenses** 

PROFIT

Payments for rice paddy to Growers and A Class Shareholders



Dividends to B Class Shareholders



#### **RICE POOL BUSINESS**

#### SUNRICE GROUP

Consolidated Performance



#### **RICE POOL**



#### Revenue (A\$M)





#### Revenue (A\$M)





#### NPBT (A\$M)

73 40 63



#### Paddy Prices (AUD per tonne, Reiziq)

404 415 379



#### Net assets (A\$M)



#### Net assets (A\$M)



#### PROFIT BUSINESSES

## INTERNATIONAL RICE



**RIVIANA FOODS** 



**RICE FOOD** 



**COPRICE** 



**CORPORATE** 



#### Revenue (A\$M)





FY16 FY17 FY18

+18\* +8\* -5\* 105 113 107

0% -24% +12% 131 99 111



#### NPBT (A\$M)











#### Net assets (A\$M)











#### **SUNRICE GROUP AND** 3. **BUSINESS OVERVIEW**

**CONTINUED** 

#### 3.3 SunRice's business model

SunRice's Constitution reflects the Company's twin objectives of achieving profitability of the Company's businesses and long term improvement in Grower returns.

In line with this, the Group's structure separates and protects the interests of B Class Shareholders (investors), who have the rights to receive dividends from SunRice, as determined by the Board; and A Class Shareholders, who have Control of the Company. The rights of the A Class Shareholders and the B Class Shareholders are described in more detail in Sections 8.5 and 8.6. The risk factors resulting from SunRice's dual class share structure are also discussed in more detail in Section 6.2.11.

The separation of the Group's structure is achieved through the division of SunRice into two broad business groups, as shown in Figure 13. While separate, the Rice Pool Business and Profit Businesses complement each other, strengthening the alignment between A and B Class Shareholders.

#### **The Profit Businesses** 3.3.1

SunRice's Profit Businesses are profiled in Sections 3.5 - 3.9 and deliver benefits to B Class Shareholders, in the form of participation in capital growth and dividends. These business units include Riviana Foods, CopRice, and the Rice Food, International Rice and Corporate segments.

SunRice's Profit Businesses are aligned to the Company's investors. After-tax profits made in these businesses are available to be retained within the business or distributed to B Class Shareholders in the form of dividends (see Section 4.12), as determined by the Board. Profits can however be partly offset by losses in the Rice Pool Business in years when a Paddy Price Supplement decision is made in circumstances where it is in the best interest of the Company as a whole, as detailed in Section 7.5.5. It is important investors understand these circumstances and the application of SunRice's Paddy Pricing Policy as it relates to their investment.

The Rice Pool Business is a supplier to the Profit Businesses and also contributes through charges payable to the Corporate segment of the Profit Businesses, as profiled in this Section 3.

#### The Rice Pool Business or Paddy Pool

The Rice Pool Business is profiled in Section 3.10 and is aligned to Growers, the majority of whom are A Class Shareholders. This business is the Paddy Pool and deals with the receival, milling, marketing and selling of Riverina Rice. This includes sales of Riverina Rice and rice by-products to SunRice's Profit Businesses, at commercial pricing.

The Paddy Pool is a financial model through which the Paddy Price is calculated by aggregating all revenue from the sale of Riverina Rice, and then deducting relevant costs, including payments to the Corporate segment of the Profit Businesses for the use of assets and brands. The balance is paid out in the form of Paddy Prices determined in line with SunRice's Paddy Pricing Policy. Under the Paddy Pricing Policy, the Board has the discretion to set a Paddy Price in a manner different to the Pool methodology, as noted above and set out in Section 7.5.5.

#### SUNRICE'S PROFIT BUSINESSES

- Aligned to B Class Shareholders. Delivers benefits in the form of capital growth and dividends.
- Operated in line with SunRice's Dividend Distribution Policy and Paddy Pricing
- Is supplied by global sources and the Rice Pool Business.
- Benefits from a strong Rice Pool Business
  - Use of shared services for management and marketing expertise and charges payable to the Corporate segment for access to and use of brands, milling and storage assets;
  - Access to the Rice Pool Business' supply chain networks; and
- Access for International Rice to Rice Pool markets in certain circumstances.
   Can be partly offset by losses in the Rice Pool Business when a Paddy Pricing

#### SUNRICE'S RICE POOL BUSINESS

- Aligned to A Class Shareholders and
- Supplier to the Profit Businesses, as
- Delivers benefits in the form of Paddy returns (Paddy Prices).

  Operated in line with SunRice's Paddy
- **Pricing Policy**

#### 3.3.3 How do the Profit and Rice Pool Businesses interact?

It is important to understand that the two parts of SunRice – the Profit Businesses and the Rice Pool Business – do not operate in isolation. The two are complementary and deliver shared benefits to both sets of Shareholders. These include:

- Profitable participation in world markets through both the International Rice segment of the Profit Businesses and the Rice Pool Business, depending on crop availability, variety and market conditions;
- · Shared investment in SunRice brands, supply chain, distribution and marketing networks; and
- Providing SunRice with the necessary critical mass to successfully compete in today's dynamic business environment. This
  includes attracting high quality staff and management to ensure the Company remains at the forefront of research and
  development, operational excellence, and sales and marketing.

In this way, the Profit Businesses and the Rice Pool Business work together to minimise risk across the entire Group and provide resilience for SunRice.

The interests of A Class Shareholders in achieving returns through Paddy Prices and the interests of B Class Shareholders in achieving improvements in the market price of B Class Shares means that there is a risk that those interests may diverge, particularly as the proportion of B Class Shares held by A Class Shareholders decreases.

The Board represents the best interests of SunRice as a whole and has a successful track record of balancing the needs of both A and B Class Shareholders, as evidenced by the financial metrics produced under SunRice's operating model over the past 10 years. This includes delivering improvement in dividends and share price growth for B Class Shareholders and attractive Paddy Prices for Growers and A Class Shareholders, including in times of adversity. In making any decision, the Board must have regard to its duties under the Corporations Act and the general law to act in the best interests of SunRice as a whole. In line with this, SunRice has adopted a Conflict of Interest Policy to assist in balancing the interests of A Class Shareholders (see Section 7.5.10).

The SunRice Group's trading conditions and business performance are communicated to the market in line with the Company's Disclosure and Communications Policy (see Section 7.5.8).

#### 3.3.4 SunRice business mix

Figures 14 and 15 demonstrate the various contributions of each of the Profit Businesses and the Rice Pool Business in terms of Group revenue and net profit before tax for FY18.

Importantly:

- Revenue (including from the Rice Pool Business) represents sales to third party customers only and excludes intercompany sales.
- The Rice Pool Business contributes to the Group's NPBT through payments to the Corporate segment of the Profit Businesses for the use of brands and assets (see Section 3.9).
- After these payments are made, the balance of the Rice Pool Business is paid out to Growers in the form of Paddy Prices (and not available to B Class Shareholders in the form of dividends).
- This results in a nil NPBT for the Rice Pool Business, unless a Paddy Price Supplement is paid (see Section 7.5.5).

A detailed description of each SunRice business segment, including the key drivers of profitability between FY16 and FY18 have been provided in Sections 3.5 - 3.10.

Detailed financial commentary can be found in Section 4.



Figure 14: SunRice revenue by business in FY18

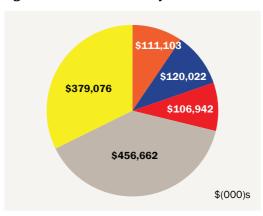
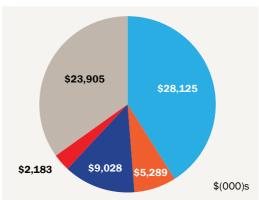


Figure 15: SunRice NPBT by business in FY18



## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

CONTINUED

#### 3.4 SunRice's 2022 Growth Strategy

SunRice's 2022 Growth Strategy is designed to build on the SunRice Group's excellent foundations to strengthen it, building an enduring global Group that benefits Shareholders, Growers and employees in the years to come.

#### 3.4.1 Global food trends and SunRice's competitive advantages

SunRice's 2022 Growth Strategy has been developed to capitalise on the following food trends:

- Convenience and packaging: Consumers in developing countries that are increasing in affluence are seeking trusted, high
  quality rice, packaged for convenience;
- Obesity and diabetes epidemic: Rice eating nations are facing rising public health crises, and Low GI rice, which is grown in the Riverina, has significant potential as a healthy alternative in these markets;
- Fascination with sushi: There is increased global demand for sushi, with few locations in the world able to grow suitable short grain rice. Some of the best sushi rice varietals are currently grown in the Riverina and there is significant scope to increase production;
- Healthy snacking: Healthy snacking is a fast-growing category in SunRice's existing domestic and offshore markets, as well
  as Asia. There is potential to diversify SunRice's high value rice-based snacks to meet global demand for new healthy, tasty
  snack foods:
- Food ingredient trends: The trend for gluten-free, low-allergen, animal-free foods and ingredients provides significant opportunities to offer rice-derived solutions for food manufacturers; and
- Food safety: Consumer concerns in existing and target markets regarding the integrity of their food supply chains mean that they will pay a premium for food from sources they can trust.

In addition, the 2022 Growth Strategy seeks to maximise SunRice's competitive advantages:

- The provenance of Riverina Rice: Riverina Rice is recognised as amongst the best in the world for quality and taste. In
  order to deliver on the 2022 Growth Strategy, SunRice is encouraging Riverina Growers to produce premium varietals to
  meet global food trends and demand, particularly in discerning markets willing to pay a premium for quality. The
  reputation of Riverina Rice and the strength of SunRice's brands is also leveraged to benefit the Profit Businesses in
  terms of market access and product expansion.
- SunRice's global supply chains: The SunRice Group's existing supply chains and quality assurance systems allow it to flex its multiple supply sources to respond to market dynamics and opportunities. Under the 2022 Growth Strategy, the SunRice Group will use its supply chains to meet demand across its markets, while assuring quality through its established systems. The Group's supply chains are also able to be used to introduce new products to market across categories and geographies.

#### 3.4.2 Strategic initiatives and investment

The 2022 Growth Strategy includes the following key initiatives that are intended to drive SunRice's objectives of improving returns for both Shareholders and Growers over time. Approximately \$200 - \$300 million of capital investment would be required over the next three to five years to execute these opportunities. This is in addition to the Company's ongoing capital expenditure, which is allocated to projects and initiatives on an annual basis.

SunRice expects to fund its operations and future growth through both cash flow generated from its operations and external financing provided by its debt facilities and the raising of capital on the ASX. At 31 October 2018, SunRice's unused core debt facility was \$128 million (see Section 4.11). As a result, the Company does not require access to new capital immediately and the ultimate timing, size and method of any capital raise in the future will be considered by the Board based on a range of factors, including business and market conditions. Further details of any capital raising, and a disclosure document, will be made available if and when SunRice B Class Shares are offered.

The following initiatives form part of SunRice's 2022 Growth Strategy:

(a) Expanding SunRice's Low GI and Sushi rices into new markets

SunRice has significant opportunities to expand its Low GI and Sushi rice varieties into new markets, especially in Asia. The Company is well-positioned to meet the requirements of these markets and the global food trends underpinning consumption. To take advantage of these opportunities, SunRice proposes to:

- Develop agronomic packages to enable Riverina Growers to increase production of premium varieties;
- Upgrade and invest in Australian receival, storage and milling facilities to ensure the high standards of these discerning markets can be met;
- · Boost Asian sales and marketing efforts to develop markets; and
- Conduct consumer-led varietal research and development to support this initiative.

The anticipated capital requirement for this initiative is \$30 - 50 million.

#### (b) Growing the healthy snacks business

SunRice has identified the opportunity to diversify its portfolio by building high-value rice based snacks into a new sales pillar with an international focus. The SunRice Group requires a cost-effective operation of sufficient scale to support expanding product offerings and markets and proposes to:

- Accelerate new product development and innovation either within the SunRice business or through acquisition;
- Boost global sales and marketing efforts to develop these markets; and
- Invest in lower-cost snack production facilities and global supply chains.

The anticipated capital requirement for this initiative is \$30 - 50 million.

(c) Building a healthy food ingredients business in both rice and rice derived products

As food manufacturers increase demand for gluten-free foods and plant-derived protein, there is considerable opportunity for the SunRice Group to offer rice-derived solutions. The Group has the opportunity to expand its food ingredients capability supplying domestic and international markets, especially through technology partnerships and bolt-on processing facilities. In order to do this, the SunRice Group proposes to:

- · Conduct customer-focused research and development;
- · Pursue global partnerships and potential acquisitions;
- Leverage quality-assured supply chains to maintain the Group's position as a supplier of high quality products; and
- Invest in facilities both in Australia and offshore.

The anticipated capital requirement for this initiative is \$20 - 50 million.

(d) Cementing a quality-assured global supply chain

With multiple sources of rice identified in the 2022 Growth Strategy, SunRice intends to extend the standards that make the SunRice brand so highly trusted to create consistency and quality-assurance across its global supply chain network.

Extending Australian best practice standards to new global supply chains will open new rice market opportunities and provide alternative supply sources to enable the SunRice Group to meet growing market demand for its products. To take advantage of these opportunities, SunRice proposes to:

- Continue to develop quality-assured and traceable supply chains offshore;
- · Conduct customer focused research and development;
- Invest in facilities both in Australia and offshore; and
- Build a facility in Asia and invest in a related quality assurance supply chain.

The anticipated capital requirement for this initiative is more than \$50 million.

(e) Expansion of a diversified portfolio

SunRice also plans to strengthen some of the existing Profit Businesses in its portfolio that have potential to generate higher revenue and profits and deliver increased resilience through expansion and diversification. The 2022 Growth Strategy has identified the following opportunities:

- CopRice: SunRice proposes to scale-up the CopRice business, including through mergers and acquisitions, to build an industry-leading animal nutrition business; utilising its rice by-products supply base and expanding its geographic presence in key areas. This includes initiatives spanning dairy, sheep and beef, equine and companion animals.
- **Riviana Foods:** SunRice proposes to scale-up the Riviana Foods business, utilising mergers and acquisitions to build a greater share of the 'entertaining platter' through extension of its core portfolio and brand diversification in its retail channel. Complementing this is a focus on leveraging its food services pantry offer with convenient 'Chef' quality meal preparation solutions. In line with this expansion strategy, Riviana Foods successfully acquired Roza's Gourmet Pty Limited in September 2018.

The anticipated capital requirement for these initiatives is \$50-100 million.

## **OUR FIVE-YEAR STRATEGY**

With roots in Australia's food bowl, we're proud to nourish discerning consumers around the world, who trust the traceability and provenance of our premium branded products

#### **OUR STRATEGY**

#### Increase

profits and reduce earnings volatility for growers and shareholders

#### Adapt

our product range to take advantage of changing food trends

#### Secure

reliable global supply chain

#### **CHALLENGES**

#### **Ensuring strong returns for** Riverina rice growers

Medium grain profitability affected by increased foreign competition



Alternative crops are competing for limited water and land







**Volatility of Australian supply** 

Market diversification and

access

WHAT SUCCESS **LOOKS LIKE** 



a sustainable and

#### HOW WE'LL ACHIEVE THIS

Cement a global supply chain in response to increased demand in branded products, ensuring quality and sustainability



Reposition Australia as the supply source of choice for premium branded

THE DUAL OBJECTIVES OF OUR STRATEGY ARE TO:

1. IMPROVE THE PRICES WE PAY OUR GROWERS

2. INCREASE RETURNS FOR OUR SHAREHOLDERS

Targeting Asia



Targeting Asia and Pacific

Use our capabilities to exploit evolving global food trends, especially in healthy eating and snacking



#### **DIVERSIFY INTO NEW MARKETS**

to offer high-quality and convenient packaged rice of trusted provenance



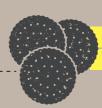
#### PLAY PIONEERING ROLE

in addressing the obesity and diabetes epidemics



#### UNIQUELY POSITIONED

to take advantage of the global fascination with sushi



#### **RECOGNISED AS A LEADER** IN HEALTHY SNACKING

through a range of innovative snacks



#### A STRONG FOOD INGREDIENTS BUSINESS

with diversified, high-value rice derivatives servicing global food companies



#### ASSURANCE OF QUALITY AND SUSTAINABILITY

with traceability, no matter where we grow our rice



Maintain a strong, cash-generative and diverse portfolio

Premium





#### STRONG FINANCIALS

double our revenue by 2022 and maintain double digit returns on capital employed



Be recognised for our high

performance, delivered by

a positive, inclusive and

accountable culture

Sellina

Existing markets

#### PREMIUM BRANDED PLAYER

Target markets and/or new offerings in existing

Targeting US, UK, EU and Asia

leverage our reputation for quality and innovation in premium varietals, healthy eating and snacking



Growing

Affordable

#### ASIAN PRESENCE

expand sales pillar in high-growth Asian consumer markets



#### DIVERSIFIED FOOD INGREDIENTS PILLAR

uild on our tailored food ngredients offering to service industrial customers



#### RESILIENT GLOBAL SUPPLY CHAIN

secure a multi-varietal and resilient global supply chain with Australian growers at its centre

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

CONTINUED

#### 3.4.3 How is the 2022 Growth Strategy intended to contribute to Shareholder value?

The SunRice 2022 Growth Strategy initiatives are intended to create value for Shareholders.

From an investor or B Class Shareholder perspective, value is delivered in the form of capital value and dividend growth<sup>54</sup>, which are derived from Riviana Foods, CopRice and the International Rice, Rice Food and Corporate segments of SunRice. The Rice Pool Business is a supplier to the Profit Businesses and also contributes to the Corporate segment of the Profit Businesses through charges payable for the use of brands and assets. The Rice Pool Business also shares some overheads with the Profit Businesses, as profiled earlier. The earnings of the Profit Businesses are generally only available for the Board to distribute as dividends to B Class Shareholders or to retain within SunRice. In certain circumstances, these earnings might be partly offset by losses in the Rice Pool Business when a Paddy Price Supplement decision is made in accordance with the Paddy Pricing Policy (see Section 7.5.5).

The 2022 Growth Strategy includes a range of initiatives designed to strengthen the Profit Businesses, to increase overall Group resilience and deliver Shareholder value over time. Specific initiatives include:

- Scaling up the CopRice and Riviana Foods businesses;
- Developing an international food ingredients business;
- · Growing SunRice's healthy snacks business in Asia; and
- Investing in new quality assured global supply chains to fulfil growing market demand.

From a Grower perspective, value is delivered in the form of the Paddy Price for Riverina Rice and the services delivered to Growers in the form of varietal research and development, agronomic advice and support, and the availability and maintenance of receival depots and local infrastructure. For more information on how the 2022 Growth Strategy benefits Growers, please see the SunRice website.

#### 3.4.4 How does the SunRice 2022 Growth Strategy reduce business risk?

It is the Board's view that it is prudent to strengthen and grow the SunRice Group to provide sufficient scale to navigate challenges and meet the needs of customers in a dynamic global environment. This includes being well-placed to face many of the risks profiled in Section 6. SunRice's 2022 Growth Strategy is designed to help mitigate these factors by building a global business of scale to increase resilience and balance sheet strength, particularly in periods of adversity.

The diversification strategy adopted by SunRice also contributes to lowering the overall risk for the Group by reducing its reliance on single points of supply, such as the Riverina, and specific markets, such as PNG and the Pacific Islands. For example, the SunRice Group's recent investment in milling capacity in Vietnam, combined with the SunFoods business, provides alternative supply sources to meet the Group's growing global demand for branded rice and rice products.



THE WORLD'S LOVE OF SUSHI IS DRIVING DEMAND FOR RIVERINA-GROWN SHORT GRAIN VARIETALS

<sup>&</sup>lt;sup>54</sup> Investors should note that the B Class Shares carry no guarantee of growth in capital value or dividends. Please also see Section 6 which contains details of the key risks of investing in SunRice

-3-SUNRICE GROUP AND BUSINESS OVERVIEW

- 3.5 PROFIT
BUSINESSES:
INTERNATIONAL
RICE















#### 3.5 Detailed description of the International Rice segment

#### 3.5.1 Overview

SunRice's International Rice segment:

- Is made up of SunRice's international subsidiaries, being Trukai Industries, Ricegrowers Middle East, Aqaba Processing Company (APC), SolRice, SunFoods, Ricegrowers Vietnam and the Group's global sourcing activities, which are mainly conducted by Ricegrowers Singapore;
- Is focused primarily on the manufacturing, marketing and distribution of rice through intermediaries to consumers, food service and processing customers in world markets, where there is growing demand for SunRice's great tasting branded products: and
- Captures SunRice's research and development company, RRAPL and the Company's Brandon business in North Queensland.

#### 3.5.2 Commercial customers, brands and products

The International Rice segment services commercial customers in those countries around the world in which the SunRice Group operates. This segment purchases, processes and markets rice to supply the Group's international branded markets, to service tender markets or trade to other processors at a profit. International rice is also sold into domestic markets, where these varieties cannot be grown in the Riverina or in sufficient quantities, particularly during times of low water availability.

Depending on supply and demand dynamics, the International Rice segment primarily purchases rice from:

- International sources. For example, SunFoods has purchased Californian rice for distribution to external customers across the Group and Ricegrowers Singapore has purchased Vietnamese rice for use in the same way. All profits from these activities contribute to the Profit Businesses; and/or
- The Rice Pool Business, at commercial prices. For example, Trukai Industries, Ricegrowers Middle East or SolRice may purchase Riverina Rice for their markets depending on availability. Profits realised within the international subsidiaries contribute to the International Rice segment, and therefore the Profit Businesses.

As noted above, the International Rice segment's product and customer mix includes:

- Branded, packaged consumer sales via international subsidiaries: Branded finished product as needed for Trukai Industries, SunFoods, SolRice and Ricegrowers Middle Fact.
- Branded, packaged customer sales: Branded finished product for other commercial customers globally;

## FY16 - FY18 **PERFORMANCE** Revenue (A\$M)\* 514 506 457 FY16 FY17 FY18 NPBT (A\$M) 28 FY16 FY17 FY18 Net assets (A\$M) 57 FY16 FY17 FY18

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

**CONTINUED** 

- Food service sales: Branded finished product for use in restaurants, hospitals, military and other food service applications;
- Bulk sales: Unbranded finished product supplied in bulk, sold to Trukai Industries or in tender markets.

International Rice is sold under a variety of brands, including SunRice, Sunwhite, Trukai, Roots, Koala and Hinode.

The International Rice business has diversified by geography, channel and product to become the largest contributor of Group revenue between FY16 - FY18. A description of each contributing business unit follows, as well as competitive advantages and risks, where relevant.

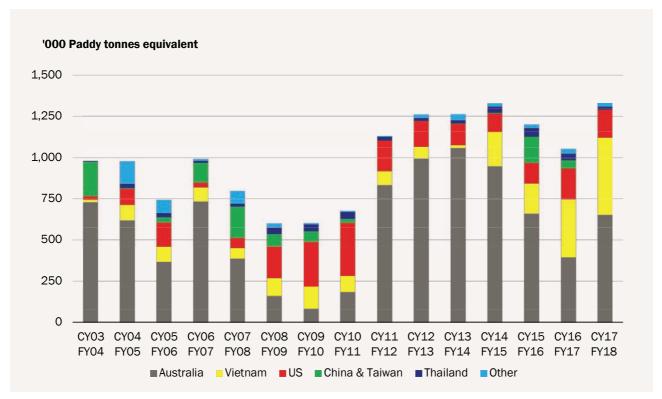
#### 3.5.3 Business unit descriptions

#### (a) Global sourcing activities

The SunRice Group's global rice sourcing activities are mainly conducted by Ricegrowers Singapore and are a significant contributor to the International Rice segment. These activities are focused on sourcing and expanding alternate rice supplies to meet market demand for existing and new territories.

The SunRice Group has successfully grown demand for rice volumes to a Paddy tonne equivalent of more than 1 million metric tonnes (see Figure 16). As a result, global sourcing activities have become increasingly significant to the SunRice Group to enable it to grow beyond the constraints of limited Riverina Rice supply volumes and become a truly international rice company.

Figure 16: Global supply sources for SunRice sales (source: SunRice internal analysis, note paddy tonnes equivalent is estimated using a milling yield on finished products of 50% for Vietnamese rice and 60% for other sources reflecting differences in moisture levels)



In order to balance the variability of Riverina Rice supply with the growing demand for SunRice products in Asia, the international subsidiary Ricegrowers Singapore was established in 2016 with a primary function to help develop an Asian strategy, lead global rice procurement and to house an Asian sales office. Today, the business' activities include agribusiness, rice procurement and sales, new country entry, operations and quality. This has enabled International Rice to procure rice from a range of countries, including Pakistan, India, Thailand, Vietnam, mainland China, Cambodia, Taiwan and the U.S.. Varieties and tonnages vary based on market dynamics and can include short, medium and long grain, Basmati, parboiled long grain, long grain Jasmine, red and black long grain rice, and wild rice.

As part of its global sourcing initiatives, the SunRice Group has also substantially increased its operations in Vietnam over the past two years and in FY18 opened an office in Can Tho City. The Group has also invested in multiple plant breeding programs



in the Mekong Delta, with an intent on future productivity being realised through variety development. Vietnamese rice is being used to meet growing market demand that exceeds the Riverina supply capacity particularly across the Asia Pacific region. However, the SunRice Group is also actively developing an offering in the Asian food service sector, with sales established into Hong Kong and Malaysia. In FY18 SunRice Group exports reached close to 500,000 paddy tonnes equivalent a year from Vietnam. For the period from November 2017 to October 2018, the Group accounted for approximately 4% of Vietnam's total rice exports and over 35% of its Japonica exports.<sup>55</sup>. However, as evidenced by historical analysis, the SunRice Group flexes its supply sources on an annual basis according to quality, price, suitability and availability.

Given the increasing significance of Vietnamese rice to the SunRice Group, it has moved to vertically integrate this supply chain and in October 2018 the Group acquired a rice milling and drying facility in the Mekong Delta. This is an example of the 2022 Growth Strategy being implemented. These assets will support the processing of rice varieties to suit various markets and provide end-to-end traceability to create a value added Vietnamese offer globally.

#### Competitive advantages and risks

The structure of the International Rice segment's global sourcing activities, marketing arrangements and relationships provide clear competitive advantages. These include:

- In country presence in Singapore, including a local office, access to established brands and markets, supply chains and distribution and selling networks;
- Increased diversification benefits from establishing a sustainable global supply chain accessing various sources of rice around the world;
- Access to research and development, breeding and agronomic expertise via subsidiary RRAPL to develop new global supply sources and supply chains;
- End-to-end traceability of all products, from rice growers through to finished product; and
- Shared participation in key global markets with the Rice Pool Business.

The profitability of global sourcing activities can be impacted by a range of factors, including oversupply situations, global stockpiling levels and protectionism in certain markets, which can combine to impact world pricing (see Sections 6.2.1 and 6.2.16). Supply levels of Riverina Rice can also affect SunRice's global sourcing strategy, including the volume and varieties purchased, as well as the markets served (see Sections 3.10, 6.2.1 and 6.2.2). Additional risks include foreign exchange movements (see Section 6.2.4) and sovereign risk in certain markets (see Section 6.2.5).

As described above, the global sourcing team purchases rice from a range of countries for sale to international subsidiaries or external customers. All of its profits are attributed to the International Rice segment and therefore the Profit Businesses.

#### (b) Trukai Industries

Trukai Industries is a rice packaging, distribution, sales and marketing company and is PNG's leading supplier of quality rice products. The company is 66.23% owned by SunRice and 33.77% owned by the trustee of the Pacific Balance Fund<sup>56</sup>, a unit trust that is managed for approximately 20,000 individual and institutional unit account holders in PNG.

Registered in 1970 by SunRice, Trukai Industries sells a number of well-established brands including Trukai and Roots Rice, which together hold approximately 75% value share of market. Trukai Industries' head office and packing base is located in Lae and it has 12 distribution facilities located throughout PNG, with an estimated 10,000 stockists selling Trukai branded products. The company also operates a mixed farm.

Trukai Industries is actively investing in local rice production through a number of projects in the Morobe Province, leveraging the research, development and technical expertise of SunRice subsidiary RRAPL.

#### Competitive advantages and risks

Trukai Industries' structure, marketing arrangements and relationships provide clear competitive advantages. These include:

- Established brand presence and equity, spanning 48 years, and leading market share in PNG;
- Established in country presence, including head office, packing facility, supply chain and distribution and selling network, farming and rice growing operations; and
- End-to-end traceability of all products, from rice growers through to finished product.

<sup>55</sup> SunRice internal analysis with data from World Rice Statistics database (http://ricestat.irri.org:8080/wrsv3/about.html)

<sup>56</sup> The minority shareholder in Trukai Industries is the Pacific Balance Fund (PBF). The trustee of PBF is Melanesian Trustee Services Limited (MTSL). MTSL is under investigation by the PNG Securities Commission and is also engaged in court proceedings regarding its position as trustee of PBF. On 24 September 2018 the PNG Securities Commission announced it had taken over as Fund Manager of PBF pending the outcome of its investigation. SunRice's inquires indicate the PNG Securities Commission remains the Fund Manager of PBF at the date of this Information Memorandum

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

#### **CONTINUED**

Trukai Industries operates in a challenging political environment, in which the PNG currency, the kina, has been actively managed by the central bank since mid-2014, impacting liquidity, the repatriation of funds to SunRice and the cost of business inputs (see Sections 4.6.8 and 6.2.4). In addition, the PNG Government has previously announced its intention to develop a National Rice Policy, which seeks to align local investment with the right to import rice (see Section 6.2.5). Trukai Industries is also exposed to risks in relation to global commodity markets (see Section 6.2.1), competition (see Section 6.2.16) and is not a wholly owned subsidiary (see Section 6.2.9).

Trukai Industries purchases rice from either global sourcing and/or via the Rice Pool Business for sale in the PNG market. Its profits are attributed to the International Rice segment and therefore the Profit Businesses.

#### (c) SolRice

Solomons Rice Company Limited (trading as SolRice), is wholly owned by SunRice, and imports and sells rice packed under the "Solrais" brand throughout the Solomon Islands. SunRice purchased the company in 1991 as part of its strategy to brand Australian rice throughout its markets.

Today SolRice is the Solomon Islands' leading supplier of quality rice products, and its established Solrais brand has a leading market share. SolRice's head office and warehouse is located in Honiara and the business has a strong distributor network, across the country.

As part of its relationship with the SunRice Group, SolRice has diversified its product mix in recent years to include Island Sun, a Vietnamese-sourced medium grain to help drive SolRice growth in the value segment of the market, and Trukai-branded stockfeed (packed in PNG), providing SolRice with a quality brand in the stockfeed category.

#### Competitive advantages and risks

SolRice's structure, marketing arrangements and relationships provide clear competitive advantages. These include:

- Established brand presence and equity, spanning more than 30 years, and a leading market share in the Solomon Islands:
- Established in country presence, including a local office, established supply chain and distribution and selling network;
- End-to-end traceability of all products, from rice growers through to finished product.

SolRice operates in a challenging political and economic environment (see Section 6.2.5). This can result in economic and foreign exchange volatility, which has the potential to impact SolRice's business performance from time to time (see Section 6.2.4). SolRice is also exposed to risks in relation to global commodity markets, supply levels of Riverina Rice (see Sections 6.2.1 and 6.2.2) and competition risks (see Section 6.2.16).

SolRice purchases rice from either global sourcing and/or the Rice Pool Business for sale in the Solomon Islands market. All of SolRice's profits are attributed to the International Rice segment, and therefore the Profit Businesses.

#### (d) Agaba Processing Company (APC)

APC is 80% owned by SunRice and 20% owned by Yousef Nader and Sons Co and related parties. This business is focused on receiving, storing and packing rice as well as operating grain handling and storage facilities. APC is located at Aqaba port in Jordan and was acquired by SunRice in 2003 to better service the demand for premium Australian medium grain rice in the Middle East.

APC provides a toll packing service for SunRice in Jordan, where it is licensed to operate. APC does not take ownership of the rice it packs for SunRice and is not directly involved in sales transactions with customers, as these transactions are directly entered into by SunRice. Profits generated by SunRice on these transactions are either attributable to the Rice Pool Business or the International Rice segment of the Profit Businesses, depending on the source of the rice sold into Jordan.

APC's assets can process 40,000 metric tonnes of rice product annually, with storage for 50,000 tonnes. The company provides flexibility during periods of low rice production in the Riverina and also provides surge packing capability.

#### Competitive advantages and risks

APC's competitive advantages are its established in country presence, including its packing facility, established supply chain and strong distributor relationships with Yousef Nader and Sons Co.

While the Middle East is an established market, sales volumes and prices can be impacted by a range of factors, including the availability of competing product from Egypt and the U.S. (see Section 6.2.1) and supply levels of Riverina Rice (see Section 6.2.2), which impact on the requirement for rice to be packed at APC. APC is also exposed to sovereign risk (see Section 6.2.5) and is not a wholly owned subsidiary (see Section 6.2.9).

#### (e) SunFoods

SunFoods is a rice milling, packaging, distribution, sales and marketing company, based in Woodland California in the U.S.. The company was established in 2008 to acquire the majority share of California based Gold River Mills, and to expand SunRice's ability to service branded international markets during the Millennium Drought.

In August 2016, SunFoods became a wholly owned subsidiary of SunRice. The business' assets include a rice mill and packing plant, with annual production capacity of 200,000 tonnes and 15,000 tonnes of paddy rice storage on site.

SunFoods generates branded sales across the U.S. mainland and Hawaiian retail segments. SunFoods is the owner of the Hinode brand, which was created by the California-based Rice Growers' Association in the 1930s. Hinode, with its long heritage, is a well-known regional West Coast brand for medium grain Calrose rice and is ranged in more than 3,800 retail outlets with over 20,000 points of distribution in U.S. West Coast retailers, including Walmart, Target, Kroger, Safeway, Foodland and Albertsons.

SunFoods is also engaged in private label business with specific emphasis in the Asian distributor and food service channels.

In years when the Rice Pool Business is unable to service its markets (for example, during low Riverina Rice production), SunFoods also supplies rice to other subsidiaries in the International Rice segment to maintain important customers, such as those in the Middle East. Outside of these times, the business actively participates in tender markets.

#### Competitive advantages and risks

SunFoods's structure, marketing arrangements and relationships provide clear competitive advantages. These include:

- Established brand presence and equity, spanning 80 years, and distribution and selling network;
- Significant asset base including manufacturing and packing assets and a flexible supply chain; and
- End-to-end traceability of all products, from rice growers through to finished product.

Factors influencing revenue and profitability for SunFoods include overall asset utilisation in years where Californian rice is not needed to supplement shortfalls in the Riverina Rice crop, particularly in the Middle East (see Sections 6.2.1 and 6.2.8). SunFoods is also exposed to risks in international tender markets (see Section 6.2.2). General rice production and pricing volatility in California, driven by water availability and changing weather patterns, can also impact profitability, although to a lesser extent.

SunFoods purchases Californian rice for sale to other international subsidiaries or external customers. All of SunFoods' profits are attributable to the International Rice segment and therefore are attributed to the Profit Businesses.

#### (f) Ricegrowers Vietnam

As outlined in Section 3.5.3(a), in October 2018 the SunRice Group acquired a rice milling and drying facility in the Mekong Delta as part of its alternative sourcing strategy. Once fully operational this facility will be mainly supplied by Vietnamese rice growers on contract arrangements. Profits generated by Ricegrowers Vietnam will be captured in the International Rice segment (and therefore the Profit Businesses) for reporting purposes.

#### (g) Ricegrowers Middle East

Ricegrowers Middle East is wholly owned by SunRice and located in Dubai. While SunRice has had long standing presence in the region, it commenced trading through the company in November 2018 in order to better service its established distributors and markets in the Middle East.

Ricegrowers Middle East purchases rice from either global sourcing and/or the Rice Pool Business at commercial prices for sale and distribution of packed rice, primarily under the "Sunwhite" brand. Profits generated by Ricegrowers Middle East are attributed to the International Rice segment and therefore the Profit Businesses.

#### Competitive advantages and risks

Ricegrowers Middle East structure, marketing arrangements and relationships provide clear competitive advantages. These include:

- Established brand presence and equity and the leading market share for Japonica rice in the Middle East;
- Regional presence, including a local office, established supply chain and long standing distributor relationships; and
- End-to-end traceability of all products, from rice growers through to finished product.

Ricegrowers Middle East operates in an environment subject to sovereign and political risks (see Section 6.2.5) and is also exposed to risks in relation to global commodity markets (see Section 6.2.1), supply levels of Riverina Rice (see Sections 6.2.2), change in customer demand and competition risks (see Sections 6.2.15 and 6.2.16).

## 3. SUNRICE GROUP AND BUSINESS OVERVIEW

CONTINUED

#### (h) Brandon

In 2014 SunRice acquired 100% of the Brandon Rice Milling assets from the Blue Ribbon Rice Group as part of its alternative sourcing strategy. Since then, SunRice has invested in a significant capital improvements program as part of its commitment to building a long-term sustainable rice industry in North Queensland. This has included upgrading receival and storage infrastructure at the Brandon Mill with the addition of 18 new rice paddy drying silos with 4,000 tonne capacity to complement the Mill's existing storage; a new weighbridge; a new huller and colour sorter; and food safety improvements and general maintenance works to enhance operational efficiency and reliability.

SunRice is supplied by approximately 10 North Queensland rice growers on contract arrangements. As a result, Brandon's activities are separate to the Rice Pool Business and all profits attributable to Brandon are captured in the International Rice segment (and therefore the Profit Businesses) for reporting purposes.

#### (i) Rice Research Australia Pty Ltd (RRAPL)

RRAPL is a wholly-owned subsidiary of SunRice. It was established in 1989 to operate a large leased irrigation property, "Old Coree", to carry out rice research and the development and production of pure rice seed.

The core business of RRAPL today includes collaboration with the Australian Rice Partnership (SunRice, the NSW Department of Primary Industries and AgriFutures Australia) and other research and development partners to explore rice breeding, enhanced agronomic management practices and grain quality programs both domestically and internationally. This work is focused on:

- Producing improved rice varieties;
- Producing genetically pure rice seed, which forms the basis of SunRice's Pure Seed Scheme;
- Conducting agronomic research to improve the efficiency of the rice farming system;
- · Undertaking commercial farming activities;
- · Supporting international rice research and development projects funded by the Australian Government; and
- Facilitating extension of best management practices to Growers.

Through these activities, RRAPL plays an important role in providing SunRice with access to a range of high quality rice varieties developed to suit consumer needs and, at the same time, growing conditions in the Riverina and key international regions that have potential as SunRice supply sources. Most recently this research and development work has included a focus on rice growing in northern Australia, Vietnam and PNG.

RRAPL also carries out a small volume of research for external third parties. While profits from these and other activities are minimal, they are included in the International Rice segment, and therefore are attributed to the Profit Businesses.

#### 3.5.4 Business performance

The SunRice Group's strategy to focus on premium branded products and drive demand in core markets is closely linked to the Group's expansion of its global sourcing activities to grow the business beyond the available Riverina Rice supply.

In response to a smaller Riverina crop, the International Rice segment sourced approximately 450,000 paddy tonne equivalent<sup>57</sup> of rice from Asia and the U.S. in FY16 (C15). In FY16, revenue was \$514 million and NPBT was \$36.4 million.

With a Riverina crop of just 244,184 paddy tonnes available, International Rice intensified its global sourcing program in FY17 (C16), securing an additional 550,000 paddy tonnes equivalent<sup>57</sup>. This included the establishment of a new supply chain in Vietnam - an important project that supplied approximately 350,000 paddy tonnes equivalent<sup>57</sup> for strategically important international markets. In FY17, revenue generated was \$506 million and NPBT was \$27.6 million for the year.

International Rice revenue was \$457 million in FY18 (C17) and was impacted by the larger Riverina crop being placed back into important export markets. NPBT was \$23.9 million in FY18.

Trukai Industries regained momentum in FY18 after being impacted by the previous year's challenging macroeconomic conditions. Through repositioning price points and improving product quality, the business re-established profitability and recovered market share.

International Rice's brands, namely Trukai, Solrais and Island Sun, saw SunRice brands ranked as the top rice brands in PNG and the Solomon Islands in FY18, with 64% market share based on sales volume.

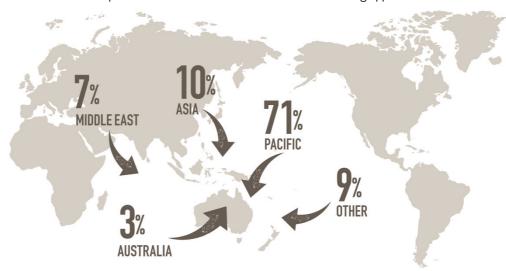
Highlighting the benefits of SunRice's international dual-hemisphere sourcing strategy has been the ability of SunFoods to flex supply in recent years depending on the size of the Riverina crop. In response to a low Riverina crop in C16, the Californian based miller enabled SunRice to continue supplying the important Middle East markets. When Average Riverina Crop volumes

<sup>&</sup>lt;sup>57</sup> Paddy tonnes equivalent assumes a milling yield on finished products of 50% for Vietnamese rice and 60% for rice from other sources reflecting differences in moisture levels

returned in C17 there was a reduced requirement for SunFoods to supply rice into our international markets, and as a result SunFoods' volumes returned to more normal levels.

The overall profitability of the International Rice segment benefits from increasing global demand for SunRice products. As demonstrated above, times of low Riverina Rice production result in additional international trading opportunities.

WHERE FY18
INTERNATIONAL
RICE REVENUE
WAS GENERATED



- 3 -SUNRICE GROUP AND BUSINESS OVERVIEW

— 3.6 — PROFIT BUSINESSES: RICE FOOD



#### 3.6 Detailed description of Rice Food segment

SunRice's Rice Food business is engaged in the manufacturing, marketing and distribution of value-added rice-based products, including snacks, ingredients and preprepared meals, both in domestic and global markets.

#### 3.6.1 Rice Food products, brands and commercial customers

The Rice Food segment's product and customer mix includes:

- Snacks, including rice cakes, mini cakes and chips: Branded finished products mainly sold under the SunRice brand to consumers;
- Microwave rice, including grain blends: Branded finished microwave rice across a variety of pack formats mainly sold under the SunRice brand to consumers;
- Microwave ready-to-go meals, including rice and protein meals and snacks: Branded finished product mainly sold under the SunRice brand to consumers;
- Private label: Manufacture and contract packing of select private label snacks and microwave products for commercial customers; and
- Rice flour: Sales to domestic and global industrial customers for use as an ingredient in food manufacturing.

Like International Rice, the Rice Food segment purchases:

- Rice, rice by-products and/or finished product from external sources, including internationally, thereby contributing directly to the Profit Businesses; and/or
- Rice and rice by-products from the Rice Pool Business at a commercial price.

SunRice's microwave rice, rice cakes and flour products are predominantly manufactured at the Company's specialty value-added processing facilities in Leeton, in the Riverina. Other value-added products are developed and manufactured offshore. Through these manufacturing partners, SunRice can quickly develop, launch and market test new products. This allows the Rice Food business to build volume and prove a market using an asset-light approach before investing capital in its Australian operations.

#### 3.6.2 Expertise and market profile

SunRice's Rice Food business has pioneered the domestic value-added rice categories over the past decade and built significant expertise in innovation, marketing and sales that has since been leveraged across the SunRice Group.

In line with investments made in consumer research and strengthened retail relationships, in FY18 SunRice's Rice Food business launched new, innovative value-added snacking products in Australia and internationally. This included launching 100% Brown Rice Chips in select Asian markets for the first time, with distribution exceeding targets.

The Australian launch of Rice Cake Bites targeted at adults also extended the market for Riverina grown brown rice.

## **FY16 - FY18 PERFORMANCE** Revenue (A\$M) 113 FY16 FY17 FY18 NPBT (A\$M) FY16 FY17 FY18 Net assets (A\$M) 34 FY16 FY17 FY18

In line with the 2022 Growth Strategy, the SunRice Board has approved an \$11 million capital investment to build a new stabilised rice bran manufacturing facility in Leeton in FY19, developing products for both the Rice Foods segment and CopRice.

Despite private label competition in Quick Cups, SunRice was the number one ranked brand by sales value in the microwave rice category in Australia in FY18<sup>58</sup>. The microwave rice category now generates almost half of this segment's sales revenue.

The Rice Food segment has also expanded its rice flour sales in recent years, with more than 90 food ingredients and food service customers across Australia, New Zealand and the Pacific.

#### 3.6.3 Competitive advantages and risks

Rice Food's structure, marketing arrangements and relationships provide competitive advantages in both domestic and global markets. These include:

- Established brand presence and equity, spanning 68 years in some markets:
- Strong retail and customer relationships and strong market share in the Australia and New Zealand microwave rice category:
- Significant expertise in innovation, marketing and distribution and selling network and investments in consumer research;
- The high quality and Australian provenance of Riverina Rice, which supports SunRice's reputation and the strength of its brands:
- End-to-end traceability of all grain, from Pure Seed issued to Growers to finished product;
- · Geography, including proximity to high-value growth markets and a global supply chain; and
- Established processing facilities and assets, including a shared \$11 million investment with CopRice to build a new food
  ingredients plant.

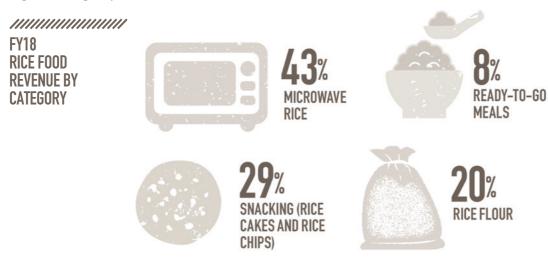
The profitability of the Rice Foods segment can be impacted by foreign exchange movements, which affect the cost of products acquired from third party manufacturers (see Section 6.2.4). Other risks include potential changes in consumer and customer demand that may affect sales volumes and margins (see Section 6.2.15), disruption of operations and product and food safety (see Sections 6.2.8 and 6.2.18) and increased competition, including from branded competitors and private label products and imports (see Section 6.2.16).

All Rice Foods profits are attributed to the Profit Businesses.

#### 3.6.4 Business performance

FY17 was a growth year for the Rice Food segment in terms of both revenue and profit. From FY16, revenue increased 8% to \$113 million; and an overall improvement in volumes and revenue combined with increased manufacturing efficiencies resulted in a considerable profit uplift to \$7.9 million.

Rice Food revenue in FY18 was \$107 million, representing a small decrease of 5% from FY17. NPBT decreased to \$2.2 million in FY18 and was affected by a combination of unfavourable factors in the period, including increased competition from Vietnamese imports in the rice flour category. Notwithstanding this competition, rice flour remained a key contributor to this segment during the year.



<sup>58</sup> Nielsen Scantrack data



**RIVIANA FOODS** 





























#### 3.7 **Detailed description of Riviana Foods**

Riviana Foods is a wholly-owned subsidiary of SunRice. Riviana Foods is a gourmet food manufacturing, distribution, sales and marketing company operating across the Australian grocery retail and food service channels and selected export markets. Established in the 1950s, the company was acquired by SunRice in 1993.

#### Riviana Foods products, brands and commercial customers 3.7.1

Riviana Foods has more than 380 products. In the grocery retail sector, the business markets products under its flagship brands Always Fresh and Riviana; as well as Admiral and Palms. The business also has the following food service brands: Garden Supreme, Regal Sea, Ocean Supreme, Menu Master, Mahatma, Tastic, Admiral and 4 Seasons. In FY17, Riviana Foods acquired the Australian-owned pickled vegetables business, Fehlbergs Fine Foods.

Riviana Foods operates across a range of categories in both sectors, including:

- Olives, antipasto and traditional pickled vegetables;
- Vinegar, condiments and sauces;
- Savoury biscuits;
- Fruit canned, pouch, frozen;
- Vegetable canned, pouch, frozen;
- Seafood canned, pouch; and
- Portion control desserts.

In September 2018, Riviana Foods successfully acquired specialist chilled sauces and dips manufacturer Roza's Gourmet Pty Ltd, which will enable the company to expand its product offering into categories such as dips and value-add food services and provides chilled supply chain capability, in line with SunRice's 2022 Growth Strategy.

Riviana Foods has well-established relationships with Coles, Metcash (IGA), Woolworths and ALDI and a substantial and high-profile food service customer base. The company's network of commercial customers and distributors gives it extensive access to the retail and food service markets in Australia. In addition, Riviana Foods has a small number of exporters, which sell its products across parts of Asia and the Middle East.

Riviana Foods has a balanced sales portfolio, with 60% of revenue from retail and 40% from food service.

#### 3.7.2 **Expertise and market profile**

Riviana Foods is headquartered in Melbourne, with a vinegar and pickled onion factory and Roza's Gourmet's factory both based in Queensland. It has third party warehousing operations in Victoria and New South Wales and continues to manage warehouses in Queensland and Western Australia. The company is largely an importer of premium products from Europe and Asia.

## FY16 - FY18 **PERFORMANCE** Revenue (A\$M) 139 126 120 FY16 FY17 FY18 NPBT (A\$M) 9 FY16 FY17 FY18 Net assets (A\$M) 38 FY16 FY17 FY18

Riviana Foods' core retail brand is Always Fresh and its core market is shelf-stable antipasto products. The company has the largest share of packaged olives and pickled vegetables in the retail channel in Australia - a position it has held for more than 20 years. Riviana Foods also has a presence in the premium biscuits, canned fish and canned vegetables categories and holds a 10.7% market position in rice, sourcing small volumes from the Rice Pool Business and the balance from external suppliers.

Riviana Foods has a strong presence in the food service sector with an extensive portfolio of food service brands. Its strongest position is in the canned fruit and vegetable market.

#### 3.7.3 Competitive advantages and risks

Riviana Foods' structure, marketing arrangements and relationships provide competitive advantages. These include:

- Established brand presence and equity, spanning 40 years in some markets;
- Strong retail and food service customer relationships and strong market share across a balanced portfolio;
- Significant expertise in innovation, marketing and distribution and selling network and investments in consumer research;
   and
- Established assets, including processing facilities and a vinegar and pickled onion factory based in Queensland.

Given Riviana Foods' focus on imported products, profitability can be impacted by unfavourable foreign currency fluctuations, which affect the cost of products acquired from third party manufacturers (see Section 6.2.4) and movements in food commodity prices (see Section 6.2.1). Additional risks include potential changes in consumer and customer demand, which may affect sales volumes and margins (see Section 6.2.15); disruption of operations and product food health and safety (see Sections 6.2.8 and 6.2.18); and increased competition, including from branded competitors and private label products and imports (see Section 6.2.16).

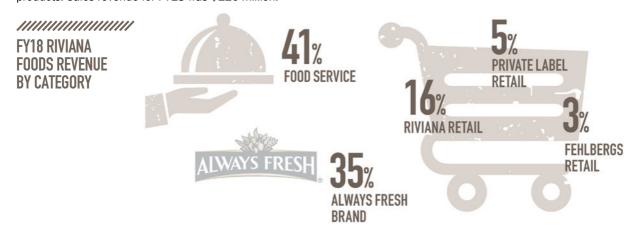
All of Riviana Foods's profits are attributed to the Profit Businesses.

#### 3.7.4 Business performance

In FY16, Riviana Foods' more focused product portfolio and lower cost base combined to offset currency declines. The company delivered a 95.6% year-on-year uplift in net profit before tax to \$13.2 million despite an increasingly competitive retail and food service environment, causing overall revenue decline of 6.9% to \$139 million. A strong operating cash flow of \$20.6 million and a net working capital reduction of \$9.3 million to \$35.6 million was achieved through continued improvements in supply chain management.

External factors, including the contraction of the mining sector, consolidation in the food service industry, retail pricing pressure and private label growth negatively impacted volumes during FY17. The business also faced continued pressure from a fourth year of currency depreciation that impacted margins. As a result, Riviana Foods recorded a 9% decline in revenue to \$126 million and NPBT declined by 36% to \$8.5 million.

Despite challenging food service sector trading conditions, restructure costs and exposure to foreign currency risks around its imported products, Riviana Foods achieved a 6% NPBT increase to \$9 million in FY18. This result was driven by the benefits of the Fehlbergs Fine Foods acquisition, a continued focus on controlling costs and driving the sales volumes of higher quality products. Sales revenue for FY18 was \$120 million.



#### - 3 -SUNRICE GROUP AND BUSINESS OVERVIEW

- 3.8 PROFIT
BUSINESSES:
COPRICE









#### 3.8 Detailed description of CopRice

CopRice manufactures, distributes and sells bulk stockfeed to primary producers and packaged stockfeed and companion animal food products through retail and wholesale channels to customers. CopRice has been manufacturing and supplying quality animal feeds for over 30 years from its plants in Leeton in NSW and its two Victorian plants in Tongala and Cobden.

CopRice purchases rice bran, being a rice by-product, from the Rice Pool Business, at a commercial price.

#### 3.8.1 CopRice products, brands and commercial customers

CopRice operates across the 'direct to farm' and packaged markets in the animal nutrition sector. CopRice has in excess of 1,400 commercial customers across domestic markets in Australia and New Zealand, with key services and products as follows:

Commercial sales:

- Bulk sales of CopRice complete pellets and concentrates to the dairy and sheep/beef farming sector, backed by CopRice technical support and advice from its Sales and Nutrition Team;
- Manufacture and supply of vegetarian based poultry and pig products to commercial customers; and
- Other products, which include rice bran and rice hull sales to commercial customers.

Packaged product sales, both branded and private label, including companion animal and livestock feed products across the following channels and segments:

- Grocery, pet specialty, regional and agri-stores and wholesalers/distributors;
- Dairy, horse, sheep and poultry feed;
- Dog and cat food; and
- Cat litter.

#### 3.8.2 Expertise and market profile

The CopRice business was originally established to utilise rice bran, broken rice and rice hull by-products and this remains an advantage of the business today.

The business maximises the value of these by-products by combining them with typical feed ingredients such as wheat, barley and canola to make a comprehensive range of animal nutrition products.

In direct farm sales, CopRice is investing heavily in nutrition initiatives to position itself strongly in the key dairy regions of Victoria and Tasmania, which together account for approximately 85% of Australia's dairy exports<sup>59</sup>. In Northern and Western Victoria (where CopRice has manufacturing plants), the business occupies a strong position in the local region in the higher value complete pellet segment.

#### FY16 - FY18 PERFORMANCE

## Revenue (A\$M) 0% -24% +12% 131 99 111



FY16 FY17 FY18

#### 

5 -2



FY16 FY17 FY18

## Net assets (A\$M)

49 36 42



FY16 FY17 **FY18** 

 $<sup>^{\</sup>rm 59}$  Dairy Australia, Australian Dairy Industry In Focus 2017

CopRice's manufacturing footprint and its close proximity to high sheep populations also positions it well across NSW and Victorian markets. CopRice is focused on building its business in these regions.

With respect to packaged sales, CopRice has a diversified revenue base across the grocery, pet and agri channels. Its primary focus in the agri channel is the 'working dog' space, where CopRice has developed a clear leadership position. In FY18, CopRice was the largest Australian-owned dry pet food producer in this segment. In addition, CopRice has a strong position in the grocery channel and a growing presence in pet specialty retailers through private label manufacturing.

In equine feed, CopRice recently gained accreditation to export equine products into China, although to date it has yet to export to this market. As noted in Section 3.6.2, an \$11 million investment in a stabilised rice bran manufacturing facility in Leeton will be operational in FY19, which will allow CopRice to take full advantage of this export opportunity. Equine products containing stabilised rice bran sit at the premium end of equine feed options. This is another demonstration of SunRice's 2022 Growth Strategy in action.

#### 3.8.3 Competitive advantages and risks

CopRice's structure, marketing arrangements and relationships provide competitive advantages. These include:

- Established brand presence and equity, spanning 30 years across a diversified portfolio in in the animal nutrition sector in Australia:
- Expertise in innovation, nutrition management and marketing and distribution across a diversified product portfolio in a range of sectors;
- Established distribution channels with strong market positions and potential for growth in export demand and rice and rice derivatives in pet foods;
- Cost advantages in the procurement of rice and rice derivatives given access and proximity to rice by-products through SunRice;
- Investment in assets, including a shared \$11 million investment with the Rice Food segment in a stabilised rice bran manufacturing facility; and
- Strategically located manufacturing facilities close to its markets.

CopRice's profitability can be affected by global commodity fluctuations as a result of seasonal conditions, including drought and general conditions in primary producer markets, especially export dairy and trade lamb markets (see Section 6.2.1). The business can also be impacted by risks in relation to disruption of operations and product and food safety (see Sections 6.2.8 and 6.2.18); changes in customer stockfeed demand (see Section 6.2.15); and increased competition, including from branded competitors and private label products and imports (see Section 6.2.16).

All of CopRice's profits are attributed to the Profit Businesses.

#### 3.8.4 Business performance

CopRice's 'back to basics' focus in FY18 enabled the business to benefit from a recovery in the dairy industry, increased demand for its direct-to-farm sheep and beef products and a focus on rice by-product sales in the business-to-business sector. This delivered revenue growth of 12% to \$111 million in FY18.

CopRice's NPBT also experienced a positive turnaround of \$7 million in FY18, due to improved margins in the packaged and grocery segments and an increase in by-product sales and margin. This was a reversal of the NPBT decline experienced in FY17, where CopRice's NPBT decreased from approximately \$5 million in FY16 to a \$2 million loss in FY17 and then increased back to \$5 million in FY18.

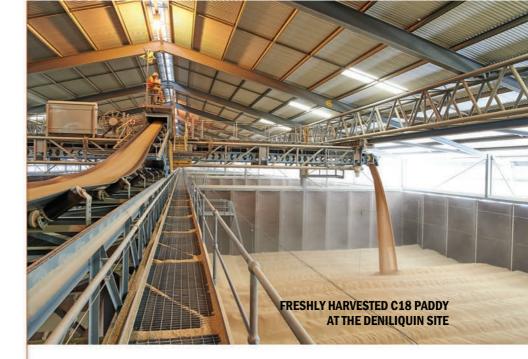
CopRice's revenue declined from \$131 million in FY16 to \$99 million in FY17, largely due to a significant decrease in dairy demand driven by lower milk prices, increased pasture supply, and accompanied by falling grain prices which reduced the price per tonne. As noted above, FY18 saw the start of a recovery in volumes driving net sales value up to \$111 million, although low grain prices continued to suppress overall pricing per tonne.

One of the key facets of CopRice's business performance improvement is its focus on nutritional expertise to drive innovation and sales in stockfeed to move beyond traditional pelleted feeds and create nutritional solutions that better reflect on-farm practices. Examples include:

- CopRice's 2017 launch of VitaMinBuf Grain Balancing Lamb and Sheep Concentrate Pellets, which provide a balanced supply of vitamins, minerals, rumen buffers, yeast, a mycotoxin binder and a rumen modifier to optimise the health and performance of lot-fed sheep. The product was used by two Leeton farmers, who subsequently set a series of records for the nation's highest-priced lambs. CopRice has worked with both farmers for many years and has since approached them to trial the business's new grain balancer; and
- CopRice's focus on nutritional expertise and access to by-products from other SunRice business segments, including rice
  bran, rice brokens and rice hulls. The business has repositioned its packaged equine range to highlight the benefits
  derived from rice bran. In terms of nutrition, the equine industry has long regarded rice bran as a superior source of
  nutrition, with most leading equine brands including rice bran as an ingredient in many of their premium end feed
  products (see Sections 2.3.3(c) and 2.6.2).

-3-**SUNRICE GROUP AND BUSINESS OVERVIEW** 

-3.9-**PROFIT BUSINESSES: CORPORATE** 



#### **Detailed description of the Corporate segment** 3.9

The Corporate segment of SunRice captures the cost of holding and financing assets that are utilised by both the Rice Pool Business and the Profit Businesses. This includes charges for the use of SunRice brands and access to milling and storage assets.

#### 3.9.1 **Key assets**

The main assets held in Corporate include:

- Paddy storage, milling, packing and finished product storage and warehousing assets in the Riverina, utilised by the Rice Pool Business; and
- Approximately 30 major brands used by the Rice Pool and Profit Businesses around the world, including SunRice, Sunwhite, Trukai, Roots, Always Fresh and CopRice.

#### 3.9.2 **Key activities**

The Corporate segment captures:

- The income and costs of, holding and financing the assets mainly utilised by the Rice Pool Business. This includes:
  - A payment from the Rice Pool Business calculated on the net assets used by the Rice Pool Business (net of the relevant proportion of seasonal debt attributable to the Rice Pool Business) at the cost of equity of the SunRice Group; and
  - A payment from the Rice Pool Business calculated on the amount of seasonal debt attributable to the Rice Pool Business at the cost of debt of the SunRice
- A payment from the Rice Pool Business and the other Profit Businesses for the use of brands owned by the SunRice Group, which is calculated on the basis of the revenue from sales of branded products; and
- Income and costs that are not allocated to other business segments, such as legal fees and costs associated with the ASX Listing.

Revenue from external customers for the Corporate segment is negligible and relates to occasional availability of the segment's assets for third party storage. From time to time, the Corporate segment's profit can include dividends received from some of SunRice's subsidiaries. These transactions are however eliminated in consolidation and therefore do not impact the overall profit of the Group.

#### **Competitive advantages and risks** 3.9.3

The Corporate segment's competitive advantages relate to the strength of SunRice's brand portfolio, some of which span 68 years, and the proximity of storage and manufacturing assets to key rice growing regions.

## **FY16 - FY18 PERFORMANCE** NPBT(A\$M) 26 FY16 FY17 FY18 Net assets (A\$M) 148 168 136 FY16 FY17 FY18

This segment can be impacted by supply levels of Riverina Rice (see Section 6.2.2). This is because some contributions from the Rice Pool Business relate to crop size, meaning in small Riverina crop years, the Corporate segment receives lower revenue from the Rice Pool Business. Additionally, in prolonged periods of low production (such as during years of low water availability in the Riverina), assets may need to be impaired. In this way, the ongoing supply of Riverina Rice is in the best interests of B Class Shareholders, as well as A Class Shareholders.

#### 3.9.4 Business performance

In FY16, the Corporate segment's NPBT was impacted by a provision of \$4.7 million for a legal dispute with the minority shareholders of SunFoods, which resulted in an overall full year result of \$14 million.

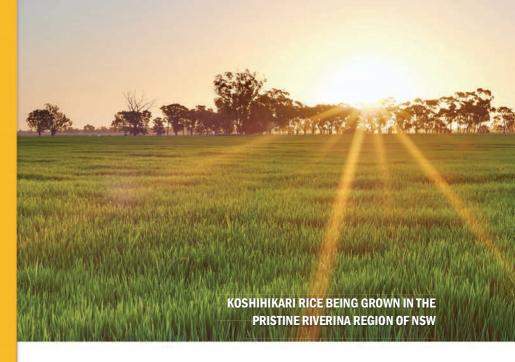
In FY17, NPBT of \$26 million was recorded, reflecting the reversal of the same provision following the acquisition of the residual non-controlling interests in SunFoods (see Section 4.6.6 for more detail), as well as lower capital structure review and employee incentive costs. This was partially offset by lower brand charge in line with lower Rice Pool Business revenue across this period.

The Corporate segment's FY18 NPBT benefited from a combined \$4.9 million dividend received from APC and SunRice's previous insurance captive (as part of its liquidation and deregistration process), as well as reduced finance costs, partly offset by increased costs incurred ahead of the ASX Listing. NPBT for the year was \$28 million.



KOSHIHIKARI AT THE DENILIQUIN MILL PACKING PLANT

















#### 3.10 Detailed description of the Rice Pool Business

#### 3.10.1 Overview

SunRice's Rice Pool Business' core activities are the receival, milling, marketing and distribution of Riverina Rice, directly to customers across multiple channels.

This includes supplying SunRice's Australian markets and exporting Riverina Rice to global markets across the Middle East, Asia Pacific, the U.S. and Europe. The Rice Pool Business can also supply SunRice's global subsidiaries, which can purchase rice from the Rice Pool Business to sell in their local markets.

Riverina Rice is recognised for its quality, taste and texture and these characteristics together with its Australian-grown provenance provide important support for the high reputation of SunRice brands.

The Rice Pool Business is aligned to Growers and A Class Shareholders. Proceeds from the Rice Pool Business are not available to SunRice B Class Shareholders.

#### 3.10.2 Commercial customers, brands and products

The Rice Pool Business supplies more than 200 direct customers in domestic markets (Australia and New Zealand) and exports to more than 50 countries around the world. Products are sold under a variety of brands, including but not limited to SunRice, Sunwhite, Sunlong, Koala, Double Ram and Kangaroo.

SunRice has deliberately expanded the Rice Pool Business from a straight mix of branded and bulk sales of core rice, to include a diversified product offering that delivers stronger returns to Growers.

The Rice Pool Business' product and customer mix includes:

- Branded, packaged consumer sales: Branded finished product for Australian and global markets, including high-value markets in Asia;
- Branded, packaged customer sales: Branded finished product for commercial customers;
- Intercompany sales: Milled rice or rice by-products sold to other SunRice Group businesses, including Trukai Industries, SolRice, Ricegrowers Middle East and Rice Foods, at commercial pricing;
- Food service sales: Branded finished product for use in restaurants, hospitals, military, mining and other food service applications; and
- Bulk sales: Unbranded finished product supplied in bulk, primarily to tender export markets.

In addition to diversifying by channel, the Rice Pool Business has also expanded each segment through category extension, including leveraging consumer demand for niche specialty varieties in both the branded consumer and food service channels.

## FY16 - FY18 **PERFORMANCE** Revenue (A\$M) 265 FY16 FY17 FY18 **Paddy prices** (AUD per tonne, Reiziq) 404 415 FY16 FY17 FY18 Net assets (A\$M) 146 108 FY16 FY17 FY18

#### 3.10.3 Expertise and market profile

#### (a) Australian retail

In branded domestic markets, SunRice has supplier relationships with all major supermarket retailers, including Woolworths, Coles, Metcash (IGA) and ALDI.

Product revitalisation, retailer partnerships and significant investment in advertising has enabled SunRice to achieve a share of 58.4% and continue its market leading position in branded rice sales.

#### (b) Australian food service

Domestic food service channel sales have also delivered revenue growth for the Rice Pool Business, with a \$2.1 million uplift in revenue between FY16 and FY18. Food service has also diversified through a focus on premium niche varieties and expansion in the Asian specialty grocer segment.

#### (c) Global - medium grain (Japonica)

Australia is regarded as a "premium Japonica supplier" and participates strategically in global trade to the benefit of the Rice Pool Business. The Rice Pool Business makes global sales into both branded and tender markets as follows:

#### Branded sales

The Rice Pool Business sells branded product into premium markets, primarily Australia, New Zealand, Asia, the Middle East and the Pacific.

In the Middle East, the total rice market size is estimated to be more than three million tonnes spanning retail, wholesale, tenders and catering. Benefiting from SunRice's consumer insights expertise, the Rice Pool Business' Sunwhite brand has established itself as the Calrose market leader in retail, with a 47% share across key Middle Eastern markets.

In the SunRice Group's current Asian markets, it is estimated that up to 70% of rice consumed is Fragrant Jasmine. While the SunRice Group has traditionally sold branded Medium and Long Grain into retail and food service channels, the Jasmine category forms part of the Group's Pan Asia Strategy.

Internationally, SunRice has also responded to increasing demand for North Asian cuisine, particularly sushi, tripling related sales in the past three years. SunRice has built relationships with leading sushi wholesalers and the Rice Pool Business' premium branded Koshihikari and Opus sushi rices are now exported to more than a dozen international markets, including New Zealand, Hong Kong, Singapore, the Middle East, Japan, Taiwan, the U.S. and the United Kingdom. Future growth is anticipated, as SunRice enters new markets that have rising sushi consumption, in line with its 2022 Growth Strategy.

#### Tender sales

The Rice Pool Business participates in global tender markets when Australian crop is available and tender returns are favourable. Activities are variable and based on crop size, world rice pricing and general supply and demand dynamics. The SunRice Group's key tender relationships include Japan, Korea and Taiwan markets. The Rice Pool Business achieves tender sales in two main ways:

- Simultaneous-Buy-Sell (SBS): Provides access between foreign suppliers and domestic marketers. Also administered by government agencies; and
- **Direct Government Purchases:** Imports commissioned by governments, for example the Ministry of Agriculture, Forestry and Fisheries (MAFF) in Japan and the Council of Agriculture in Taiwan. The government agency chooses the supplier, volume and type of rice. Rice is delivered into government stocks and later sold to food processors or donated as food aid.

As a part of the 2022 Strategy to premiumise commodity markets, SunRice has focused on selling Australian rice into SBS tenders in Japan in recent years and in FY18 won record sales volume through this channel.

#### 3.10.4 Infrastructure and supply chain

The Rice Pool Business utilises SunRice's Riverina assets, including the paddy receival and grain storage network and the Company's milling and packing operations in Deniliquin and Leeton. Together, these mills have the capacity to mill and process 800,000 tonnes of paddy per annum for the Rice Pool Business and can be flexed up and down based on business need. In line with this, SunRice monitors anticipated Riverina Crop size and market demand, and reconfigures its Riverina asset base and/or varietal mix accordingly.

Through the Rice Pool Business' activities, SunRice has also built a sophisticated supply chain and freight network, which features rail and shipping channels, and more than 50 global distributors.

The Rice Pool Business contributes to the Corporate segment of the Profit Businesses through the payment of charges for the use of SunRice brands and milling and storage assets. In addition, management and marketing overheads are shared between the Rice Pool Business and Profit Businesses, as set out in the Paddy Pricing Policy (see Sections 3.9 and 3.10). In particular, the brand charge payable by the Rice Pool Business is linked to the size of the Riverina crop marketed. Therefore, in small crop

# 3. SUNRICE GROUP AND BUSINESS OVERVIEW

**CONTINUED** 

years, the Profit Businesses receive lower revenue from the Rice Pool Business and in large crop years, revenue from this source increases. In this way, the ongoing supply of Riverina Rice is in the best interests of B Class Shareholders, as well as A Class Shareholders.

### 3.10.5 Australian Paddy supply and dynamics

As outlined in Section 2.4, Growers in the Riverina form the supply base for the Rice Pool Business and SunRice is Australia's primary rice processor. Approximately 98% of the country's rice is produced in the vicinity of the Company's milling assets in the region during Average Riverina Crop years.

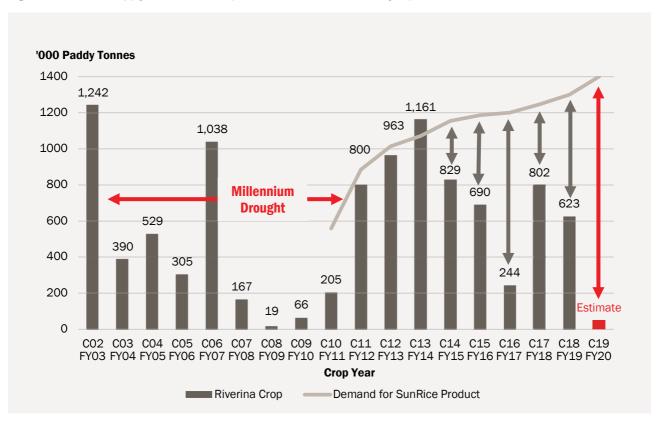
SunRice's Rice Pool Business is supported by the operations of SunRice's subsidiary RRAPL as profiled in Section 3.5.3(i).

SunRice's Rice Pool Business is impacted by water availability (see Figure 17). As a result, the Group's global sourcing activities under the International Rice segment of SunRice's Profit Businesses have become increasingly important over the past decade. While International Rice is part of the Profit Businesses, A Class Shareholders also benefit from internationally-sourced rice maintaining market position during low Riverina crop years and by sharing overhead costs in the SunRice business (see Section 3.5).

If required, SunRice carries over Paddy from year-to-year to ensure consistency of supply for the Company's milling assets and markets (see Section 7.5.5).

It is anticipated that the 2019 Crop will be significantly smaller than the preceding Crop due to low water allocations and high water prices. This highlights the importance of global sourcing to ensure SunRice is able to meet demand from domestic and offshore markets.

Figure 17: Riverina supply versus demand (source: SunRice internal analysis)



#### **3.10.6 Pricing**

Rice Pool Business revenue relates directly to the sale of Riverina Rice, including rice by-products in both domestic and global markets. As noted earlier in Section 3, the Pool (or Paddy Pool) is a financial model through which the Paddy Price is calculated by aggregating all revenue from the sale of Riverina Rice and deducting relevant costs, including contributions to the Corporate segment through the payment of charges for the use of SunRice brands and assets. The balance of the Pool is available to be paid out in the form of Paddy Prices in line with SunRice's Paddy Pricing Policy (see Section 7.5.5).

The Board retains a discretionary right to set Paddy Prices in a manner different to the Pool methodology (referred to as a Modified Paddy Price), including to set a fixed or minimum price via contracts with Growers, which may be higher than the price determined under the Pool methodology. The difference between this higher price and the price determined under the Pool methodology is referred to as a Paddy Price Supplement. In years when a Paddy Price Supplement is required, the Rice Pool Business would return a loss (as opposed to a nil NPBT when the Paddy Price is determined under the Pool methodology), which would negatively impact the total NPBT of the Group being available to B Class Shareholders in these particular years.

The overall Paddy Price is dependent on a number of factors, including the size of the Riverina Rice crop and general supply and demand dynamics in world markets. The combination of fixed pricing, forward contracting, varietal premiums and the traditional pool now available to Growers means that there is an increasingly diverse range of alternatives available to price Riverina Rice and a corresponding range of returns across contract types and varietals.

SunRice has a strong track record of generating good Paddy Prices for its Growers to compete for resources and optimise rice production (see Figure 13 on pages 45 and 46).

#### 3.10.7 Business performance

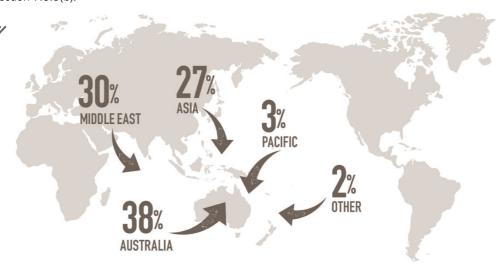
As per the business performance graphs on page 69, the Rice Pool Business recorded revenues of \$378 million in FY16, \$265 million in FY17 and \$379 million in FY18. These results reflected SunRice's ongoing focus on selling premium Riverina Rice into high returning markets and a deliberate strategy of leveraging price, improving mix and the recovery in crop size, from 244,000 tonnes in FY17 to 802,000 tonnes in FY18. FY18 marked the largest Riverina crop in three years, which drove an uplift in Rice Pool revenue of 43% on the prior year.

Because the proceeds of the Rice Pool Business are paid out to Growers through the Paddy Pool, in financial terms the Rice Pool Business does not record a 'profit'. However, the Rice Pool Business does contribute to the Group's NPBT through payments to the Corporate segment of the Profit Businesses for the use of assets and brands. Additionally, some overheads are shared between the Rice Pool Business and Profit Businesses.

From FY16 (C15) to FY18 (C17), the underlying Paddy Price for Riverina Rice remained broadly consistent, moving from \$403.60 in FY16 (C15) to \$378.66 in FY18 (C17) per paddy tonne for Medium Grain (Reiziq). Stability in Paddy Price returns has been achieved through a combination of an improved sales mix through pricing and premiumisation.

The latest estimated range for the C18 Paddy Pool (to be paid in FY19) is \$360 to \$400 per tonne for medium grain Reiziq. This continues to ensure that the Rice Pool Business generates strong paddy returns for Riverina Growers. To continue promoting the expansion of premium varietals across the Riverina to match global food trends, SunRice recently announced a \$500 per tonne Fixed Price Contract for medium grain and \$650 per tonne for Koshihikari for C19 (to be paid in FY20). This is discussed further in Section 7.5.5(b).

WHERE FY18
RICE POOL REVENUE
WAS GENERATED



# 3. SUNRICE GROUP AND BUSINESS OVERVIEW

CONTINUED

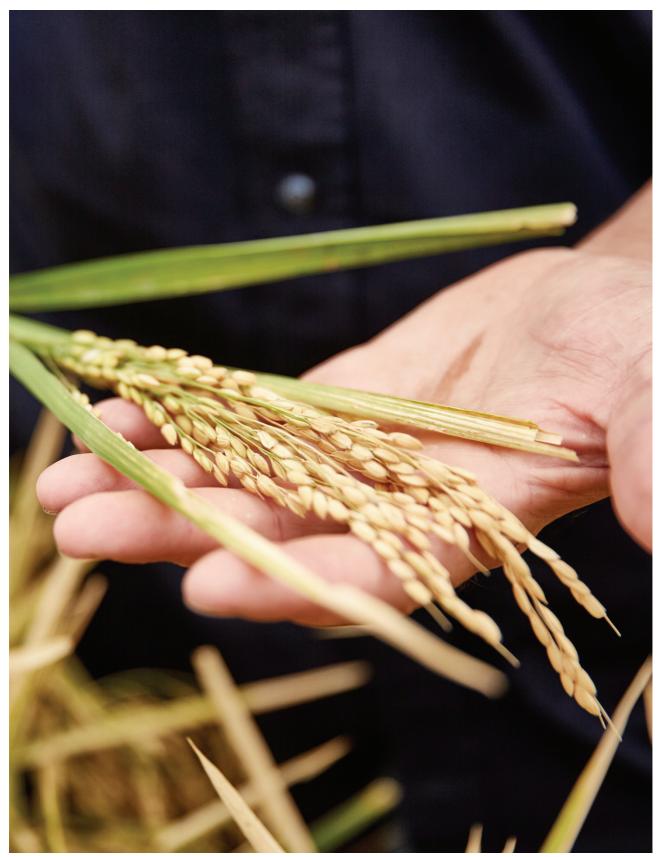
#### 3.10.8 Position in the Group and competitive advantages

In FY18 (C17), the Rice Pool Business delivered 32% of the SunRice Group's revenue. The Rice Pool Business has competitive advantages in both domestic and global markets. These include:

- Established brand presence and equity, spanning 68 years in some markets;
- Vesting and the Sole and Exclusive Export Agreement, which gives SunRice single export desk rights for all NSW-grown
  rice, significant negotiating power globally and the ability to capitalise on supply chain synergies to deliver premium pricing
  to Growers;
- Established long term relationships with overseas governments to fulfil Australian-supply tenders in markets including Japan, Korea and Taiwan;
- The high quality and Australian provenance of Riverina Rice, which supports SunRice's reputation in both Australian and global markets and the strength of its brands;
- Benefits of joint SunRice-funded research and development to align variety taste and texture profiles with premium markets, while reducing input costs and increasing yields;
- End-to-end traceability of all grain, from Pure Seed issued to Growers to landed finished product;
- Geography, including proximity to high-value growth markets and a global supply chain that features rail and shipping channels; and
- Established commercial customers and a network of more than 50 global distributors.

### 3.10.9 Risks

The Rice Pool Business is mainly exposed to risks in relation to global commodity markets, foreign exchange fluctuations impacting export sales and low supply levels of Riverina Rice (see Sections 6.2.1, 6.2.2 and 6.2.4). This includes the impacts of external factors such as water availability and affordability and competing crops in the Riverina rice growing region (see Section 6.2.3). With respect to its Australian operations, the Rice Pool Business has the potential to be affected by importation of milled rice into Australia (see Section 6.2.14), changes in customer demand and increased competition (see Sections 6.2.15 and 6.2.16). Given its manufacturing focus, the Rice Pool is also exposed to the risks of disruption of operations and product and food safety (see Sections 6.2.8 and 6.2.18).



RIVERINA RICE IS GROWN FROM PURE SEED





- 75 -

This Section sets out financial information to enable prospective investors to understand:

- The historical financial performance, including the income and cash flow statements of the SunRice Group for the last three financial years ended 30 April 2016 (FY16), 30 April 2017 (FY17) and 30 April 2018 (FY18) and for the last two financial half years ended 31 October 2017 (HY18) and 31 October 2018 (HY19);
- The historical assets, liabilities and financial position of the Group as at 30 April 2016, 30 April 2017, 30 April 2018 and 31 October 2018; as well as:
- The full year outlook for the financial year ending 30 April 2019 (the FY19 outlook), see Section 4.9.

#### 4.1 Historical Financial Information

Sections 4.2, 4.3, 4.4, 4.5, 4.7.1, 4.7.2 and 4.7.3 contain financial information that has been derived from the SunRice Group's audited consolidated financial statements for FY16, FY17 and FY18 and the SunRice Group's reviewed interim consolidated financial statements for HY18 and HY19 and collectively are referred to as **Historical Financial Information**.

Specifically, the Historical Financial Information comprises:

- Statutory consolidated historical income statements and statements of comprehensive income for FY16, FY17, FY18, HY18 and HY19 (Historical Income Statements) (see Sections 4.2 and 4.7.1);
- Statutory consolidated historical cash flow statements for FY16, FY17, FY18, HY18 and HY19 (**Historical Cash Flows**) (see Sections 4.3 and 4.7.2);
- Statutory consolidated historical balance sheets as at 30 April 2016, 30 April 2017, 30 April 2018 and 31 October 2018 (Historical Balance Sheets) (see Sections 4.4 and 4.7.3); and
- Summary statutory segment information for FY16, FY17 and FY18 (Historical Segment Information) (see Section 4.5).

The financial statements and interim financial statements from which the Historical Financial Information was derived were prepared in Australian dollars and audited / reviewed (in the case of the interim financial review) by PricewaterhouseCoopers, which issued unmodified audit / review reports and unqualified audit / review opinions in respect of these periods. You can access copies of SunRice's annual reports (including its financial statements) for FY16, FY17 and FY18, online under the 'Company Reports' section of www.sunrice.com.au or by calling 1300 554 474. Copies of SunRice's interim financial reports, including its interim financial statements for HY18 and HY19 can also be found on SunRice's website under 'Shareholder News'.

The Historical Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Fundraising and/or Prospective Financial Information. PricewaterhouseCoopers Securities Ltd.'s Independent Limited Assurance Report on the Historical Financial Information is included in Section 5.

As a prospective investor, you should be aware that past performance and financial position are not necessarily a guide as to future performance and financial position.

#### 4.1.1 Basis of preparation

The financial information in this Section has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards (AAS), which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board. The financial information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the AAS applicable to annual and interim financial reports prepared in accordance with the Corporations Act.

The Group's key accounting policies relevant to the financial information are set out in Annexure A. In preparing the financial information, the accounting policies of the Group have been applied consistently throughout the periods presented. Unless otherwise indicated, all amounts disclosed in this Section are presented in Australian dollars and are rounded to the nearest thousand dollars.

The preparation of the financial information also required the use of certain critical accounting estimates which, by definition, will seldom equal the actual results. It also required management to make assumptions concerning the future and to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the financial information, are discussed below.

CONTINUED

#### (a) Impairment of assets

In testing goodwill and other non-current assets for impairment, the recoverable amounts of cash generating units have been determined based on the higher of value-in-use or fair value less cost of disposal. These calculations required the use of assumptions.

The recoverability of assets (including goodwill) of some cash generating units is dependent on the SunRice Group's ability to continuously innovate, improve manufacturing efficiency, increase the volume of throughput and improve product mix in order to meet growth targets.

The Group will continue to closely monitor the performance of the cash generating units.

(b) Raw material inventory and amounts payable to Riverina Rice Growers

The valuation of raw materials inventory and amounts payable to Riverina Rice Growers require an assumption of the Paddy Price for the relevant pool. This assumption is based on the Company's most recent estimate of the performance of the Rice Pool Business.

(c) Deferred tax assets not recognised for capital losses and United States ordinary losses

The Group has not recognised deferred tax assets for capital losses, as the Group does not believe it is probable that taxable capital gains will arise against which capital losses can be utilised.

The Group has also not recognised deferred tax assets for ordinary tax losses in the U.S., as the Group considers there remains uncertainty in the ability of the local entity to generate enough future taxable profits against which these losses can be utilised.

(d) Provisions and contingent liabilities

The Group exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities.

Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Due to the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provisions.

#### 4.1.2 Other relevant information

The Board encourages prospective investors to consider the information in this Information Memorandum in its entirety, having regard to their individual circumstances, before making a decision as to whether or not to make an investment in the Company. In particular, please consider the Historical Financial Information together with the other information contained in this Information Memorandum, including:

- The financial metrics set out in Section 1, the Investment Overview;
- The Management discussion and analysis of the Historical Financial Information in Section 4.6;
- The key risk factors associated with an investment in the Company, discussed in Section 6;
- The Group's proposed use of its cash resources after Listing, as described in Section 3.4;
- The indicative capital structure of the Company on Listing, set out in Section 8.5;
- The Independent Limited Assurance Report on the Historical Financial Information of the Group issued by PricewaterhouseCoopers Securities Ltd, set out in Section 5. As a prospective investor in the Company, please note the scope and limitations of the Independent Limited Assurance Report, as detailed in that report;
- The list of events that have had a material effect on SunRice since 31 October 2018 in Section 4.8; and
- The significant accounting policies adopted by the Group, which were applied in preparing the financial information and an overview of which is set out in Annexure A to this Information Memorandum.

#### 4.1.3 Changes to Accounting Standards

On 1 May 2018 (therefore applicable for the first time for the half-year ended on 31 October 2018), the Group had to change its accounting policies as a result of adopting the following new accounting standards:

- · AASB 9 Financial Instruments; and
- AASB 15 Revenue from Contracts with Customers.

There was no material impact from the adoption of these standards, which did not require retrospective adjustments. The new accounting policies applied from 1 May 2018 are disclosed in Annexure A.

#### 4.1.4 Non IFRS financial information

Certain financial measures included in this Section are "non IFRS financial information" under Regulatory Guide 230: "Disclosing non IFRS financial information" published by ASIC. SunRice believes that this non IFRS financial information provides useful information to prospective investors in measuring the financial performance and condition of the Group.

As these non IFRS financial measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning, whether under AAS, IFRS or otherwise. Therefore, they should also not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Further, the way in which SunRice has calculated these measures may be different to the way other entities calculate similarly titled measures. Accordingly, the non IFRS financial measures in this Section may not be directly comparable to similarly titled measures published by other entities.

As a prospective investor, you are cautioned not to place undue reliance on any non IFRS financial information and ratios. In particular, the following non IFRS financial data is contained in this Section 4.

- EBIT which means earnings before interest and taxation. This measure has been provided as it focuses solely on the Group's ability to generate earnings from its operations;
- Net Working Capital which is calculated as the net of current receivables plus inventories, less current payables, less amount payable to Riverina Rice Growers, whether current or non-current. This measure has been provided as it provides an indication about the operational efficiency and liquidity of the Group;
- Net Debt which is calculated as current borrowings plus non-current borrowings plus payables for RMB equity certificates (only relevant in FY16) less cash and cash equivalents. This measure has been included as it provides an overall view of the Group's financial situation; and
- Gearing which is calculated as Net Debt divided by Net Debt plus total equity. This measure has been provided as it demonstrates the degree to which the Group's operations are funded by shareholders' equity versus external debt.



MINI BITES ARE A POPULAR CHILDREN'S SNACK



**CONTINUED** 

## 4.2 Historical income statements

Sections 4.2, 4.3 and 4.4 set out the income statements, cash flows and balance sheets from the statutory consolidated historical financial statements of the Group for the financial years ended 30 April 2016, 30 April 2017 and 30 April 2018. This financial information cannot be represented as being indicative of the views of the Group or the Directors as to the future financial position and performance of the Group.

\$000s	FY18 Statutory	FY17 Statutory	FY16 Statutory
Sales revenue	1,173,986	1,109,266	1,265,908
Other revenue	3,300	3,549	4,244
Revenue from continuing operations	1,177,286	1,112,815	1,270,152
Other income	6,613	38	26
Impairment of assets	(954)	(3,223)	(23)
Changes in inventories of finished goods	11,069	(30,016)	13,127
Raw materials and consumables used	(710,691)	(676,613)	(774,437)
Freight and distribution expenses	(117,143)	(97,307)	(140,947)
Employee benefits expenses	(140,263)	(122,015)	(122,365)
Depreciation and amortisation expenses	(20,922)	(21,451)	(22,086)
Finance costs	(9,684)	(10,921)	(12,911)
Other expenses	(132,249)	(111,057)	(137,425)
Share of net (loss) / profit of associate accounted for using the equity method	(200)	39	61
Profit before income tax	62,862	40,289	73,172
Income tax expense	(17,741)	(6,053)	(21,170)
Profit for the year	45,121	<b>34,236</b> <sup>60</sup>	52,002
Changes in fair value of cash flow hedges	(663)	3,532	(1,843)
Exchange differences on translation of foreign operations	(1,252)	986	(9,842)
Income tax relating to items of other comprehensive income	199	(1,060)	553
Other comprehensive income for the year, net of tax	(1,716)	3,458	(11,132)
Total comprehensive income for the year	43,405	37,694	40,870
Profit for the year is attributable to:			
Ricegrowers Limited shareholders	42,695	34,201	49,077
Non-controlling interests	2,426	35	2,925
	45,121	34,236	52,002
Total comprehensive income for the year is attributable to:			
Ricegrowers Limited shareholders	41,582	37,373	41,087
Non-controlling interests	1,823	321	(217)
	43,405	37,694	40,870

 $<sup>^{60}</sup>$  FY17 results include a \$32.5 million Paddy Price Supplement. Refer to Section 7.5.5(b) for further details

## 4.3 Historical cash flows

\$000s	FY18 Statutory	FY17 Statutory	FY16 Statutory
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)	1,194,488	1,131,466	1,298,957
Payments to suppliers (inclusive of goods and services tax)	(721,832)	(606,982)	(803,224)
Payments to Riverina Rice Growers	(236,427)	(219,134)	(303,064)
Payments of wages, salaries and on-costs	(133,674)	(122,541)	(122,747)
Interest received	359	581	586
Interest paid	(9,292)	(11,029)	(12,900)
Income taxes paid	(13,167)	(30,583)	(28,932)
Net cash inflow from operating activities	80,455	141,778	28,676
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets	(21,725)	(21,919)	(24,301)
Proceeds from sale of property, plant and equipment	252	243	278
Payment for acquisition of business	-	(2,600)	-
Net cash outflow from investing activities	(21,473)	(24,276)	(24,023)
Cash flows from financing activities			
Proceeds from borrowings	276,793	177,781	307,389
Repayment of borrowings	(246,627)	(335,000)	(234,093)
Repayment of finance leases	(701)	(624)	(491)
RMB equity redemptions	-	(4,425)	(1,290)
Proceeds from issue of shares	939	-	-
Transaction with Non-Controlling Interests	-	(4,645)	-
Dividends paid to Non-Controlling Interests	(231)	-	-
Dividends paid to company's shareholders	(16,340)	(18,402)	(14,498)
Net cash inflow / (outflow) from financing activities	13,833	(185,315)	57,017
Net increase / (decrease) in cash and cash equivalents	72,815	(67,813)	61,670
Cash and cash equivalents at the beginning of the financial year	49,880	115,067	65,403
Effect of exchange rate changes on cash and cash equivalents	207	2,626	(12,006)
Cash and cash equivalents at end of year	122,902	49,880	115,067

**CONTINUED** 

## 4.4 Historical balance sheets

The table below sets out the statutory consolidated historical financial statements of the Group at 30 April 2016, 30 April 2017 and 30 April 2018. These financial statements are provided for illustrative purposes only and are not represented as being necessarily indicative of the views of the Group or the Directors as to the future financial position of the Group.

\$000s	FY18 Statutory	FY17 Statutory	FY16 Statutory
Current assets	•		•
Cash and cash equivalents	122,902	59,978	120,117
Receivables	151,157	123,076	144,092
Inventories	506,793	371,572	453,521
Current tax receivable	3,239	8,175	-
Derivative financial instruments	761	466	-
Total current assets	784,852	563,267	717,730
Non-current assets			
Other financial assets	43	43	47
Property, plant and equipment	217,712	217,977	217,966
Investment properties	1,150	1,150	1,150
Intangibles	9,024	9,064	8,831
Deferred tax assets	19,882	17,251	23,171
Investments accounted for using the equity method	1,497	1,750	1,684
Total non-current assets	249,308	247,235	252,849
Total assets	1,034,160	810,502	970,579
Current liabilities			
Payables	129,091	101,498	119,270
Amounts payable to Riverina Rice Growers	248,315	114,361	97,991
Borrowings	86,192	65,817	218,007
Current tax liabilities	1,122	830	22,249
Provisions	22,747	16,823	22,466
Derivative financial instruments	1,887	1,306	3,123
Total current liabilities	489,354	300,635	483,106
Non-current liabilities			
Payables	1,588	1,871	1,834
Amounts payable to Riverina Rice Growers	25,874	20,387	13,242
Borrowings	79,204	79,061	79,550
Provisions	4,007	3,673	2,619
Total non-current liabilities	110,673	104,992	97,245
Total liabilities	600,027	405,627	580,351
Net assets	434,133	404,875	390,228
Equity			
Contributed equity	111,855	107,819	107,819
Reserves	3,978	4,641	9,425
Retained profits	293,925	269,632	253,833
Capital & resources attributable to Ricegrowers Limited	,	· · · · · · · · · · · · · · · · · · ·	·
Shareholders Non-controlling intercets	409,758	382,092	371,077
Non-controlling interests	24,375	22,783	19,151
Total equity	434,133	404,875	390,228

## 4.5 Historical segment information

\$000s	FY18 Statutory	FY17 Statutory	FY16 Statutory
Rice Pool			
Revenue	440,033	280,874	474,202
Inter-segment revenue	(60,957)	(15,704)	(96,473)
Revenue from external customers	379,076	265,170	377,729
Profit before income tax	-	(32,463)61	-
Total assets <sup>62,63</sup>	463,566	305,881	313,883
Total liabilities	358,816	197,678	167,493
International Rice			
Revenue	456,876	505,948	514,149
Inter-segment revenue	(214)	(49)	(574)
Revenue from external customers	456,662	505,899	513,575
Profit before income tax	23,906	27,647	36,392
Total assets <sup>63</sup>	265,658	236,294	344,447
Total liabilities	211,594	178,832	275,366
Rice Food	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	<u> </u>
Revenue	107,460	113,030	104,510
Inter-segment revenue	(518)	(439)	-
Revenue from external customers	106,942	112,591	104,510
Profit before income tax	2,183	7,892	511
Total assets <sup>63</sup>	46,805	45,124	47,853
Total liabilities	10,419	10,720	9,400
Riviana			
Revenue	120,022	126,333	139,107
Inter-segment revenue	-	(12)	-
Revenue from external customers	120,022	126,321	139,107
Profit before income tax	9,028	8,514	13,216
Total assets <sup>63</sup>	58,579	60,968	62,741
Total liabilities	27,657	22,751	27,950
CopRice			
Revenue	118,416	103,927	141,656
Inter-segment revenue	(7,313)	(4,912)	(10,769)
Revenue from external customers	111,103	99,015	130,887
Profit before income tax	5,289	(1,542)	5,408
Total assets <sup>63</sup>	52,516	41,347	55,777
Total liabilities	10,343	5,732	6,952
Corporate			
Revenue	52,132	29,371	43,100
Inter-segment revenue	(51,951)	(29,101)	(43,000)
Revenue from external customers	181	270	100
Profit before income tax	28,125	25,925	13,801
Total assets <sup>62,63</sup>	195,411	233,595	223,425
Total liabilities	59,725	65,163	75,583

\_

<sup>&</sup>lt;sup>61</sup> The loss of \$32.5 million recognised in the Rice Pool business in 2017 represents the Paddy Price Supplement paid in that year. Refer to Section 7.5.5(b) for further details

<sup>62</sup> Fixed assets that are used by the Rice Pool but are owned by the Corporate segment have been included in the Corporate segment's assets in the above table.

These items were previously included in the Rice Pool segment's assets in the financial report of SunRice for the years ended 30 April 2018, 30 April 2017 and 30 April 2016

<sup>63</sup> Australian cash and borrowing balances are not allocated to operating segments as the treasury and financing of Australian operations is centrally managed.

This creates an asymmetry in information because fixed assets and working capital that are financed by borrowings are allocated to each operating segment.

Current and deferred tax balance are also not allocated to the operating segment's assets and liabilities



**CONTINUED** 

## 4.6 Management discussion and analysis of Historical Financial Information

Set out below is a discussion of the main factors that affected the SunRice Group's operations and relative performance in FY16, FY17 and FY18 and which the Directors envisage may continue to affect the Group in the future. The discussion of these factors is a high-level summary only and provides context to the Historical Financial Information presented in the previous sections. It is not intended to be a comprehensive analysis of all the factors that affected the historical operations and financial performance of the Group or that may affect its future operations and financial performance.

### 4.6.1 Key metrics

\$000s (unless otherwise specified)	FY18 Statutory	FY17 Statutory	FY16 Statutory
Revenue from continuing operations	1,177,286	1,112,815	1,270,152
NPAT	45,121	34,236	52,002
Add income tax expense	17,741	6,053	21,170
NPBT	62,862	40,289	73,172
Add Finance costs	9,684	10,921	12,911
Less Interest income	(359)	(581)	(587)
EBIT	72,187	50,629	85,496
Effective tax rate	28%	15%	29%
Total current assets	784,852	563,267	717,730
Total non-current assets	249,308	247,235	252,849
Total assets	1,034,160	810,502	970,579
Total current liabilities	489,354	300,635	483,106
Total non-current liabilities	110,673	104,992	97,245
Total liabilities	600,027	405,627	580,351
Total equity	434,133	404,875	390,228
Riverina crop size harvested (tonnes)	801,714	244,184	690,272
Paddy Price (\$ p/tonne Medium Grain Reiziq)	379	415	404
Current borrowings	86,192	65,817	218,007
Non-current borrowings	79,204	79,061	79,550
Amounts owing to RMB for equity certificates	-	-	4,425
Cash and cash equivalents	(122,902)	(59,978)	(120,117)
Net Debt (current & non-current borrowings plus RMB equity certificate payable less cash and cash equivalents)	42,494	84,900	181,865
Gearing (net debt divided by net debt + total equity) (See Section 4.6.8)	9%	17%	32%
Net working capital	254,670	258,402	367,110
Capital expenditure - fixed asset additions (excluding intangibles)	20,297	21,226	22,513
Dividend declared (cents per Share)	33.0	33.0	33.0
EPS (cents per Share)	75.9	61.3	88.0
Dividend payout ratio	43%	54%	38%

#### 4.6.2 General factors affecting revenues and operating results

(a) Market conditions and demand for SunRice's products

SunRice's financial performance is impacted by demand and the general market conditions in which the various businesses of the Group operate and is underpinned by the demand for its products. As discussed in Section 3.5.3, SunRice has successfully grown demand for rice volumes to a Paddy tonne equivalent of more than 1 million metric tonnes.

(b) Other general factors

Some of the key factors that can impact the financial performance of the Group include:

- Political and economic environment: This is particularly relevant for Trukai Industries, for which the PNG currency, the kina, has been actively managed by the central bank since mid-2014, impacting liquidity and the cost of business inputs. In addition, the PNG Government has previously announced its intention to develop a National Rice Policy, which seeks to align local investment with the right to import rice. SolRice also operates in challenging conditions in the Solomon Islands, which can result in economic and foreign exchange volatility from time to time.
- Level of Australian crop: In addition to significantly impacting the interactions between the Rice Pool Business and the Profit Businesses (as further described in Section 3.3.3), this can directly affect overall asset utilisation in SunFoods in years where Californian rice is not needed to supplement shortfalls in the Australian crop. Additionally, general rice production and pricing volatility in California, driven by water availability and changing weather patterns, can also impact the profitability of SunFoods, although to a lesser extent. During times of low Riverina Rice production, additional international trading opportunities would also generally arise.
- Situation of global rice markets: Oversupply situations, global stockpiling levels and protectionism in certain markets can all combine to impact world pricing and therefore impact the profitability of the global sourcing activities of the Group.
- Foreign exchange movements: These are particularly relevant for the Rice Food and Riviana Foods businesses which source a significant portion of their product range from foreign third party manufacturers. They can also impact the Rice Pool Business, given an important portion of its revenue is derived from export sales denominated in foreign currencies. Finally, foreign exchange movements can significantly impact the translation of foreign subsidiaries earnings into the Group's consolidated results.
- Competition from branded competitors and private label: This is particularly relevant for the Rice Food and Riviana Foods businesses, which are exposed to increasing competition in retail markets.
- Inter-dependencies with other markets and seasonal factors: This applies particularly to CopRice, as its profitability can be affected by seasonal conditions, including drought and general conditions in key primary producer markets, especially export dairy and trade lamb markets.

Additional details on the specific drivers of revenue and business performance for each of the Group's segments over the period from FY16 to FY18 have been discussed in Sections 3.5.4, 3.6.4, 3.7.4, 3.8.4, 3.9.4 and 3.10.7.

#### 4.6.3 Other income

Other income primarily includes foreign exchange gains which can arise in the normal course of the business and merely reflect foreign currency movements and the usual benefits that can be generated in implementing the Group's hedging strategy.

In FY18, the foreign exchange gain was primarily driven by a one off \$4 million benefit resulting from a combination of significant fluctuations in the AUD/USD exchange rate and hedged exposures no longer expected to occur.

Where movements in foreign currencies generate a loss, this is recognised as other expenses in the Income Statement.

### 4.6.4 Impairment of assets

(a) FY18 impairment charge:

During the year ended 30 April 2018, an impairment charge of \$954,000 was recognised against various individual assets of the Group which were no longer being used.

(b) FY17 impairment charge:

In October 2014, an impairment charge of \$1,994,000 had been recognised on land, building and plant and equipment of a division of Riviana Foods, as a consequence of lower trading performance. At 30 April 2017, the improved financial performance of this division supported the reversal of the initial impairment charge up to the net book value of the assets at that time (\$1,624,000).

This reversal was offset in the FY17 financial statements by the recognition of:

CONTINUED

- An impairment charge of \$3,648,000 against the goodwill, land, building and plant and equipment of Brandon, the Group's
  rice milling operations in North Queensland. This was due to the development of a sustainable rice industry in the region
  which was slower than expected and the mill facing manufacturing challenges that were increasing the cost of production.
  The residual carrying value of the Brandon fixed assets was supported by an independent valuation; and
- An impairment charge of \$1,100,000 on a specific manufacturing line that became unused in the period subsequent to a change in SunRice's sourcing strategy.

#### 4.6.5 Key expenses

(a) Changes in inventories of finished goods and raw materials and consumables used

Gross Margin (calculated as the sum of revenue from continuing operations plus changes in inventories of finished goods plus raw materials and consumables used divided by revenue from continuing operations) was 41% in FY18, 37% in FY17 and 40% in FY16.

In FY18, the increase in Gross Margin was primarily the result of a lower Paddy Price in C17 (\$379/tonne) compared to C16 (\$415/tonne), partly offset by the increasing cost of Paddy rice in California.

In FY17, the decrease in Gross Margin was primarily the result of a higher Paddy Price in C16 (\$415/tonne) compared to C15 (\$404/tonne), partly offset by the lower cost of Paddy rice in California and opportunities for cheaper overseas sourcing of certain varieties.

#### (b) Freight and distribution expenses

In FY18, the increase in freight and distribution expenses was primarily the result of a general increase in trading volumes as a direct flow on effect of the larger Crop in C17 (approximately 802,000 tonnes) compared to C16 (approximately 244,000 tonnes).

This was coupled with the late harvest of the C17 Crop (triggering a significant amount of stock that would have normally been received in FY17 to be received in FY18) and the early harvest of the C18 Crop (triggering a significant amount of stock that would have normally been received in FY19 to be received in FY18). This generated a significant increase in stock movements between mills and sheds across the Riverina, as well as additional needs for external storage in FY18.

Additionally, Riviana Foods moved its Victorian warehousing operations to third party logistics providers in FY18. The resulting increased distribution costs were however offset by lower rent expense for the business.

The above impacts were partly offset by reduced activity in SunFoods and Ricegrowers Singapore, as well a more efficient distribution channel in PNG, with deliveries now being made to multiple ports, therefore reducing inland distribution costs.

In FY17, the decrease in freight and distribution expenses was primarily the result of a general decrease in trading volumes as a direct flow on effect of the smaller Crop in C16 (approximately 244,000 tonnes) compared to C15 (approximately 690,000 tonnes), as well as lower levels of sales in PNG and the Solomon Islands.

This was coupled with the late harvest of the C17 Crop (triggering a significant amount of stock that would have normally been received in FY17 to be received in FY18).

In addition, both ocean and land freight rates were renegotiated in FY17, generating additional savings for the Group compared to FY16.

#### (c) Employee benefits expenses

In FY18, the increase in employee benefits expenses was primarily the result of an increase in headcount across the Riverina operations, as a result of the bigger C17 Crop compared to C16.

Accordingly, overtime and weekend work also increased in FY18, which was exacerbated by the timing of receiving the C17 Crop late and the C18 Crop early. This concentrated in FY18 a work load that would have otherwise been better spread across FY17, FY18 and FY19.

Incentive accruals also increased in FY18. This was primarily due to the Group achieving targets, the introduction of a pay-out multiplier for exceeding performance and the introduction of employee share plans.

These factors were only partly offset by a reduction in headcount in SunFoods due to the lower level of activity in the U.S. in FY18.

In FY17, employee benefits expenses remained stable compared to FY16. The reduction in headcount due to the impact of the smaller C16 Crop compared to C15 on the Riverina operations was mostly offset by salary increases and a higher cost of casual and wage workers in SunFoods, as a direct result of the higher level of activity in the U.S..

Additional costs were also incurred in FY17 as a result of the commencement of operations in Ricegrowers Singapore.

#### (d) Finance costs

In FY18, the decrease in finance costs was in part driven by lower average Net Working Capital requirements throughout the year, which reduced the average balance drawn down on the Seasonal Debt facility compared to FY17.

This in turn triggered a lower interest expense, which was further exaggerated by generally lower interest rates in FY18 compared to FY17.

Additionally, generally lower facility limits in FY18 triggered a lower level of line fees compared to FY17.

In FY17, the decrease in finance costs compared to FY16 was largely due to similar factors.

#### 4.6.6 Other expenses

Other expenses primarily include costs such as energy, externally contracted services, operating leases and equipment hire, research and development, advertising, repairs and maintenance, insurance, training, communication, travelling and other non-recurring and non-operating costs that can occur from time to time.

In FY18, the increase in other expenses compared to FY17 was primarily the result of:

- An increase in energy costs by \$7 million, primarily due to drying and aerating the larger C17 Riverina Crop of approximately 802,000 tonnes (compared to approximately 244,000 tonnes in C16);
- An increase in externally contracted services costs by \$5 million, primarily as a result of additional spend made on
  operational and efficiency improvement programs as well as Information and Technology business partnering across
  various functions of the Group;
- An increase in repairs and maintenance costs by \$2 million, primarily due to the greater activity driven by the larger C17 Riverina Crop;
- An increase in advertising costs by \$1.9 million, primarily due to increased levels of in-store and on-air marketing
  campaigns and activities in Australia. The impact of these activities was however partly offset by contained promotional
  efforts in PNG and the Solomon Islands in light of difficult local trading conditions; and
- An increase in ASX listing costs (primarily legal and consulting fees) by \$1.1 million as the Company reinstated the project and subsequently prepared for its ASX listing proposal.

In FY17, the decrease in other expenses compared to FY16 was primarily the result of:

- A decrease in energy costs by \$3.4 million, primarily due to drying and aerating the smaller C16 Riverina Crop of approximately 244,000 tonnes (compared to approximately 690,000 tonnes in C15);
- A general decrease in externally contracted services cost by \$2.5 million, research and development costs by \$1.5 million and other general expenses (including training, travel and communication), primarily due to contained spend in FY17 as a result of the tougher trading conditions associated with the smaller C16 Riverina Crop;
- A decrease in repairs and maintenance costs by \$1.3 million, primarily due to the lower level of activity generated by the smaller C16 Riverina Crop;
- Favourable foreign exchange movements compared to the prior period (\$2.7 million);
- A decrease in capital restructure and ASX listing costs (primarily legal and consulting fees) by \$2.8 million as the project
  was temporarily put on hold; and
- The favourable impact of reversing the SunFoods dispute provision which had been accrued in FY16. This was following the fact that, in September 2016, the Group purchased the non-controlling interests of SunFoods (35%) for a consideration of \$4,645,000 (USD3,500,000). In the course of FY16, the SunFoods minority shareholders initiated legal proceedings against SunRice seeking compensation for alleged damages. As at 30 April 2016 SunRice recognised a provision representing management's best estimate of a probable settlement of the dispute for \$4,710,000 (\$US 3,600,000). During arbitration proceedings in FY17, SunRice made an offer to purchase the minority shareholders' stake in SunFoods, which was accepted and resulted in the minority shareholders withdrawing their claim. This withdrawal resulted in the reversal of the dispute settlement provision in FY17. The acquisition of additional shares in SunFoods was shown in the financial statements as a transfer of equity between non-controlling interests and the reserves attributable to Ricegrowers Limited in the balance sheet.

While operating leases and equipment hire costs increased by \$3.2 million in FY17 compared to FY16, this was primarily the reflection of a change in classification of certain types of costs that were previously presented within raw materials and consumables used, or freight and distribution expenses.

**CONTINUED** 

#### 4.6.7 Income tax expense

In FY18, the 28% effective tax rate was primarily driven by the utilisation of a portion of previously unrecognised tax losses available to SunFoods in the U.S..

In FY17, the 15% effective tax rate was primarily driven by similar factors. However, the impact of the utilisation of a portion of previously unrecognised tax losses available to SunFoods in the U.S. was much bigger due to the higher profit generated by SunFoods in FY17 and the fact that some of the available losses expected to be recouped in the future had been recognised as deferred tax assets for the first time at 30 April 2017 (therefore generating an additional tax income for that year, which further lowered the effective tax rate). In addition, the effective tax rate for FY17 was favourably impacted by a higher than usual true-up of the Australian tax expense for previous years.

In FY16, the 29% effective tax rate was primarily driven by a favourable and higher than usual true-up of the Trukai Industries tax expense for previous years which was mostly offset by tax losses generated by SunFoods in the U.S. which had not been recognised as deferred tax assets in that year.

#### 4.6.8 Net Working Capital, Net Debt and Gearing

In FY18, strong Net Working Capital management and initiatives triggered a reduction in the level of Net Working Capital and Net Debt compared to previous periods. This was further facilitated by the introduction of new payment terms to Growers and the corresponding introduction of the PayRice facility for the C18 Crop. This meant payments under previous arrangements that would have otherwise been made to Growers prior to 30 April 2018 were instead made in FY19.

This reduction in the level of Net Debt in turn triggered a reduction in the level of Gearing of the Group at 30 April 2018.

It is however important to note that the PNG kina is a restricted currency not freely traded on currency markets. As a result, the cash balance accumulated by Trukai Industries (PGK 190 million (A\$76 million) at 30 April 2018) cannot be repatriated on demand. This may result in additional borrowing cost to finance SunRice's working capital in the future and, if this amount of cash was to become unavailable for SunRice, the Group's gearing ratio would materially increase compared to its current level.

#### 4.6.9 Capital expenditure

SunRice's capital expenditure was \$20.3 million in FY18, \$21.2 million in FY17 and \$22.5 million in FY16. During that three-year period, the Group's spending strategy was primarily to support new product development, improve quality, manufacturing efficiency and process optimisation, take costs out of the business and replace or upgrade ageing equipment.

#### 4.6.10 Business acquisitions

In September 2016 Riviana Foods acquired Fehlbergs Fine Foods for a cash consideration of \$2.6 million.

#### 4.6.11 Financial risk management

SunRice's activities expose it to a variety of financial risks, including market risks (such as foreign exchange and interest rate risks), credit risk and liquidity risk. SunRice's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses derivative financial instruments, such as forward foreign exchange contracts and interest rate swaps to hedge identified risk exposures. Derivatives are used solely for hedging purposes only; speculative derivative transactions are not allowed.

The Group uses different methods to measure the different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rates and foreign exchange risks and ageing analysis for credit risk.

Financial risk management is executed under guidance from the Treasury Management Committee in accordance with policies approved by the Board of Directors.

The Board provides principles for financial risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, the use of derivative financial instruments and investing excess liquidity.

#### (a) Foreign exchange risk

SunRice operates in international markets and is exposed to foreign exchange risks arising from its exchange exposures, mainly to the U.S. dollar.

Foreign exchange risks arise from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the functional currency of the entity exposed. The risk is measured using cash flow forecasting.

Translation related risks are not included as an exposure to foreign currency risk.

Forward foreign currency contracts are used to manage foreign exchange risk.

The Group's risk management policy is to hedge its U.S. dollar denominated exposures arising from forecasted sales and purchases.

The ongoing tightening of U.S. dollars available in PNG continues to affect Trukai Industries ability to settle its intercompany trade payables, thereby exposing the Group to the risk of a sudden devaluation of the PNG kina. At 30 April 2018, the outstanding amount due from Trukai Industries was USD53 million (A\$70 million).

#### (b) Interest rate risk

SunRice's main interest rate risk arises from borrowings and cash at bank. In particular, borrowings issued at variable interest rates expose SunRice to cash flow interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps.

#### (c) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments with banks and financial institutions, as well as credit exposures to domestic and export customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of Moody's A3 or Standard & Poor's A minus are accepted, unless such rating is not available in a country where SunRice operates.

Domestic customers are assessed for credit quality taking into account their financial position, past experience, trade references, ASIC searches and other factors.

The majority of export customers trading terms are secured by letters of credit, cash against documents or documentary collection and prepayment in accordance with the Treasury policy.

Individual credit limits are set in accordance with the limits set by the Board and compliance with credit limits is regularly monitored by the Group.

#### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

Due to the dynamic nature of the Group's underlying businesses, Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group continues to closely monitor economic conditions in PNG to proactively manage the liquidity risk.

**CONTINUED** 

### 4.7 Financial Statements for HY19 and HY18

Sections 4.7.1, 4.7.2 and 4.7.3 set out the income statements, cash flows and balance sheets from the statutory consolidated historical interim financial statements of the Group for the financial half years ended 31 October 2017 and 31 October 2018. This financial information cannot be represented as being indicative of the views of the Group or the Directors as to the future financial position and performance of the Group.

### 4.7.1 Income statements for the half years ended 31 October 2018 and 31 October 2017

\$000s	HY19 Statutory	HY18 Statutory
Sales revenue	580,918	543,265
Other revenue	1,947	1,634
Revenue from continuing operations	582,865	544,899
Other income	1,794	6,637
Impairment of assets	(102)	(485)
Changes in inventories of finished goods	10,399	25,307
Raw materials and consumables used	(358,371)	(339,421)
Freight and distribution expenses	(56,320)	(57,294)
Employee benefits expenses	(74,104)	(68,862)
Depreciation and amortisation expenses	(10,716)	(10,910)
Finance costs	(4,755)	(5,180)
Other expenses	(70,571)	(59,315)
Share of net profit of associate accounted for using the equity method	1,272	
Profit before income tax	21,391	35,376
Income tax expense	(7,514)	(11,324)
Profit for the half year	13,877	24,052
Changes in fair value of cash flow hedges	(1,502)	1,705
Exchange differences on translation of foreign operations	4,564	(3,011)
Income tax relating to items of other comprehensive income	451	(511)
Other comprehensive income for the half year, net of tax	3,513	(1,817)
Total comprehensive income for the half year	17,390	22,235
Profit for the half year is attributable to:		
Ricegrowers Limited shareholders	13,356	23,198
Non-controlling interests	521	854
	13,877	24,052
Total comprehensive income for the half year is attributable to:		
	16.096	22,307
Ricegrowers Limited shareholders	10,000	,
Ricegrowers Limited shareholders Non-controlling interests	1,294	(72)

## 4.7.2 Cash flows for the half years ended 31 October 2018 and 31 October 2017

\$000s	HY19 Statutory	HY18 Statutory
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	614,034	541,194
Payments to suppliers (inclusive of goods and services tax)	(408,167)	(324,559)
Payments to Riverina Rice Growers	(177,334)	(177,461)
Payments of wages, salaries and on-costs	(77,866)	(66,878)
Interest received	229	226
Interest paid	(4,394)	(4,053)
Income taxes paid	(2,784)	(6,134)
Net cash outflow from operating activities	(56,282)	(37,665)
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(20,614)	(12,303)
Proceeds from sale of property, plant and equipment	71	144
Payment for acquisition of business	(5,855)	-
Net cash outflow from investing activities	(26,398)	(12,159)
Cash flows from financing activities		
Proceeds from borrowings	199,230	175,514
Repayment of borrowings	(145,000)	(88,172)
Repayment of finance leases	(140)	(343)
Proceeds from issue of shares	686	-
Dividends paid	(13,358)	(16,341)
Net cash inflow from financing activities	41,418	70,658
Net increase / (decrease) in cash and cash equivalents	(41,262)	20,834
Cash and cash equivalents at the beginning of the half year	122,902	49,880
Effect of exchange rate changes on cash and cash equivalents	2,126	(1,392)
Cash and cash equivalents at the end of the half year	83,766	69,322

CONTINUED

## 4.7.3 Balance sheets as at 31 October 2018 and 30 April 2018

Current assets		Statutory
out one doore		
Cash and cash equivalents	83,766	122,902
Receivables	143,828	151,157
Inventories	443,097	506,793
Current tax receivable	2,080	3,239
Derivative financial instruments	772	761
Total current assets	673,543	784,852
Non-current assets		
Other financial assets	37	43
Property, plant and equipment	231,450	217,712
Investment properties	2,900	1,150
Intangibles	13,331	9,024
Deferred tax assets	18,658	19,882
Investments accounted for using the equity method	2,829	1,497
Total non-current assets	269,205	249,308
Total assets	942,748	1,034,160
Current liabilities		
Payables	138,609	129,091
Amounts payable to Riverina Rice Growers	111,902	248,315
Borrowings	127,656	86,192
Current tax liabilities	2,729	1,122
Provisions	18,766	22,747
Derivative financial instruments	3,071	1,887
Total current liabilities	402,733	489,354
Non current liabilities		
Payables	1,694	1,588
Amounts payable to Riverina Rice Growers	-	25,874
Borrowings	92,786	79,204
Provisions	4,226	4,007
Total non-current liabilities	98,706	110,673
Total liabilities	501,439	600,027
Net assets	441,309	434,133
Equity		
Contributed equity	122,851	111,855
Reserves	4,318	3,978
Retained profits	288,501	293,925
Capital & resources attributable to Ricegrowers Limited shareholders	415,670	409,758
Non-controlling interests	25,639	24,375
Total equity	441,309	434,133

### 4.7.4 Management discussion and analysis of Financial Statements for HY19

Set out below is a discussion of the main factors that affected the SunRice Group's operations and relative performance in HY19 and HY18 and which the Directors envisage may continue to affect the Group in the future. The discussion of these factors is a high-level summary only and provides context to the Half-Year Financial Statements presented in the previous sections. It is not intended to be a comprehensive analysis of all the factors that affected the operations and financial performance of the Group in those periods or that may affect its future operations and financial performance.

#### (a) Key Metrics

\$000s (unless otherwise specified)	HY19 Statutory	HY18 Statutory
Revenue from continuing operations	582,865	544,899
NPAT	13,877	24,052
NPBT	21,391	35,376
Effective tax rate	35%	32%

\$000s (unless otherwise specified)	HY19 Statutory	FY18 Statutory
Total current assets	673,543	784,852
Total non-current assets	269,205	249,308
Total assets	942,748	1,034,160
Total current liabilities	402,733	489,354
Total non-current liabilities	98,706	110,673
Total liabilities	501,439	600,027
Total equity	441,309	434,133
Current borrowings	127,656	86,192
Non-current borrowings	92,786	79,204
Cash and cash equivalents	(83,766)	(122,902)
Net Debt (current & non-current borrowings less cash and cash equivalents)	136,676	42,494
Gearing (net debt divided by net debt + total equity)	24%	9%
Net Working Capital	336,414	254,670
Capital expenditure – fixed asset additions (excluding intangibles)	20,604	20,297

#### (b) Revenue and business performance

\$000s	HY19 Statutory	HY18 Statutory
International Rice		
Revenue from external customers	208,699	217,375
Profit before income tax	(6,032)	16,130
Rice Food		
Revenue from external customers	52,644	55,273
Profit before income tax	3,712	1,521
Riviana Foods		
Revenue from external customers	59,139	58,953

**CONTINUED** 

Profit before income tax	3,538	3,385
CopRice		
Revenue from external customers	77,880	52,405
Profit before income tax	5,963	2,437
Corporate		
Revenue from external customers	42	126
Profit before income tax	15,362	13,009
Rice Pool		
Revenue from external customers	182,514	159,133
Profit before income tax	-	-

#### 1. International Rice

In HY19, revenue and NPBT for the International Rice segment both declined compared to HY18.

This downturn in performance was the result of a combination of several factors, which included: adverse foreign exchange rate impacts, especially on costs; the return to the Rice Pool Business of premium markets such as Japan and the Middle East which had previously been supplied by the International Rice segment; the absence of Korean tender market volume compared to HY18; the stronger than anticipated cost of some of SunRice's key internationally sourced export varieties in HY19; increased shipping charges on international trade; one-off costs in HY19 associated with the establishment of a vertically integrated supply chain in Vietnam; and increased provisions for doubtful debts in some markets.

Trukai Industries delivered solid top-line performance in HY19, but the devaluing PNG Kina and a continuing lack of liquidity in this currency impacted profitability by increasing input costs and the value of the intercompany balance payable to SunRice.

These negative impacts were partly offset by Trukai Industries benefiting from a \$1.3 million share of net profit in associate in HY19, which was primarily driven by the revaluation of investment property of the associate.

#### 2. Rice Food

Lower sales volumes across some of the segment's product categories drove a reduction in Rice Food revenue in HY19.

Reduced advertising and trade spend, reduced input costs in the rice flour category and improved product mix in the rice cake category however all supported a 144% increase in NPBT compared to HY18.

#### 3. Riviana Foods

Riviana Foods NPBT increased by 5% compared to HY18. This was driven primarily by margin and market share growth across most product categories in the retail sector, including Riviana's private label business, which continued to capture market share from other brands. Although competition in the food service sector remains high, Riviana is making gains through new product launches and increasing direct sales through manufacturers. However, negative foreign currency exchange impacts on imported products and increased overhead allocations from the Corporate segment have mostly offset this positive performance, which is expected to further benefit from the recent acquisition of the Roza's Gourmet business in the second half of the year.

#### 4. CopRice

In HY19, CopRice continued to experience the positive turnaround that commenced in FY18, with revenue and NPBT increasing by 49% and 145% respectively compared to HY18.

The launch of new products focused on sheep nutrition combined with seasonally dry conditions drove an expansion of stockfeed sales volumes in HY19, which has offset the rising cost of raw materials across the period and supported the improved business performance.

#### 5. Corporate

In HY19, the Corporate segment's NPBT benefited from increased brand charges (underpinned by the Group's revenue expansion), increased overhead allocations to other segments and a \$1.75 million gain on the revaluation of investment property, which were partly offset by an increase in costs associated with the pending ASX listing and other ongoing strategic projects across the Group.

#### 6. Rice Pool

The Rice Pool revenue increased by 15% compared to HY18. This was primarily driven by increased tender volumes, the geographical sales mix of Australian rice exports into premium markets such as Japan and the Middle East which had been sourced from the International Rice segment in HY18 and the expansion of the Koshihikari rice varietal and Long Grain sales into food service channels.

Operationally however, challenges with lower whole grain yield impacted milling efficiencies in HY19.

#### (c) Other income

In HY19, other income related primarily to a \$1.75 million fair value gain on investment property following the completion of an independent assessment of this asset.

In HY18, other income related primarily to foreign exchange gains, which were mostly driven by a one-off \$4 million benefit resulting from a combination of significant fluctuations in the AUD/USD exchange rate and hedged exposures no longer expected to occur.

#### (d) Key expenses

#### 1. Changes in inventories of finished goods and raw materials and consumables used

Gross Margin (calculated as the sum of revenue from continuing operations plus changes in inventories of finished goods plus raw materials and consumables used divided by revenue from continuing operations) was 40% in HY19 and 42% in HY18.

The decrease in Gross Margin in HY19 was primarily driven by significant whole grain yield issues with the C18 Australian crop, with reduced milling outputs and increased levels of brokens and rework as well as the increased cost of internationally sourced rice, including unfavourable currency movements and significant increases in global shipping charges.

#### 2. Freight and distribution expenses

The decrease in freight and distribution expenses was primarily the result of the late harvest of a larger C17 Australian crop (approximately 802,000 tonnes), which triggered stock that would have generally been received in late FY17 to be received in early FY18 (therefore increasing crop handling costs in HY18) and the early harvest of a lower C18 crop (approximately 623,000 tonnes), which triggered stock that would have generally been received in early FY19 to be received in late FY18 (therefore reducing crop handling costs in HY19).

This impact was however partly offset by generally higher shipping rates on international routes in HY19.

#### 3. Employee benefits expenses

Employee benefits expenses have increased in HY19, primarily as a result of whole grain yield issues with the C18 Australian crop, which have increased Paddy processing times and required additional working shifts at the Riverina mills for the most part of HY19.

Standard salary inflation across the Group, additional employees required to support the commencement of a local rice production in PNG, a general increase in headcount in higher paid corporate functions across the Group and the recent introduction of employee share plans which were not yet in place in HY18 have further fuelled this increase.

These factors were however partly offset by a smaller C18 crop, the timing of receiving the C17 crop late and the C18 crop early, as well as one-off restructuring costs incurred by Riviana Foods in HY18 as part of the closure of the Scoresby site.

#### 4. Finance costs

The decrease in finance costs in HY19 was primarily due to a lower average amount drawn down on the Seasonal Debt facility compared to HY18, as a result of the introduction of new payment terms to Growers and the corresponding introduction of the PayRice facility for the C18 crop.

This impact was however partly offset by increased amounts drawn down on the Core Debt facility in HY19, as a result of the Roza's Gourmet and Vietnamese mill acquisitions.

#### (e) Other expenses

In HY19, the increase in other expenses compared to HY18 was primarily the result of:

A decrease in energy costs by \$1 million, primarily due to the smaller C18 Crop, the timing of receiving the C17 Crop late
and the C18 Crop early, as well as drier conditions and lower moisture levels for the C18 Crop, which reduced drying and
aeration requirements in HY19. These factors were however partly offset by significant increases in energy rates on 1 May
2018 and whole grain yield issues with the C18 Crop, which required additional Paddy processing time in HY19;

CONTINUED

- An increase in advertising and artwork costs by \$2.6 million, primarily driven by additional marketing efforts in the Middle
  East in HY19 to support the SunWhite brand and the penetration of snack products in this market, together with
  additional promotional spend in PNG compared to HY18 in response to increasingly strong local competition. This was
  however partly offset by reduced promotional spend on the microwave rice category;
- An increase in debt provisions by \$2 million due to difficult trading conditions in some markets;
- An increase in ASX listing costs by \$1.1 million as the project nears completion; and
- Foreign exchange losses of \$6.4 million, which have been primarily driven by the falling value and lack of liquidity of the PNG Kina in HY19.
- (f) Share of net profit of associate accounted for using the equity method of accounting

In HY19, the share of profit of associate was primarily driven by a fair value gain on investment property of the associate, partly offset by impairment losses recognised on investments and other related party balances of the associate.

#### (g) Income tax expense

In HY19, the 35% effective tax rate was primarily driven by tax losses generated by SunFoods in the U.S. which had not been recognised as deferred tax assets at 31 October 2018. This was however partly offset by the impact of the after tax equity accounting of the share of net profit of associate.

In HY18, the 32% effective tax rate was primarily driven by a combination of tax losses generated by SunFoods in the U.S. and SolRice in the Solomon Islands which had not been recognised as deferred tax assets at 31 October 2017 and a larger than usual true up of the previous year's tax expense in Trukai Industries.

#### (h) Net Working Capital, Net Debt and Gearing

Net working capital, and consequently net debt and gearing, have all increased at 31 October 2018 compared to 30 April 2018. This reflects standard seasonality in the SunRice business whereby payables to Growers for any Riverina rice crop are paid throughout the year at a rate that is faster than the usage of the corresponding inventory. As the rice crops are harvested around 30 April of each year, this naturally leads to higher levels of net working capital in October with corresponding increases in net debt and gearing levels.

It is however important to note that the PNG kina is a restricted currency not freely traded on currency markets. As a result, the cash balance accumulated by Trukai Industries (PGK115 million (A\$48 million) at 31 October 2018) cannot be repatriated on demand. This may result in additional borrowing cost to finance SunRice's working capital in the future and, if this amount of cash was to become unavailable for SunRice, the Group's gearing ratio would materially increase compared to its current level.

#### (i) Capital expenditure

Similar to previous years, in HY19, the Group's spending strategy was primarily to support new product development, improve quality, manufacturing efficiency and process optimisation, take costs out of the business and replace or upgrade ageing equipment.

In addition, capital expenditure in HY19 included the acquisition of a rice processing mill in Dong Thap Province, Vietnam, as well as the initial stages of the establishment of a brand new stabilised bran extrusion plant in Leeton to support the expansion of the CopRice and Rice Food businesses.

#### (j) Business acquisitions

On 19 September 2018, Riviana Foods acquired Roza's Gourmet for a cash consideration of \$5.9 million. This acquisition will enable the company to expand its product offering into categories such as dips and value-add food services and provides chilled supply chain capability, in line with SunRice's 2022 Growth Strategy. The acquired business contributed revenues of \$1.3 million to the Group for the period from 19 September 2018 to 31 October 2018. If the acquisition had occurred on 1 May 2018, Roza's Gourmet's contribution to the Group's revenue and NPAT for HY19 would have been \$4.3 million and \$0.3 million respectively.

### 4.8 Material changes since 31 October 2018

On 29 November 2018, the Group announced that, to cater for the anticipated reduced size of the 2019 rice crop due to very low water availability and high water prices, changes will be required at SunRice's Riverina milling, packing and warehouse operations in the coming year. The proposed operational changes and shift restructuring at the Deniliquin and Leeton Mills will be undertaken in a phased approach to match the production requirements created by the significantly reduced crop: the first phase took effect from 2 January 2019 and the final phase is expected to be completed later in 2019. The Group's focus is to work closely with the impacted people to explore all available options to minimise the number of job losses. These options will include re-locating staff, job sharing and temporary leave and the Group expects this process will result in the loss of under 100 positions.

Subsequent to 31 October 2018, PNG Government action and successful interventions by the Bank of PNG improved liquidity of the PNG Kina and provided greater access to the USD currency to Trukai Industries. As a result, Trukai Industries was able to repay a significant amount of its intercompany trade payables to SunRice, with a residual outstanding amount due from Trukai Industries at 31 January 2019 of USD34 million (A\$46 million) compared to USD62 million (A\$87 million) at 31 October 2018. This in turn triggered a reduction in the cash balance accumulated by Trukai Industries, which reduced to PGK22 million (A\$9 million) at 31 January 2019 compared to PGK115 million (A\$48 million) at 31 October 2018. To maintain access to the USD currency and support its local net working capital needs, Trukai Industries entered into a local uncommitted working capital facility of PGK75 million in January 2019.

No other material transactions or events have occurred between 31 October 2018 and the date of this Information Memorandum which the Directors consider require disclosure.

## 4.9 Full year outlook for FY19

#### 4.9.1 Overview

The information in this Section has been prepared solely for inclusion in this Information Memorandum based on an assessment of current economic and operating conditions. SunRice has prepared this information with due care and attention and considers all best estimate assumptions, when taken as a whole, to be reasonable at the time of preparation of this Information Memorandum. However, investors are cautioned not to place undue reliance on the forward-looking information in this Section, which is predictive in nature and may be affected by inaccurate assumptions or by an unexpected outcome of known or unknown risks and uncertainties, and may differ materially from the results ultimately achieved.

The basis of preparation of this information to the extent applicable, is consistent with the basis of preparation of the Historical Financial Information presented above in this Section 4, unless otherwise noted. PricewaterhouseCoopers Securities Limited has not performed a review of the FY19 guidance.

#### **4.9.2 FY19** guidance

The Group announced to the NSX on 11 January 2019 an expectation of NPAT Guidance. Group NPAT Guidance for FY19 is presently in the range of \$30-\$35 million (FY18 NPAT was \$45.1 million). At the date of this Information Memorandum the Directors remain of the view that this is the best estimate of the likely NPAT for FY19.

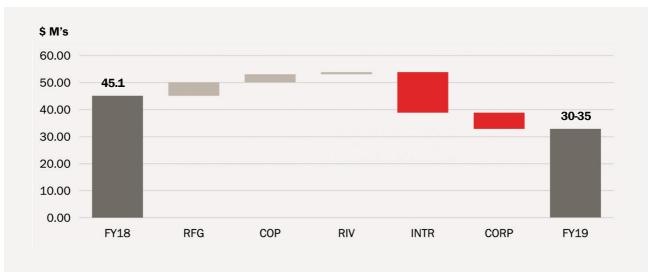


Figure 18: NPAT by segment FY18 vs FY19

The NPAT guidance above reflects actual trading for the nine months to 31 January 2019 and various key assumptions and factors, which are outlined below. The commentary on guidance below should be read in conjunction with the risks described in Section 6, as well as the general and specific factors affecting SunRice's financial performance outlined above in this Section 4.

The key assumptions underpinning the FY19 NPAT guidance include:

(a) Rice Food (RFG)

The Rice Food segment providing increased profit contribution from:

Sales volume increases driving revenue;

#### CONTINUED

- Ongoing new product development; and
- A shift into more profitable products and continued manufacturing efficiencies resulting from recent capital investment
  projects, which are increasing margins.

#### (b) CopRice (COP)

CopRice providing increased earnings, driven by revenue growth from:

- The continued recovery in the dairy sector;
- Improved performance in both sheep and beef stockfeed categories due to generally drier conditions;
- Ongoing development of new products including concentrates; and
- The relaunch of a horse feed range.

#### (c) Riviana Foods (RIV)

Riviana Foods providing increased earnings driven by further organic growth and new category initiatives. However, this earnings growth is expected to be partially offset by margin compression pressure from exchange rate movements in the Australian Dollar as Riviana Foods is an importer of USD and EUR denominated goods.

#### (d) International Rice (INTR)

The International Rice segment providing lower earnings in FY19. Positive factors expected to impact the International Rice segment during FY19, include:

- · SolRice's establishment of a dual brand strategy in the Solomon Islands; and
- An increase in global trading volumes into Pacific markets, including PNG.

These factors are expected to be more than offset by:

- A devaluation and possible lack of liquidity of the PNG kina;
- Prevailing conditions in Asian tender markets; and
- A lower mung-bean crop in North Queensland reducing Brandon sales volumes.

#### (e) Corporate (CORP)

The Corporate segment providing lower earnings in FY19, driven by:

- Transaction costs associated with the preparation and planning for the ASX listing;
- · Costs associated with the establishment of operations in Vietnam; and
- Lower FY19 Crop outlook (caused by the current low water availability in the Riverina) is expected to result in reduced FY19 brand charges, due to lower branded rice volumes sold during FY19.

#### 4.9.3 Paddy Price

Given the smaller Riverina Crop in FY19 (C18), which was approximately 623,000 Paddy tonnes versus approximately 802,000 Paddy tonnes in FY18 (C17), Paddy Pool sales volumes in FY19 are expected to be lower than those recorded in FY18. Over the remainder of FY19, price increases in certain markets, favourable Australian Dollar exchange rate movements, and the execution of SunRice's strategy to place Australian rice into the highest returning markets are anticipated to increase Paddy Prices. However, issues related to the 2018 Crop are also anticipated to impact Paddy Pool performance in FY19.

While the quality of the C18 Crop is below the long term average resulting in milling inefficiencies and additional costs, these costs are expected to be partially offset by lower paddy storage costs, as the drier crop will require lower electricity and labour costs to manage.

#### 4.9.4 Dividends

As noted in Section 7.5.5, it is anticipated that there will be a Paddy Price Supplement in FY20. The application of a Paddy Price Supplement to the earnings of the Profit Businesses is not currently anticipated to impact the Company's capacity to pay a dividend on B Class Shares in FY20.

#### 4.9.5 Further updates

SunRice has no intention to update or revise the guidance set out in this Section 4.9 or other forward looking statements following the issue of this Information Memorandum, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Information Memorandum, except where required by law and in line with the Company's Disclosure and Communication Policy.

#### 4.10 Additional financial outlook considerations

If the dry conditions currently being experienced in 2019 continue, this could impact the level of Australian crop available in C20, which could in turn materially negatively impact the SunRice Group in FY21 (being the year in which the C20 Crop is marketed). Such an impact will only be quantifiable when water availability is firmed up closer to the October 2019 planting window and once the size of the C20 crop can be estimated more reliably.

Should drought conditions and/or water availability via the Murray-Darling Basin continue to be constrained over multiple years, this would require SunRice to carefully consider further operational changes to address such circumstances. Restructuring measures may include closure of some operations or redeployment of resources and the potential need to impair assets that may become underutilised or idle. Such circumstances may have a material impact on SunRice's financial performance.

The Group's previous (FY12 – FY18) Strategy demonstrated SunRice's ability to identify and execute profitable growth initiatives despite the volatility of Australian weather patterns affecting supply and off-shore sovereign risk affecting demand (see Sections 3.1 and 6.2.2 and 6.2.5).

#### 4.11 Financing arrangements

SunRice utilises a range of funding options to finance its cash flows, ongoing operations and growth opportunities. These funding options include:

- Profits: SunRice's net profit after tax (NPAT) has averaged \$43 million over the last five years and from this an average of
  more than 40% was paid out in dividends.
- Net working capital: SunRice has focused strongly on reducing the Company's working capital and paying down debt over the past three years.
- Surplus assets: SunRice has few surplus assets and limited buyers for them.
- Bank debt: SunRice utilises seasonal and core bank debt facilities:
  - Seasonal debt borrowings used for the purpose of funding the net working capital requirements (including trade finance); and
  - Core debt borrowings used to fund fixed assets, investments and other growth opportunities.

Ongoing reduction in net working capital and the continued profitable performance of the Group have placed SunRice in a strong financial position. SunRice uses gearing (net debt / net debt + equity) to measure the financial strength of the organisation against a long term average industry benchmark of 30% (based on all members of the ASX300 Food, Beverage and Tobacco Index). Figure 19 below shows gearing levels over the last five years:

**Gearing** % 45.00% 40.00% 35.00% 30.00% 25.00% 20.00% 15.00% 10.00% 5.00% 0.00% **HY15 HY17** FY15 **HY16** FY16 FY17 **HY18** FY18 **HY19** Half year gearing Full year gearing Industry benchmark

Figure 19: Gearing levels: net debt / (net debt + equity) HY15 - HY19 (source: SunRice)

The reduced gearing level in recent years provides SunRice with the capacity to fund some of its 2022 Growth Strategy initiatives, but not all. As noted earlier, it is the Board's view that SunRice needs access to other forms of funding over the next three – five years, particularly equity capital.

CONTINUED

SunRice's gearing has traditionally been higher at half-year than at year-end. This reflects standard seasonality in the SunRice business, whereby payables to Growers for any Riverina rice crop are paid throughout the year at a rate that is faster than the usage of the corresponding inventory. As the rice crops are harvested around 30 April each year, this naturally leads to higher levels of net working capital in October, with corresponding increases in net debt and gearing levels.

When considering SunRice's gearing, it is also important to note that the PNG kina (PGK) is a restricted currency not freely traded on currency markets. As a result, the cash balance accumulated by Trukai Industries (PGK 115 million (A\$48 million) at 31 October 2018) cannot be repatriated on demand. This may result in additional borrowing cost to finance SunRice's working capital in the future and, if this amount of cash was to become unavailable for SunRice, the Group's gearing ratio would materially increase compared to its current level.

At 31 October 2018, SunRice's bank borrowings and bank debt facilities were categorised as:

\$000s	Bank borrowings	Bank debt facilities, including bank contingent liabilities
Seasonal Debt	127,000	235,000
Core Debt	92,230	220,000
	219,230	455,000

The above table shows SunRice's unused core debt facility was \$128 million at 31 October 2018, a decrease of \$13 million compared to 30 April 2018. Prior to 30 April 2018, SunRice also extended the maturity profile of its core debt facilities, with \$120 million maturing in April 2021 and the remaining \$100 million maturing in April 2023. These facilities are secured by registered security over all material assets of the Obligor Group<sup>64</sup> and a cross-guarantee between each member of the Obligor Group.

Despite the significant unused portion of the debt facilities, relying solely on debt to fund growth opportunities would increase the Company's gearing to above market acceptable levels, thereby increasing SunRice's financial risk profile. It would also expose SunRice if there was a market downturn, if the affordability of water impacted operations or if the banks did not extend borrowings at maturity.

Under the terms of the above facilities, the Group is required to comply with a set of financial covenants such as minimum net tangible asset requirements and maximum borrowing limits. SunRice must also ensure that the total assets held by Obligors are not at any time less than 85% of the total assets of the Group. Covenants are regularly tested and reported to banks on a monthly / semi-annual basis. The Group has a strong track record of complying with its bank covenants and continues to do so. A breach of the covenants and undertakings in the facility agreements (which are not remedied within any applicable grace period) will be an event of default under the facility agreements and may, among other consequences, prevent SunRice from paying dividends.

There are no scheduled amortisation payments during the term of the facility agreements. Each facility must be paid in full on the maturity date as noted above or extended prior to the maturity date. SunRice is able to make voluntary prepayments under the facility agreements, subject to certain minimum payment amounts and notice requirements. To the extent that principal payments are made, SunRice may redraw any part of a facility up to the applicable limits provided relevant conditions precedent are met. The facility agreements do not contain mandatory pre-payment provisions.

The banking facilities contain other terms which are typical for facilities of this nature such as representations, undertakings, review events (including a review event where there is a change of control in respect of SunRice) and events of default. Subject to certain grace periods, any breach of the representations or undertakings given or made, or the occurrence of a review event or an event of default, may lead to the facilities becoming due and payable and/or the lenders' commitments being cancelled.

As at 31 October 2018, SunRice had the following cash at bank, borrowings and interest rate swap contracts outstanding:

	Interest rate %	Balance \$000s
Cash at bank*	0 - 2	83,766
Debt	3	219,230
Interest rate swaps (notional principal amount)	3.45	46,000

<sup>64</sup> The Obligor Group is a subset of the Ricegrowers Group and includes: Ricegrowers Ltd, Riviana Foods Pty Ltd, Australian Grain Storage Pty Ltd, Rice Research Australia Pty Ltd, Solomons Rice Company Limited, Sunshine Rice Inc., Ricegrowers Singapore Pte Ltd, Silica Resources Pty Ltd, Sunshine Rice Pty Ltd and SunFoods LLC

\* Cash at bank remains elevated as a result of cash accumulated by Trukai Industries. At 31 October 2018, cash held with Trukai Industries was PGK 115 million (A\$48 million). A key driver behind this significant cash balance in Trukai Industries is the ongoing tightening of the USD currency in PNG, which continues to affect Trukai Industries' ability to settle its intercompany trade payables, thereby exposing the Group to the risk of a sudden devaluation of the PNG kina. At 31 October 2018, the outstanding amount due from Trukai Industries was USD62 million (A\$87 million).

Once listed on the ASX, SunRice will have the option of raising additional capital in the future through the issuance of new B Class Shares to new and existing investors (subject to the restriction that no one person will be able to hold more than 10% of the total number of B Class Shares on issue described in more detail in Sections 8.5.2 and 8.6.1(f)). In addition, SunRice currently has the following B Class Share plans in place:

- Dividend Reinvestment Plan (DRP);
- Employee Share Plan (ESP); and
- Grower Share Purchase Plan (GSPP).

More information about these plans can be found in Sections 8.7, 8.8 and 8.9.

#### 4.12 Dividend Distribution Policy

Depending on available profits and the financial position of the SunRice Group, it is the current intention of the Board that, after Listing, the Company will continue to pay dividends to B Class Shareholders.

The declaration and payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors, including:

- The operating results and financial condition of the Group;
- General business conditions;
- Future funding requirements;
- Capital management initiatives;
- Taxation considerations (including the level of franking credits available);
- Any contractual, legal or regulatory restrictions (including under the Corporations Act) on the payment of dividends by the Company; and
- Any other factors the Board may consider relevant at the applicable time.

As per the current Dividend Distribution Policy of the Group, it is the intention of the Board, as at the date of this Information Memorandum that, after Listing, SunRice will maintain its current policy, which targets a dividend payout ratio of up to 50% of its NPAT and a consistent dividend per Share year-on-year, subject to the Company's financial position and performance outlook. However, in line with the policy, the Board also retains a discretion to amend or depart from its dividend policy at any time.

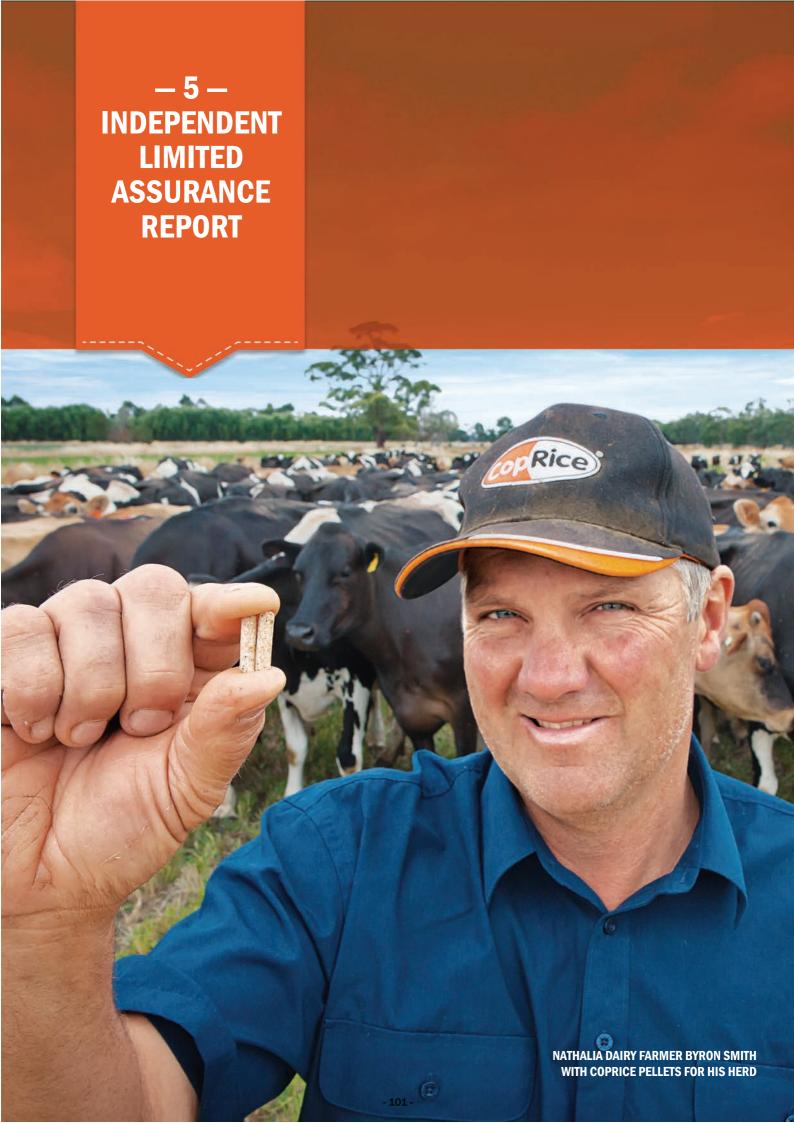
The Company had \$80.4 million in franking credits available at 30 April 2018, as shown below:

\$000s
Franking credits available for subsequent financial years based on a tax rate of 30%

80,417

No assurance can however be given by any person, including the Board, about the payment or the quantum of future dividends by the Company, or the level of franking or imputation on any such dividend. There may be periods in which dividends are not paid.

A copy of SunRice's Dividend Distribution Policy is available on the Company's website. Further information about SunRice's Dividend Reinvestment Plan can be found in Section 8.8.





The Directors Ricegrowers Limited 57 Yanco Avenue Leeton, NSW 2705

1 March 2019

**Dear Directors** 

## **Investigating Accountant's Report**

## Independent Limited Assurance Report on Ricegrowers Limited historical financial information and Financial Services Guide

We have been engaged by Ricegrowers Limited ACN 007 481 156 (the Company) to report on the historical financial information of the Company for the years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six months ended 31 October 2017 and 31 October 2018 for inclusion in the Information Memorandum dated on or about 1 March 2019.

Expressions and terms defined in the Information Memorandum have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

#### Scope

### Historical Financial Information

You have requested PricewaterhouseCoopers Securities Ltd to review the following Historical Financial Information of the Company (the responsible party) included in the Information Memorandum:

- a. statutory consolidated historical income statements for the financial years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six month periods ended 31 October 2017 and 31 October 2018:
- b. statutory consolidated historical cash flow statements for the financial years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six month periods ended 31 October 2017 and 31 October 2018; and
- c. statutory consolidated historical balance sheets as at 30 April 2016, 30 April 2017, 30 April 2018 and 31 October 2018.

ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572 One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001



The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies. The Historical Financial Information has been extracted from the financial reports of the Company for the years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six months ended 31 October 2017 and 31 October 2018, which were audited (and in the case of the six month financial reports reviewed) by PricewaterhouseCoopers in accordance with Australian Auditing Standards. PricewaterhouseCoopers issued unmodified audit/review opinions on the financial reports.

The Historical Financial Information is presented in the Information Memorandum in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *C*orporations Act 2001.

## Directors' responsibility

The directors of the Company are responsible for the preparation of the Historical Financial Information, including its basis of preparation. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information that are free from material misstatement.

## Our responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Historical Financial Information.

## **Conclusions**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information of the Company, as described in section 4 of the Information Memorandum, and comprising:

- a. statutory consolidated historical income statements for the financial years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six month periods ended 31 October 2017 and 31 October 2018;
- b. statutory consolidated historical cash flow statements for the financial years ended 30 April 2016, 30 April 2017 and 30 April 2018 and the six month periods ended 31 October 2017 and 31 October 2018; and
- c. statutory consolidated historical balance sheets as at 30 April 2016, 30 April 2017, 30 April 2018 and 31 October 2018



are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4 of the Information Memorandum being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

## Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

#### Restriction on Use

Without modifying our conclusions, we draw attention to section 4 of the Information Memorandum, which describes the purpose of the Historical Financial Information, being for inclusion in the Information Memorandum. As a result, the Historical Financial Information may not be suitable for use for another purpose.

#### Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the Information Memorandum in the form and context in which it is included.

## Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Information Memorandum. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Information Memorandum.

## Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the listing of the Company on the Australian Securities Exchange other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

#### Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Glen Hadlow

**Authorised Representative** 

Am Halle

PricewaterhouseCoopers Securities Ltd



## **Appendix A – Financial Services Guide**

# PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

## This Financial Services Guide is dated 1 March 2019

#### 1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("PwC Securities") has been engaged by Ricegrowers Limited to provide a report in the form of an Investigating Accountant's Report in relation to the historical financial information (the "Report") for inclusion in the Information Memorandum dated 1 March 2019.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

#### 2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

## 3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.



## 4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

## 5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to \$108,350.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

## 6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the auditor of Ricegrowers Limited.

## 7. Complaints

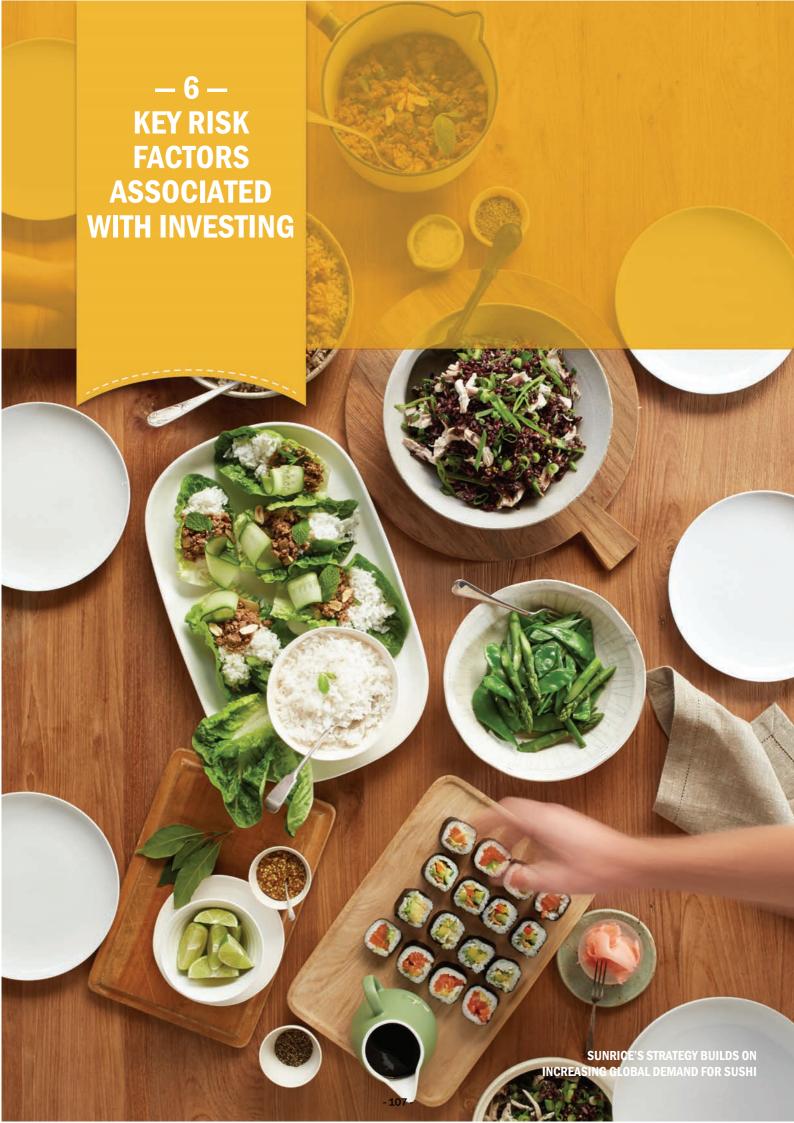
If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority ("AFCA"), an external complaints resolution service. AFCA can be contacted by calling 1800 931 678. You will not be charged for using the AFCA service.

#### 8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Glen Hadlow One International Towers Sydney, Watermans Quay, Barangaroo GPO BOX 2650 Sydney NSW 2000



# 6. KEY RISK FACTORS ASSOCIATED WITH INVESTING

#### 6.1 Overview

This Section describes some of the potential risks associated with investing in the Company and in B Class Shares, including:

- Risks that are specific to the SunRice Group's Business (see Section 6.2);
- Risks that are associated with external events unrelated to the usual course of SunRice's Business (see Section 6.3); and
- Risks that are common to all investments in equity securities and not specific to an investment in the Company (see Section 6.4).

If any of these risks were to occur, the future operating and financial performance and prospects of the SunRice Group could be materially and adversely affected, and this could impact your investment in the Company. Whilst some of the risk factors may be mitigated by appropriate commercial action, many are either wholly or in part outside of the control of the Group, the Directors and Management. The B Class Shares carry no guarantee as to maintenance of or appreciation in value, the payment of dividends or return of capital. In addition, it is important to understand that there can be no guarantee that the SunRice Group will achieve its stated objectives or that any forward-looking statement will eventuate.

Please note that this Section does not list every risk that may be associated with an investment in B Class Shares, either now or in the future. The risks highlighted in this Section have been selected based on:

- An assessment of the key risks that the SunRice management and Board focus on when managing the Business;
- The probability of the risk occurring; and
- The significance of the impact on the SunRice Group if the relevant risk did occur.

The assessment is based on the knowledge of the Directors as at the date of this Information Memorandum, but there is no guarantee or assurance that the importance of risks will not change or that other risks will not emerge. Further, individual shareholders' financial objectives, financial situation and particular needs have not been taken into account in the preparation of this material.

Before acquiring any B Class Shares, you should satisfy yourself, as a prospective investor, that you have a sufficient understanding of the risks associated in becoming a shareholder of and investing in the Company, including those detailed below. Please consider whether shares are a suitable investment for you having regard to your personal investment objectives, financial circumstances and taxation position. If you do not understand any part of this Information Memorandum or are in any doubt as to whether or not to invest in B Class Shares, you are strongly encouraged to seek your own professional guidance from your accountant, financial adviser, stockbroker, lawyer, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

#### 6.2 Risks specific to an investment in SunRice

#### **6.2.1** Global commodity markets

Rice is a globally traded commodity and its price is subject to local and international changes in supply and demand. These fluctuations in price may generate volatility in the SunRice Group's operating results and its ability to remain competitive.

SunRice purchases and sells substantial volumes of rice sourced from overseas. In the course of these activities, SunRice contracts to purchase rice at set prices and then subsequently sells that rice as branded products or in a bulk form. This exposes SunRice to commodity price risk. International rice markets can also be adversely affected by general weather conditions in countries producing rice, release of stockpiles on the market, tender requirements, tariffs and other trade barriers implemented by various countries.

SunRice mitigates the impact of price volatility through the use of branding, innovation, product mix, customer relationship management and cost management. SunRice's risk exposure is also reduced due to its global presence and business diversification.

#### 6.2.2 Supply levels of rice from the Riverina

Supply levels of Riverina Rice can impact on international sourcing operations and the maintenance of brands and markets. An ongoing supply of Riverina-grown rice is an essential part of the SunRice 2022 Growth Strategy and underpins the strength of many of SunRice's brands, including in export and value-add markets, to which the Profit Businesses have exposure. SunRice monitors the anticipated Riverina Crop size and market demand, and reconfigures its Riverina asset base and/or varietal mix accordingly.

As detailed in Section 6.2.3, the size of the Riverina crop can be impacted by a range of factors. In years where the crop is not impacted by these factors, the Rice Pool business is self-funded and the final Paddy Price strictly determined by the returns generated by this segment.

In years where a small quantity of Riverina Rice is foreseen, SunRice may decide to provide Growers with greater certainty by announcing, before planting season, a fixed or minimum Paddy Price.

### 6. KEY RISK FACTORS ASSOCIATED WITH INVESTING

**CONTINUED** 

If this decision fails to encourage production and does not increase the volume of Riverina Rice required by SunRice, the Profit Businesses may be impacted by the loss generated by the Rice Pool Business (notably through underutilisation of assets and under recovery of overheads). There is also the risk of being unable to supply established customers.

The size of the Riverina crop can vary substantially from year to year (see Figure 8 on page 31), and SunRice has developed a global sourcing strategy utilising overseas suppliers as a key mitigation tactic to help navigate these fluctuations, in addition to its existing Crop Carry-Over and Carry-In Policy. In this context, SunRice's activity on foreign markets may fluctuate year-on-year. The supply level of Riverina Rice is influenced by climatic conditions, on-farm yield levels, water availability and affordability and competing crops' financial return.

Pests and diseases have the potential to impact supply levels from the Riverina in the future. SunRice invests in both prevention and treatment-based research via RRAPL and operates a Pure Seed program to protect the integrity of Riverinagrown rice. In addition, the NSW Government has an enforceable exclusion zone that prevents paddy rice from other regions and countries entering the Riverina, further protecting the Riverina Rice industry from diseases that exist in other locations. Whilst the Riverina region is currently free from rice blast, a major rice disease internationally, research and ongoing varietal development is conducted in the tropical region of Australia (North Queensland) to protect and mitigate against the risk eventuating in the Riverina.

As noted earlier, SunRice closely monitors the anticipated level of production of Riverina Rice and gauges the extent to which rice needs to be sourced from overseas suppliers or that Riverina Rice needs to be carried over from year-to-year. Considering the low availability of affordable water (see Sections 6.2.3) current drought experienced in the Riverina region, the consequential impact on the price of water and the latest weather forecasts, the outlook for the C19 Crop size is approximately 50,000 paddy tonnes. Even when combined with a substantial carry over of Crop from C18, it is highly unlikely that the Rice Pool Business will be self-funded in C19. As a result, some of the markets that would have been serviced by Riverina Rice will instead receive product sourced from SunRice's international supply chain. Profit on these sales, when combined with the reconfiguration of operations undertaken in the Rice Pool Business are expected to reduce the impact of the anticipated Paddy Price Supplement necessary for the Rice Pool Business in FY20 (being the year in which the C19 Crop will be marketed).

Planting for the C20 crop (which will be marketed in FY21) will also commence around October 2019 and will be dependent on the weather outlook for the Riverina over the next few months. Should the dry conditions currently experienced continue up to that time, these could impact the level of Australian crop available in C20, which could in turn materially impact the results of the SunRice Group in FY21. Such an impact will only be quantifiable when the weather outlook is firmed up closer to the October 2019 planting window and once the size of the C20 crop can be estimated more reliably.

#### 6.2.3 Water availability, water affordability and competing crops

Riverina Rice production is dependent on the availability and affordability of irrigation water, which is sourced from the Murray-Darling Basin of Australia and is subject to a coordinated management plan regulated by the Murray-Darling Basin Authority.

The availability and price of irrigation water and the financial attractiveness of competing crops may negatively impact the quantity of Riverina Rice produced. The availability and price of irrigation water is, in turn, affected by climatic conditions, regulatory issues and market forces. There have been substantial increases in the price of irrigation water for use in the production of Riverina Rice and this has led to some farmers using their water in other ways.

In order to access irrigation water, farmers either need to hold perpetual water entitlements or purchase annual water allocations, which are subject to government policy. The allocation yield from entitlements varies in response to prevailing climatic conditions.

Growers will typically make a decision on whether or not to plant rice in the second half of each year, based on an assessment of the likely cost and availability of irrigation water over the coming crop year, amongst other factors. If adequate irrigation water is not available at acceptable prices for a crop year, that can significantly adversely affect the volume of rice production for that year. Dry weather conditions and related impacts have led to increased media and government attention of the Murray-Darling Basin Plan in recent months. It is unknown if this will result in changes to government policy on the Basin's management and/or water entitlements and allocations.

A change of weather patterns, climatic conditions or government policy in the Riverina region resulting in multiple consecutive years of small crops may severely affect SunRice's business model and operations (note - historic crop sizes, including those impacted by low water availability, are shown in Figure 8 in Section 2.5.4). Restructuring measures to redeploy resources and material impairments charges for underutilised or idle assets may be required, materially impacting on SunRice's balance sheet, profit and cash flows. The long term effects of which will then depend on SunRice's ability to increase its overseas trading operations and establish sustainable supply chains around the world. SunRice closely monitors water availability and environmental conditions and where prudent, incentivises local production to maintain its grower and asset base, as well as strategic markets.

#### 6.2.4 Foreign exchange risk on transactions and on translation

Depending on the quantity of Riverina Rice produced, SunRice exports a significant proportion of that rice from Australia and, as most overseas sales are denominated in U.S. dollars or other foreign currencies, changes in the Australian dollar exchange rates can impact on the Australian dollar returns on those export sales. These risks primarily relate to the Rice Pool Business.

The Profit Businesses of the SunRice Group may also be adversely affected by foreign exchange rates when no natural hedge exists (purchase and sale in the same currency). The SunRice Group is mainly exposed to fluctuations on the U.S. dollar, the Euro, Vietnamese dong, Thai baht, the Solomon Islands dollar and the PNG kina.

PNG is an important market for SunRice and significant intercompany transactions exist between several SunRice Group entities and SunRice's subsidiary, Trukai Industries, in relation to the supply of rice. As the transactions are denominated in U.S. dollars, the level of intercompany debt is largely dependent on the availability of U.S. dollars in PNG. The current tightening of market conditions is putting pressure on the ability of Trukai Industries to pay its intercompany trade payable and leaves the Group exposed to a sudden devaluation of the PNG kina against the U.S. dollar and Australian dollar.

The SunRice Group's foreign exchange risk management policy is to, where possible, hedge its foreign currency denominated exposure arising from future commercial transactions. Access to hedging PNG kina has been restricted by U.S. dollar liquidity and SunRice hedges this exposure when contracts become available at commercial prices.

#### 6.2.5 Sovereign and political risk

The SunRice Group operates in and has ambition to expand into a number of countries regarded as having a higher risk rating than Australia. Any political, legal, economic or social changes in these countries have the potential to reduce operational returns and the value of the SunRice Group's investment in those countries.

In particular, the government of PNG has previously contemplated the introduction of restrictive import measures on rice, which could have adversely impacted the Trukai Industries business. At this time, no such restrictions have been implemented and discussions have subsided. SunRice continues to monitor this and other in-country risks and to work closely with the government in PNG to support the establishment of a domestic rice industry.

In addition, some of the overseas countries in which the SunRice Group conducts business have different business practices and are more susceptible to corruption, bribery and other criminal conduct. While SunRice has policies and controls in place to address the risk of SunRice becoming liable for such conduct, it cannot guarantee that those policies and controls will be effective. SunRice may incur fines or penalties, reputational damage or suffer other adverse consequences if it, or its staff or business partners are found to have been involved in such conduct.

Despite the successful negotiation of a series of Free Trade Agreements (FTAs) between Australia and its major trading partners, the Australian rice industry has not received any subsequent improvement in market access as a consequence of these agreements. It is not anticipated that the trade negotiators will change their priorities in the near future and therefore SunRice will need to pursue commercial avenues to gain improved access. If these attempts are unsuccessful and import restrictions are not eased, some markets may remain closed to SunRice's expansion ambitions. In addition to prohibitive tariffs, countries also implement non-tariff barriers to market entry, such as quota restrictions, quarantine issues or the regulation of rice imports through 'single desk', government controlled bodies in order to protect their domestic rice industries.

#### 6.2.6 Failure to successfully implement the SunRice 2022 Growth Strategy

SunRice has identified a number of strategic priorities as part of its 2022 Growth Strategy. There is a risk that the benefits associated with those identified strategic priorities may not occur due to a number of execution risk factors, including:

- Expansion in Asia involving the set up and management of a supply chain from source to final product and covering
  activities such as varietal development, building grower communities, investing capital to build assets and set up
  infrastructures, and entering new sales markets, in a new operational location for SunRice. The SunRice Group may be
  subject to sovereign and political risks associated with operating in a foreign jurisdiction;
- Premiumising Riverina Rice securing Australian rice in the right quantities and varietals to meet growing consumer needs on a consistent basis; and
- Successfully identifying, negotiating and executing merger and acquisition and joint venture activity to drive growth and take advantage of opportunities for diversification and synergies.

In addition, key to achieving the Growth Strategy is SunRice securing access to capital (debt or equity) on competitive terms, as well as SunRice achieving sufficient profitability to invest in its strategy and correct interpretation of overall economic and/or market conditions. Failure to do this may have an adverse effect on the SunRice Group's revenue, profitability and growth.

#### 6.2.7 Access to future funding

Although the Directors are of the view that the current cash position of the SunRice Group is sufficient to carry out certain aspects of the SunRice 2022 Growth Strategy, it is likely that SunRice will need to raise additional equity or debt in the future to fully implement the Strategy.

# 6. KEY RISK FACTORS ASSOCIATED WITH INVESTING

**CONTINUED** 

SunRice is exposed to global credit market conditions and there is no assurance that the funding required by SunRice from time to time to time to meet its business requirements and objectives will be available to it, on favourable terms or at all. To the extent available, any additional equity financing may dilute existing B Class Shareholdings (see further Section 6.4.3) and any debt financing may involve restrictions on the Group's future financing abilities and on operating activities.

If SunRice is unsuccessful in obtaining funds when required, it may be necessary for it to delay, reduce the scope of or abandon some aspects of the 2022 Growth Strategy. Any of these consequences may significantly and adversely impact the value of the Company and the B Class Shares.

Finally, the PNG kina is a restricted currency not freely traded on currency markets, meaning that the cash balance accumulated by Trukai Industries cannot be repatriated on demand, which may result in additional borrowing cost to finance working capital. Correlatively if this amount of cash was to become unavailable for SunRice, the Group's gearing ratio (defined as net debt divided by net debt plus total equity) would materially increase compared to its current level.

#### 6.2.8 Disruption of operations

SunRice is engaged in manufacturing and distribution activities around the world that are subject to inherent operational risks including, but not limited to, accident, fire, machinery failure, milling yield fluctuation, product defects, product contamination, labour or industrial dispute, or breach in information technology systems.

While the Group maintains appropriate insurance policies against many of these risks, the level or coverage of such insurance policies may not be sufficient to absorb all potential losses. The occurrence of any of these risks may disrupt SunRice's business operations and negatively impact profitability and/or reputation. Significant costs may also be engaged until remediation.

#### 6.2.9 Businesses involving other shareholders

SunRice is involved in businesses that are not wholly owned subsidiaries and that involve relationships with other shareholders, namely Trukai Industries and Aqaba Processing Company. If any of those relationships deteriorate or the underlying contractual agreements are terminated, this may adversely affect the SunRice Group.

#### 6.2.10 Key personnel

SunRice's success depends on its retention of key personnel, whose profiles are set out in Sections 7.1 and 7.2, and its ability to attract new personnel of such calibre in the future.

While every effort is made to retain key personnel and to recruit new personnel as the need arises, the loss of any key personnel, without suitable and timely replacement, may significantly disrupt the operations of the Business and impede SunRice's ability to implement its 2022 Growth Strategy. This may, in turn, have a materially adverse effect on both the financial performance and future prospects of SunRice. SunRice may also incur significant costs in recruiting, training and retaining new key personnel.

#### 6.2.11 Dual class share structure and limited voting rights

SunRice's share structure and the limited voting rights attached to B Class Shares distinguishes the Company from other typical ASX listed entities, which have a single share class with one vote per share. As described in Section 3.3, SunRice has a dual class share structure, with B Class Shares being able to be held by investors generally and A Class Shares being limited to Active Growers. This structure is designed to meet the needs of SunRice and its existing Shareholders, while giving investors exposure to the financial performance of SunRice.

Investors in SunRice will hold B Class Shares, which have limited voting rights. In particular, B Class Shares do not confer on their holders the right to vote at a general meeting of SunRice and will only have voting rights on matters that constitute a variation of the B Class Share class rights and as required by the ASX Listing Rules. B Class Shareholders will not have the right to vote on the election of Directors or (except in relation to amendments which constitute a variation of the B Class Share class rights) on amendments to the Constitution. These matters are controlled by the A Class Shareholders.

In addition, new B Class Shareholders should be aware that the existing B Class Shareholders comprise generally of existing or former Growers or their superannuation funds, or existing or former employees. SunRice's internal analysis indicates that at the date of this Information Memorandum A Class Shareholders currently hold approximately 45% of the current B Class Shares on issue.

<sup>65</sup> SunRice conducts internal analysis to understand the overall number of B Class Shares held by A Class Shareholders. This analysis indicates that A Class Shareholders hold approximately 45% of B Class Shares. It should be noted that this analysis relies on SunRice staff identifying B Class Shareholdings held by A Class Shareholders or entities associated with them and, as such, only provides an informed estimate. It is also impacted by the fact that B Class Shares have been quoted on the NSX and may be transferred to Shareholders who do not hold A Class Shares

B Class Shareholders' limited voting rights and the fact that the A Class Shareholders control SunRice may make B Class Shares less attractive as an investment compared to an investment in shares in a typical ASX listed entity. As a result, B Class Shares may trade at a lower price than if the features referred to above did not exist.

It should be noted that the interests of A Class Shareholders are in achieving returns through Paddy Prices. The interests of B Class Shareholders are in achieving dividends on B Class Shares and improvement in the market price of B Class Shares. These interests have diverged since SunRice's dual class share structure was put in place on incorporation, and the proportion of B Class Shares held by A Class Shareholders has decreased.

In making any decision, the SunRice Board must have regard to its duties under the Corporations Act and the general law to act in the best interests of the SunRice Group as a whole. SunRice Directors have actively managed these divergent interests for more than 10 years and the Directors believe they have demonstrated a strong track record in balancing the interests of both classes of Shareholders. In addition, the Board has adopted procedures to manage any potential conflict or divergence of interests which may arise, including delegating the decision to a committee of unconflicted Directors. These procedures are set out in the SunRice Conflict of Interest Policy described in Section 7.5.11 and the Paddy Pricing Policy in Sections 3.10.6 and 7.5.5. Copies of both policies are also available on SunRice's website.

#### 6.2.12 B Class Shareholding Limit

In addition to the non-standard elements referred to in Section 6.2.11, SunRice's Constitution has a B Class Shareholding Limit. The B Class Shareholding Limit restricts a person (together with their associates) from holding more than 10% of the total number of B Class Shares on issue. In this context, a person will be deemed to "hold" a B Class Share if they have a relevant interest in that Share. If a person acquires B Class Shares in excess of the B Class Shareholding Limit, all rights (including voting and dividend rights) of that person in respect of the excess B Class Shares will be suspended, and the Directors may procure the disposal of the excess B Class Shares.

The continuation of the B Class Shareholding Limit is required to be approved by A Class Shareholders at SunRice's tenth annual general meeting after Listing and at each third annual general meeting thereafter. However, any removal of or variation to the B Class Shareholding Limit will require a special resolution (75% majority of the votes cast) of the A Class Shareholders and of the B Class Shareholders. If the requisite voting majorities to either retain or change the B Class Shareholding Limit are not achieved, the existing 10% B Class Shareholding Limit will remain in place through the Constitution, until such time as Shareholders can agree on a new B Class Shareholding Limit.

The existence of the B Class Shareholding Limit is unusual for an ASX listed company and may adversely affect the price at which B Class Shares trade.

#### 6.2.13 Debt facilities

SunRice is exposed to interest rate fluctuations from its debt facilities and hedges a portion of its interest rate risk to reduce the impact of increased interest rates.

SunRice obtains financial flexibility from its debt facilities by ensuring committed facilities are maintained to meet its forecast needs. These debt facilities require the Company to maintain certain financial metrics, known as covenants. Deterioration in SunRice Group's financial results may impact the ability to meet these covenants, which may require debt facilities to be repaid. Details of SunRice's financing facilities are set out in Section 4.11.

#### 6.2.14 Importation of milled rice into Australia

White milled rice is freely imported into Australia and some varieties such as Jasmine rice command significant market share especially in the food service channel. This imported rice is sold in the Australian market in competition to SunRice.

SunRice seeks to distinguish itself from competitors that market imported rice through its strong brands, supply channels and value proposition of high quality Australian-grown rice meeting the demand for "clean and green" food products. SunRice, through its subsidiary RRAPL, also focuses on developing high quality high yielding rice varietals to compete directly with imported rice. A current example is Topaz, which has been developed to compete with imported Jasmine rice on both reputation and flavour profile. When supported by consistent brand building, and with a focus on its origins as Australian-grown from a safe source, this strategy seeks to counter the marketing of imported rice by competitors of SunRice.

#### 6.2.15 Change in customer demand

The SunRice Group sells its products to a range of major Australian and international companies including the major Australian supermarket chains. A significant change in the demand for, or the price paid for, the SunRice Group's products by key customers may affect the SunRice Group's sales volumes and margins and thereby adversely affect the SunRice Group's revenue, profitability and growth.

Such change could arise from:

• A change in the customer's competitive position;

### 6. KEY RISK FACTORS ASSOCIATED WITH INVESTING

**CONTINUED** 

- The customer's strategy to increase sales of their private label products;
- Increased competition from other rice products; or
- A change in demand from consumers for the SunRice Group's products.

#### 6.2.16 Increased competition

SunRice is subject to growing competition in certain markets, channels and categories of products. This risk is particularly relevant in relation to international markets, where existing or new players at either a global or regional level could gain market share to SunRice's detriment.

Increased competition could adversely impact the SunRice Group's sales volumes, pricing strategies, profitability and ultimately, growth ambitions.

#### 6.2.17 New South Wales regulation and vesting of rice

Rice grown in NSW is subject to a vesting proclamation made under the Rice Marketing Act, the effect of which is to transfer legal ownership of NSW-grown rice from producers to the Rice Marketing Board (**RMB**). However, rice sold by producers to Authorised Buyers appointed by the RMB is exempt from vesting. There are presently 11 Authorised Buyers, including SunRice. See Section 2.4.1 (c) for more information.

The RMB attaches conditions to the terms on which Authorised Buyers are appointed and SunRice is the only Authorised Buyer with the right to export rice produced in NSW. This mechanism has established SunRice as the operator of the single export desk for rice produced in NSW. The RMB and SunRice have entered into the Sole and Exclusive Export Agreement in relation to this role. Further details of the Sole and Exclusive Export Agreement are set out in Section 8.3.2.

The Sole and Exclusive Export Agreement can be terminated on either party giving at least five years' prior written notice. It can also be terminated immediately by either party in the following circumstances:

- A party commits a material breach which is not remedied within 30 days after notice to remedy;
- The RMB is dissolved for whatever reason;
- There is a change of control of SunRice, or its subsidiary Australian Grain Storage Pty Ltd, without the prior written consent
  of the RMB:
- SunRice ceases to be an Authorised Buyer for any reason;
- · Vesting is revoked or not renewed; or
- Either party suffers an insolvency event.

The current vesting proclamation has effect until 30 June 2022. The NSW Government will commence a review in 2020 to consider whether to renew its proclamation and continue rice vesting in the RMB. The RMB can also appoint additional Authorised Buyers, which has the potential to affect the Company's market share of domestic rice sales.

The Company continues to assess and record the economic benefits of vesting and, when required, provides evidence of this to the NSW Government to support the continuation of vesting and the single export desk.

#### 6.2.18 Product and food safety

The SunRice Group's products, particularly the food products for human consumption, are subject to quality risks and contamination if systems or processes fail. In particular, improper processing or transportation can affect the quality and safety of those products. SunRice has quality assurance policies and programs in place to address this risk.

An incident arising from or relating to the safety of the SunRice Group's products could cause significant financial and reputational damage to the SunRice Group.

SunRice must comply with various health, safety and packaging laws and regulations in relation to its food products in various jurisdictions. There is a risk that penalties and other liabilities may be imposed on SunRice if it commits any breach of these laws and regulations.

#### 6.2.19 Work health and safety

SunRice operates a number of manufacturing sites and is exposed to the risk of injury to its employees or contractors. If a workplace injury occurs and SunRice is found to have breached its obligations under work health and safety laws, it may be prosecuted and incur significant financial penalties. The SunRice Group may also be required to pay compensation in connection with a workplace injury and may suffer reputational damage and loss of production. This has the potential to adversely affect the SunRice Group.

SunRice has work, health and safety policies and programs in place to address this risk, overseen by a Board committee.

Workplace health and safety is a key priority for SunRice, with substantial investment in design and technology to reduce risk, improve the inherent safety of the work performed, and to enhance corporate transparency and audit focus on high risk activity.

SunRice continues to invest in its people with safety and leadership training a requirement at all sites and at all levels of management. The SunRice work, health and safety program has led to year on year improvements in the Total Recordable Injury Frequency Rate (TRIFR), with further work planned to ensure compliance and to continue the Company's work to build a sustainable safety based culture.

#### 6.3 General risks to the SunRice business

#### 6.3.1 General economic and financial market conditions

Changes in the general economic conditions in Australia and globally are outside of the control of SunRice but may have a significant impact on the future performance of SunRice and the price or value of the B Class Shares. Such changes may include:

- Fluctuations in interest rates, exchange rates, commodity prices and the rate of inflation in Australia resulting from domestic or international conditions (including movements in domestic interest rates and reduced activity in the Australian economy):
- Changes in government, legislation, government policy or the regulatory environment in which SunRice operates;
- Changes in Australian and global equity market conditions;
- Changes in investor sentiment toward particular market sectors; and
- Acts of terrorism or other hostilities.

A prolonged deterioration in any number of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions, growth prospects and B Class Share price.

#### 6.3.2 Regulation changes

SunRice is subject to local laws and regulations in each of the jurisdictions in which it operates. Future laws or regulations may also be introduced, or existing laws and regulations may be changed, which directly or indirectly impact on SunRice's business in the jurisdictions in which it operates, which could restrict or complicate SunRice's activities and increase its compliance costs.

#### 6.3.3 Taxation

There is potential for changes to taxation laws. An increase in the rates of taxation imposed on the SunRice Group, a broadening of the taxable events that apply to the Group and the Business, and/or an interpretation of the tax laws by the relevant tax authority that is contrary to the Group's view of those laws may all result in an increase in the amount of tax to be paid by it.

To mitigate such risks, the SunRice Group obtains independent expert advice on the application of tax laws to its operations. However, the extent to which the tax laws will apply to the Group and the manner in which they are interpreted are outside of the control of the SunRice Group and Board. Therefore, there is the risk that any change in tax laws and/or interpretations will adversely affect the Group's profitability.

#### 6.3.4 Accounting standards

The audited SunRice Group's financial position and performance are prepared in accordance with Australian Accounting Standards (AAS), set by the Australian Accounting Standards Board (AASB) which are not within the control of SunRice or its Directors. The AASB may, from time to time, introduce new or refined AAS, which may affect the future measurement and recognition of key income statement and balance sheet items. There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key income statement and balance sheet items may differ. Any changes to AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of SunRice.

#### 6.3.5 Force majeure events

Events such as an outbreak of international hostilities, fires, floods, droughts, earthquakes, labour strikes, civil wars, natural disasters, acts of terrorism, outbreaks of disease or other natural or man-made events or occurrences may have an adverse effect on the demand for SunRice's products and its ability to conduct business.

#### 6.3.6 Environmental

The SunRice Group is subject to environmental laws and regulations in each of the jurisdictions in which it has manufacturing operations and requires various environmental licences to conduct its business. Any breach of these licences or applicable laws may have an adverse impact on the reputation or financial performance of the SunRice Group. SunRice has policies and programs in place which seek to address this risk. Further, environmental legislation or licence conditions may be amended in the future and this could lead to the SunRice Group facing increased compliance costs in order to continue its operations.

SunRice's commitment to the environment is overseen by the Board through the Safety Health and Environment Committee. In FY17, the full Board endorsed the SunRice Sustainability Charter, which commits the Company to respect the societies,

### 6. KEY RISK FACTORS ASSOCIATED WITH INVESTING

**CONTINUED** 

communities and environments in which it operates and to report on these commitments transparently. The Company released its first Sustainability Report in 2018 and the SunRice Group is also a signatory of the United Nations Global Compact.

SunRice acknowledges that climate change could have potential major, but localised impacts, on rice production around the world. The Company recognises the need to manage these risks through diversifying the geography and product range of its supply chain. One of the key drivers for SunRice's international growth strategy is to secure a sustainable and reliable global supply chain which mitigates our exposures to localised weather events in any one region. The Company's dual-hemisphere, multi origination sourcing strategy led to the supply of rice in FY18 from Australia and seven other countries (Thailand, Vietnam, Pakistan, India, the U.S., Spain and Italy). The business seeks to find solutions to, and prepare for, the risks associated with climate change, including setting measures to improve management of water and energy.

#### 6.3.7 Material litigation or claims

SunRice may be subject to litigation and other claims or disputes in the course of its business, including employment disputes, contractual disputes, indemnity claims, property damage, environmental claims, product liability claims, tax and consumer claims. Claims may be made by government agencies or regulators in each of the jurisdictions in which SunRice operates. Any such litigation, claim or dispute, including the costs of settling any claims and any associated penalties, could adversely affect SunRice's business and its operational and financial performance.

SunRice is not currently engaged in litigation as at the date of this Information Memorandum of a material nature which is likely to have a material adverse impact on the Business or financial position of the Company, any other Group Member or the Group as a whole, and the Directors are not aware of any such proceedings pending, threatened against or affecting, the Company or other Group Members.

#### 6.4 Risks associated with holding B Class Shares

#### 6.4.1 General stock market risks

There are risks associated with any investment in shares. The trading price of B Class Shares on the ASX may vary depending on the financial performance of SunRice and other external factors. These factors may cause the B Class Shares to trade below the current price. Some of the general factors which may affect the price of B Class Shares include fluctuations in the domestic and international market for listed stocks and general economic conditions, including interest rates; inflation rates; exchange rates; commodity prices; changes to government fiscal, monetary or regulatory policies, legislation or regulation; the nature of the markets in which SunRice operates; and general operational and business risks.

Other factors which may negatively affect investor sentiment and influence SunRice specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities or fires, floods, earthquakes, labour strikes, civil wars and other natural disasters. There is no guarantee that there will be an active market for B Class Shares.

#### 6.4.2 Liquidity of Shares

The Company will be applying to the ASX for admission to the Official List and official quotation of all B Class Shares on the ASX. However, there can be no guarantee that an active market in the B Class Shares will develop or that the price of the B Class Shares will increase after Listing. There may be relatively few buyers or sellers of B Class Shares on the ASX at any given time, which may in turn affect the prevailing market price at which the B Class Shares are able to be sold and generally increase the volatility of the market price of the B Class Shares. In particular, if the volume of trading in the B Class Shares is low, significant price movement can result from the trading of a relatively small number of B Class Shares.

Therefore, if you decide to invest in B Class Shares, there is no guarantee that you will be able to sell your B Class Shares or recover all or any of the amount that you paid for them.

#### 6.4.3 Risk of dilution

After Listing, the Company may issue further B Class Shares from time to time to raise additional capital to finance the SunRice 2022 Growth Strategy or other future developments. The amount and timing of such additional financing needs will vary primarily on the amount of cash flow from the Group's operations. While SunRice will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within any 12 month period (other than where exceptions apply, such as with B Class Shareholder approval), there is a risk that the issue of additional equity will result in the B Class Shareholdings of B Class Shareholders in the Company being diluted from time to time.

#### 6.4.4 No guarantee of dividends

The prospect of future dividends being paid or made to B Class Shareholders will be contingent upon SunRice's ability to generate sustainable profits. To the extent that SunRice pays any dividends, the ability to offer fully franked dividends will depend on the SunRice Group making taxable profits. Taxable profits may be volatile, making the payment of fully franked dividends unpredictable. Further, the value and availability of franking credits to a B Class Shareholder will differ depending on the B Class Shareholder's particular tax circumstances. You should be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on your individual tax position.

As such, no assurance can be given by any person, including the Board, about the payment or the quantum of future dividends, or the level of franking or imputation of any such dividend. There may also be periods in which dividends are not paid. Similarly, there is no guarantee that any future dividend announcement will include an option to reinvest into SunRice's B Class Shares (Dividend Reinvestment Plan).

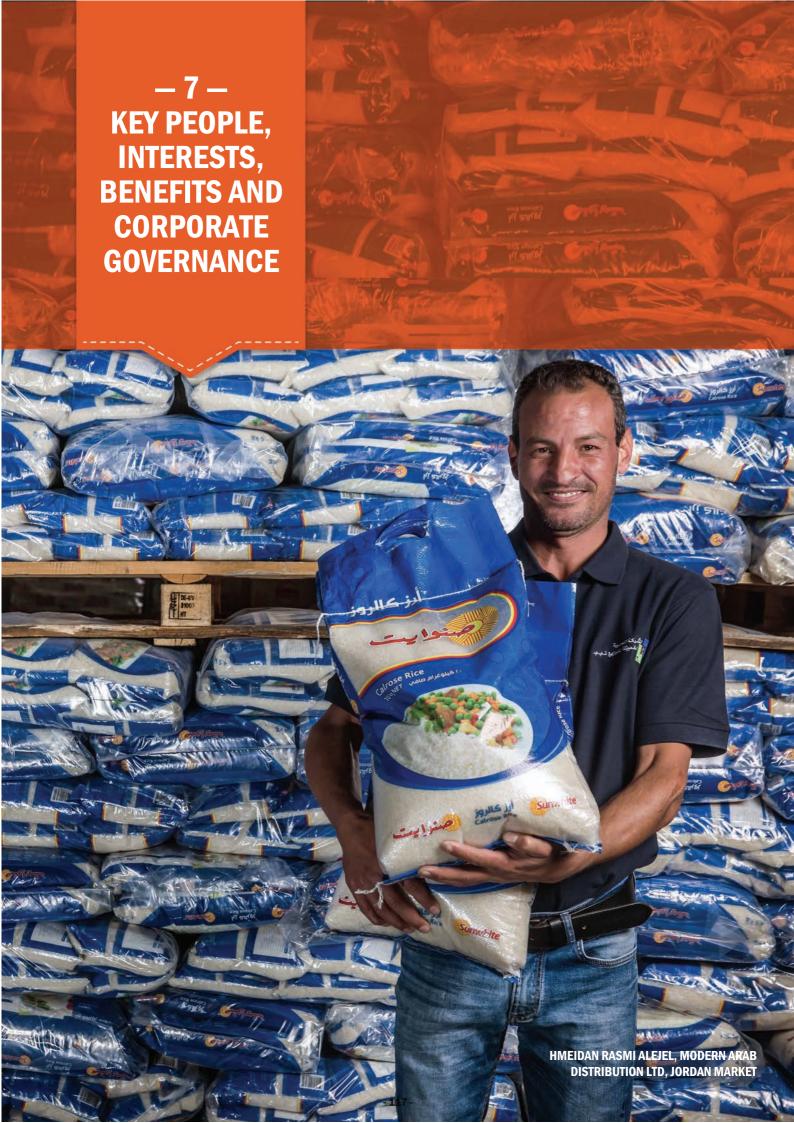
See Sections 4.12 and 8.8 for more information about SunRice's Dividend Distribution Policy and Dividend Reinvestment Plan.

#### 6.4.5 Tax considerations

An investment in B Class Shares involves tax considerations which may differ for each B Class Shareholder based on their particular circumstances. You are recommended to obtain professional tax advice in connection with any investment in B Class Shares for certainty.



**ALWAYS FRESH SPECIALISES IN GOURMET ANTIPASTO PRODUCTS** 



#### 7.1 Board of Directors

#### 7.1.1 Board composition

Under the Constitution, the Board of Directors of the Company can include up to 11 Directors, comprising:

- Up to seven Grower Directors (three of whom can be Elected RMB Members); and
- Up to four Non-Grower Directors, one of whom may be an Executive Director.

#### 7.1.2 Grower Directors

Grower Directors, including Elected RMB Members, must hold or be the representative of a body corporate (as appointed under section 250D(1) of the Corporations Act) that holds an A Class Share.

The three Elected RMB Members are, in the first instance, elected by rice growers through an election process conducted under the Rice Marketing Act and the *Rice Marketing Regulation 2015* (NSW). The Sole and Exclusive Export Agreement requires that Elected RMB Members be appointed to the SunRice Board for their term of office with the RMB, provided they meet eligibility requirements under the Constitution. That appointment is initially made by the SunRice Board and then confirmed by resolution of A Class Shareholders.

Other Grower Directors are elected by A Class Shareholders in a general election process, either at an annual general meeting or by postal ballot as determined by the Board.

#### 7.1.3 Non-Grower Directors

The Non-Grower Directors currently comprise three Independent Directors and one Executive Director (being SunRice's CEO).

Non-Grower Directors who are not employees are persons who, in the opinion of the Board, have appropriate experience to be appointed as a Director, and are generally selected for complementary skills and expertise. They are nominated by the Board before being elected by resolution of A Class Shareholders.

#### 7.1.4 Quorum

Under the Constitution, a quorum for a meeting of the Board is half or more of the existing number of Directors. In addition, for a quorum to exist, the number of Grower Directors present must exceed the number of other Directors present by at least one.

#### 7.1.5 Current Directors

The current Directors of SunRice are set out over the following pages. Together, the Directors bring to the Board a broad range of experience and skills required for the future conduct and growth of the Business under a publicly listed structure, including industry and business knowledge, financial management and corporate governance experience. As such, the Board is well positioned to guide the SunRice Group towards achieving its strategic objectives.

Each Director has confirmed that he or she anticipates being available to continue to perform his or her duties and responsibilities as a director of the Company after Listing, without constraint from other commitments.

The details of the Board's key corporate governance policies are set out in Section 7.5.

CONTINUED







# Laurie Arthur BAgSc GAICD Chairman Grower Director

Moulamein Grower. Director since 2007. Chairman since 2014. Directors' Committees: Chairman, Nomination. Member, Remuneration. Director, Aqaba Processing Company Ltd (Jordan). Representative, Rice Industry Co-ordination Committee. Former President of the Ricegrowers' Association of Australia Inc and a Commissioner of the National Water Commission.

#### **Rob Gordon**

BSc (Hons) CEng MAICD Non-Grower Director (Executive Director) Chief Executive Officer

Director since 2012, Chairman. Ricegrowers Singapore Pte Ltd, Ricegrowers Vietnam. Director, Riviana Foods Pty Ltd; Roza's Gourmet Pty Ltd; Agaba Processing Company Ltd (Jordan); Trukai Industries Ltd (PNG); Solomons Rice Company Limited (Solomon Islands); Sunshine Rice Inc (USA); Ricegrowers Middle East DMCC; Australian Grain Storage Pty Ltd; Sunshine Rice Pty Ltd; Rice Research Australia Pty Ltd. Member, Agribusiness Advisory Board, Rabobank; Representative, Rice Industry Co-ordination Committee. Former: Director, Bread Research Institute of Australia Ltd; Advisory Board Member, Gresham Private Equity. For executive experience please refer to the Corporate Management Team profiles on page 123.

#### **Glen Andreazza**

Adv Dip Agr FAICD Grower Director

Willbriggie Grower. Director since 2011. Directors' Committees: Chairman, Safety Health and Environment. Member, Grower Services. Mirrool Branch Alternate Delegate, Ricegrowers' Association of Australia Inc. Councillor, Griffith City Council.









# John Bradford MAICD Grower Director (Elected RMB Director)

Mayrung Grower. Director since 2015. Directors' Committees: Chairman, Grower Services, Rice Research Australia Pty Ltd and Trukai Industries Limited (PNG). Member, Rice Marketing Board for the State of NSW. Alternate Delegate, Deniliquin Branch, Ricegrowers Association of Australia Inc. Former: Chairman Southern Riverina Irrigators; Delegate and Member, NSW Irrigators Council.

Luisa Catanzaro
BComm FCA GAICD
Non-Grower Director (Independent Director)

Director since 2018. Directors'
Committees: Chairman, Finance, Risk and Audit. Member Remuneration and Nomination. Director, Because Movement Ltd. Former: CFO, Lynas Corporation Limited; CFO and Company Secretary, Dairy Farmers; The Australian Agricultural Company Limited. Senior finance roles, Pioneer International Limited. Senior audit manager, Arthur Andersen.

Dr. Andrew Crane
BSc (Hons) PhD FAICD
Non-Grower Director (Independent Director)

Director since 2018, Directors' Committees: Member, Finance, Risk and Audit. Director, Viridis Ag Pty Ltd; Virdis Ag Services Pty Ltd; Lawson Grains Pty Ltd; RAC WA Holdings Ltd. Chancellor, Curtin University. Former: CEO of CBH. CBH JV Director of Interflour. General Manager Strategy and Business Development and General Manager Marketing and Trading CBH. Various manufacturing, purchasing and international sales roles in the European malting and brewing industry. Member, the Prime Minister's B20 Leadership Group in 2014.

CONTINUED







#### lan Glasson BEng (Hons) GAICD Non-Grower Director (Independent Director)

Director since 2016. Directors'
Committees: Chairman,
Remuneration. Member, Finance, Risk
and Audit and Nomination. Director,
Clover Corporation. CEO of PGG
Wrightson. Former: CEO of Gold Coin
Group/Zuellig Agriculture; CEO,
Sucrogen; Managing Director of
Gresham Rabo Food & Agribusiness PE
Fund; Managing Director, Goodman
Fielder's international ingredients
division; various management and
engineering positions in Esso Australia
and its parent Exxon.

### **Gillian Kirkup**

MAICD Grower Director (Elected RMB Member)

Yanco Grower. Director since 2005. Directors' Committees: Member, Finance, Risk and Audit, Remuneration and Nomination. Member, Rice Marketing Board for the State of NSW. Representative, Irrigation Research Extension Committee. Former: Member, NSW Agricultural Consultative Committee to the Bureau of Meteorology; Chairman, Murrumbidgee Irrigation Limited; Member, Reference panel for the Prime Minister's Working Group on Soil, Water and Food; Basin Community Association; Delegate, National Irrigators Council; and Director, NSW Irrigators Council. Named as one of the Top 100 Women in Australian Agribusiness (2014).

#### **Ian Mason**

MAICD Grower Director (Elected RMB Member)

Finley Grower. Director since 2018. Directors' Committees: Member, Grower Services, Safety Health and Environment and Rice Research Australia Pty Ltd. Member, Rice Marketing Board for the State of NSW. Former Chairman of AgriFutures Australia Rice Advisory Panel.







Mark Robertson
MAICD
Grower Director

Berriquin Grower. Director since 1996. Directors' Committees: Member, Grower Services and Safety Health and Environment. Director, Trukai Industries Limited (PNG). Representative, Rice Industry Coordination Committee.

Dr. Leigh Vial

BAgrSc (Hons) MEc PhD GAICD

Grower Director

Moulamein Grower. Director since 2015. Directors' Committees: Member, Finance, Risk and Audit, Grower Services, and Safety Health and Environment. Representative, AgriFutures Rice Research Committee. Director, Agripak Pty Ltd. Member, AgriFutures Australia. Adjunct Fellow, University of Queensland. Former: Head of International Rice Research Institute's Experiment Station (Philippines).

**CONTINUED** 

#### 7.2 Senior management

#### **Rob Gordon**

#### BSc (Hons) CEng MAICD Chief Executive Officer

Rob joined SunRice in February 2012 as CEO and Managing Director. Rob's career spans more than 35 years of experience in the FMCG and agribusiness sectors, including over 20 years in CEO and Managing Director roles for companies including Viterra Inc, Dairy Farmers Ltd and Goodman Fielder (Meadow Lea and Consumer Goods divisions). He also held various senior executive roles with Unilever in Europe and Australia. For Directorships, please refer to page 119.

#### **Dimitri Courtelis**

#### BCompt (UNISA), CA (ICAA), CFE (ACFE) Chief Financial Officer

Dimitri was appointed Group CFO of SunRice in March 2018, following an extensive global career in accounting. finance and corporate roles. Dimitri is a qualified chartered accountant (ICAA) and fraud examiner (ACFE). After a number of years working in South Africa, Australia and Dubai in external audit, Transaction Advisory and Forensic Services for chartered accounting firms HLB Mann Judd, Ernst & Young and Deloitte, Dimitri moved to Abu Dhabi to join Etihad Airways in 2011. Etihad's shareholding in Air Serbia saw Dimitri assigned to work as Group CFO of Air Serbia as it went through a successful restructure. Dimitri was subsequently assigned to Air Berlin PLC, in which Etihad was the major shareholder, as the deputy CFO and subsequently Group CFO to assist with its restructuring efforts. Following Etihad's decision to withdraw its financial support for Air Berlin in 2017, the company entered external administration. Dimitri continued to work with the administrators to assist in the carve out. government debt raising and selling of the remaining assets and business units of the airline. Following this exercise, Dimitri returned to Australia with his family.

#### **Simone Anderson**

#### DipFoodSc&Tech

### General Manager, Integrated Supply Chain

Simone joined SunRice in December 2014 as the General Manager for Integrated Supply Chain and is responsible for driving best practice in manufacturing, logistics and customer services, research and development, sales and operations planning, safety, engineering and quality across the Group. Simone has more than 30 years' experience working within the FMCG sector, including senior appointments in Mondelez, Cadbury UK&I, Kraft Foods, Arla Food Group and Unigate in Australia, New Zealand, Europe and the UK.

#### **Mandy Del Gigante**

### BComm, CPA, AGIA, ACIS, GAICD Company Secretary

Mandy first joined SunRice in 1990 as a Financial Accountant and held a range of positions within the business, including Financial Controller and Company Secretary. Following three years as Secretary of the Rice Marketing Board for the State of New South Wales, Mandy returned to SunRice in 2005. Prior to working in the rice industry, she worked in the commercial and chartered accounting fields for international firms.

#### **Stephen Forde**

### Chief Executive Officer, Riviana Foods Pty Ltd

Stephen joined Riviana Foods in October 2013 as CEO, bringing more than 24 years of strategic sales, marketing and general management experience in the FMCG industry. During his 20-year career with Reckitt Benckiser, he was Global Customer Director, UK and General Manager, New Zealand, and more recently, General Manager, New Zealand for Campbell Arnott's.

#### **Tom Howard**

#### BAg Ec, MBA

### General Manager, Global Agribusiness and Sustainability

Tom joined SunRice in November 2015 and is responsible for the AGS network, Grower Services and Agronomic Development across the Riverina, North Queensland and Asia. Tom is a highly-experienced agribusiness manager with over 25 years' experience in international business and the domestic and international grains industry, having previously held senior positions with Emerald Grain (Sumitomo Corporation), the top 50 Irish company, UniPhar, and a leading Australian grains cooperative.

#### **David Keldie**

#### ВА

#### General Manager, Global Consumer Markets

David joined SunRice in 2001 and is responsible for the Middle East, Asia, the Pacific, Solomon Islands, Australia, New Zealand and North Asia Tender Markets, as well as new product development and Jordan's Aqaba processing facility. With 25 years' experience in the FMCG sector, David is a Director of Ricegrowers Singapore Pte Ltd; Ricegrowers Middle East DMCC; Aqaba Processing Company Ltd; Trukai Industries Ltd (PNG); Solomons Rice Company Limited; Sunshine Rice Inc (USA) and Sunshine Rice Pty Ltd, and provides business development support for SunFoods (USA) and Trukai Industries (PNG).

#### **Peter McKinney**

#### BComm (Marketing), GAICD General Manager, CopRice

Peter joined SunRice in January 2017, bringing extensive senior marketing and general management experience from roles with blue-chip consumer companies YUM Brands and George Weston Foods, in both the Quick Serve Restaurant and FMCG industries. Peter also previously held a senior management position at ASX-listed company Pacific Smiles Group.

#### **Matt Alonso**

#### BSc (AgEngr), MBA Chief Executive Officer, SunFoods LLC

Matt joined SunFoods LLC in 2010 and is responsible for all aspects of the U.S. business, from raw material procurement and plant operations, to domestic sales and marketing. With over 20 years' experience in the US agriculture and rice industries, Matt has previously worked for Pacific International Rice Mills and is a Board member of the California Rice Commission and the USA Rice Federation.

#### **Greg Worthington-Eyre**

### HonD Technology, MBA, MAICD Chief Executive Officer, Trukai Industries Limited

Greg joined Trukai Industries in 2013 as CEO and is responsible for all aspects of the PNG business, including management of sovereign risk, agricultural and food security projects and the development of PNG's first commercial rice industry. Prior to this, Greg was the Managing Director at Pink Hygiene Solutions and Ambius Australia, after time in Singapore as Senior Vice-President for Initial Asia Pacific. Greg started his career at Unilever and over the course of 30 years has held numerous positions across Australia and Asia.

#### 7.3 Directors' benefits and interests

#### 7.3.1 Executive Director and Chief Executive Officer

Mr Rob Gordon is employed by the Company in the position of Executive Director and Chief Executive Officer. The key terms of Mr Gordon's employment are summarised in Section 7.4.1.

#### 7.3.2 Non-Executive Directors' fees

Under the Constitution, subject to the ASX Listing Rules, SunRice is permitted to pay its Non-Executive Directors such remuneration approved by the A Class Shareholders in general meetings from time to time. The amount of the Non-Executive Director fee pool was last determined by A Class Shareholders to be \$1,100,000 per annum.

Directors are also entitled to be paid:

- Travel and other expenses properly incurred in connection with the affairs of SunRice, including attending and returning from general meetings or meetings of the Board or Board committees; and
- Additional remuneration where a Director renders or is called upon to perform additional services or make any special
  exertions in connection with the affairs of SunRice.

The Directors' remuneration for the last two financial years is set out below. Certain Directors are also entitled to grandfathered retirement allowances under a Retirement Benefit Scheme which was terminated in 2010.

	Short term	benefits	Post-employment benefits	Total	
Director	Cash salary fees \$	Cash salary and fees other controlled entities \$	Superannuation \$	\$	
LJ Arthur					
2018	171,847	-	16,325	188,172	
2017	166,842	-	15,850	182,692	
I Mason					
2018	32,306	-	3,069	35,375	
2017	-	-	-	-	
GA Andreazza					
2018	87,745	-	8,336	96,081	
2017	81,455	-	7,738	89,193	
GL Kirkup					
2018	87,745	-	8,336	96,081	
2017	86,434	-	8,211	94,645	
DM Robertson					
2018	78,769	7,318	7,483	93,570	
2017	75,230	10,025	7,146	92,401	
JM Bradford					
2018	78,769	5,961	7,483	92,213	
2017	75,230	8,020	7,147	90,397	
LK Vial					
2018	86,463	-	8,214	94,677	
2017	80,209	-	7,620	87,829	
I Glasson*					
2018	90,310	-	8,579	98,889	
2017	82,748	-	7,861	90,609	

 $<sup>\</sup>star$  I Glasson's 2017 fees include a back pay of \$1,417 related to committee fees from 25 February 2016 to 30 April 2017. I Glasson joined the Finance, Risk and Audit Committee effective 25 February 2017

**CONTINUED** 

	Short term benefits		Post-employment benefits	Total
Former Director	- Cash salary fees \$	Cash salary and fees other controlled entities \$	Superannuation \$	\$
NG Graham				
2018	50,716	-	4,818	55,534
2017	86,434	-	8,211	94,645
GF Latta AM				
2018	95,439	-	9,067	104,506
2017	96,395	-	9,157	105,552

L Catanzaro and A Crane were elected as Directors at the 2018 Annual General Meeting in September 2018. The remuneration paid to each of them as Directors since their election is set out below:

#### L Catanzaro:

Cash salary fees: \$42,755 Superannuation: \$4,062

A Crane:

Cash salary fees: \$34,966 Superannuation: \$3,322

Each of L Catanzaro and A Crane was engaged as a consultant to SunRice prior to their election as a Director. The consultancy fees paid or payable to each of them is set out below:

L Catanzaro: \$11,097 A Crane: \$37,697

#### 7.3.3 Interests in Shares and other securities

As at the date of this Information Memorandum, the following Directors hold the following Shares and B Class Share Rights, either directly and/or through company and trust structures:

Director	Number of A Class Shares	Number of B Class Shares	% of total number of B Class Shares on issue	Number of B Class Share Rights
Lawrence Arthur	1	254,662	0.43%	NA
Robert Gordon	0	108,806	0.19%	507,93266
Glen Andreazza	1	84,525	0.14%	NA
John Bradford	1	33,236	0.06%	NA
Luisa Catanzaro	0	Nil	Nil	NA
Andrew Crane	0	Nil	Nil	NA
lan Glasson	0	21,155	0.04%	NA
Gillian Kirkup	1	73,457	0.13%	NA
lan Mason	1	143,073	0.24%	NA
Mark Robertson	1	227,725	0.39%	NA
Leigh Vial	1	119,028	0.20%	NA

Under the Constitution, Grower Directors are required to hold (or be representative of an entity that holds) at least one A Class Share. Non-Grower Directors are not required to hold any Shares.

Directors' Shareholdings will be notified to the ASX after Listing, to the extent required under the Corporations Act and ASX Listing Rules.

<sup>&</sup>lt;sup>66</sup> The CEO's B Class Share Rights will only vest at the completion of the current performance period (30 April 2021). The final allocation of these rights will be subject to the successful achievement of performance and service hurdles set by the Board (see Section 7.4.1)

#### 7.3.4 Grower Directors' paddy supply

Some of the Directors, in their capacity as Growers, sell rice to SunRice on the same terms as other Growers. Their supply of Paddy to SunRice in the most recent two Crops are set out below:

Related party name	Nature of relationship	Tonnes delivered C18	Tonnes delivered C17
Mr Lawrence John Arthur	Chairman and Director	5,216	5,767
GA & JA Andreazza Enterprises Pty Limited (trustee of the GA and JA Andreazza Family Trust) trading as GJA Farming	Director's company (Glen Andreazza)	2,742	1,503
Mr John Michael Bradford and Mrs Julie Ann Bradford	Director and spouse (John Bradford)	851	757
DJ Mason & IR Mason & PD Mason trading as DJ Mason & Sons	Director and Director's mother and brother (lan Mason)	1,343	1,595
Kirkup Farms Pty Ltd	Director's company (Gillian Kirkup)	2,033	2,020
DM and MS Robertson Pty Ltd (trustee of the Newgrove Family Trust)	Director's company (Mark Robertson)	3,321	3,186
North Dale Pty Ltd	Director's company (Leigh Vial)	1,613	1,960

In addition to the sale of rice, Directors may, as Growers, enter into other transactions with SunRice on the same terms as other Growers, including access to finance facilities, the acquisition of rice seed, fertiliser and crop insurance, and the benefit of certain Grower services provided by SunRice as set out in the Paddy Pricing Policy. See Section 7.5.5 for further details on the Paddy Pricing Policy.

#### 7.3.5 Deeds of access, indemnity and insurance

SunRice has entered into deeds of access, indemnity and insurance with each of the Company's Directors.

These deeds grant rights of access to the Directors to certain books and records of the Group at any time while the relevant Director is in office with the Group and for a period of seven years thereafter, if during that period, a claim is made or threatened against that Director in connection with the activities of the Group, its directors, officers, employees or other agents, or the Business.

During the term of their office with the Group and for a period of seven years thereafter, the Directors are also insured under an insurance policy maintained by the SunRice Group against all liability, loss and legal expense that they may incur as a result of the performance of their duties in respect of the Group, its business and affairs, or arising out of the conduct of the business and affairs of the Group during the term of their office, to the extent permitted by law. If any relevant claim is threatened, made or brought against the relevant Director during this period, then the period is extended until the date that the claim is finally resolved.

In addition, under the deeds, the Directors are indemnified by the Company against all such liability, loss and legal expense, to the fullest extent permitted by law. The indemnity is enforceable without the Directors being required to first incur any expense and is a continuing obligation enforceable even when the Director has ceased to hold office in the Group.

CONTINUED

#### 7.4 Senior management's benefits and interests

#### 7.4.1 Chief Executive Officer

A summary of the CEO's employment contract and incentive arrangements are set out below. Further details of the CEO's remuneration in FY17 and FY18 can be found in the Remuneration Report section of the Company's FY18 Annual Report.

Term	The CEO has an ongoing employment contract with SunRice, with no fixed end date
Remuneration	Under the terms of his employment agreement, the CEO's current annual Total Fixed Remuneration (TFR) is \$1,351,100, which comprises base salary and statutory superannuation contribution. The CEO's Short Term Incentive (STI) and Long Term Incentive (LTI) plans operate separately and are not included in his TFR (these are detailed below). The CEO does not otherwise receive any Director's fee
	The CEO's salary is subject to an annual review following the finalisation of SunRice's full year results and performance year
Short term incentive (STI)	The CEO is eligible to participate in a STI plan as determined by the Board. Under the FY19 STI plan, he is entitled to a target STI of 50% (\$675,550) of TFR, with a maximum opportunity capped at 150% of target
	The STI plan key performance indicators are determined by the Board, and include measures related to paddy returns, profitability, safety, and strategic KPIs
	The STI is payable annually in cash, following the outcomes of the audited financial results
Long term incentive (LTI)	The CEO's current LTI plan is a three year omnibus Share Rights scheme covering the period 1 May 2018 to 30 April 2021. Under this scheme the CEO is eligible to receive an LTI target opportunity of 507,932 Share Rights, which would only vest following the performance period ending 30 April 2021, dependent on the achievement of certain performance measures (see below)
	No additional LTI grant will be made to the CEO in FY20 or FY21
	Subject to vesting, each Share Right entitles the CEO to one B Class Share. Vesting of the Share Rights is conditional on the Board being satisfied that the CEO has achieved the performance measures identified in the LTI plan at the end of the 3 year performance period. The Board has selected performance measures that are consistent with the CEO's remuneration being aligned to increasing Shareholder value and Growers interests. Key performance measures are directed to the achievement of the long-term strategic plan for the Group as agreed by the Board, realising adjusted earnings per share growth, the maximisation of Grower returns over the long-term, the development of the next strategic review to ensure continued growth for the Company, and driving a highly engaged workforce, with a strong performance culture focused on sustainability and succession. Share Rights do not entitle the CEO to receive any dividends prior to vesting
	The Board may at its discretion consider vesting prior to the end of the performance period if a change of control of the Company occurs. In circumstances where the CEO ceases to be an employee during the performance period as a result of death, termination by the Company on the basis of redundancy or termination by or with the agreement of the Board based on permanent incapacity, vesting of the Share Rights will be considered on a pro rata basis to reflect the portion of the performance period which elapsed before the employment ceased. If the CEO ceases to be employed by the Company for other reasons prior to the end of the performance period, the Share Rights will lapse. Share Rights that have not vested at the end of the Performance Period will lapse
	Due to the current lack of B Class Shares available for purchase on the NSX to satisfy the requirements of the LTI plan, 507,932 B Class Shares were issued by the Group to the Ricegrowers Employee Share Trust or 25 July 2018. These Shares will remain unallocated in the Trust until the outcome of the FY19 – FY21 LTI performance period is known. In the event that the performance hurdles are not met and the CEO's B Class Share Rights do not vest, these shares will be recycled for use in future equivalent LTI Plans
Termination rights	The CEO's employment contract provides for a termination period of six months if initiated by the CEO. His employment may also be terminated by SunRice with a twelve month written notice period
	SunRice may immediately terminate the CEO's employment at any time and without notice in circumstances including (but not limited to) material breach, serious misconduct, dishonesty, fraud, act of bankruptcy, or any other act or omission justifying summary dismissal
	SunRice is not required to pay or provide (or procure the payment or provision of) any money or benefits to the CEO which would require shareholder approval under the Corporations Act or breach the Listing

Rules

Rules. Where this applies, any payment or benefits to be provided to the CEO under his Agreement must be reduced to a level which does not require shareholder approval and/or which does not breach the Listing



	Any statutory entitlement of the CEO to notice of termination and/or redundancy or severance pay is included in, and satisfied by, the termination payments provided for under his employment contract
Post-employment restraints	On termination, the CEO will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements

#### 7.4.2 Other senior management

Senior management are employed by SunRice under individual employment agreements. These agreements establish an entitlement to their TFR, including base salary and statutory superannuation contributions in accordance with their service agreements. Certain members of senior management may also be eligible to:

- Participate in the Company's STI plan at a specified target level based on TFR (see Section 7.4.3(a)); and/or
- Receive offers under SunRice's LTI plan (see Section 7.4.3(b)).

With respect to the incentive schemes, if a member of Senior Management leaves SunRice within the performance period, in accordance with the plan rules, they forfeit their entitlement to any payout. Senior management employment agreements provide for notice of termination provisions ranging from one to six months. SunRice may also terminate employment without notice in circumstances including any dishonesty, fraud, wilful obedience or misconduct, or act of bankruptcy.

On termination of employment, members of SunRice's senior management team will be subject to restraints of trade period of up to 12 months. The enforceability of the restraining clauses are subject to all usual legal requirements.

In the event that an eligible staff member's employment is terminated for redundancy, employees are entitled to severance pay. Entitlement to severance pay is based on years of service up to a maximum of 52 weeks.

Payments made to senior management team members upon termination may also be subject to the termination benefits cap under the Corporations Act.

#### 7.4.3 Employee incentive arrangements

#### (a) Short Term Incentive (STI) Plan

SunRice currently operates an STI plan under which selected employees, including senior management, are eligible to receive an incentive payment calculated as a percentage of their TFR. Such incentives are conditional on the achievement of financial and non-financial measures tied directly to the Company's strategy, as well as individual performance outcomes.

The Group and Business Unit performance measures against which a participant is assessed is set by the Board each year. The target and maximum opportunity are based on a percentage of TFR and vary according to an employee's level and responsibility.

The overall structure of the STI plan is illustrated below:



Overview of STI P	lan
Objectives	To support SunRice strategic goals by rewarding Executives for the achievement of objectives directly linked to the business strategy
	Drive Company performance with acceptable risk and appropriate governance
	Be market competitive, ensuring SunRice is able to attract and retain high quality talent to continue to improve the Group's performance
Eligibility	Key Management Personnel (excluding the Chief Executive Officer), Executives and Leaders
Instrument	Cash
Opportunity	Target: 40% of TFR for Chief Financial Officer, and 40% of TFR for General Manager Global Consumer Markets, with a stretch component for outperformance applicable
	Target opportunity for other eligible employees varies based on job level

## 7. KEY PEOPLE, INTERESTS, BENEFITS AND CORPORATE GOVERNANCE

#### CONTINUED

Performance period	1 May to 30 April of each performance year		
Assessment of performance	Each period, KPIs are selected for both Group and business unit measures and sub-measures of performance		
	The weighting of KPIs reflects the individual Executive's roles and responsibilities		
	KPIs are focused on the improvement in profit, maximisation of the paddy return to Growers and strategic and operational goals		
Assessment	The Remuneration Committee reviews and approves the performance assessment and STI payments for the Executives		

#### (b) Long Term Incentive Plan (LTI)

Pursuant to the Constitution, SunRice has established an Employee Share Plan (**ESP**) under which B Class Shares may be issued to, or for the benefit of, employees or Non-Grower Directors of SunRice and its related bodies corporate. Under the ESP rules, three Employee Share Schemes (ESS), including an equity-based Long Term Incentive (LTI) Plan, were established. A summary of the ESP Rules and the terms of each ESS is set out in Section 8.7.

The LTI Plan is an equity-based plan for Executives and a select group of key talent critical to the business's long term success. It focuses on rewarding participants for the delivery of financial and non-financial measures required to achieve the Group's critical business objectives. The plan is designed to incentivise employees, retain and enable them to share in and benefit from the long term success of SunRice. Eligible employees are offered rights to receive B Class Shares (**Share Rights**) that vest following a performance period and are dependent on the achievement of performance measures as well as requirements relating to continuity of employment.

The general terms of the LTI Plan are set out in Section 8.7. Section 7.4.1 contains a summary of the Share Rights issued to the CEO under his LTI Plan. The LTI Plan was initially launched in FY18 and was offered again in FY19. A summary of the key terms of the LTI Plan is outlined below:

Overview of LTI Plan			
Eligibility	Executives and other employees invited to participate		
Instrument	Share Rights		
Quantum	Quantum is determined based on a maximum incentive opportunity (as a percentage of the participants' fixed remuneration) divided by the applicable price		
	Total Share Rights issued under the LTI Plan, including Key Management Personnel (KMP) other than the CEO: 360,240 Share Rights		
Share Rights held by KMP (other than the CEO)	<ul> <li>Chief Financial Officer: 40,730 Share Rights</li> <li>General Manager Global Consumer Markets: 43,400 Share Rights</li> </ul>		
Performance period	Three-year performance period from 1 May each year		
Performance hurdles	Vesting of Share Rights are subject to performance hurdles set by the Board Share Rights will lapse if they have not vested at the end of the performance period		
Fair Value of Share Rights granted	The fair value of the Share Rights at grant date was estimated by taking the market price of the Company's shares on that date less the present value of expected dividends that will not be received by the participants on their Share Rights during the three-year vesting period		
Rights associated with Share Rights	Share Rights carry no voting rights but employees may be eligible for dividends when Share Rights vest		

Further details of the LTI Plan are set out in Remuneration Report section of the Company's FY18 Annual Report.

#### (c) Other employee share schemes

A summary of the terms of the other Employee Share Schemes is set out in Section 8.7.



#### 7.5 Corporate governance

This Section explains the main corporate governance policies and practices adopted by SunRice. Copies of SunRice's main corporate governance documents, including the SunRice Constitution, charters of the SunRice Board and Board committee and key policies are available on the SunRice website at corporate.sunrice.com.au/corporate-governance/

The Board is responsible for the governance of SunRice and oversees its operational and financial performance. It sets strategic direction, establishes goals for management and assesses the achievement of those goals, determines the appropriate risk profile and monitors compliance in terms of regulatory and ethical standards. The Board is committed to maximising the performance of SunRice, generating an appropriate level of Shareholder value and financial return and sustaining the growth and success of the Group. In conducting the Business with these overriding objectives, the Board seeks to ensure that the Group is properly managed to protect and enhance Shareholder interests and that the Group, its directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has developed and adopted a framework of corporate governance policies and practices, risk management practices and relevant internal controls that it believes are appropriate for the Business, given its nature and size, and that are designed to promote the responsible management and conduct of the Group.

The ASX Corporate Governance Council has developed and published a set of Corporate Governance Principles and Recommendations (ASX Recommendations)<sup>67</sup>. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, SunRice will be required to provide a corporate governance statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where SunRice does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

#### 7.5.1 Board composition

As noted in Section 7.1, the composition of the Board is determined by the Constitution and allows for up to seven Grower Directors (three of whom can be Elected RMB Members) and up to four Non-Grower Directors. Within the constraints of the Constitution, SunRice aims to achieve a mix of rice industry, finance and business skills among the Directors.

The Board is committed to ongoing development for both the Board as a whole and at the individual Director level. With the exception of Mr I. Mason, all Directors have completed the Company Directors Course run by the Australian Institute of Company Directors. Programs are also in place to ensure Directors are provided with updates on corporate governance, Directors' duties, workplace health and safety and other regulatory requirements that apply to SunRice.

Directors have, in preparation for the ASX Listing, undertaken training on the particular obligations of being a director of an ASX listed company.

#### 7.5.2 Independence of Directors

In accordance with the ASX Recommendations, the Board considers a Director to be independent only where they are free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of SunRice and its Shareholders generally.

Although Grower Directors supply rice to SunRice on the same terms as other Growers and SunRice's procedures and systems ensure that the Paddy Prices are set according to the commercial interests and needs of SunRice, the Board recognises that there may be a perception that the rice supply relationship between SunRice and these Directors may influence the decision-making of these Directors. Accordingly, while they are able to bring an independent judgement to bear on Board decisions, the current Grower Directors have not been characterised as independent due to this potential perception concern.

#### 7.5.3 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board. The charter sets out:

- The roles and responsibilities of the Board, including responsibility for the overall strategic direction of SunRice and the supervision of management's performance;
- The role and responsibilities of the Chair;
- The authority delegated by the Board to Board committees and the CEO; and
- The membership and composition of the Board, including in relation to the independence of directors and the conduct of individual directors.

<sup>&</sup>lt;sup>67</sup> This Information Memorandum refers to the third edition of ASX Recommendations. A fourth edition was released on 27 February 2019, however it only takes effect for SunRice from its financial year commencing on 1 May 2020 (FY21)

CONTINUED

#### 7.5.4 Board committees

The Board may from time to time establish appropriate committees to assist it in carrying out its responsibilities. The current standing committees of the Board are detailed below:

#### (a) Finance, Risk and Audit Committee

The Finance, Risk and Audit Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities including oversight of:

- The integrity of SunRice's external financial reporting and financial statements;
- The appointment, remuneration, independence and competence of SunRice's external auditors;
- The performance of the external audit and internal audit functions and review of their audits;
- The effectiveness of SunRice's system of risk management and internal controls; and
- SunRice's systems and procedures for compliance with applicable legal regulatory requirements.

As required under the Finance, Risk and Audit Committee Charter, the Finance, Risk and Audit Committee will comprise at least four Non-Executive Directors, a majority of whom will be Independent Directors.

#### (b) Nomination Committee

The role of the Nomination Committee is to assist and advise the Board on the following nomination related matters to properly fulfil its objectives:

- Considering the appropriate balance of skills and experience required by the Board and recommend to the Board strategies for redressing any imbalances;
- Overseeing the process for Board and individual Director performance evaluations including processes and criteria; and
- Developing policies and reviewing, assessing and recommending to the Board, as appropriate, on Director tenure, Board composition, Board succession plans, strategic function and size.

As required under the Nomination Committee Charter, the Nomination Committee will comprise at least three Non-Executive Directors.

The composition of the Nomination Committee does not comply with Recommendation 2.1 of the ASX Recommendations to the extent that it recommends that a nomination committee consists of a majority of independent directors and is chaired by an independent director. However, the Board believes that in the context of the current make-up and size of the Board, the perspective and expertise that the current members bring to the Committee is appropriate.

#### (c) Remuneration Committee

The role of the Remuneration Committee is to assist and advise the Board on the following remuneration related matters:

- Remuneration policies and practices for the Board, the Chief Executive Officer and other senior executives, including
  incentive schemes and equity-based remuneration plans;
- The alignment of grower shareholder and employee interest in relation to SunRice's remuneration policies and practices;
- Overseeing the implementation of the Diversity and Inclusion Policy and assessing progress in achieving its objectives.

As required under the Remuneration Committee Charter, the Remuneration Committee will comprise at least three Non-Executive Directors.

The composition of the Remuneration Committee does not comply with Recommendation 8.1 of the ASX Recommendations to the extent that it recommends that a remuneration committee consists of a majority of independent directors. However, the Board believes that, in the context of the current make-up and size of the Board, the perspective and expertise that the current members bring to the Committee is appropriate.

#### (d) Safety, Health and Environment Committee

The Safety, Health and Environment Committee has been established to support the provision of robust systems to ensure that the company achieves and maintains its objectives in relation to safety, health and environment, including all relevant legislation, policies and targets.

The Committee reviews and makes recommendations to the Board on policies in relation to Safety, Health and Environment policies, priorities and targets. The conduct, objectives and proceedings of this Committee are governed by a charter approved by the Board. A Grower Director is Chairman of the Committee.

#### (e) Grower Services Committee

The role of the Grower Services Committee is to optimise the interdependent relationship between the company and rice growers to achieve alignment and integration of activities and business plans.

The Committee reviews and makes recommendations to the Board on policies in relation to on-farm production of rice and services to growers. The conduct, objectives and proceedings of this Committee are governed by a charter approved by the Board. All members of the Committee are Grower Directors.

#### 7.5.5 SunRice's Paddy Pricing Policy and Crop Carry-Over and Carry-In Policy

SunRice's Paddy Pricing Policy impacts both A Class Shareholders and B Class Shareholders. As a potential investor and Shareholder of the Company, it is important that you understand how the policy works in practice and its potential impacts before you decide whether or not to invest in B Class Shares.

#### (a) Paddy Pricing via a Paddy Pool

The Paddy Pool is a financial model through which the Paddy Price is calculated by aggregating all revenue from the sale of Riverina Rice, and then deducting relevant costs, including contributions to the Corporate segment for asset financing and other internal charges. The balance is available to be paid out in the form of Paddy Prices in line with SunRice's Paddy Pricing Policy (see Figures 20 and 21 for a detailed description of the revenue and charges). This forms the basis of the Rice Pool Business.

The Board has a discretionary right to set Paddy Prices which may be higher than the price determined under the Paddy Pool calculation (referred to as a Modified Paddy Price). For example, the Board may set a Modified Paddy Price to underpin Fixed Price Contracts with Growers. If a Modified Paddy Price is set, a Paddy Price Supplement would be required, as detailed in Section 3.10.6. A copy of SunRice's Paddy Pricing Policy is available on the SunRice website.

SunRice also has a Crop Carry-Over and Carry-In Policy, which sets out a methodology to value the use of Paddy and finished product inventory between crop years. This Policy also has an impact on the calculation of the Paddy Price. For further details, see Section 7.5.5(c).

Figure 20: Rice Pool Business' revenue

#### RICE POOL BUSINESS'S REVENUE

The Rice Pool Business' revenue is mainly generated from the sale of Riverina Rice delivered to SunRice, whether in the form of Paddy, processed rice or rice byproducts, as set out below:

- domestic and global sale
- Paddy Pool based on actual (plus an estimate in relation to inventory still on hand at the end of the crop year) sales;
- Other revenues may include seed sales and Paddy delivery/moisture dockage; and
- Other revenues that may be identified by the Board in conjunction with SunRice

#### Figure 21: Rice Pool Business' expenses / charges

#### RICE POOL BUSINESS'S EXPENSES / CHARGES

The Rice Pool Business has access to the assets of the SunRice Group, including brands, storage sheds, rice mills and the services of management. The Paddy Pool is charged for these and other expenses as set out below:

- Wherever costs can be identified as being directly attributable to the Paddy
  - Pool they are charged accordingly. These costs include:
     Milling, packing, distribution, paddy storage and handling, Grower Services, RGA support, RMB fees# and Rice R&D levy\*;
     Specific sales and marketing and finance activities; and

  - Specific varietal premiums.
- Wherever costs cannot be identified as being directly attributable to the Paddy Pool they are charged on an appropriate allocation basis. These include:
  - General management services to milling, packing, distribution, paddy storage and handling (e.g. safety health and environment, quality, supply
  - General sales and marketing services (e.g. management and general
  - Corporate services (e.g. executive management and Board, finance and information services and people and performance).
- Asset finance and brand charges; and Other expenses that may be identified by the Board in conjunction with SunRice management from time to time.

<sup>#</sup> See Section 8.3.2

<sup>\*</sup>The Rice Research and Development Levy is a statutory levy under the Commonwealth Primary Industries (Excise) Levies Act 1999. SunRice is liable to collect the levy (\$3.00/tonne paddy received) on behalf of the rice grower and pay it to AgriFutures Australia (previously RIRDC). In December 2018 Australian rice growers voted to increase the levy to \$6 per tonne. This increase is subject to a legislative amendment which is expected to be considered by the Commonwealth Government in the latter half of the 2019 calendar year

CONTINUED

#### (b) Paddy Price Supplements and Retentions

#### Modified Paddy Price

Maintaining the ongoing supply of Australian rice from Growers in the Riverina region is a central part of SunRice's 2022 Growth Strategy (see Section 3.4). As a result, the Board retains a discretionary right to set Paddy Prices in a manner different to the Pool methodology. For example, in certain circumstances, the Board may set a fixed or minimum price, which may be higher than the price determined under the Pool methodology. The difference between this higher price and the price determined under the Pool methodology is referred to as a Paddy Price Supplement. In years when a Paddy Price Supplement is required, the Rice Pool Business would return a loss (as opposed to a nil NPBT when the Paddy Price is determined under the Pool methodology), which would in turn negatively impact the total NPBT of the Group available to B Class Shareholders in these particular years.

The decision to set a fixed or minimum Paddy Price is made prior to or during the early stages of the relevant crop and is intended as a forward-looking price signal to incentivise production (as opposed to Paddy Pricing under a Paddy Pool method, which is calculated retrospectively). Under the Paddy Pricing Policy, the Board will delegate the task of formulating a Modified Paddy Price to the Board committee known as the Paddy Supply Committee, which only comprises Non-Grower Directors. The Paddy Supply Committee formulates the Modified Paddy Price and then presents it to the Board for adoption.

This discretion may, for example, be used by the Board in years when water availability is low to encourage Riverina Growers to produce the quantity of rice required in SunRice's business to minimise the impact of:

- A contraction in the number of core Growers available to resume Riverina production when favourable conditions return;
- A supply shortfall against demand;
- Unrecovered manufacturing costs and other fixed costs of the Rice Pool Business that in turn affect the Profit Businesses;
   and/or
- Potential loss of market position or brand reputation over time.

In these circumstances, maintaining a supply of rice from Growers in the Riverina is in the best interests of SunRice and both A and B Class Shareholders.

Where a Modified Paddy Price is set and a supplement is required to encourage production and maximise asset utilisation and the success of SunRice brands in any given year, the resulting loss for the Rice Pool Business may be offset by an increase in profits from the International Rice segment due to increased trading activity in that year (see Section 3.5). International Rice is however, subject to market prices and exchange rates (among other things) and may not always generate incremental profits.

#### Historical supplements and retentions

In FY11, a Modified Paddy Price was paid in order to incentivise production to maintain core operational assets and markets during a prolonged period of Millennium Drought. This action was considered by the Board to be in the best interests of the SunRice business as a whole and resulted in a Paddy Price Supplement of \$22.7 million being paid.

In FY12, a retention from the Paddy Pool (Paddy Price Retention) of \$20 per tonne was applied to reduce gearing and rebuild the Company's balance sheet after the Millennium Drought, in which Paddy Price Supplements were applied to secure production to maintain key Riverina operating assets. This Paddy Price Retention generated \$16 million of NPBT in FY12.

In FY17, a guaranteed Paddy Price of \$415 per tonne for Medium Grain Reiziq and up to \$655 per tonne for specialty varieties for the Riverina Rice was set to encourage Riverina Rice production in challenging circumstances. Due to the significantly lower than Average Riverina Crop volumes in that year, a Paddy Price Supplement of \$32.5 million was paid, which the Board considered was in the best interests of the SunRice Group as a whole.

The relevant supplements and retentions relating to FY11 - FY18 are set out in Figure 22 on the next page.

Figure 22: Paddy Price Supplements and Retentions (FY11 - FY18)

Financial Year	Crop	Supplement \$'M	Retention \$'M	Crop size (paddy tonnes)	Price per Paddy tonne \$*
FY11	C10	22.7	0	205,000	417
FY12	C11	0	16.0	800,000	255
FY13	C12	0	0	963,000	317
FY14	C13	0	0	1,161,000	294
FY15	C14	0	0	829,000	395
FY16	C15	0	0	690,000	404
FY17	C16	32.5	0	244,000	415
FY18	C17	0	0	802,000	379

<sup>\*</sup>Paddy tonne is based on a medium grain (Reiziq). Total Grower Return includes the varietal price premiums paid. Crop size is rounded to the nearest thousand.

#### Future supplements and retentions

In August 2018, SunRice announced it will offer further Fixed Price Contracts for rice harvested in 2019 (C19) of \$500 per tonne for medium grain Reizig and up to \$650 per tonne for the specialty variety Koshihikari.

The outlook for the C19 Crop size is approximately 50,000 paddy tonnes and, even when combined with a substantial carry over of Crop from C18, it is highly unlikely that the Rice Pool Business will be self-funded in C19. As such, it is anticipated that a Paddy Price Supplement will be required in FY20 (being the year in which the C19 Crop will be marketed). It's important to note that as a result of the smaller C19 Crop, the markets that would have been serviced by Riverina Rice will instead receive product sourced from SunRice's International Rice segment, which forms part of the Profit Businesses. Profit on these sales, combined with the reconfiguration of operations undertaken in the Rice Pool Business and earnings from other activities are expected to reduce the impact of the anticipated FY20 Paddy Price Supplement. As a result, the anticipated Paddy Price Supplement is not currently expected to impact the Company's capacity to pay a dividend on B Class Shares in FY20. SunRice will inform the market of the likely size of the Paddy Price Supplement when this information becomes available. The current expectation is that the Paddy Price Supplement will be at least as large an amount as that applied in FY17 for the C16 Crop.

Planting for the C20 Crop (which will be marketed in FY21) will also commence around October 2019 and will be dependent on the weather outlook for the Riverina over the next few months. Should the dry conditions currently experienced continue up to that time, these could impact the level of Australian crop available in C20, which could in turn materially impact the results of the SunRice Group in FY21. Such an impact will only be quantifiable when the weather outlook is firmed up closer to the October 2019 planting window and once the size of the C20 Crop can be estimated more reliably. If such conditions continue, the current expectation is that a Paddy Price Supplement will also be likely for FY21 (being the year in which the C20 Crop is marketed).

The decision to offer Fixed Price Contracts is intended to encourage local rice production by providing Riverina Growers with greater certainty regarding upcoming summer crop planting decisions in the context of the current low water allocations and high water prices. This strong incentive to Growers is necessary to secure sufficient Paddy to service SunRice's key high value markets and also provides a base level milling program for SunRice's facilities.

Given the potential business risks with respect to water availability and supply of rice (see Section 6), it is possible the Board may exercise its discretion to apply a Modified Paddy Price, which may or may not require a Paddy Price Supplement, more frequently in the future. Any such decision will be shared with the market in line with SunRice's Disclosure and Communication Policy.

#### (c) Crop Carry-Over and Carry-In Policy

Paddy and finished product inventory may be "carried over" between crop years, to allow new season crop to reach certain moisture levels before being used in production or, when required, to manage supply and demand in line with SunRice's risk mitigation strategies.

Carry-over refers to inventory that is not sold in the year the relevant crop is harvested and is "carried over" from that year to the next year. A value is attributed to the inventory carried over and it is included in the calculation of the Paddy Price for the year in which it was received.

Should the need arise to use new crop to meet sales demand towards the end of a current crop year, the benefit of those sales will be attributed to the new crop. This is referred to as crop "carry-in".

The determination of the final Paddy Price taking into account crop carry-over and crop carry-in is undertaken in accordance with SunRice's Crop Carry-Over and Carry-In Policy, a summary of which is available on SunRice's website.

CONTINUED

#### 7.5.6 A Class Share Policy

Under the Constitution, the Board has the power to issue A Class Shares to Active Growers (or persons whom the Board believes, on reasonable grounds, will become Active Growers) and may redeem A Class Shares from Shareholders who are no longer Active Growers (although the Board may also defer redemption if it believes that the Shareholder will resume being an Active Grower)<sup>68</sup>. To ensure consistency and transparency with regard to issuing and redeeming A Class Shares, the A Class Share Policy has been developed.

The Constitution defines an "Active Grower", but the Policy sets out the practice and procedures that the Board will follow to identify if there are Active Growers who ought to be invited to apply for an A Class Share, and if there are A Class Shareholders who are no longer Active Growers. The Policy also sets out the due diligence procedures that the Board will undertake before it exercises its discretion to defer redemption of any A Class Share, which may be exercised in circumstances such as low water availability. All A Class Share applications and redemptions are considered by the A Class Share Committee, being a Committee which only comprises Non-Grower Directors, before being recommended to the Board for approval.

#### 7.5.7 Code of Conduct

SunRice has established a Group Code of Conduct which applies to all officers, employees and contractors of SunRice. The Group Code of Conduct is a detailed statement of the practices required by employees to maintain confidence in:

- SunRice's integrity;
- The legal obligations of employees;
- The reasonable expectations of their stakeholders; and
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Directors are required to comply with this policy, as well as the Directors' Code of Conduct.

#### 7.5.8 Share Trading Policy

The Board has also adopted a Share Trading Policy which applies to SunRice, its related bodies corporate and associated companies, and their directors, executives, employees, consultants and professional advisers. The Share Trading Policy is intended to reinforce SunRice's commitment to the restrictions on share trading imposed by law and describe the process implemented by SunRice to ensure compliance. All Directors, executives, employees, consultants and professional advisers are prohibited from trading in SunRice's Shares while in possession of unpublished price sensitive information concerning SunRice.

The Share Trading Policy also specifies the periods during which Directors and executives of SunRice may purchase and sell SunRice's B Class Shares, and sets out a notification procedure concerning trading by Directors.

#### 7.5.9 Diversity Policy

SunRice has adopted a Diversity Policy which provides a framework for SunRice to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours, and improved employment and career development opportunities for women.

#### 7.5.10 Disclosure and Communication Policy

SunRice has adopted a Disclosure and Communication Policy. This policy outlines corporate governance measures adopted by SunRice to deliver on its commitments to the disclosure and communication of information concerning SunRice.

SunRice is committed to the objective of promoting investor confidence and protecting investor rights. In simple terms, this means:

- Complying with continuous disclosure obligations imposed by law;
- Ensuring that company announcements are presented in a factual, clear and balanced way;
- Ensuring that investors have equal and timely access to material information concerning SunRice; and
- Communicating effectively with investors.

Under this policy, SunRice has approved the establishment of a Disclosure Committee to manage its disclosure obligations. The Disclosure Committee's responsibilities include, amongst others:

- Assessing the possible materiality of information which is potentially price sensitive;
- Making decisions on information to be disclosed to the market;
- Referring any announcement which the Disclosure Committee considers to be a matter of key significance to the SunRice Board for consideration; and

<sup>68 &</sup>quot;Active Grower" is defined in the Constitution, and that definition is also set out in the Glossary of this Information Memorandum (see Section 10). The Board will continue to regularly assess the appropriateness of the criteria set by the Constitution for qualification as an Active Grower, with a view to considering if any revisions are required to be put to A Class Shareholders for approval

Monitoring disclosure processes and reporting.

Relevant information released to the market by SunRice is posted on SunRice's website after:

- The information has been given to the ASX; and
- The ASX has confirmed the release of this information to the market.

SunRice has a range of investor relations strategies to facilitate effective two-way communication with investors.

SunRice has also adopted relevant guidelines to assist its officers and employees to understand and comply with the Disclosure and Communication Policy. This includes understanding the disclosure obligations under the ASX Rules and the Corporations Act; how to comply with SunRice's internal reporting processes and controls; and the consequences of a breach of disclosure obligations.

#### 7.5.11 Conflict of Interest Policy

SunRice has adopted a conflict of interest policy (Conflict of Interest Policy), which recognises that:

- Each individual Director has a duty to exercise their functions in good faith in what he or she believes is in the best interests of SunRice as a whole and this duty is expressed in section 181 of the Corporations Act as a duty to act in good faith in the interests of the corporation and for a proper purpose;
- While the interests of SunRice, as a corporation entity, are the primary focus of the Directors' duties, the Directors should also consider the interests of SunRice Shareholders. In circumstances where the interests of A Class Shareholders and B Class Shareholders conflict, the Directors should act fairly between those classes; and
- Accordingly, the Board may be required to balance the interests of A Class Shareholders and B Class Shareholders. In this
  respect, clause 2.1 of the SunRice Constitution sets out objects that the Board will have regard to when assessing the
  best interests of SunRice and balancing those shareholder interests. However, those objects are not exclusive and the
  Directors may consider other matters when assessing the best interests of SunRice.

It also recognises that;

• Each Director has various interests – Grower Directors hold (or are representatives of entities that hold) A Class Shares and supply (or are representatives of entities that supply) Paddy to SunRice. Directors may also hold or have interests in SunRice B Class Shares. The different capacities and interests of each director are entered into a register of interests and capacities.

The principal objectives of the Conflict of Interest Policy are to:

- Identify all potential or actual conflicts of interest that arise in relation to the affairs of SunRice;
- Evaluate any potential conflicts of interest; and
- Adequately manage and monitor conflicts of interest.

The Conflict of Interest Policy sets out procedures for managing conflicts between;

- The interests of a Director and the interests of SunRice or its shareholders; and
- The interests of A Class Shareholders and B Class Shareholders.

The Policy also sets out procedures for conducting related party transactions and considering change of control or restructuring proposals.

Where a conflict is identified, the Board is to adopt protocols to deal with the conflict, which may include one or more of the following:

- The conflicted Director shall not be entitled to receive Board papers, minutes or other information which relate to the
  matter or issue which is the subject of the conflict, unless the other Directors or the Chair determines otherwise; and
- Subject to the circumstances identified below, the conflicted Director shall withdraw from any part of the Board meeting for the duration of any discussion on that matter and shall not take part in any Board decision on that matter.

The Policy recognises that there may be circumstances where it is appropriate for a conflicted Director to remain in a Board meeting in order to make a contribution to the full and proper discussion of the matter to which the conflict relates. In such circumstances, the conflicted Director may only be allowed to remain in the meeting for the purposes of providing the other Directors with the benefit of their views, skill and experience on the matter, and is excluded from the remainder of the Board meeting. This is intended to provide the other Directors with a reasonable opportunity to discuss the matter in the conflicted Director's absence and if appropriate, make a decision.

Where the Board determines that an issue or matter subject to a conflict (which may include a situation where the interests of A Class Shareholders and B Class Shareholders conflict) cannot be properly addressed due to the Board's composition, the

CONTINUED

Conflict of Interest Policy recognises that the decision making may be delegated to a committee of the Board comprising Directors who are not conflicted.

If a conflict arises in a proposal involving a change of control or restructuring of SunRice, the Conflict of Interest Policy will be applied to manage that conflict. Any such change of control or restructuring proposal will be determined in accordance with the procedures specified in the Conflict of Interest Policy, including:

- In approving or recommending any change of control or restructuring proposal, the SunRice Board must apply the level of review and diligence required to satisfy its statutory duties;
- The Board will identify the legal procedures applicable to the change of control or restructuring proposal, including any shareholder approvals required;
- The proposal must be supported by one or more of the following:
  - an independent expert's report from a suitably qualified third party confirming that the proposal is fair and reasonable for SunRice or whether the proposal is in the best interests of SunRice (as the case may be); and
  - an independent legal sign-off concerning the decision to be made by the Board.

Additionally, the Conflict of Interest Policy confirms that the Paddy Pricing Policy contains the processes and principles applied to the calculation of Paddy Prices and the provision of services to Growers. The Paddy Pricing Policy ensures that Paddy Prices are set in a rigorous commercially focused manner that ensures that the needs of the SunRice business are the principal consideration and any actual or perceived conflict with the interests of Grower Directors is carefully managed (see Section 7.5.5 for more detail).

The Company Secretary of SunRice is responsible for maintaining a register of interests and significant conflicts and monitoring the implementation of the Conflict of Interest Policy.

#### 7.6 General meetings

Only A Class Shareholders are entitled to vote at general meetings of SunRice. B Class Shareholders have the right to receive notice of and attend all general meetings of SunRice, but no right to vote at general meetings.

At a general meeting or in a postal ballot, each A Class Shareholder has one vote. The quorum for a general meeting is 10 or more A Class Shareholders present personally or by proxy, representative or attorney. A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is demanded by the Chair, at least five A Class Shareholders entitled to vote on the resolution or A Class Shareholders representing not less than 5% of the votes that may be cast on the resolution on a poll.

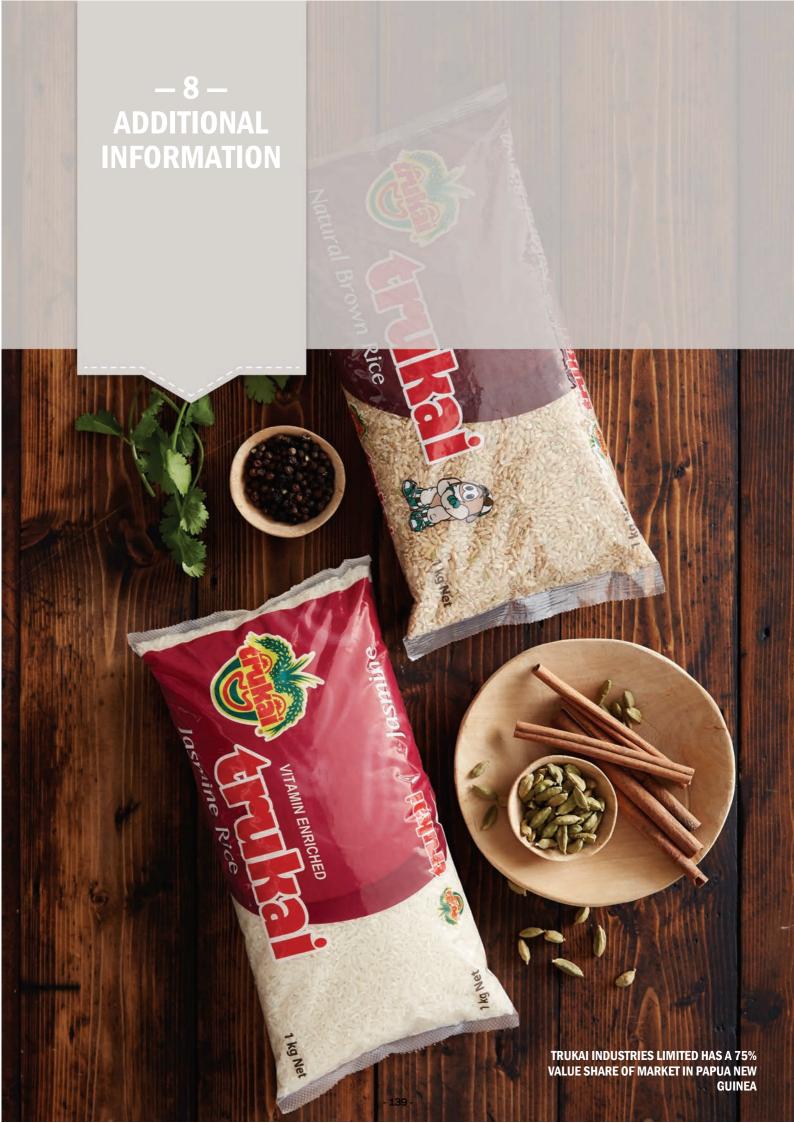
Each A Class Shareholder entitled to vote at a general meeting may vote in person, by not more than one proxy or not more than one attorney. A proxy, attorney or representative may, but doesn't need to be, a member of SunRice.

#### 7.7 Disciplinary action/insolvencies

None of the Directors has been subject to any criminal convictions, declarations under section 1317E of the Corporations Act or personal bankruptcies, disqualifications or disciplinary actions, nor has any of them been an officer of a company that has entered into a form of external administration during the time the person was an officer or within a 12-month period afterwards.



SOLOMON ISLANDERS ENJOYING ISLAND SUN CALROSE RICE



# 8. ADDITIONAL INFORMATION

#### 8.1 Corporate history

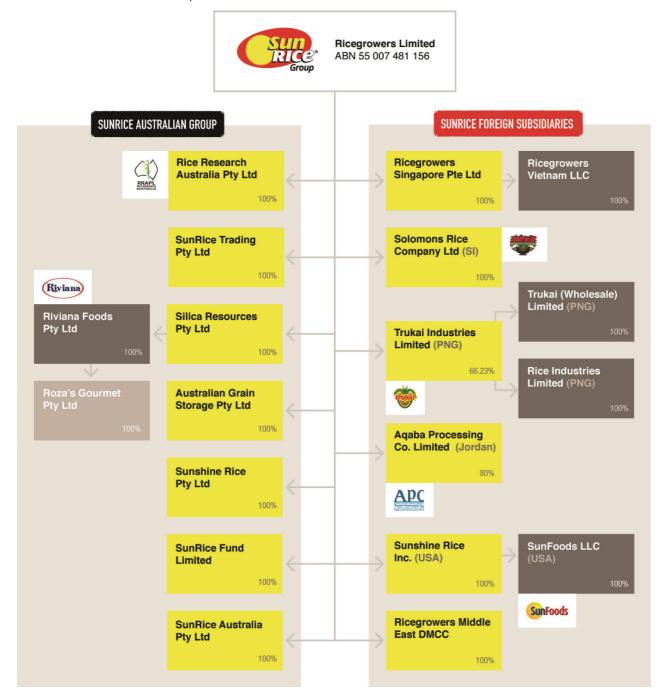
Ricegrowers' Co-operative Mills Limited was registered as a co-operative on 24 July 1950 with the primary objective of receiving, processing and marketing rice supplied by its members. Its name was changed to Ricegrowers' Co-operative Limited on 13 December 1985.

Following approval by its members, on 14 December 2005, Ricegrowers' Co-operative Limited registered as a company under the Corporations Act and changed its name to Ricegrowers Limited (trading as SunRice). SunRice was listed and its B Class Shares officially quoted on the National Stock Exchange of Australia (NSX) on 18 June 2007.

On 20 September 2018, SunRice's Shareholders approved (amongst other things) the migration of the listing of SunRice on the NSX to the Australian Securities Exchange (ASX).

#### 8.2 SunRice Group Subsidiaries

The structure of the SunRice Group as detailed in Section 3 is as follows:





**CONTINUED** 

The following table shows the principal activities of each Subsidiary and SunRice's percentage interest in each Subsidiary.

Name of Subsidiary	Country of incorporation	Principal activities	Direct/indirect interest in ordinary shares equity %
SunRice Trading Pty Ltd	Australia	No current activities	100
SunFoods LLC	USA	Processing and distribution of rice	100
Rice Research Australia Pty Ltd	Australia	Research into rice growing	100
Australian Grain Storage Pty Ltd	Australia	Grain Storage Assets	100
SunRice Australia Pty Ltd	Australia	No current activities	100
Silica Resources Pty Ltd	Australia	Holding company	100
Riviana Foods Pty Ltd	Australia	Importation/distribution of food products	100
Sunshine Rice Pty Ltd	Australia	No current activities	100
Trukai Industries Limited	PNG	Processing and distribution of rice	66.23
Trukai (Wholesale) Limited	PNG	Distribution of rice	66.23
Rice Industries Limited	PNG	Property	66.23
Solomons Rice Company Limited	Solomon Islands	Distribution of rice	100
Aqaba Processing Company Ltd	Jordan	Rice packing/storage	80
Sunshine Rice, Inc	USA	Holding company	100
SunRice Fund Limited (ex-Bligh Funds Management)	Australia	No current activities	100
Ricegrowers Middle East DMCC	UAE	Distribution of rice	100
Ricegrowers Singapore Pte Ltd	Singapore	Procurement and trading of rice	100
Roza's Gourmet Pty Ltd	Australia	Manufacturing/ distribution of food products	100
Ricegrowers Vietnam Limited Liability Company <sup>69</sup>	Vietnam	Processing of rice	100

#### 8.3 Material contracts

SunRice has the following material contracts in place:

#### 8.3.1 Authorised Buyer's Licence

Pursuant to section 51(1) of the Rice Marketing Act 1983 (NSW), SunRice has been appointed, since 1 July 2006, by the RMB for the State of New South Wales as an authorised buyer of rice grown in NSW under an Authorised Buyer's Licence. The appointment is non-exclusive and non-transferable, and operates solely for the purpose of SunRice purchasing on its own account rice grown in NSW and planted on or after 1 July 2006 from a producer of rice or any other person which that producer or other person is entitled to sell rice to.

Under the Authorised Buyer's Licence, SunRice must not sell or supply rice purchased by it under the Authorised Buyer's Licence to a person within Australia, other than another authorised buyer or an end-user, unless the sale or supply is made under a written contract which prohibits the purchaser from exporting the rice. SunRice is also prohibited from selling or supplying rice to a person if it is aware that the person intends to export the rice. The Authorised Buyer's Licence also requires that the terms of any agreement between SunRice and a rice grower, in respect of the sale and purchase of rice, must be set out in writing and must include the delivery and payment obligations of the parties.

The RMB may suspend or revoke the Authorised Buyer's Licence if SunRice is in breach of any of its terms.

#### 8.3.2 Sole and Exclusive Export Agreement

Under the Sole and Exclusive Export Agreement, SunRice is appointed by the RMB as the only Authorised Buyer with the right to export rice produced in New South Wales. This mechanism establishes SunRice as the operator of the single export desk for that rice. This Agreement is subject to the continuation of vesting, as regulated by the NSW Government. The current vesting proclamation expires on 30 June 2022. The NSW Government will commence a review in 2020 to consider whether to renew its proclamation and continue rice vesting in the RMB.

Under the Sole and Exclusive Export Agreement, SunRice is required to accept all rice of merchantable quality grown in New South Wales that is offered to it by producers and to operate an equitable crop marketing and payment scheme under which it

<sup>69</sup> Known as at the date of this Information Memorandum as Lap Vo Dong Thap Food Company Limited

pays for rice of the same quality and grade at a uniform rate. SunRice is also required to pay annual fees to the RMB. This variable fee is set annually by the RMB.

Under this Agreement, SunRice is also required to appoint as Directors, all elected members of the RMB who consent to act and satisfy the relevant requirements under SunRice's Constitution.

This Agreement can be terminated on either party giving at least five years' prior written notice. It can also be terminated immediately by either party in the following circumstances:

- A party commits a material breach which is not remedied within 30 days after notice to remedy;
- The RMB is dissolved for whatever reason;
- There is a change of control of SunRice, or its subsidiary Australian Grain Storage Pty Ltd, without the prior written consent
  of the RMB;
- SunRice ceases to be an Authorised Buyer for any reason;
- Vesting is revoked or not renewed; or
- Either party suffers an insolvency event.

#### 8.3.3 Trukai Industries Limited

Trukai Industries Limited is a company incorporated in PNG, the constitution of which provides that the capital of the company is divided into A class ordinary shares and B class ordinary shares. SunRice holds all of the A class shares, comprising 66.23% of the total number of shares. The B class ordinary shares, comprising 33.77% of the total number of shares, are held by the Pacific Balance Fund, which is a unit trust fund based in PNG. SunRice, as the holder of the A class ordinary shares, has the right to appoint four directors. The holder of the B class ordinary shares has the right to appoint two directors.

The A class and B class ordinary shares are entitled to participate in dividends declared and give the holder the right to vote at general meetings. Shares can only be transferred with the unanimous approval of all A and B class shareholders or if the preemption provisions of the constitution have been complied with. If there is a change of ownership or control of a shareholder, they are deemed to have given a transfer notice in respect of all of their shares at a fair value specified by the shareholder or determined by the company's auditor. The move from the NSX to the ASX will not result in a change of control of SunRice and therefore will not trigger the change of control provisions under Trukai Industries' constitution.

SunRice has also entered into the following agreements with Trukai Industries Limited:

- Managerial Services Agreement: SunRice agrees to provide management, consultancy and technical services to Trukai Industries Limited;
- Franchise Agreement: SunRice, as the owner of the Trukai and other trademarks registered in PNG, has licensed Trukai Industries Limited to use those trademarks within PNG in return for a licence fee; and
- Supply agreement: SunRice agrees to supply rice to Trukai Industries Limited at prices negotiated between the parties from time to time.

#### 8.3.4 Aqaba Processing Company

Aqaba Processing Company (APC) is a company incorporated in Jordan, in which SunRice holds 80% of the total shares on issue. The remaining 20% of the shares are held by Yousef Nader and Sons Co (the minority shareholder) and related parties. The shareholders have entered into a shareholders agreement dated 18 March 2003 (Shareholders Agreement), pursuant to which SunRice has the right to appoint three directors and the chairman of APC, and the minority shareholder has the right to appoint one director.

The shares are entitled to participate in distributions from profits and give the holder the right to vote at general meetings. Shares can only be transferred by a shareholder with the approval of the other shareholder or if the pre-emptive provisions in the Shareholders Agreement have been complied with. If there is a change of control of the minority shareholder, it will be deemed to have given a transfer notice to SunRice in respect of all of its shares at a price negotiated by the parties or determined by an independent valuer. There is no similar provision that applies to a change of control of SunRice.

#### 8.3.5 Ricegrowers Singapore

In November 2018 Ricegrowers Singapore signed a contract with COFCO International (Beijing) Limited for the supply of rice. The rice supplied to Ricegrowers Singapore must comply with detailed product specifications, and will comprise both finished product and bulk product. The rice will be delivered on an order by order basis between January 2019 and April 2020.

#### 8.3.6 Financing facilities

The SunRice Group's financing facilities are described in Sections 4.8 and 4.11.

# 8. ADDITIONAL INFORMATION

**CONTINUED** 

# 8.4 Related party transactions

The Directors, in their capacity as Growers, sell rice to SunRice on the same terms as other Growers. Details of the Directors' supply of Paddy to SunRice in the most recent two Crops are set out in Section 7.3.4. In addition to the sale of rice, Directors may, as Growers, enter into other transactions with SunRice on the same terms as other Growers, as detailed in Section 7.3. The remuneration of Directors (including the Executive Director) is set out in Sections 7.3 and 7.4.

# 8.5 SunRice's capital structure

SunRice's capital structure comprises A Class Shares and B Class Shares, as described in this Section 8.5 and further in Section 8.6.

#### 8.5.1 A Class Shares

A Class Shares are redeemable preference shares which confer on their holders the right to vote at general meetings. They are not quoted and can only be held by Active Growers (and persons whom the Directors believe, on reasonable grounds, will become Active Growers).

No person may hold more than five (5) A Class Shares, however the right to vote is based on one member, one vote, meaning only one vote can be cast per A Class Shareholder at a general meeting irrespective of the number of A Class Shares held.

A Class Shareholders have no right to receive dividends or distributions, other than the right to be repaid the amount paid up on the A Class Share on redemption or a winding up of SunRice (the amount paid up on A Class Shares is currently nil).

In practical terms, the voting rights held by A Class Shares give A Class Shareholders control over the election of Directors and any changes to the Constitution, and therefore, Control of SunRice. More information about the rights and liabilities attaching to A Class Shares can be found in Section 8.6.

#### 8.5.2 B Class Shares

B Class Shares confer on their holders the right to receive dividends, as determined by the Board from time to time. They have only limited voting rights, which generally relate to circumstances where there is a variation of their class rights. Each B Class Shareholder has the right to participate equally in the distribution of any surplus on a winding up of SunRice, after the repayment of any amount paid up on the A Class Shares (which is currently nil).

B Class Shares are currently listed on the NSX, but an application has been made for them to be quoted on the ASX. It is intended that the B Class Shares will be delisted from the NSX and quoted on the ASX in April 2019, in line with the indicative timeline on page 2.

Once quoted on the ASX, no person (together with their Associates) will be able to hold more than 10% of the total number of B Class Shares on issue. More information about the rights and liabilities attaching to B Class Shares can be found in Section 8.6.

## 8.5.3 Current capital structure

Details of SunRice's capital structure as at the date of this Information Memorandum and as at the date of ASX Listing are set out below. No Shares or other equity securities will be issued by the Company between the date of this Information Memorandum and the date of ASX Listing.

	As at the date of the Information Memorandum	As at date of ASX Listing
Total number of Shares on issue:		
A Class Shares <sup>70</sup>	706	706
B Class Shares	58,725,413	58,725,413
Total number of Share Rights on issue:	868,172	868,172

SunRice's free float at the time of ASX Listing will not be less than 20%. 'Free float' refers to the percentage of B Class Shares that are not subject to disposal restrictions and are held by shareholders who are not Directors or other persons who are affiliated with the Company. However, investors should note that there can be no guarantee that an active market in the B Class Shares will develop after ASX Listing (refer to Section 6.4.2).

<sup>&</sup>lt;sup>70</sup> The Company may redeem A Class Shares if the Shareholder is not an Active Grower (see the definition in the Glossary at Section 10), however Directors may defer redemption if they believe that the Shareholder will resume being an Active Grower (see Section 8.6.2). The A Class Share Policy sets out the procedures the Board will undertake before it exercises its discretion in certain circumstances, such as low water availability (see Section 7.5.6). As a result of the C19 growing conditions, the Board intends to exercise this discretion in relation to the 2019 Test Date

# 8.6 Rights and liabilities attaching to B Class Shares and material provisions of the Constitution

The class of shares that the Company is seeking ASX quotation is its B Class Shares. The rights and liabilities attaching to ownership of the B Class Shares are:

- Detailed in the Constitution, which may be inspected during normal business hours at the registered office of the Company; and
- In certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

A summary of the key rights, liabilities and obligations attaching to B Class Shares and a description of the material provisions of the Constitution (including the rights and liabilities attaching to A Class Shares) are set out below. This summary is not intended to be exhaustive and is qualified by the fuller terms of the Constitution. This summary does not constitute a definitive statement of the rights and liabilities of B Class Shareholders or A Class Shareholders.

Upon ASX Listing, SunRice will adopt a new constitution which was approved by A Class Shareholders at the Annual General Meeting held on 20 September 2018. A copy of the new constitution in "tracked changes" to the existing constitution is set out in the Explanatory Booklet dated 27 July 2018 accompanying the Notice of Annual General Meeting. A copy of the Explanatory Booklet is available on SunRice's website at asx.sunrice.com.au/shareholder-communications/.

Accordingly, the summary of rights and liabilities attaching to the B Class Shares and other material provisions of the Constitution in this Section 8.6, and other references to the terms of the Constitution throughout this Information Memorandum, assume that SunRice is admitted to the Official List. Unless indicated otherwise, any reference to the **"Constitution"** in this Information Memorandum is to the new constitution that will take effect on ASX Listing.

# 8.6.1 Rights and liabilities attaching to B Class Shares

(a) Dividend and distribution rights

B Class Shares confer the right on their holder:

- To receive dividends declared and other distributions made by the Company from time to time; and
- To participate equally with other B Class Shareholders in the distribution of surplus funds on a winding up of the Company.
- (b) Voting rights

B Class Shareholders have the right to receive notice of, and attend, any general meeting of the Company, but have no right to vote at general meetings.

The right of B Class Shareholders to vote on matters relating to the Company is limited to proposals involving a change to the rights attaching to B Class Shares. The rights attaching to the B Class Shares may only be varied or cancelled by:

- A special resolution of the Company, voted on by those Shareholders entitled to attend and vote at general meetings of the Company (i.e. A Class Shareholders); and
- A special resolution passed at a class meeting of the B Class Shareholders.

Without limiting the circumstances that would be considered a variation or cancellation of class rights at general law, the following matters are deemed to vary the rights attaching to B Class Shares (known as the **Deemed Variation Matters**):

- Person acquiring >10% voting power: a transaction involving the Company or any transfer of Shares or any restructure of the Company or amendment to the Constitution that will result in a person acquiring a relevant interest in Shares if the acquisition of the relevant interest would cause that person or someone else's voting power in Shares or any class of Shares to increase from 10% or below to more than 10%;
- Sale of main undertaking or substantially all of the Profit Businesses: a sale or disposal of the main undertaking of SunRice (which will be treated as including a joint venture of the main undertaking with a person other than the Company or its Related Bodies Corporate and the issue of securities in subsidiaries that hold the main undertaking to a person other than the Company or its subsidiaries) or a sale or other disposal of all or substantially all of the Profit Businesses (being the business other than the Rice Pool business) of the Company and its related bodies corporate;
- Scheme of arrangement: a scheme of arrangement of the Shareholders or any class of Shareholders;
- **Issue of other financial products with dividend rights**: the issue of financial products by the Company (other than B Class Shares) that have dividend rights or other rights to participation in the profits of the Company;
- Variation or cancellation of A Class Share Rights that adversely affect B Class rights or economic interests: a variation or
  cancellation of the rights attaching to the A Class Shares that adversely affects the rights or economic interests of the
  holders of the B Class Shares (which will be treated as including the conversion of any A Class Share into other shares or a
  variation to the rights to be paid amounts on redemption or winding up as provided in the Constitution);
- Issue of new class of shares: the issue of a new class of shares or the variation or cancellation of the rights attaching to such a new class of shares:

# 8. ADDITIONAL INFORMATION

#### CONTINUED

- Capital reduction and share buy-back: a reduction of capital or buy-back of any Shares (except for any reduction of capital that may occur in undertaking a redemption of A Class Shares pursuant to Rule 5.3 of the Constitution or any buy-back of B Class shares permitted under the Corporations Act without approval by a resolution passed at a general meeting);
- Wind up of the Company: a decision by A Class Shareholders to wind up the Company; and
- Certain amendments to Constitution: an amendment to the Constitution that adversely affects the rights or the economic interests of the holders of the B Class Shares (which will be treated as including any amendment to Rule 4.2 (B Class Shareholding Limit), Rule 4.6 (Consequences of breach of B Class Shareholding Limit), Rule 5.2 (Rights of B Class Shares), Rule 5.6 (Deemed Variation Matters) and Rule 10.2(a)(ii) (giving notice of general meetings to B Class Shareholders).

However, for the avoidance of doubt, any change to the definition of Active Grower, the A Class Shareholding Limit, the Minimum B Class Shareholding and the Director composition and appointment provisions of the Constitution will not constitute a variation to the rights attaching to B Class Shares.

Under the ASX Listing Rules, B Class Shareholder approval is also required for certain matters.

#### (c) Meetings of B Class Shareholders

The provisions of the Constitution applicable to general meetings apply, with any necessary changes as determined by the Board, to any class meeting of B Class Shareholders or any meetings of B Class Shareholders required by the ASX Listing Rules.

Each B Class Shareholder has one vote on a show of hands and, on a poll, one vote for each B Class Share held at such a meeting.

#### (d) Issue of B Class Shares

Subject to the Corporations Act, the ASX Listing Rules and the Constitution (including the B Class Shareholding Limit), the Company may issue B Class Shares or grant options in respect of B Class Shares, as the Directors think fit.

#### (e) Transfer of B Class Shares

B Class Shares are transferrable, subject to the requirements of the Constitution (including the B Class Shareholding Limit) and the ASX Listing Rules.

#### (f) B Class Shareholding Limit

A person cannot hold a number of B Class Shares that, when aggregated with any B Class Shares held by all Associates of that person, exceeds 10% of the total number of issued B Class Shares.

The continuation of the B Class Shareholding Limit must be put to A Class Shareholders for approval, by way of a simple majority vote, at the Company's tenth annual general meeting after ASX Listing and at every third annual general meeting thereafter. However, any change to or removal of the B Class Shareholding Limit will require the approval of both A and B Class Shareholders, by special resolution, at separate meetings.

If a person acquires B Class Shares in excess of the B Class Shareholding Limit, all rights in respect of the B Class Shares held in excess of the B Class Shareholding Limit will be suspended (including without limitation the right to vote and receive dividends). Further, the Directors will notify the relevant Shareholder requiring them to dispose of the B Class Shares held in excess of the B Class Shareholding Limit within 14 days of the notice. If the Shareholder fails to comply with the notice within the prescribed timeframe, the Directors will proceed to sell those B Class Shares and distribute the proceeds of the sale, after paying relevant transaction costs and expenses incurred by the Company and the sale nominee, to the Shareholder.

# (g) Substantial Holding Notices

A person must give a Substantial Holder Notice (as defined in the Constitution) to the Company and ASX within two business days of becoming aware of the relevant event if:

- The person begins to have, or ceases to have, a Substantial Holding in the Company; or
- The person has a Substantial Holding in the Company and there is a movement of at least one (1) percentage points in their holding.

A person has a Substantial Holding if the total number of B Class Shares in which that person, together with their Associates, have a relevant interest in is 5% or more of the total number of B Class Shares on issue.

#### (h) Non-redeemable

B Class Shares are not redeemable. B Class Shares may be bought back by the Company in accordance with the Corporations Act (and subject to the Constitution).

(i) Liability to pay issue price

B Class Shareholders are liable to pay the amount, if any, unpaid on B Class Shares.

#### 8.6.2 Other material provisions of the Constitution

(a) A Class Shares - eligibility

A Class Shares can only be issued to Active Growers or persons whom the Directors believe, on reasonable grounds, will become Active Growers. No person may hold more than five A Class Shares (A Class Shareholding Limit).

(b) Rights and liabilities attaching to A Class Shares

A Class Shares are redeemable preference shares. Each A Class Share confers on its holder:

- The right to receive notice of, attend and vote (one vote per A Class Shareholder) at all general meetings of the Company;
- The right to receive notice of and attend all meetings of another class of Shareholders, but no right to vote at those other class meetings;
- The right to be repaid the amount paid up on the A Class Shares, if any, on redemption or winding up of the Company in preference to all other Shareholders (the amount paid up on A Class Shares is currently nil); and
- No right to participate in any dividends or other distributions made by the Company.

The Company may redeem the A Class Shares held by a Shareholder in accordance with the Constitution (for no consideration) if, on the date of redemption:

- The whereabouts of the Shareholder is not presently known to the Company and has not been known to the Company for a continuous period of at least two years before that date;
- At any time after 30 June 2006, the Shareholder is not an Active Grower (however the Directors may defer redemption if the Directors believe that the Shareholder will resume being an Active Grower);
- The Shareholder or their Approved Entity does not hold a minimum of 3,000 B Class Shares (Minimum B Shareholding); or
- The Shareholder has a Relevant Interest in more than five A Class Shares.
- (c) Acquisition of B Class Shares by A Class Shareholders

The Directors may, subject to the Corporations Act, the ASX Listing Rules and the Constitution, take steps and implement measures to encourage and facilitate the acquisition of B Class Shares, which may include the offer of B Class Shares to all or any of the A Class Shareholders on terms that facilitate their acquisition of B Class Shares.

(d) Issue of other classes of shares

Shares other than A Class Shares and B Class Shares cannot be issued without the prior approval of:

- A Class Shareholders by special resolution passed at a general meeting of the Company; and
- If the issue constitutes a variation of the class rights of B Class Shares, a class vote of B Class Shares (as a Deemed Variation Matter).
- (e) Board composition

The Board will comprise up to 11 Directors made up from the following categories, all of whom must be natural persons and at least 18 years old:

- Up to three Grower Directors who are elected members of the RMB and who hold, or are the representative of a body
  corporate that holds, an A Class Share. These Directors will hold office for the same period as their term of office as
  elected members of the RMB;
- Up to four Non-Grower Directors who are, in the opinion of the Directors, appropriately experienced, provided that only one
  of such Directors may be an employee of the Company. These Directors will hold office for such term as the A Class
  Shareholders may determine in general meeting; and
- Up to four Grower Directors who hold, or are the representative of a body corporate that holds, an A Class Share (excluding
  the elected members of the RMB). These Directors will hold office for four years or such other periods as the A Class
  Shareholders may determine in a general meeting.

If a casual vacancy arises on the Board, it may be filled by the election or appointment of a new Director who satisfies the qualification requirements applicable to the position left vacant, either by resolution of A Class Shareholders in a general meeting or resolution of the Board. A Director so elected by A Class Shareholders holds office for the same period that would

# 8. ADDITIONAL INFORMATION

#### CONTINUED

have applied to the former Director whose position was filled, had that former Director continued in office. A Director (excluding the Managing Director) so appointed by the Board holds office until the end of the next annual general meeting.

Board remuneration is detailed in Section 7.3.2.

#### (f) Directors' and officers' indemnity

The Company must indemnify, on a full indemnity basis and to the extent permitted by law, each current and former Director of the Company (and such other current and former officers and senior managers of the Group as determined by the Board) for all costs, losses or liabilities incurred by them in their capacity as Director, officer or senior manager (or, if determined by the Board, an auditor) of the Group.

The Company may, to the extent permitted by law, purchase and maintain insurance, or pay or agree to pay a premium for insurance, for a former and current Director or officer or senior manager of the Group against any liability incurred by that person in the capacity as an officer or auditor of the Group.

## (g) General meetings

See Section 7.6 for an overview of voting at general meetings.

#### (h) Payment of Dividends

The Directors may from time to time declare and pay interim and final dividends. Subject to any rights or restrictions attached to Shares, dividends are paid in proportion to the amounts paid up on Shares. As mentioned above, only B Class Shareholders have the right to receive dividends declared by the Directors from time to time.

#### (i) Dividend Reinvestment Plan

The Directors may, subject to the Corporations Act, the ASX Listing Rules and the Constitution, establish a dividend reinvestment plan on terms determined by the Directors and issue B Class Shares under that plan, and, from time to time suspend or terminate such plan.

# (j) Employee Share Plan

The Company may establish an Employee Share Plan (being a plan approved by A Class Shareholders under which B Class Shares may be issued to, or for the benefit of, employees or Non-Grower Directors) and, subject to the Corporations Act, the ASX Listing Rules and the Constitution, issue B Class Shares to participants under that Plan.

# 8.7 Employee Share Plan

SunRice has established an Employee Share Plan (ESP) pursuant to the Constitution under which B Class Shares may be issued to, or for the benefit of, employees or Non-Grower Directors of SunRice and its related bodies corporate (Eligible Persons). A copy of the ESP Rules is available on SunRice's website. If an invitation to participate in the ESP is made to an Eligible Person, who accepts that invitation, B Class Shares may be issued to a trustee who holds those B Class Shares on trust (Ricegrowers Limited Employee Share Trust) for the Eligible Person's benefit pursuant to the terms of the trust deed for the Ricegrowers Limited Employee Share Trust.

The ESP rules contain the following restrictions:

- The total number of B Class Shares held by Eligible Persons and Employee Holders<sup>71</sup> at any time must not exceed 5% of the total issued B Class Shares;
- B Class Shares will only be issued to, or for the benefit of, Employee Holders as participants under the ESP (or under other
  offers of B Class Shares approved by the Board from time to time); and
- Employee Holders must not:
  - acquire additional B Class Shares or any interest in them, other than by way of an issue of B Class Shares under the ESP (or under other offers approved by the Board from time to time); or
  - purchase or otherwise acquire B Class Shares by way of transfer.

These restrictions in the ESP rules can only be amended with the prior approval of A Class Shareholders by ordinary resolution.

Under the ESP rules, SunRice has established the following Employee Share Schemes (ESS):

<sup>71 &</sup>quot;Employee Holder" refers to a B Class Shareholder who is currently, or was previously, an employee of SunRice or a related body corporate or a Non-Grower Director, and who has been issued B Class Shares under the ESP (including these persons' Approved Entities)

#### \$1,000 tax exempt share scheme:

- Under this scheme, Eligible Persons are invited to purchase up to \$1,000 worth of B Class Shares per person per year using their after-tax remuneration, and SunRice will provide additional B Class Shares equal to the number of B Class Shares purchased by that Eligible Person at no additional cost.
- This scheme operates on a non-discriminatory basis in relation to at least 75% of the permanent employees of SunRice who have both completed at least three years of service with SunRice and who are Australian residents.
- The issue price for the B Class Shares will be determined by the Board, but will generally be based on a volume weighted average price over a specified period before the date of the invitation.
- B Class Shares issued under this scheme are subject to restrictions on disposal for a period the earlier of: (i) three years
  from the time of acquisition of those Shares, and (ii) the time when the Eligible Person ceases their employment, office or
  contract with SunRice.

#### \$5,000 salary sacrifice share scheme:

- Under this scheme, Eligible Persons are invited to elect to apply up to \$5,000 of their pre-tax remuneration per person, per year to purchase B Class Shares under the ESP.
- The issue price for the B Class Shares will be determined by the Board, but will generally be based on a volume weighted average price over a specified period before the date of the invitation.
- B Class Shares issued under this scheme are subject to restrictions on disposal for a period the earlier of: (i) three years from the time of acquisition of those Shares, and (ii) the time when the Eligible Person ceases their employment, office or contract with SunRice. The Board may at its absolute discretion waive the disposal restrictions in certain circumstances, including on ASX Listing.

#### Long Term Incentive (LTI) Plan:

- Under the LTI Plan, SunRice may offer rights to receive B Class Shares (subject to the satisfaction of certain vesting conditions) (Share Rights) to certain Eligible Persons. Share Rights that are not vested at the end of the performance period will lapse.
- The Eligible Person will be entitled to one B Class Share for each Share Right issued to them (subject to vesting and appropriate adjustments in accordance with the ASX Listing Rules in the event of a reorganisation of SunRice's share capital); however, the Board has the discretion to deliver cash instead of B Class Shares.
- Share Rights do not confer on an Eligible Person the right to participate in new issues of B Class Shares or other securities in SunRice, including by way of bonus issues, rights issues or otherwise, unless the Share Rights have vested before the record date for determination of entitlements to a new issue.
- The Board will specify the performance period and vesting conditions applicable to each Eligible Person invited to participate in the LTI Plan.
- Unless otherwise approved by the Board, Share Rights issued under the LTI Plan are non-transferable. The Board has the
  discretion to allow an Eligible Person to dispose of the legal or beneficial interest in a Share Right in certain
  circumstances, including special circumstances such as where the Eligible Person suffers serious injury, illness or
  financial hardship, or the occurrence of a Change of Control Event (described below).
- On the occurrence of a Change of Control Event, an Eligible Person will participate in that Change of Control Event as
  determined by the Board and as communicated by way of written notice. A "Change of Control Event" includes, in respect
  of SunRice, the merger or consolidation of SunRice into another company, the acquisition of a minimum 50% ownership in
  SunRice by a party or parties who are associated as defined in the Corporations Act, or any similar event that the Board
  determines in its absolute discretion.
- Where the Board determines in its discretion that an Eligible Person has committed an act of fraud, misconduct, or where
  there has been financial misstatement in SunRice's accounts, such that Share Rights should not have vested in whole or
  in part, SunRice may claw back the Share Rights or the B Class Shares referable to those Share Rights that should not
  have vested.
- If an Eligible Person ceases to be employed prior to the end of the performance period due to redundancy, retirement, disability, death, illness or the sale of a subsidiary or business asset by SunRice, any unvested Share Rights held by that Eligible Person will vest on a pro-rata basis to reflect the portion of the performance period which elapsed before employment ceased. If the Eligible Person ceases to be employed prior to the end of the performance period for reasons other than the above, subject to compliance with any applicable laws any unvested Share Rights held by that Eligible Person will immediately lapse.

## 8.8 Dividend Reinvestment Plan

SunRice has in place a Dividend Reinvestment Plan (**DRP**), under which B Class Shareholders can elect to receive additional B Class Shares instead of cash for dividends declared by SunRice, in respect of all or some of their B Class Shares. A summary of the key terms of the DRP is set out below:

• Participation: Participation in the DRP is optional.

# 8. ADDITIONAL INFORMATION

CONTINUED

- Eligibility: All B Class Shareholders resident in Australia can participate in the DRP, subject to any applicable law and the Constitution (Eligible Members).
- Application: Eligible Members may elect to participate in the DRP in respect of all or part of their B Class Shares. Participation begins with the first dividend payment after receipt of the Eligible Member's application form. Participation automatically applies to all subsequent dividends (unless terminated by the Eligible Member). The Board may in its absolute discretion accept or refuse any application.
- Issue price of B Class Shares: B Class Shares under the DRP will be issued at a price determined by the Board from time to time
- Rights of B Class Shares issued under the DRP: B Class Shares issued under the DRP will rank equally in all respects with all other B Class Shares.
- **Minimum/maximum participation**: The Board may at any time set a minimum or maximum number of B Class Shares which an Eligible Member may elect to be participating under the DRP.
- Variation/termination of participation: An Eligible Member may at any time by giving notice to the Company increase or decrease the number of its participating B Class Shares or terminate its participation in the DRP.
- Suspension, modification and termination of DRP: The DRP may be modified, suspended, recommenced or terminated by the Board at any time. Unless an Eligible Member terminates their participation in the DRP, they will continue to participate under the modified terms of the DRP.
- Restrictions on issue: B Class Shares will not be issued under the DRP if the issue would breach any applicable law or the Constitution (including the B Class Shareholding Limit).
- Quotation on ASX: If the B Class Shares are quoted on a stock exchange, the Company will apply for B Class Shares allotted under the DRP to be quoted on that stock exchange.

# 8.9 Grower Share Purchase Plan

SunRice has in place a Grower Share Purchase Plan (GSPP), under which eligible Growers may, at the discretion of the Board, be offered the opportunity to subscribe for B Class Shares in proportion to the tonnes of Paddy delivered by that Grower to the Company in a relevant crop. The GSPP was first launched in September 2017 in relation to the 2017 Crop. Offers under the GSPP were made again in September 2018 in relation to the 2018 Crop.

# 8.10 Ownership restrictions

In addition to the restrictions in the Constitution (including the A Class Shareholding Limit (see Section 8.5.1) and B Class Shareholding Limit (see Section 8.5.2), the sale and purchase of Shares in Australia is regulated by a number of laws that restrict the level of ownership or control by any one person (either alone or in contribution with others). This Section contains a general description of these laws.

#### 8.10.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquisition would result in an increase in the acquirer's, or any other person's, Voting Power in the Company:

- From a level that is below 20% of the Company's total share capital immediately before the acquisition, to a level that is greater than 20% (20% Rule); or
- If the relevant person's Voting Power in the Company already exceeds 20% immediately before the acquisition, by any more than a further three percentage points above their interest as at six months prior to completion of the acquisition, unless the relevant person makes an off-market takeover bid for all of the shares in the company or is able to rely on another statutory exemption to the 20% Rule.

The Corporations Act also imposes notification requirements on persons having Voting Power in 5% or more of a publicly listed company, whether through a direct shareholding or indirectly through an Associate.

# **8.10.2** Foreign Acquisitions and Takeovers Act 1975 (Cth) and Australian Government Foreign Investment Policy Generally, the *Foreign Acquisitions and Takeovers Act* 1975 (Cth) applies to the acquisition of shares and voting power in a company of:

- 20% or more by a single foreign person and its associates (Substantial Interest); or
- 40% or more by two or more unassociated foreign persons and their associates (Aggregate Substantial Interest),

where the company (not being an agribusiness or Australian land corporation) is valued at more than \$252 million or, if the foreign investor is a resident of Chile, China, Japan, Korea, New Zealand or the U.S., \$1,094 million (with the exception of investments in certain "sensitive businesses").

Where an acquisition of a Substantial Interest meets certain criteria, the acquisition is not permitted to occur unless notice of it has been given to the Federal Treasurer and either the Federal Treasurer has confirmed that there is no objection to the

proposed acquisition under the terms of the Australian Federal Government's Foreign Investment Policy (**Policy**) or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless a process of notification and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

In addition, in accordance with the Policy, acquisitions by foreign government investors of any direct interest in an Australian entity must be notified to the Foreign Investment Review Board for approval, irrespective of value. According to the Policy, a "direct interest" will typically include any investment of 10% or more of the shares (or of other securities or interests conferring equivalent economic interest or voting power) in an Australian company but may also include an investment of less than 10% where the acquirer is in a position to participate or influence the central management and control of the company or influence, participate in or determine the policy of the company.

# 8.11 Taxation considerations

This Section contains a general summary of the Australian tax treatment for new B Class Shareholders who acquire B Class Shares in the Company to hold on capital account. This summary does not apply to Shareholders who hold their B Class Shares on revenue account, such as taxpayers that carry on a share trading business.

The following tax comments are general in nature only and are not intended to be a complete analysis of how applicable tax laws may apply to a particular taxpayer's circumstances. The Directors strongly urge you to seek your own independent and personal taxation advice to ensure that your specific tax circumstances are appropriately considered before deciding whether or not to invest in the Company and acquire B Class Shares.

#### 8.11.1 Taxation of dividends

Dividends paid by the Company will be capable of being franked to the extent that the Company has paid sufficient Australian tax to attach franking credits to the dividends.

#### (a) B Class Shareholders who are Australian tax residents

Broadly, for Australian tax residents B Class Shareholders that are individuals, complying superannuation funds or corporate entities, any dividend amount received, together with any attached franking credits, should be included as assessable income in the income year the dividend is paid. Subject to the holding period rule (discussed below), these B Class Shareholders are generally entitled to offset the franking credits attached to the dividend received, to reduce the tax payable on their taxable income. Where the franking credits exceed the B Class Shareholder's own income tax liability, individual and complying superannuation fund B Class Shareholders should generally be entitled to a refund of the excess franking credit. For corporate B Class Shareholders, excess franking credits cannot generate a tax refund but may be able to be converted into carry-forward income tax losses.

Resident corporate B Class Shareholders are also generally entitled to credit their franking account to the extent of the franking credit on the dividend received.

Where the B Class Shareholder is an Australian tax resident trust or partnership, the dividend and franking credit should be included when determining the net income of the trust or partnership. A beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the franking credit attached to the net income distributed by the trust or partnership.

# (b) Holding period rule

To qualify for franking benefits, such as franking credits on franked dividends received, the resident B Class Shareholder must broadly have held the relevant B Class Shares "at risk" for more than 45 days, referred to as the "holding period rule". This rule is subject to certain exceptions depending on the B Class Shareholder's entity type.

#### (c) B Class Shareholders who are not Australian tax residents

Broadly, where dividends are franked (i.e. paid out of Australian taxed profits) or are distributed as conduit foreign income (i.e. paid out of foreign sourced dividends which have yet to be subject to Australian tax), Australian dividend withholding tax should not apply to the B Class Shareholder recipients of the dividend. Where dividends paid to non-resident B Class Shareholders are unfranked or not paid as conduit foreign income, the dividend amount will generally be subject to Australian dividend withholding tax at a rate of 30%. The rate of Australian dividend withholding tax may be reduced where a taxpayer is a resident of a country that has a double taxation treaty with Australia.

# 8. ADDITIONAL INFORMATION

**CONTINUED** 

#### 8.11.2 Capital Gains Tax (CGT) on disposal of B Class Shares

#### (a) B Class Shareholders who are Australian tax residents

For Australian tax resident B Class Shareholders who hold the shares on capital account, the future disposal of B Class Shares in the Company will be a CGT event. A B Class Shareholder will broadly make a capital gain where the proceeds it receives upon the sale of the B Class Shares is greater than the cost base of the B Class Shares, or a capital loss where the capital proceeds are less than the cost base of the B Class Shares. The capital proceeds received on the sale of B Class Shares should broadly be equal to the money received in respect of the disposal. The B Class Share's cost base is generally the amount originally paid to acquire the B Class Share plus any transaction/incidental costs. Any net capital gain is included in the assessable income of the B Class Shareholder.

Where the Australian tax resident B Class Shareholder is an individual, trust or complying superannuation fund, a CGT discount may be available to reduce the assessable capital gain arising on disposal of the B Class Share. This discount is only available if the B Class Shares are owned by the B Class Shareholder for at least 12 months prior to disposal. The CGT discount applicable for individuals is 50% and 331/3% for complying superannuation funds. Any current year or carry-forward capital losses should be offset against the capital gain first (to the extent available), before the CGT discount is applied. The CGT discount is not available to B Class Shareholders that are companies.

Where the B Class Shareholder is a trust that has held the relevant B Class Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust, provided those beneficiaries are not companies. B Class Shareholders in these circumstances should seek independent advice regarding the tax consequences of distributions to beneficiaries who may qualify for discount capital gains.

To the extent that a capital loss arises on the disposal of B Class Shares, B Class Shareholders may offset such capital loss against any gross capital gains they derive in the same income year or in future income years. B Class Shareholders cannot offset their net capital losses against their ordinary income. In addition, rules relating to the recoupment of carried-forward losses must first be satisfied if the B Class Shareholder is a company or a trust.

# (b) B Class Shareholders who are not Australian tax residents

As the Company does not have significant interests in real property relative to overall asset values, non-resident B Class Shareholders (including a trustee of a non-resident trust) may be exempt from CGT on the disposal of their B Class Shares.

#### 8.11.3 Goods & Service Tax (GST)

The acquisition or disposal of B Class Shares should not be subject to GST.

Where an entity is registered for Australian GST, it should generally have no entitlement to claim full input tax credits in respect of the GST incurred on their expenses relating to the acquisition or disposal of the B Class Shares (for example, lawyers' and accountants' fees), subject to certain exceptions (including the Financial Acquisitions Threshold and 75% or 55% reduced input tax credits).

# **8.11.4** Stamp duty

No stamp duty should be payable by a B Class Shareholder as a consequence of acquiring any B Class Shares following quotation on the ASX.

#### 8.11.5 TFN or ABN withholding

Tax File Number (TFN) or Australian Business Number (ABN) withholding may be deducted from dividends paid by the Company at a rate of 49% of the total amount of the dividend, if a TFN or ABN is not quoted by the relevant B Class Shareholder.

# 8.12 Legal proceedings

So far as the Directors are aware, there are no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions, of a material nature in which the Company or any other Group Member is directly or indirectly concerned which is likely to have a material adverse impact on the Business or financial position of the Company, any other Group Member or the Group as a whole.

# 8.13 Regulatory relief

Other than legislative instruments (formerly known as class orders) issued by ASIC which are of general application to the class of persons to which the instrument applies, the Company is not relying on any modifications or waivers of, or exemptions from, the Corporations Act in connection with its ASX Listing.

The ASX has given SunRice advice that it considers SunRice's structure and operations are appropriate for the purposes of ASX Listing Rule 1.1, condition 1, subject to this Information Memorandum containing a clear, concise and effective summary of

SunRice's dual class share structure with differential voting rights and shareholder limits, along with a description of the director appointment rights of the Constitution (referred to in the advice as non-standard elements).

That advice requires that SunRice provide the ASX with an undertaking in a form satisfactory to the ASX to do each of the following:

- Provide in a reasonably prominent location on SunRice's website and its annual report each year a description of SunRice's non-standard elements;
- Include in each continuous disclosure announcement and CHESS and issuer-sponsored holding statement, agreed
  wording highlighting the existence of the non-standard elements;
- Disclose in its sixth annual report after Listing, its tenth annual report after Listing and in every third annual report thereafter, whether SunRice has considered removing the non-standard elements from its structure and operations, and if it has decided not to remove those elements, its reasons for this;
- Require the continuation of the 10% B Class Shareholding Limit on the B Class Shares to be specifically approved by A
  Class Shareholders at its tenth annual general meeting after admission to the Official List and at each third annual
  general meeting thereafter; and
- An undertaking in those terms has been given by SunRice to the ASX.

The ASX has also provided the following advice to facilitate a listing of SunRice's existing structure:

- B Class Shares are considered to be SunRice's main class of securities for the purposes of the Listing Rules;
- Confirmation that the terms of the A Class Shares and the B Class Shares are appropriate and equitable for the purposes of Listing Rule 6.1;
- A Class Shares are approved as an additional class of ordinary securities for the purposes of Listing Rule 6.2;
- Approvals sought under Listing Rules 6.20.3, 6.22.2A, 6.23, 7.1, 7.1A, 7.2, 7.4, 7.6, 7.9, 7.21, 7.22.6, 7.26 and 10.14 need only be approved by B Class Shareholders;
- Approvals sought under Listing Rules 10.17 and 10.19 need only be approved by A Class Shareholders;
- Approvals sought under Listing Rules 10.1, 10.5, 10.6, 10.9, 10.11, 11.1, 11.2 and 11.4 need to be approved by A Class Shareholders and B Class Shareholders;
- At any meeting required under the Listing Rules where the approval of A Class Shareholders and B Class Shareholders are
  required, separate class meetings are to be held and the resolution is only treated as passed if it is passed at each class
  meeting:
- A waiver from Listing Rule 6.8 has been granted to the extent necessary to permit B Class Shareholders to not be entitled
  to one vote on a show of hands, in relation to resolutions where the B Class Shareholders have no entitlement to vote;
- A waiver from Listing Rule 6.9 has been granted to the extent necessary to permit:
  - B Class Shareholders to be not entitled to one vote per security in relation to resolutions where the B Class Shares have no entitlement to vote;
  - A Class Shareholders to have one vote per Shareholder on resolutions at which they are entitled to vote;
- A waiver from Listing Rules 6.8 and 6.9 has been granted to the extent necessary to permit SunRice to suspend or vary the voting rights of any person or their associates who breach the A Class Shareholding Limit or the B Class Shareholding Limit (Shareholding Limits);
- The Shareholding Limits and associated enforcement mechanisms in the Constitution are appropriate and equitable for the purposes of Listing Rule 6.10.5, on specified conditions which the ASX confirms have been satisfied;
- The divestment provisions in the Constitution that enable SunRice to divest Shareholders that breach the Shareholding Limit are appropriate and equitable for the purposes of Listing Rule 6.12.3, on specified conditions which the ASX confirms have been satisfied;
- A waiver from Listing Rule 6.13 has been granted to the extent necessary to permit SunRice to hold a lien over the B Class Shares of a holder who has received a dividend or distribution to which they are not entitled because of the breach of the 10% B Class Shareholding Limit;
- A waiver from Listing Rules 7.1 and 10.11 has been granted to the extent necessary to permit A Class Shares to be issued without Shareholder approval:
- A waiver from Listing Rule 7.26.1 has been granted to permit the cancellation of forfeited A Class Shares in accordance
  with the Constitution without Shareholder approval;
- A waiver from Listing Rule 8.11 has been granted to the extent necessary to permit SunRice to require information to be
  provided to it prior to registering a paper-based transfer of B Class Shares in order to ensure the transfer complies with
  the Constitution:
- A waiver from Listing Rule 10.1 has been granted to the extent necessary to permit SunRice to acquire Paddy from related
  parties in accordance with SunRice's Paddy Pricing Policy, without Shareholder approval, on the condition that Paddy is
  acquired from related party Growers on identical terms as Paddy acquired from arm's length Growers, and each annual
  report contains a summary of Paddy acquired from related parties;

# 8. ADDITIONAL INFORMATION

**CONTINUED** 

- A waiver from Listing Rule 10.11 has been granted to the extent necessary to permit SunRice to issue B Class Shares to
  related parties under the Grower Share Purchase Plan, without obtaining Shareholder approval, on specified conditions,
  including that B Class Shareholder approval is sought every third year for the issue of B Class Shares to related parties
  pursuant to the GSPP, and details of the B Class Shares issued to related parties are disclosed in the annual report each
  year in which B Class Shares are issued; and
- A waiver from Listing Rules 14.4 and 14.5 has been granted to the extent necessary to give effect to the director
  appointment provisions in the Constitution.

## 8.14 Interests of advisers

For the purpose of its ASX Listing and preparing this Information Memorandum, the Company engaged the following professional advisers:

- Macquarie Capital (Australia) Limited as corporate adviser to the Company in relation to its ASX Listing. The Company has
  paid, or agreed to pay, approximately \$1,000,000 (excluding disbursements and GST) to Macquarie Capital (Australia)
  Limited for these services for the period up to the date of this Information Memorandum.
- Addisons, Nero Corporate Law, King & Wood Mallesons and Ashurst as Australian legal advisers, for the purpose of
  advising the Company in relation to Australian legal issues arising in connection with its ASX Listing. The Company has
  paid, or agreed to pay:
  - approximately \$265,000 (excluding disbursements and GST) to Addisons for these services for the period up to the
    date of this Information Memorandum. Further amounts may be paid to Addisons in accordance with its normal timebased rates;
  - approximately \$35,000 (excluding disbursements and GST) to Nero Corporate Law for these services for the period up to the date of this Information Memorandum. Further amounts may be paid to Nero Corporate Law in accordance with its normal time-based rates;
  - approximately \$250,000 (excluding disbursements and GST) to King & Wood Mallesons for these services for the
    period up to the date of this Information Memorandum. Further amounts may be paid to King & Wood Mallesons in
    accordance with its normal time-based rates; and
  - approximately \$25,000 (excluding disbursements and GST) to Ashurst for these services for the period up to the date
    of this Information Memorandum. Further amounts may be paid to Ashurst in accordance with its normal time-based
    rates.
- PriceWaterhouseCoopers Securities Ltd as Investigating Accountant, for performing work in relation to the Independent Limited Assurance Report in Section 5. The Company has paid, or has agreed to pay approximately \$100,000 (excluding disbursements and GST) for these services for the period up to the date of this Information Memorandum;
- PriceWaterhouseCoopers as tax adviser, for the purpose of reviewing and advising the Company on the accuracy of the
  overview in Section 8.11 of the tax treatment for Australian resident investors that acquire B Class Shares in the Company
  on capital account. The Company has paid, or agreed to pay, approximately \$25,000 (excluding disbursements and GST)
  for these services for the period up to the date of this Information Memorandum; and
- Link Market Services as share registry to the Company in connection with its ASX Listing. The Company has agreed to pay \$8,000 (excluding disbursements and GST) for these services.

SunRice will pay these amounts, and other expenses of the ASX Listing, out of the existing cash available to the Company. Further information on the payment of the expenses of the Company's ASX Listing are set out in Section 8.17.

## 8.15 No other interests and benefits

Sections 8.4 and 8.14 set out the nature and extent of the interests and fees received by certain persons involved in the issue by the Company of this Information Memorandum.

Other than as set out in Sections 8.4 and 8.14:

- no Director or Proposed Director; and
- no person named in this Information Memorandum as having performed a function in a professional, advisory or other
  capacity in connection with the preparation or distribution of this Information Memorandum, nor any firm in which such
  person is a partner or employee,

holds at the date of this Information Memorandum, nor has held in the two years preceding that date, any interest in:

- the promotion of the Company; or
- property acquired or proposed to be acquired by the Company,

and no amount (whether in cash, shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such person for services in connection with the formation or promotion of the Company or the ASX Listing, or to any Director or Proposed Director to induce them to become, or qualify as, a director of the Company.

# 8.16 Consents and liability statements

- Macquarie Capital (Australia) Limited has given, and at the time of lodgement of this Information Memorandum has not
  withdrawn, its consent to be named in this Information Memorandum as corporate adviser to the Company in relation to
  its ASX Listing in the form and context in which it has been named.
- Addisons has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its consent to be
  named in this Information Memorandum as Australian legal adviser to the Company in relation to its ASX Listing in the
  form and context in which it has been named.
- Nero Corporate Law has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its
  consent to be named in this Information Memorandum as Australian legal adviser to the Company in relation to its ASX
  Listing in the form and context in which it has been named.
- King & Wood Mallesons has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its consent to be named in this Information Memorandum as Australian legal adviser to the Company in relation to its ASX Listing in the form and context in which it has been named.
- Ashurst has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its consent to be named in this Information Memorandum as Australian legal adviser to the Company in relation to its ASX Listing in the form and context in which it has been named.
- PriceWaterhouseCoopers Securities Ltd has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its consent to be named in this Information Memorandum as Investigating Accountant in the form and context in which it has been named and to the inclusion of the Independent Limited Assurance Report in Section 5 in the form and context in which it is included in this Information Memorandum.
- PriceWaterhouseCoopers has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its
  consent to be named in this Information Memorandum as tax adviser to the Company in the form and context in which it
  has been named.
- PriceWaterhouseCoopers has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its
  consent to be named in this Information Memorandum as auditor to the Company in the form and context in which it has
  been named.
- Link Market Services has given, and at the time of lodgement of this Information Memorandum has not withdrawn, its consent to be named in this Information Memorandum as share registry to the Company in the form and context in which it has been named.

Each person referred to in this Section 8.16 above has not authorised or caused the issue of this Information Memorandum and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Information Memorandum, other than the reference to its name in the form and context in which it is named and any statement or report included in this Information Memorandum with its consent as specified above.

References are made in this Information Memorandum to entities that have certain dealings with the Company and other Group Members, including counterparties to contractual arrangements referred to in this Information Memorandum. Please note that these parties have been referred to for information purposes only, and have neither authorised or caused the issue of this Information Memorandum nor have had any involvement in the preparation of any part of this Information Memorandum.

## 8.17 Expenses of the ASX Listing

The total expenses of the ASX Listing payable by the Company are estimated at approximately \$3,000,000 as at the date of this Information Memorandum, and will be paid out of the cash available to the Company. These expenses include financial, legal, accounting and taxation advisory fees, broker fees, ASX listing fees, shareholder communication and other costs. Further particulars of these expenses can be found in Section 8.14.

### 8.18 Privacy

The Company, other Group Members, their respective officers, employees, agents, contractors and third party service providers (such as the Share Registry) (collectively, **Collecting Parties**) may collect information about you that may be "personal information" for the purposes of the *Privacy Act* 1988 (Cth) (**Privacy Act**). The personal information collected may include your full name, date of birth, address and phone number.

The collection and management of your personal information will be conducted in accordance with the Privacy Act, which governs the use of a person's personal information and sets out principles governing the ways in which organisations should treat personal information.

The personal information that the Collecting Parties collect from you is for the purposes of providing services, notifications and appropriate administration in relation to your security holdings in the Company. In particular, if you become a Shareholder in the Company, the Corporations Act, ASX Settlement Operating Rules and Australian taxation laws require that the Company includes information about you (including your name, address and details of the securities that you held) in its public register.

8. ADDITIONAL INFORMATION

# CONTINUED

These same laws require that the information must remain there even if you cease to be a Shareholder. Information contained in SunRice's registers may be used, from time to time, to:

- · Facilitate dividend and distribution payments;
- Facilitate corporate communications (including the Company's financial results, annual report and other information that SunRice may wish to communicate to its Shareholders);
- Inform Shareholders about other products and services offered by the Group that it considers may be of interest to them;
- · Comply with legal and regulatory requirements.

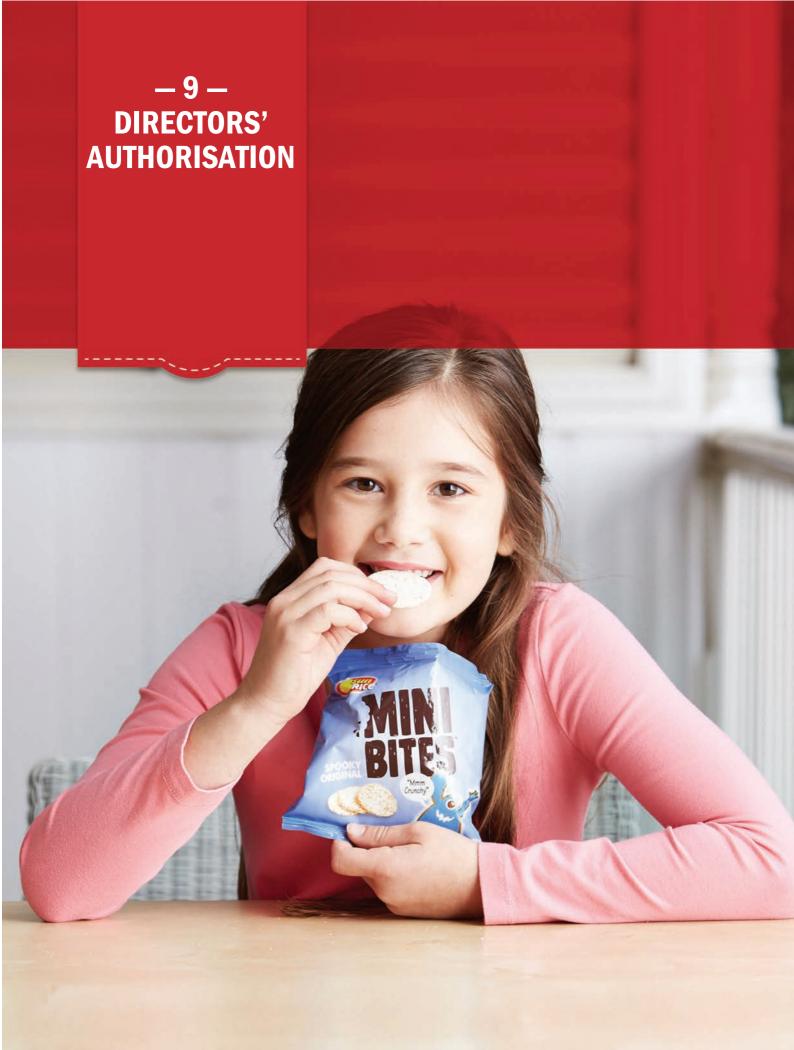
The types of agents and service providers that may be provided with your personal information and the circumstances in which such information may be shared include:

- The Company's share registry for ongoing administration of the Company's share register;
- Printers and mail houses for the purpose of preparing, distributing and mailing statements and other communications;
- Market research companies for the purpose of analysing the Company's investor base; and
- Legal and accounting firms, auditors, contractors, consultants and other professional advisers for the purpose of
  administering the Shares and advising on the Group's rights and obligations with respect to Shareholders and associated
  actions.

If the Collecting Parties are obliged to do so by law, your personal information will be passed on to other parties in accordance with legal requirements. Once personal information is no longer needed for the Company's records, the Collecting Parties will destroy or de-identify it.

You have a right to gain access to the information that the Collecting Parties hold about you subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the relevant Collecting Party's registered office. If you wish to make an access request to the Company or the Share Registry, please direct your request to SunRice's Privacy Officer via email at <a href="mailto:privacy@sunrice.com.au">privacy@sunrice.com.au</a>, telephone 02 6953 0422 or at Level 24, MLC Centre, 19 Martin Place Sydney (Company) or alternatively, via <a href="mailto:privacy.officer@linkgroup.com">privacy.officer@linkgroup.com</a> or telephone 1800 502 355 (Share Registry). SunRice's privacy policy, found at <a href="https://careers.sunrice.com.au/statements/privacy-policy/">https://careers.sunrice.com.au/statements/privacy-policy/</a>, also contains information about how you may access, seek correction of or make complaints relating to your personal information.

This page was left intentionally blank



# 9. DIRECTORS' AUTHORISATION

This Information Memorandum is dated 1 March 2019 and is issued by Ricegrowers Limited (trading as SunRice). Its issue has been authorised by unanimous resolution of the Directors.

Signed for and on behalf of each Director of the Company by their duly authorised agent, Laurie Arthur:

Laurie Arthur Chairman

for himself and on behalf of each of the Directors of SunRice

Dated: 1 March 2019

# - 10 -GLOSSARY



# 10.GLOSSARY

A Class Share means each A Class Share in SunRice

A Class Shareholder means a holder of an A Class Share

A Class Shareholding Limit means the shareholding limit on A Class Shares under the Constitution, being 5 A Class Shares

AAS means Australian Accounting Standards and other authoritative pronouncements issued by the AASB

AASB means Australian Accounting Standards Board, being an Australian government agency under the Australian Securities and Investments Commission Act 2001 (Cth)

**Active Grower** means any person who has supplied paddy rice (being the product of that grower and not acquired for delivery) to SunRice on or before a particular date (a "Test Date"):

- Where the Test Date is on or before 30 June 2016, the paddy rice so supplied is one (1) tonne in the two-year delivery period before that Test Date; and
- Where the Test Date is after 30 June 2016, the paddy rice so supplied is two hundred (200) tonnes in the two-year delivery period before that Test Date.

For the purpose of this definition, a delivery period is the period from and including 1 July in a year up to and including 30 June in the following year

**AEST** means Australian Eastern Standard Time

AGS means Australian Grain Storage Pty Ltd ACN 000 333 648

APRA means Australian Prudential Regulation Authority

**Aqaba Processing Company** or **APC** means Aqaba Processing Company Ltd, a company incorporated in Jordan

**ASIC** means Australian Securities and Investments Commission

**Associate** has the meaning given in section 12 of the Corporations Act

**ASX** means ASX Limited (ACN 008 624 691) or, where the context requires, the financial market it operates

**ASX Listing Rules** means the official listing rules of ASX, as may be waived or varied by ASX as it applies to the Company

**ASX Recommendations** means the ASX Corporate Governance Principles and Recommendations (the Third Edition) published by the ASX Corporate Governance Council as at the date of this Information Memorandum

**ASX Settlement** means ASX Settlement Pty Limited (ACN 008 504 532)

**ASX Settlement Operating Rules** means the operating rules of the settlement facility provided by ASX Settlement

ATO means Australian Taxation Office

AUD, A\$ or \$ means Australian dollars

**Authorised Buyer** means an authorised buyer for rice produced in NSW, as appointed by the RMB under the Rice Marketing Act

Average Riverina Crop volume or year means an average annual crop size of between 500,000 – 650,000 tonnes, calculated based on the Riverina Crops recorded since the Millennium Drought and including the estimate of the 2019 Crop

B Class Share means each B Class Share in SunRice

B Class Shareholder means a holder of a B Class Share

B Class Share Right or Share Right means the right to receive a B Class Share pursuant to the terms of the Employee Share Plan

B Class Shareholding Limit means the shareholding limit on B Class Shares under the Constitution, being 10%

**Board** or **Board** of **Directors** means the board of directors of the Company as constituted from time to time

**Business** means the business of the Group as at the date of this Information Memorandum, as described in further detail in Section 3

**CAGR** means compound annual growth rate

**CEO** means Chief Executive Officer

CFO means Chief Financial Officer

CGT means capital gains tax

**Chair** means the chairperson of the Board as at the date of this Information Memorandum, Laurie Arthur

**CHESS** means Clearing House Electronic Sub-register System, an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form

**Company** means Ricegrowers Limited (trading as SunRice) (ACN 007 481 156)

**Control** in relation to the Company, means the sole right of A Class Shareholders to vote at general meetings of the Company, which gives them the right to elect Directors and approve any changes to the Constitution

**Constitution** means the constitution of the Company adopted at the Company's 2018 Annual General Meeting, which will take effect from the date on which the Company is admitted to the Official List of the ASX

CopRice means CopRice, a division of Ricegrowers Limited

Corporations Act means Corporations Act 2001 (Cth)

**Crop** or **C** means a Riverina Rice crop identified by the calendar year in which the crop is harvested. For example, the 2018 Crop (C18) refers to the Riverina Rice harvested during April/May 2018. This 2018 Crop will be accounted for by SunRice in its financial year from 1 May 2018 to 30 April 2019 (FY19).

# 10. GLOSSARY

#### CONTINUED

**Director** means a director of the Company as at the date of this Information Memorandum, being those persons listed in Section 7.1

**Dividend Reinvestment Plan** or **DRP** means the SunRice Dividend Reinvestment Plan, the key terms of which are summarised in Section 8.8

EBIT means earnings before interest and tax

**Effective Tax Rate (ETR)** means Income Tax Expense divided by NPBT in the Historical Income Statements

**Employee Share Plan** means the SunRice Employee Share Plan, the key terms of which are summarised in Section 8.7

**Equity Security** has the meaning given to that term in ASX Listing Rule 19.12

**Fixed Price Contracts** means the fixed or minimum Paddy Price set by the Board at its discretion, which is offered in contracts to Growers

FY means financial year ended 30 April of any year (e.g. FY18 means the financial year ended 30 April 2018)

GI means glycemic index

Group Member means any member of the Group

**Grower** means a person who produces and supplies Paddy to SunRice

**Grower Director** means a Director who holds, or is the representative of a body corporate that holds, an A Class Share

**Grower Share Purchase Plan** means the SunRice Grower Share Purchase Plan, as described in Section 8.9

**GST** means goods and services tax or similar tax imposed in Australia

HIN means Holder Identification Number

**Historical Balance Sheets** has the meaning given in Section 4.1

Historical Cash Flows has the meaning given in Section 4.1

**Historical Financial Information** has the meaning given in Section 4.1

**Historical Income Statements** has the meaning given in Section 4.1

**HY** means the half year ended on 31 October in any financial year (e.g. HY18 means the half year ended on 31 October 2017)

**Information Memorandum** means this Information Memorandum

IFRS means International Financial Reporting Standards

Independent Limited Assurance Report means the Independent Limited Assurance Report issued by PriceWaterhouseCoopers Securities Ltd in relation to the Group, dated 1 March 2019 and set out in Section 5

ITAA 1997 means Income Tax Assessment Act 1997 (Cth)

**Listing** or **ASX Listing** means the admission of the Company to the Official List of the ASX and quotation of the B Class Shares on the ASX

Management means the senior management team of SunRice, comprising, as at the date of this Information Memorandum, those persons whose profiles are set out in Section 7.2

**Material Contracts** means those agreements of the Group listed and summarised in Section 8.3

**Millennium Drought** means the drought in the Riverina that affected the 2002/03 growing season through to the 2009/10 growing season, with production below 550,000 tonnes except for the 2005/06 growing season

**Modified Paddy Price** has the meaning given in Section 3.10.6

**Murray-Darling Basin** refers to the river system of that name in south-eastern Australia. The Murrumbidgee and Murray Rivers, which are included in the Murray-Darling Basin, are the predominant source of irrigation water for Riverina Rice production

**Non-Grower Director** means a Director other than a Grower Director

NPAT means net profit after tax

NPBT means net profit before tax

**Official List** means the official list of entities that the ASX has admitted and not removed

**Ordinary Resolution** means a resolution passed by a simple majority of the votes cast by the holders of Shares of a particular class (as applicable) that are present (in person or by proxy, attorney or representative) and entitled to vote on that resolution

**Paddy** means rice in the form that it is harvested, prior to any processing

Paddy Price means the price payable by SunRice for Paddy

**Paddy Price or Paddy Pricing Policy** means the SunRice Paddy Pricing Policy applicable to Riverina Rice, as formulated by the Board

**Paddy Price Supplement** has the meaning given in Section 3.10.6

Paddy Price Retention has the meaning given in Section 7.5.5(b)

Pool or Paddy Pool means a financial model which the Paddy Price is calculated by aggregating all revenue from the sale of Riverina Rice, and then deducting relevant costs, including contributions to the Corporate segment for asset financing and other internal charges. The balance is available to be paid out in the form of Paddy Prices in line with SunRice's Paddy Pricing Policy

PNG means Papua New Guinea

**Profit Businesses** means the businesses conducted by SunRice, other than the Rice Pool Business, i.e. Riviana Foods, CopRice and the International Rice, Rice Food and Corporate segments

**Relevant Interest** has the meaning given in sections 608 and 609 of the Corporations Act

**Rice Marketing Act** means the *Rice Marketing Act* 1983 (NSW)

**Rice Pool Business** means that segment of SunRice's business relating to the milling, marketing and selling of Riverina Rice

Ricegrowers Singapore means Ricegrowers Singapore Pte I td

Ricegrowers Vietnam means the wholly owned subsidiary of Ricegrowers Limited named, at the date of this document, Lap Vo Dong Thap Food Company Limited

**Riverina** means the geographic region in or around the Riverina district of New South Wales and such other rice growing areas within Australia as the Board may determine from time to time

Riverina Rice means Paddy produced in the Riverina

**Riviana Foods** means Riviana Foods Pty Ltd (ACN 061 388 092)

**RMB** or **Rice Marketing Board** means Rice Marketing Board for the State of New South Wales

**ROCE** means Return on Capital Employed and is the ratio of EBIT over net assets after excluding net debt

Roza's Gourmet means Roza's Gourmet Pty Ltd (ACN 154 475 251)

**RRAPL** means Rice Research Australia Pty Ltd (ACN 003 678 644)

Section means a section of this Information Memorandum

Share means an A Class Share or a B Class Share

Share Registry means Link Market Services Limited

**Shareholder** means a person registered in the register of members of the Company, in accordance with section 169 of the Corporations Act, as a holder of one or more Shares (of either class)

Shareholding means a holding of one or more Shares

Sole and Exclusive Export Agreement means the Sole and Exclusive Export Agreement dated 28 June 2007 between SunRice, the RMB and AGS (formerly Riviana (Australia) Pty Ltd), as amended from time to time

**SolRice** means Solomons Rice Company Limited, a company incorporated in the Solomon Islands

**Special Resolution** means a resolution passed by at least 75% (by number) of the votes cast by the holders of Shares of a particular class (as applicable) that are present (in person or by proxy, attorney or representative) and entitled to vote on that resolution

**SRN** means Security Reference Number

**Subsidiary** has the meaning given in section 46 of the Corporations Act

**SunFoods** means SunFoods, LLC, a California Limited Liability Corporation

SunRice 2022 Growth Strategy or 2022 Growth Strategy or 2022 Strategy or Growth Strategy means SunRice's growth strategy as described in Section 3.4

**SunRice, SunRice Group** or **Group** means the Company or, as the context requires, may include or be a reference to one or more of the Company's controlled entities and/or the business(es) conducted by them

TFN means Tax file number

**Trukai** or **Trukai Industries** means Trukai Industries Limited, a company incorporated in Papua New Guinea

USD means U.S. dollars

U.S. or United States means United States of America

**U.S. Securities Act** means U.S. Securities Act of 1933, as amended

**Voting Power** has the meaning given in section 610 of the Corporations Act





# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

# 1 Accounting policies for periods up to 30 April 2018

The principal accounting policies adopted in the preparation of the financial information included in Section 4 for FY16, FY17, HY18 and FY18 are set out below.

#### Historical cost convention

The financial information has been prepared under the historical cost convention, except for available-for-sale financial assets, investment property and derivative financial instruments that are measured at fair value.

# Principles of consolidation and equity accounting

#### Subsidiaries

Ricegrowers Limited ("company" or "parent entity") and its subsidiaries together are referred to in the financial information as the Group or the consolidated entity.

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 to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated financial information.

#### **Associates**

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **Change in ownership interests**

The Group treats transactions with non-controlling interests that do not result in a loss or gain of control as transactions with equity owners of Ricegrowers Limited.

A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary.

Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

#### **Foreign currency translation**

#### **Functional and presentation currency**

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial information is presented in Australian dollar (\$), which is Ricegrowers Limited's functional and presentation currency.

#### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

#### **Group companies**

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet:
- Income and expenses for each income statement and statement of comprehensive income are translated at average
  exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the
  transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income and presented in a foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Corporate Management Team.

#### **Business Combinations**

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interest issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition related costs in business combinations are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If those amounts are less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

# Investments and other financial assets

# Classification

The Group classifies its financial assets in the following categories:

- Loans and receivables; and
- Available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired and the Group determines the classification of its investments at initial recognition.

#### Reclassification

The Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the available-for-sale category if the Group has the intention and ability to hold these financial assets for the foreseeable future at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

### **Recognition and derecognition**

Standard purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

#### CONTINUED

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included within receivables in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are subsequently carried at amortised cost using the effective interest method, less provision for impairment.

Available-for-sale financial assets are subsequently carried at fair value except when the fair value cannot be measured reliably. They are then carried at amortised cost less impairment.

#### **Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

### **Income recognition**

Interest income is recognised using the effective interest method.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Interest income on impaired loans is recognised using the original effective interest rate.

Dividends are recognised as revenue when the right to receive payment is established.

#### Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

### Trade receivables and payables

**Trade receivables** 

Trade receivables are generally due for settlement within 30 to 60 days from date of recognition.

Bad debts are written off in the period in which they are identified.



Collectability of trade receivables is reviewed on an ongoing basis.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the consolidated income statement within other expenses.

When a trade receivable for which a provision has been recognised becomes uncollectible in a subsequent period, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against other expenses in the consolidated income statement.

**Trade payables** 

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 to 90 days of recognition.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### **Grower payables**

Grower payables comprise the balance of pool payments owed to growers.

Grower payables also comprise the next financial year's pool payments where paddy rice for next year's pool is received before the end of the financial year.

The portion of the payable in respect of the current financial year is based on the final paddy price for the year, with a portion in respect of paddy rice received for the next financial year based on that year's budgeted paddy price.

Grower payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **Inventory**

Raw materials, finished goods and packaging materials have been valued on the basis of the lower of cost or net realisable value.

Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of inventory but excludes borrowing costs.

Raw materials, finished goods, consumable stores and packaging materials inventory are determined from a combination of weighted average purchase price and standard costs and after deducting rebates and discounts.

Cost in relation to processed inventories comprises direct materials, direct labour and an appropriate allowance for milling, fixed and variable overheads less by-products with recovery on the basis of normal operating capacity.

Net realisable value is the estimated selling price in the normal course of business less the estimated costs of completion and estimated costs necessary to make the sale.

#### **Investment property**

Investment property comprises freehold land and buildings that were previously owner occupied.

Owner occupation ceased and these properties are now classified as "Investment properties" as they are held for long term capital appreciation.

These properties are carried at fair value representing open-market value determined by external valuers.

Changes in fair value are recorded in the consolidated income statement as part of other income or other expense.

# Property, plant and equipment and leasehold improvements

Freehold land is held at cost and not depreciated.

Property, plant and equipment, other than freehold land, are stated at historical cost less depreciation and are depreciated over their estimated useful lives using the straight line method.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

#### **CONTINUED**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The expected useful lives are as follows:

Buildings	25 to 50 years	
Leasehold improvements	Shorter of 7 to 15 years or lease term	
Plant and equipment	3 to 20 years	

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other expense within the consolidated income statement.

#### Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings.

Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

## Intangible assets

### Goodwill

Goodwill represents the excess of the consideration transferred, amount of any non-controlling interest in the acquired assets and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the identifiable net assets acquired.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill on acquisition of associates is included in investment in associates.

Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

#### **Acquired patents and brands**

Separately acquired patents and brands are shown at historical cost.

Patents and brands acquired in a business combination are recognised at fair value at the acquisition date.

They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

#### Capitalised software

Costs associated with maintaining software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

### **Amortisation methods and periods**

Intangible assets are amortised on a straight line basis over the periods of their expected benefit:

Acquired patents and brands	5 to 20 years
Capitalised software	3 years

# **Research and development costs**

Research and development costs do not meet the relevant recognition and measurement criteria to be capitalised. As a result, such costs are charged as an expense in the year incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are reviewed 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets, other than goodwill, that have previously suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

#### **CONTINUED**

Fees paid on the establishment of loan facilities are recognised as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## **Employee benefits**

#### **Short term obligations**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

#### Long term obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

# **Incentive plans**

The Group recognises a liability and an expense for short and long term cash incentives based on a formula that takes into consideration financial performance metrics for the Group as well as the eligible employees' personal performance indicators.

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### **Share-based payments**

#### Employee Long Term Incentive Plan (including the Chief Executive Officer Long Term Incentive Plan)

The fair value of Share Rights granted under the Ricegrowers Limited Employee Long Term Incentive Plan is recognised as an employee benefits expense with a corresponding increase in equity.

The total amount expensed is determined by reference to the fair value of the Share Rights granted excluding the impact of any service and non-market performance vesting conditions (e.g. Group financial and personal targets and remaining an employee of the Group over a specified time period). The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of Share Rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Employee Long Term Incentive Plan is administered by the Ricegrowers Limited Employee Share Trust, which is consolidated in accordance with the principles of consolidation of the Group.

#### **Employee Share Scheme**

Under the matching arrangement of the Ricegrowers Limited Employee Share Scheme, shares are issued by the Ricegrowers Employee Share Trust to employees for no consideration and these shares vest immediately on grant date. On this date, the fair value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.



The Employee Share Scheme is administered by the Ricegrowers Limited Employee Share Trust, which is consolidated in accordance with the principles of consolidation of the Group.

#### **Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits at the earlier of the following dates:

- When the Group can no longer withdraw the offer of those benefits; and
- When the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

#### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can reliably be estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the provision due to the passage of time is recognised as interest expense and any change in the underlying provision amount is recognised in the consolidated income statement.

# Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income.

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

#### **CONTINUED**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Ricegrowers Limited and its wholly owned Australian controlled entities have adopted the tax consolidation legislation.

As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Both the head entity and the subsidiaries will continue to recognise deferred tax balances.

All current tax balances will be assumed by the head entity.

Any deferred tax assets arising from unused tax losses and unused tax credits will also be recognised in the head entity.

#### **Investment allowances and similar incentives**

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in Australia or other investment allowances).

The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

# **Derivatives and hedging activities**

Derivatives, principally interest rate swap contracts and forward foreign exchange contracts, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities (fair value hedges); or
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Trading derivatives are classified as a current asset or liability.

#### **Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity.

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs.

The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within sales revenue.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as raw materials and consumable used in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### **Contributed equity**

Ordinary B Class shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as a result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Ricegrowers Limited as treasury shares until the shares are cancelled or reissued.

Where such B class shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Ricegrowers Limited.

Shares held as unallocated shares by the Ricegrowers Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

#### Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the year but not distributed at the end of the reporting period.

# **Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to B class shareholders of the company, excluding any costs of servicing equity other than B class shares
- by the weighted average number of B class shares outstanding during the financial year, adjusted for bonus elements in B class shares issued during the year and excluding treasury shares

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential B class shares, and
- the weighted average number of additional B class shares that would have been outstanding assuming the conversion of all dilutive potential B class Shares.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Amounts disclosed as revenue are net of returns, duties, trade allowances, rebates and amounts collected on behalf of third parties.

Sales revenue is recognised when the amount of revenue can be measured reliably, risks and rewards of ownership pass to the customer and it is probable that future economic benefits will flow to the entity.

# ANNEXURE A – OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES

#### **CONTINUED**

Revenue from the provision of grain storage and other services is recognised in the accounting period in which the service is performed.

#### **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

# 2 Changes in accounting policies

This note discloses the new accounting policies that have been applied from 1 May 2018, where they are different to those applied in prior periods.

1. AASB 9 Financial Instruments

#### Investments and other financial assets

#### Classification

From 1 May 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value; and
- Those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

#### **Debt instruments**

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments in the following measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely
  payments of principal and interest are measured at amortised cost. Interest income from these financial assets is
  included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised
  directly in profit or loss and presented in other income/expenses, together with foreign exchange gains and losses.
   Impairment losses are presented as a separate line item in the consolidated income statement; and
- FVPL: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/expenses in the period in which it arises.

#### **Equity instruments**

The Group subsequently measures all equity investments at fair value.

Changes in the fair value of financial assets at FVPL are recognised in other income/expenses in the consolidated income statement as applicable.

#### **Impairment**

From 1 May 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

#### **Derivatives and hedging**

#### Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income/expenses.

When forward contracts are used to hedge forecast transactions, the Group generally designates the full change in fair value of the forward contract (including forward points) as the hedging instrument. The gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through the use of inventory).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

#### **AASB 15 Revenue from Contracts with Customers**

#### Sale of goods

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to on-sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Goods are often sold with discounts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 to 60 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### **Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

# **CORPORATE DIRECTORY**

# **Registered office**

57 Yanco Avenue Leeton NSW 2075

## Website

www.sunrice.com.au

## **Corporate adviser**

Macquarie Capital (Australia) Limited 50 Martin Place Sydney NSW 2000

## **Australian legal advisers**

Addisons Level 12 60 Carrington Street Sydney NSW 2000

Nero Corporate Law MLC Centre 19 Martin Place Sydney NSW 2000

King & Wood Mallesons Level 61 Governor Phillip Tower 1 Farrer Place Sydney NSW 2000

Ashurst Level 11 5 Martin Place Sydney NSW 2000

## **Investigating accountant**

PricewaterhouseCoopers Securities Ltd One International Towers Watermans Quay Barangaroo NSW 2000

# **Auditor**

PricewaterhouseCoopers One International Towers Watermans Quay Barangaroo NSW 2000

# Tax adviser

PricewaterhouseCoopers One International Towers Watermans Quay Barangaroo NSW 2000

# **Share registry**

Link Market Services Limited Locked Bag A14 Sydney South NSW 1235

