

# NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

**RFM Poultry ARSN 164 851 218**

To be held on Thursday, 28 November 2019 at 11:00am (AEDT) at the offices of Rural Funds Management, Level 2, 2 King Street, Deakin, Australian Capital Territory, 2600.

This Notice of Meeting and the enclosed Explanatory Memorandum is issued by Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701) (**RFM**) as the Responsible Entity of RFM Poultry ARSN 164 851 218 (**RFP**).

## **THIS IS AN IMPORTANT DOCUMENT**

Please read the information in this document carefully. It is important that you either attend the Meeting or complete and lodge the enclosed proxy form.

If you will be attending the Meeting in person, please contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) from 8.30am to 5.00pm (AEDT), Monday to Friday, or email [investorservices@ruralfunds.com.au](mailto:investorservices@ruralfunds.com.au) prior to the Meeting.

# Important information

## Purpose of this document

This Explanatory Memorandum has been prepared by Rural Funds Management Limited ACN 077 492 838 (**RFM**) in relation to the Proposed Transaction for RFM Poultry ARSN 164 851 218 (**RFP**). RFM acts as Responsible Entity and manager of RFP.

A number of defined terms are used in this Explanatory Memorandum. These terms are explained in section 7.

Unless otherwise stated, all fees quoted in this Explanatory Memorandum are exclusive of Australian goods and services tax (GST) and all amounts are in Australian dollars.

## Not investment advice

The information contained in this Explanatory Memorandum does not constitute financial advice and has been prepared without taking into account the objectives, financial situation or needs of individuals (including financial and taxation issues). If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

## Disclaimer as to forward-looking statements

This Explanatory Memorandum contains certain “forward-looking statements”.

The forward-looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum, and generally may be identified by the use of forward-looking words, such as “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “should”, “could”, “may”, “target”, “predict”, “guidance” or “plan” or other similar words. Indications of, and guidance on, future earnings, distributions and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of RFM, RFP, and their officers, employees, agents and advisors, that may cause actual results to differ materially from those expressed or implied in any forward-looking statements. Those risks and uncertainties include factors and risks specific to the industry in which RFP operates, as well as general economic conditions, prevailing exchange rates and interest rates, and conditions in the financial markets. The historical performance of RFP is no assurance of RFP’s future financial performance. Actual events or results may differ materially from the events or results expressed or implied in any forward-

looking statement. RFM does not guarantee any particular rate of return or the performance of RFP, nor does it guarantee the repayment of capital from RFP or any particular tax treatment.

## Foreign jurisdictions

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions, and persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Explanatory Memorandum has been prepared in accordance with laws of the Commonwealth of Australia and the information contained in this Explanatory Memorandum may not be the same as that which would have been disclosed if this Explanatory Memorandum had been prepared in accordance with the laws and regulations outside Australia.

## Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the date of issue of this Explanatory Memorandum.

## Named parties

Although ProTen Pty Limited and Proten Investment Management Pty Ltd as trustee for ProTen Investment Trust (collectively, **ProTen Entities**) are named in this Explanatory Memorandum, they do not make, or purport to make any statement that is included in this Explanatory Memorandum and there is no statement in this Explanatory Memorandum that is based on any statement by the ProTen Entities. Further, the ProTen Entities expressly disclaim and take no responsibility for any part of this Explanatory Memorandum.

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# 1. Letter from the Managing Director

Dear Unitholder

On behalf of Rural Funds Management (**RFM**), the responsible entity and manager of RFM Poultry (**RFP**) (ARSN 164 851 218), I invite you to the meeting of Unitholders to be held at 11:00am (AEDT) on Thursday, 28 November 2019 at the offices of Rural Funds Management, Level 2, 2 King Street, Deakin ACT 2600 (**Meeting**). If you cannot attend the meeting in person, RFM encourages you to vote by proxy.

In recent years, construction of new poultry farms has increased the supply of shed capacity nationally. This additional capacity has negatively impacted RFP, causing a significant financial loss in the year ended 30 June 2019 and a forecast loss for the year ending 30 June 2020.

Additional operating costs and lower revenue have led to a significant financial loss in the financial year ended 30 June 2019. It is probable that large losses will continue. Longer term, the expiry of multiple RFP chicken growing contracts (**Growing Contracts**), beginning in December 2023, will cause the business scale to decline.

Given these adverse business conditions, RFM as responsible entity of RFP, has entered into agreements to sell all of RFP's poultry assets to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (**ProTen**), who will then take over all RFP farming operations. Simultaneously, ProTen will also acquire the farms currently leased to RFP.

RFM is seeking the approval of Unitholders to sell all of RFP's poultry assets to ProTen and to terminate the Leases and the Growing Contracts upon completion of the sale. RFM will then distribute final cash assets to Unitholders as part of an orderly wind-up process. Provided the Resolution is passed by Unitholders, RFM expects to make a capital distribution of \$0.80 per Unit to Unitholders, wind-up the Fund and subsequently de-list RFP from the NSX.

**The Directors of RFM believe the Proposed Transaction is in the best interests of Unitholders and recommend that you vote in favour of the Resolution.**

## YOUR VOTE IS IMPORTANT

This Notice of Meeting and Explanatory Memorandum contains important information in relation to the Proposed Transaction.

Please read this Notice of Meeting and Explanatory Memorandum carefully and in its entirety before making your decision and voting (whether in person, by corporate representative or by proxy) at the Meeting.

If you will be attending the Meeting in person, or have any queries about the Meeting, please contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) between 8.30am and 5.00pm (AEDT), Monday to Friday, prior to the Meeting.

Yours sincerely,



David Bryant  
Managing Director

## 2. Notice of Meeting

Rural Funds Management Limited (**RFM**), as responsible entity and manager of RFM Poultry (**RFP**) (ARSN 164 851 218), gives notice that a Meeting of the Unitholders will be held at:

**Time:** 11:00am (AEDT)  
**Date:** Thursday, 28 November 2019  
**Location:** Rural Funds Management Limited  
Level 2, 2 King Street, Deakin ACT 2600

Additional information concerning the proposed Resolution is contained in the Explanatory Memorandum that accompanies this Notice of Meeting. The business to be considered at the Meeting is as follows:

### **BUSINESS OF THE MEETING**

#### **1. Change to nature or scale of activities (Resolution)**

To consider and, if in favour, to pass, with or without amendment, the following as an ordinary resolution:

*'That, for the purposes of NSX Listing Rule Chapter IIC 6.42(ii) and for all other purposes, approval be given for a change to the nature and scale of RFP's activities arising as a result of the Proposed Transaction, on the terms and conditions set out in the Explanatory Memorandum.'*

Dated this 28 October 2019

By order of the Board



Emma Spear  
Company Secretary  
Rural Funds Management Limited as responsible entity of RFM Poultry

# 3. Location of the Meeting and what you need to do

## LOCATION OF MEETING

Thursday, 28 November 2019 at 11:00am (AEDT) at the offices of Rural Funds Management, Level 2, 2 King Street, Deakin ACT 2600.

## WHAT YOU NEED TO DO

### Step 1: Read both the Notice of Meeting and Explanatory Memorandum

The enclosed Explanatory Memorandum is intended to provide Unitholders with information about the proposed Resolution contained in the Notice of Meeting. You should read the Explanatory Memorandum in full before making any decision in relation to the Resolution.

### Step 2: Vote on the Resolution

The Meeting will be held at 11:00am (AEDT) on Thursday, 28 November 2019 at the offices of Rural Funds Management, Level 2, 2 King Street, Deakin ACT 2600.

You can vote on the Resolution by attending the Meeting and voting in person (or for a body corporate, by a corporate representative voting for you) or by completing and returning the enclosed Proxy Form.

Proxy Forms must be received by the Registry by 11:00am (AEDT) on Tuesday, 26 November 2019. For details on how to complete and lodge the Proxy Forms, please refer to the instructions on the Proxy Forms.

# 4. Details of the Proposed Transaction

## 4.1 Overview of the Proposed Transaction

RFM Poultry (**RFP, the Fund**) leases 17 poultry farms located near Griffith, NSW, and Lethbridge, VIC (**the Properties**) from ASX-listed Rural Funds Group (**RFF, the Lessor**) (collectively, **the Leases**). The responsible entity of both entities is Rural Funds Management Limited (**RFM**).

In recent years, construction of new poultry farms has increased the supply of shed capacity nationally. This additional capacity has provided processors access to lower cost, more efficient facilities. This has negatively impacted RFP, as processors have requested cost reductions and required higher facility standards, which have imposed additional costs on RFP. Moreover, new poultry farms that are competing directly with RFP are achieving better growing results, causing discounts to RFP's growing fees.

Additional operating costs and lower revenue have led to a significant financial loss in the financial year ended 30 June 2019 (**FY19**). It is probable that large losses will continue.

Continuing forecast losses mean that the capital position of RFP is deteriorating and the ability of RFP to continue as a going concern beyond the current financial year is uncertain.

Longer term, the expiry of multiple RFP chicken growing contracts (**Growing Contracts**), beginning in December 2023, will cause the business scale to decline. For these reasons, RFM, as responsible entity of RFP, has concluded that it is in the best interests of RFP unitholders (**Unitholders**) to exit the poultry industry and wind-up RFP.

RFM, on behalf of RFP, has entered into agreements to sell all of RFP's poultry assets to ProTen Investment Management Pty Ltd ACN 124 095 030 as trustee for ProTen Investment Trust (**ProTen**), who will then take over all farming operations. Simultaneously, ProTen will also acquire the Properties currently leased to RFP. Refer to section 4.5 for details of these interdependent agreements.

Upon completion of the sale to ProTen both the Leases and the Growing Contracts will come to an end. After completion, RFM will distribute final cash assets to Unitholders as part of an orderly wind-up process and RFP will de-list from NSX.

The above constitutes the **Proposed Transaction**.

Pursuant to NSX Listing Rule Chapter IIC 6.42, the Proposed Transaction is considered a significant change to the nature and scale of RFP's activities and therefore requires the approval of the Unitholders.

It is currently estimated that settlement of the Proposed Transaction and wind-up of RFP may result in a total net cash surplus of approximately \$5.6m, or \$0.80 per Unit. If the Proposed Transaction is not approved by Unitholders, the realisation value at 30 June 2020 is forecast to be \$0.36 per Unit, which will continue to decrease over time due to ongoing losses. Refer to Table 7 for further details.

RFM considers the Proposed Transaction to be in the best interests of Unitholders.

## 4.2 Financial status of RFP

### Profitability

RFP has experienced diminishing profits over recent years, and in FY19, a substantial loss. Table 1 shows the declining profitability of RFP and the FY20 forecast loss. This is attributable to many factors that have been previously communicated to Unitholders and are further outlined at Table 2. RFM expects that these losses will continue until the expiration of the Growing Contracts.

**Table 1 – Historical and forecast profit and loss**

	FY20 <sup>2</sup>	FY19	FY18	FY17
<b>Operating profit/(loss) \$m</b>				
– before tax <sup>1</sup>	(1.83)	(1.97)	0.88	1.17
– after tax <sup>1</sup>	(1.83)	(2.00)	0.62	0.82
<b>Operating profit/(loss) \$ per Unit</b>				
– before tax <sup>1</sup>	(0.27)	(0.29)	0.13	0.17
– after tax <sup>1</sup>	(0.27)	(0.29)	0.09	0.12

1. Excludes the impact of the new lease accounting standard, AASB16 Leases, which became effective from FY20.

2. The FY20 forecast is based on the FY19 result, with adjustments made for variances reasonably expected. The forecast excludes \$0.2m break fees payable in the event that Unitholder approval is not received or waived as noted in section 4.5 and \$0.1m of other estimated transaction costs.



## Financial challenges

Table 2 illustrates some of the material contributors to RFP's financial performance over three financial years, and the increase in these expenses over that period.

**Table 2 – Material contributors to RFP's financial performance since FY17**

Cost	Comment	Increase FY17 to FY19	
<b>Repairs and maintenance</b>	RFP operates sheds that are up to 40 years old and require significant repairs and maintenance, increasing as they age.	\$0.39m	17%
<b>Labour costs</b>	At the processor's direction, Griffith operations changed from contractor managed to employee based, leading to an overall labour cost increase. More intense operational requirements have increased the need for labour and supervision.	\$0.85m	20%
<b>ERS penalties</b>	Many new poultry farms have been constructed in the Riverina region. RFP consistently attracts ERS penalties for performance, measured against its peers.	\$0.13m	29%
<b>Insurance</b>	Insurance premiums have increased.	\$0.19m	48%
<b>Drought-related costs</b>	Drought has driven up the price of water as well as the costs of materials and suitable substitutes, used for the growing of poultry.	\$0.25m	80%
<b>Changed operational requirements</b>	Higher costs including, as a result of processor operations requirements, new biosecurity protections and RSPCA accreditation.	\$0.27m	122%

RFM voluntarily halved its management fee for FY19, a saving to RFP of \$0.25m, and has committed to doing so again in FY20.

## Net asset value

As at 30 June 2019, the net asset value (**NAV**) of RFP was \$0.77 per Unit. The forecast NAV (excluding lease accounting adjustments) at 30 June 2020 is \$0.46 per Unit. Table 3 illustrates the actual and forecast decrease in Unitholder value.

**Table 3 – Historical and forecast balance sheet**

	30 June 2020 (Forecast) <sup>2</sup> \$m	30 June 2019 (Actual) \$m	30 June 2018 (Actual) \$m	30 June 2017 (Actual) \$m
<b>Total assets<sup>1</sup></b>	<b>4.2</b>	<b>7.0</b>	<b>9.3</b>	<b>9.2</b>
<b>Total liabilities<sup>1</sup></b>	<b>1.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>
<b>Net assets<sup>1</sup></b>	<b>3.1</b>	<b>5.3</b>	<b>7.7</b>	<b>7.8</b>
<b>Distributions paid (per Unit)<sup>3</sup></b>	<b>\$0.0000</b>	<b>\$0.0660</b>	<b>\$0.1005</b>	<b>\$0.1005</b>
<b>Units on issue</b>	6,884,416	6,884,416	6,884,416	6,884,416
<b>NAV per Unit</b>	\$0.46	\$0.77	\$1.12	\$1.13

## Distributions

In May 2019, RFM advised that RFP would not declare any further distributions in FY19. In August 2019, RFM advised that RFP will not declare or pay distributions in FY20.

It is uncertain whether RFP will have the ability to pay distributions again in the future. The forecast financials in this Explanatory Memorandum assume that no distributions will be paid, unless there is a wind-up of RFP.

## 4.3 Operational position of RFP

### Increase in operating expenditure not recouped through the growing fee

RFP has experienced significant changes to the level of expenses incurred over recent years. Until FY19, such additional costs, and increases in costs, were largely able to be absorbed by RFP; however, this is no longer the case.

Processors continue to obtain higher bird production numbers from each farm through more frequent and faster bird pick-ups. To achieve this, new procedures such as night pick-ups, faster placement timetables and reduced downtime between batches are all imposed on growers. Higher labour costs result, which are not able to be recouped through the growing fee paid to RFP.

1. Total assets, total liabilities and net assets values forecast for 30 June 2020 are stated without accounting for the new leases accounting standard, AASB16 which became effective from FY20. If the lease standard was applied for FY20, total assets would be \$73.1m, total liabilities would be \$71.6m and net assets would be \$1.5m.
2. The FY20 forecast is based on a forecast operating loss of \$1.83m (as shown at Table 1), \$0.2m of break fees payable in the event that Unitholder approval is not received or waived as noted in Section 4.5, \$0.1m of other estimated transaction costs, and no distributions paid or declared in the financial year.
3. Distributions were fully franked but are shown here exclusive of franking.

The cost of maintaining the poultry shed facilities, including repairs and maintenance costs, are borne by growers. However, the standards of these sheds are dictated by the processor. In addition, higher standards are regularly required by the processor to meet ongoing operational and biosecurity requirements.

There have also been some drought-related expense increases, such as temporary water purchases for the NSW farms and the cost of bedding materials at Lethbridge.

### **Expiration of Grower Contracts**

Grower fees in the existing Growing Contracts held by RFP are higher than would be achieved for a new contract in the current market. On this basis, RFM does not expect that RFP would be able to enter into new contracts on the same terms.

Growing Contracts on the oldest ten of RFP's 17 farms, representing 57% of bird-growing capacity, come to an end between December 2023 and June 2024. A further 12% of capacity terminates in 2026, and 12% in 2027. The remaining 19% terminates in 2036.

The expected non-renewal of the Growing Contracts of the older farms also warrants bringing forward the wind-up of RFP to a date before the expiry of the Growing Contracts, as RFP will increasingly lose scale and continue to incur further losses as these contracts expire.

### **Recruitment challenges**

Recruitment and retention of personnel has been an increasing challenge for RFP and its contractors. RFP has encountered difficulty sourcing skilled and experienced farm managers locally, and in some instances the services of external recruiters have been used to fill these roles. RFP incurs significant expense to use these services.

Farm hands have been sourced locally in most instances, but often turn over quickly. This is due to the physical demands of the roles and type of work performed. A contributor to recruitment and retention challenges is the age of some of the farms RFP operates, as well as the pressures of more exacting standards required by the processor and the increasing demand for poultry personnel in the region due to new farms.

Turnover this year is approximately 74% and is made up of almost equal numbers of employee resignations and employer-initiated terminations. High turnover results in increased hiring and training costs, as well as impacting productivity on farm and the morale of other staff.

## **4.4 What other options have been considered?**

RFM has considered other strategies for RFP.

### **Continue to operate**

If the Proposed Transaction is not approved by Unitholders and over time, forecast losses continue, RFP may not be able to pay its debts as and when they fall due. This will result in RFP becoming insolvent.

An insolvency event would be a terminating event under the Growing Contracts and the Leases. RFP would then need to commence a wind-up process.

### **Rent relief from the Lessor**

Table 4 details the concessions that RFP has negotiated with the Lessor in FY19 to enable the continued operation of RFP for the immediate future.

**Table 4 – Rental concessions negotiated by RFP in FY19**

Timing	Negotiated concession
July 2018	No CPI increase applied to rental payments for FY19
February 2019	Finance provided to fund water sanitation capex
March 2019	Funding of \$2.1m of rent-free capex over FY19 and FY20
August 2019	Timing of rental payments changed from quarterly in advance to quarterly in arrears for one year

The Leases each contain a clause enabling RFP to request a rent review on the grounds of a *material permanent change in the chicken growing gross margin*, which must be the result of a material adverse event. The Lessor and RFP are then obligated to negotiate in good faith, but there is no express entitlement for RFP to receive any reduction in rent.

In August 2019 RFP wrote to the Lessor to commence the rent review process. Further detail on the material permanent changes has been requested by the Lessor, and the concessions already given by the Lessor to RFP have been documented.

RFM believes that the Proposed Transaction and an exit from the poultry industry is in the best interests of Unitholders. For this reason and given the inherent uncertainty of the rent review process, it has been put on hold to give Unitholders the opportunity to consider and vote on the Proposed Transaction.

### **Redevelopment of the farms**

As previously indicated, it is expected that the Growing Contracts on the older farms operated by RFP will not be renewed.

Based on current market evidence, RFM expects that any new chicken growing contracts would be at significantly lower growing fees than the current contracts, but with more operational obligations imposed. There would be some cost savings from operating modern farms, however RFM expects that the overall profitability of RFP would not improve.

In addition, RFM expects that the contract terms (other than growing fee) for any new growing contracts would also be on lesser terms than is currently the case, which would increase the risks of reduced returns to Unitholders.

### **Sale of the assets subject to Leases and Growing Contracts**

Under this option, RFP would continue to trade, but with a different Lessor. As set out in this Explanatory Memorandum, RFM is pessimistic about the ability of RFP to continue to operate in the current climate, regardless of the Lessor.

RFM considers it in the best interests of Unitholders to exit the poultry industry. Implementation and approval of the Proposed Transaction is the best way to achieve this.

## 4.5 Key terms of the Proposed Transaction

The RFM Chicken Income Fund (**CIF**) owns 17 poultry farms near Griffith, NSW, and Lethbridge, VIC (**the Properties**). RFF owns all the Units on issue in CIF (**CIF Units**). RFF has agreed to the sale of all the CIF Units to ProTen (**CIF Sale Agreement**), through which and upon completion ProTen will become the owner of the Properties.

As part of the Proposed Transaction, RFP will sell to ProTen all its poultry assets, being plant and equipment and inventory used in the contract chicken growing business (**the Equipment**) to allow continued chicken growing operations on the Properties (**Sale Agreement**) by ProTen.

RFM has negotiated with ProTen a purchase price of \$3.85m, including a transaction premium of \$2.0m. This represents an increase on wind-up of \$0.29 per Unit and is contingent on the Proposed Transaction proceeding.

The Leases and the Growing Contracts will both come to an end upon the completion of the Sale Agreement and the CIF Sale Agreement. ProTen's new growing contracts with the processors will commence at completion.

### Conditions precedent

The Proposed Transaction is conditional on RFP Unitholder approval as required by the NSX Listing Rules (**Unitholder Approval**). If Unitholder Approval is not received or waived by Friday, 24 January 2020 (unless such date is extended by mutual agreement of the parties to the Sale Agreements) the Sale Agreements will terminate, although certain provisions will survive termination, including break fees, payable by RFP to ProTen. If Unitholder Approval is not received, a \$0.3m break fee is payable to ProTen if it is the result of a material breach of the Sale Agreements, or a \$0.2m break fee is payable to ProTen if there is no material breach of the Sale Agreements.

Other conditions precedent to settlement of the Proposed Transaction include:

- > documentation to affect transfer of various assets, including water rights attached to the land, be complete and ready for lodgement; and,
- > that the Growing Contracts have not been otherwise terminated pre-completion.

Settlement of the Proposed Transaction will take place 10 business days after satisfaction of the final condition precedent under the Sale Agreements. The Sale Agreement and the CIF Sale Agreement are interdependent and must complete simultaneously (i.e. if one sale agreement does not complete the other sale agreement is also unable to complete). Assuming Unitholders vote to approve the Proposed Transaction, RFM anticipates settlement of the Sale Agreements will occur in late 2019.

### Warranties

Warranties are provided to ProTen by RFP for a number of customary matters, including ownership of the Equipment and matters relating to RFP employees who transfer to ProTen. Various caps are made on the value and time periods for warranty claims. RFM does not currently believe there is any cause for a claim to be made under these warranties.

In order to allow for a prompt wind-up of RFP post-completion, these warranties will be guaranteed by RFM after the final distribution of RFP assets is made to Unitholders. No fee will be paid to RFM for this guarantee.

### Indemnities

Indemnities are provided to ProTen by RFP for a number of customary matters including losses resulting from breach of warranty.

A specific indemnity is provided by RFP to compensate ProTen for an increase to its workers compensation insurance premium for claims relating to an event prior to completion. This indemnity is capped at \$0.1m per year and survives for three years.

## 4.6 Impact and potential returns if the Proposed Transaction proceeds

If the Proposed Transaction is approved by Unitholders and implemented, the Leases and Growing Contracts will be terminated, and the RFP Equipment will be sold to ProTen. It is expected that most existing RFP employees will be offered continuing employment with ProTen, or alternatively will be made redundant.

RFP will then hold no assets other than cash and receivables and will be wound up in an orderly fashion. Capital will be returned to Unitholders proportional to their holding in RFP.

It is currently estimated that settlement of the Proposed Transaction and wind-up of RFP will result in a total net cash surplus of approximately \$5.6m, or \$0.80 per Unit.

Table 5 shows the impact of the Proposed Transaction, and wind-up costs, on the net assets of RFP.

**Table 5 – Impact of the Proposed Transaction on net assets**

Timing	Total \$m	Per Unit \$
<b>Net assets at 30 June 2019</b>	<b>5.3</b>	<b>0.77</b>
Redundancy and wind-up costs	(0.5)	(0.07)
Discount on sale of plant, equipment and inventory	(0.2)	(0.04)
Forecast operating loss (excluding lease accounting) – 1 July 2019 to 15 December 2019	(1.0)	(0.15)
<b>Pro forma book value as at 15 December 2019</b>	<b>3.6</b>	<b>0.51</b>
Transaction premium	2.0	0.29
<b>Potential distribution</b>	<b>5.6</b>	<b>0.80</b>

If the Proposed Transaction is approved RFM anticipates that two distributions would be made to Unitholders, the first of approximately \$0.70 per Unit in February 2020 and the balance prior to 30 April 2020.

**Table 6 – Timetable following Unitholder Approval of Proposed Transaction**

Event	Timing
Unitholder meeting	Thursday, 28 November 2019
Settlement	Thursday, 12 December 2019
Initial distribution (approx. \$0.70 per Unit)	prior to 29 February 2020
Final distribution (approx. \$0.10 per Unit)	prior to 30 April 2020

This timetable is indicative only and is subject to change.

## 4.7 Impact if the Proposed Transaction does not proceed

### Continued deterioration in investment value

If the Proposed Transaction does not proceed the value of your investment in RFP will continue to deteriorate. RFM forecasts that the realisation value of a Unit in RFP will be \$0.36 at 30 June 2020 (including realisation costs), compared to \$0.80 in the event of a wind-up following the Proposed Transaction.

Table 7 is a sensitivity analysis of the net assets of RFP if the vote is unsuccessful, the Proposed Transaction does not proceed, and RFP is not wound up in an orderly manner. Continued operation is forecast to further deteriorate NAV.

**Table 7 – Sensitivity analysis – Forecast net assets**

		15 Dec 19 \$m	31 Dec 19 \$m	30 Jun 20 \$m	31 Dec 20 \$m	30 Jun 21 \$m
Vote successful	Net assets	5.6				
Vote unsuccessful <sup>1</sup>	Net assets		3.9	3.1	2.5	1.9
Vote unsuccessful <sup>2</sup>	Distribution on wind-up		3.3	2.5	1.9	1.3
		15 Dec 19 \$ per Unit	31 Dec 19 \$ per Unit	30 Jun 20 \$ per Unit	31 Dec 20 \$ per Unit	30 Jun 21 \$ per Unit
Vote successful	Net assets (per Unit)	0.80				
Vote unsuccessful <sup>1</sup>	Net assets (per Unit)		0.57	0.46	0.37	0.28
Vote unsuccessful <sup>2</sup>	Distribution on wind-up (per Unit)		0.47	0.36	0.27	0.18

### Rent review

If the Proposed Transaction is not approved by Unitholders it would not proceed and RFM would progress a rent review process with the Lessor; however, there is uncertainty as to the outcome of this process. Further operating losses would be incurred during this process.

### Default on Leases

If Unitholder Approval is not received and RFP continues to operate, RFP may not be able to pay its debts as and when they fall due. RFP may then be unable to pay its Lease payments. RFP would therefore be in default and the Lessor would be entitled to terminate the Leases. The Growing Contracts will also have to be terminated as RFP will be unable to operate its poultry growing business without the Leases.

1. Net assets shown in the event of an unsuccessful vote include \$0.2m of break fees payable in the event that Unitholder approval is not received or waived as noted in section 4.5, \$0.1m of other estimated transaction costs, and exclude the impact of the new lease accounting standard, AASB16.
2. Distribution on wind-up subsequent to an unsuccessful vote includes approximately \$0.6m of wind-up costs, which would equate to approximately \$0.10 per Unit.

## Court application for wind-up

If Unitholder Approval is not received and the rent review process is ultimately unsuccessful, RFM may make a court application under section 601ND of the Corporations Act to wind-up RFP on a just and equitable ground. This is on the basis that RFP may be insolvent, or nearly so. The Proposed Transaction will not proceed under this scenario and returns to Unitholders would not include the \$0.29 per Unit transaction premium forecast under the Proposed Transaction.

## 4.8 The chicken growing industry

The chicken growing industry in Australia is changing, with both growers and processors becoming larger to achieve the economies of scale necessary for successful performance. Logically, as the number of farms in the Riverina region has increased, the relative market share of RFP has decreased. RFM believes that growing RFP operations is not viable in the current climate: no additional farms are available to be leased and RFF, the current lessor, will not be acquiring or constructing further farms that RFP could lease.

RFM began negotiations with ProTen Pty Ltd, the industry's largest grower, as the logical acquirer of these assets.

ProTen Pty Ltd was established in New Zealand in 1987 and entered the Australian market in 2002. ProTen Pty Ltd owns and operates a total of 300 poultry sheds across 20 broiler farms in New South Wales, South Australia and Western Australia. Twelve of these farms, including 196 sheds, are in the Griffith region.

The two largest Australian chicken processors, Baiada Poultry (**Baiada**) and Ingham Enterprises, have a combined market share of 70%<sup>1</sup>. RFP's growing contracts are with Baiada and Turi Foods, Australia's third largest processor with a market share of 4%.

## 4.9 Taxation

For tax purposes, RFP is a public trading trust and is therefore taxed as a corporate entity. Should the Proposed Transaction proceed, RFP will be subject to tax implications on sale of its poultry assets, including capital gains tax.

## 4.10 Why is Unitholder Approval being sought?

NSX Listing Rule Chapter IIC 6.42(ii) requires that the Unitholders of RFP approve the Proposed Transaction as it is a significant change to the scale and nature of RFP's activities.

The Resolution to approve the Proposed Transaction is an ordinary resolution and requires at least 50% of votes being cast in favour of the Resolution to succeed.

## 4.11 Financial impact to RFM

RFM is a Unitholder in RFP. The Proposed Transaction will have the following impact on RFM:

### Advantages

1. If the Proposed Transaction is approved, RFM will benefit as a Unitholder of RFP. RFM, like all Unitholders, will receive a final distribution of proceeds, which is expected to exceed the value that could be obtained by selling Units on the NSX or be made available through a standalone wind-up process.
2. RFM is a unitholder in RFF and will benefit indirectly as the funds received from the sale of the CIF Units are redeployed more effectively by RFF.

### Disadvantages

1. As responsible entity of RFP, RFM is entitled to an asset management fee equal to 5% of RFP's annual operating expenses. If RFP is wound-up, RFM will no longer receive this fee.

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1. Source: Australian Chicken Meat Federation (ACMF), viewed 25 October 2019, <<https://www.chicken.org.au/structure-of-the-industry/>>.



2. As responsible entity of RFF, RFM will receive reduced management fees as a result of the interdependent sale of the CIF Units by RFF.

## 4.12 Related party considerations

The Leases between RFP and RFF are related party transactions that have been in place since RFP was created. This relationship has been consistently disclosed, including in the RFP Product Disclosure Statement issued on 21 October 2013, prior to the listing of RFP on the NSX. The RFM Board has satisfied itself that the Leases are on commercial arm's length terms. The Leases will come to an end as part of the Proposed Transaction.

Related party holdings in RFP are disclosed at Section 4.13.

## 4.13 Directors' interests

### Rural Funds Management Limited (RFM)

Mr David Bryant, the Managing Director of RFM, owns 77.78% of the issued shares in RFM. Mr Guy Paynter, the independent Chairman of RFM, owns 4.09% of the issued shares in RFM. The remaining shares on issue in RFM are held by RFM staff.

Mr Michael Carroll and Mr Julian Widdup are independent Directors of RFM and do not hold any shares or have any financial interest in RFM.

### RFM Poultry (RFP)

RFM and Mr Bryant own 3.59% of the issued Units in RFP. Mr Paynter owns 0.31% of the Units on issue in RFP. RFF owns 1.58% of RFP.

Mr Carroll and Mr Widdup do not hold any Units or have any financial interest in RFP.

### Rural Funds Group (RFF)

RFM and Mr Bryant own 4.46% of the issued Units in RFF. Mr Paynter owns 0.46% of the Units on issue in RFF. Mr Carroll owns 0.02% of the issued Units in RFF.

Mr Widdup does not hold any Units or have any financial interest in RFF.

## 4.14 Timetable

DATE	EVENT
11:00am Tuesday, 26 November 2019	Latest date for receipt of Proxy Forms
7:00pm Wednesday, 27 November 2019	Date for determining eligibility to vote at the Meeting
11:00am Thursday, 28 November 2019	Meeting to be held to vote on the Proposed Transaction
Thursday, 28 November 2019	Date for advising Unitholders the results of the Meeting
Thursday, 12 December 2019	Implementation Date of Proposed Transaction

This timetable is indicative only and is subject to change.

# 5. Questions and answers

## 5.1 What is the purpose of this document?

The purpose of this document is to describe the terms under which approval is sought to significantly change the nature of your investment.

You should read it carefully and seek professional advice. Included in this package is a Proxy Form. RFM Investor Services can assist you with any queries you may have, or you may visit the RFM website at [www.ruralfunds.com.au](http://www.ruralfunds.com.au).

## 5.2 What are the requirements for the Proposed Transaction to proceed?

The Proposed Transaction requires RFP Unitholders to vote on one ordinary resolution. The ordinary resolution must be approved by 50% of the votes cast by Unitholders entitled to vote on the Resolution are in favour.

## 5.3 What resolution will be considered by Unitholders and how many votes are required to approve the Resolution?

RFP Unitholders must consider the ordinary resolution seeking approval to proceed with the Proposed Transaction.

If Unitholders do not approve the Resolution, the Proposed Transaction will not proceed.

For an ordinary resolution to be approved, it must be approved by at least 50% of Unitholders' votes cast at the Meeting either in person or by proxy.

## 5.4 What should I do if I want to vote on the Proposed Transaction?

RFM is encouraging all Unitholders to submit their vote on the Proposed Transaction. If you want the Proposed Transaction to proceed you should vote for the ordinary resolution at the Meeting, or by proxy.

If you do not want the Proposed Transaction to proceed you should vote against the ordinary resolution at the Meeting, or by proxy.

RFM believes that the Proposed Transaction is in the best interests of Unitholders.

## 5.5 If I vote against the Proposed Transaction and the Proposed Transaction is approved, what will happen to my investment?

If the Proposed Transaction is approved by Unitholders, it will proceed and the Equipment will be sold to ProTen and the Leases and Growing Contracts will come to an end. RFP will subsequently be wound-up and final distributions paid to you, representing the value of your investment.

## 5.6 Is voting compulsory?

Voting is not compulsory; however, RFM is encouraging all Unitholders to vote.

## 5.7 What are the consequences if the Proposed Transaction does not proceed?

If the ordinary resolution is not approved by Unitholders, the Proposed Transaction will not occur and there will be no change to the nature or scale of activities conducted by RFP. RFM would progress the rent review process with RFF; however, there is great uncertainty as to the outcome of this process. RFM may still need to wind-up RFP.

See Section 4.7 for further information on the consequences of the Proposed Transaction not proceeding.

There is no certainty around the solvency of RFP, should it continue to operate.

## **5.8 Who pays for the costs of the Proposed Transaction?**

The costs to carry out and implement the Proposed Transaction will be shared between the sellers, being RFF and RFP, proportional to the proceeds of sale derived from the transaction.

If the Proposed Transaction is not approved by Unitholders, costs incurred to that date will be paid by RFF and RFP, proportional to the forecast proceeds from the Proposed Transaction.

## **5.9 What happens to RFP's listing on the NSX?**

If the Proposed Transaction is approved by Unitholders and proceeds, RFP will be wound up in an orderly manner and will no longer be listed on the NSX.

If RFP is no longer listed on NSX, you will not be able to trade your RFP Units on market (and the market for Units is likely to be illiquid).

## **5.10 Will RFM be eligible for a fee from RFP as a consequence of carrying out the Proposed Transaction?**

No, RFM is not entitled to any additional fees as a result of the Proposed Transaction. RFM is entitled to be reimbursed for costs incurred in implementing the Proposed Transaction.

RFM is entitled to be paid management fees up to the date of deregistration of RFP, as per the current Constitution. RFP is obliged to pay 5% of operating expenses as a management fee to RFM. This was voluntarily halved by RFP to 2.5% in FY19 and FY20. Following the termination of the Growing Contracts under the Proposed Transaction, the fees RFM would receive from RFP would be minimal.

## **5.11 Will RFP Unitholders be liable for Capital Gains Tax (CGT) on the date of the Proposed Transaction?**

The Proposed Transaction will impact Unitholders differently depending upon their individual circumstances. RFM encourages Unitholders to seek their own professional taxation advice.

## **5.12 Does ASIC have to consent to the Proposed Transaction?**

No. ASIC consent is not required.

## 5.13 Risks associated with the Proposed Transaction

Risk	Comment
Proposed Transaction does not proceed	There is a risk that the Proposed Transaction does not proceed for some reason, including a condition precedent to the Sale Agreements not being met. If this was the case, the documents would be rescinded.
Capital distribution on wind-up less than forecast	The forecasts provided in this Explanatory Memorandum are based on numerous assumptions and great uncertainty. The actual result could vary materially from this position and may result in a materially lower cash surplus being available for distribution to Unitholders.
Insolvency	There is a risk that a material and unexpected event results in RFP becoming insolvent before it can complete the Proposed Transaction.
Discontinued operations	There is a risk that an inability to continue to operate may eventuate due to turnover of staff. This may result from uncertainty around the Proposed Transaction, or markets conditions generally. There is a limited pool of staffing resources to recruit from and new employees may not be able to be found.
Disease and biosecurity risks	There is a risk that a significant disease event may affect the flock, increasing the forecast loss prior to completion of the transaction. Financial penalties may arise, which would impact the distribution available to be paid to Unitholders on wind-up of RFP.

# 6. Notes to the Notice of Meeting

## Voting exclusion statement

RFM will disregard any votes cast on the Resolution by RFM and any of its associates.

However, RFM need not disregard a vote if:

- > It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or
- > It is cast by the chair of the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the proxy sees fit.

## Quorum

The quorum for a meeting of members of RFM Poultry is at least two Unitholders present in person or by proxy, together holding at least 10% of all Units, at all times during the meeting.

## Entitlement to vote

The Board of RFM has determined that persons registered as Unitholders as at 7.00pm (AEDT) on Wednesday, 27 November 2019 will be entitled to attend and vote at the Meeting (subject to any applicable voting exclusion).

## Votes to be disregarded

Under section 253E of the Corporations Act, the responsible entity of a registered scheme and its associates are not entitled to vote their interest on a Resolution at a meeting of the scheme's members if they have an interest in the Resolution or matter other than as a member. The responsible entity and its associates may vote as proxies if their appointment specifies the way they are to vote, and they vote that way.

In any case, RFM and its associates will not be entitled to vote on the Resolution by virtue of the voting exclusion noted above.

## Majority required

As the Resolution is an ordinary resolution, it will be passed if at least 50% of the votes cast by Unitholders entitled to vote on the Resolution are in favour.

## Jointly held interests

If a Unit in RFP is held jointly and more than one Unitholder votes in respect of that interest, only the vote of the Unitholder whose name appears first in the register of members counts.

## Voting procedure

Voting on the Resolution will be determined on a poll (rather than on a show of hands). Unitholders who are entitled to vote on the Resolution will have one vote for each interest they have in RFP.

On a poll a Unitholder entitled to two or more votes does not have to exercise its votes in the same way and does not have to cast all its votes.

## Voting

You can ensure your vote is cast in one of two ways:

- > Attending the Meeting and voting in person, or, if you are a corporate Unitholder, by a corporate representative voting for you; or
- > Appointing a proxy to attend and vote for you, using the enclosed Proxy Form and lodging your Proxy Form under the procedures described under “Proxy forms” below.

## Proxies

If a Unitholder is unable to attend the Meeting, the Unitholder may appoint a person (either an individual or body corporate) or the Chair of the Meeting to act as its proxy at the Meeting by completing the Proxy Form accompanying the Notice of Meeting.

Rural Funds Management Limited has appointed Ms Trudi Procter, Partner at McCullough Robertson Lawyers, to Chair the Meeting. Ms Procter, as Chair of the Meeting, has indicated she intends to vote all undirected proxies in favour of the Resolution. If a Unitholder appoints a body corporate as its proxy, the proxy will need to appoint an individual to act as its representative at the Meeting and send the authority to the Registry by 11:00am (AEDT) on Tuesday, 26 November 2019 or give it by hand when registering as a corporate representative.

If a Unitholder appoints two proxies, the Unitholder may specify the proportion or number of votes each proxy holder is entitled to exercise.

Where two proxies are appointed, and the appointment does not specify the proportion or number of the Unitholder votes, each proxy may exercise half of the votes. A proxy need not be a Unitholder.

Unless the proxy is required by law to vote, the proxy may decide whether or not to vote on any particular item of business. If the appointment of a proxy directs the proxy to vote on an item of business in a particular way, the proxy may only vote on that item as directed. Any undirected proxies on the Resolution may be voted by the appointed proxy as they choose, subject to the voting exclusions set out above.

## Proxy forms

The Proxy Form that accompanies this Notice of Meeting includes instructions on how to vote and appoint a proxy. To ensure that all Unitholders can exercise their right to vote on the Resolution, a Proxy Form is enclosed together with a reply paid envelope.

Proxy Forms should be completed and returned by no later than 11:00am (AEDT) on Tuesday, 26 November 2019.

The Proxy Form can be lodged as follows:

- > by mail using the reply paid envelope and posting it to:  
**Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia**
- > by emailing it to:  
**rfm@boardroomlimited.com.au**
- > by faxing it to:  
(within Australia) **(02) 9290 9655**  
(outside Australia) **+61 2 9290 9655**
- > in person:  
**Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000 Australia.**

## **Power of Attorney**

To sign under Power of Attorney, you must lodge the Power of Attorney with the Registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to your Proxy Form when you return it.

## **Companies**

Where the company has a sole director, who is also the sole company secretary, the Proxy Form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone.

Otherwise the Proxy Form must be signed by a director jointly with either another director or a company secretary. Please indicate the office held by signing in the appropriate place.

## **Corporate representatives**

A corporate Unitholder wishing to appoint a person to act as its representative at the Meeting must provide that person with an authority executed in accordance with the Corporations Act authorising them to act as the company's representative. The authority must be sent to the Registry by 11:00am (AEDT) on Tuesday, 26 November 2019 or given by hand at the Meeting when registering as a corporate representative.

A form of "Certificate of Appointment of Corporate Representative" may be obtained from the Registry. A corporate Unitholder may appoint a proxy.

## **Registration**

Registration will commence at 10:30am (AEDT) on the day of the Meeting, with the Meeting scheduled to begin at 11:00am (AEDT) on Thursday, 28 November 2019. For ease of registration, please bring your Proxy Form and Power of Attorney (if any) to the Meeting (as lodged prior to the Meeting).

# 7. Glossary

Term	Definition
Act or Corporations Act	<i>The Corporations Act 2001 (Cth)</i> and the <i>Corporations Regulations 2001 (Cth)</i> as amended from time to time
AEDT	Australian Eastern Daylight Time
RFP	RFM Poultry ARSN 164 851 218
ASIC	Australian Securities and Investments Commission
Baiada	Baiada Poultry Pty Limited ABN 96 002 925 948 the parent company of Bartter Enterprises Pty Limited ACN 000 451 374 with whom RFP holds Growing Contracts
Board	The board of directors of RFM
Business	The chicken broiler business conducted by RFP
Business Day	Any day on which banks are generally open for business in the New South Wales
CGT	Capital gains tax
CIF	RFM Chicken Income Fund ABN 68 869 474 700
CIF Sale Agreement	The sale agreement dated 26 October 2019 between ProTen, RFM as responsible entity of RFT, RFM as responsible entity of RFA and Australian Executor Trustees Limited as custodian of RFT
CIF Units	Units issued in CIF
CPI	The index published by the Australian Bureau of Statistics as the consumer price index for Sydney (or Melbourne, as applicable) for all groups or if that index is suspended or discontinued, its closest substitute as determined by Baiada in good faith
Directors	The directors of RFM
ERS	Efficiency rating system, a system under the growing agreements that measures the performance of poultry farms in the region and applies a premium (bonus) or discount (penalty) to the grower fee based on the relative performance
Explanatory Memorandum	This document which sets out the explanatory memorandum for the Proposed Transaction and accompanies the Notice of Meeting
Equipment	The plant and equipment located on the poultry properties included in the Proposed Transaction
FY19	The financial year ended 30 June 2019
Growing Contracts	The chicken growing agreements with Baiada and Turi
GST	As defined in the Goods and Services Tax Act
GST Act	<i>Goods and Services Tax Act 1999 (Cth)</i>
Leases	The lease of the Properties to RFP
McCullough Robertson Lawyers	McCullough Robertson Lawyers, Level 32, MLC Centre, 19 Martin Place, Sydney NSW 2000



Term	Definition
Meeting	The meeting of members of RFP to consider the ordinary resolution proposed in the Notice of Meeting
NAV	Net Asset Value of the Fund, unless stated otherwise
Notice of Meeting	The section of this Explanatory Memorandum which sets out the details for each Meeting
NSX	National Stock Exchange of Australia ACN 000 902 063
Proposed Transaction	Includes the sale by RFP of the Equipment to ProTen, the termination of the Leases and the Growing Contracts and the subsequent wind-up of RFP
ProTen	ProTen Investment Management Pty Ltd ACN 124 095 030 as trustee for ProTen Investment Trust
Proxy Forms	The form that accompanies this Explanatory Memorandum that provides for Unitholders in RFP to give voting instructions and appoint proxies for the Meeting
Resolution	The ordinary resolution being put to Unitholders at the Meeting to approve the Proposed Transaction
Responsible Entity	RFM is the responsible entity of RFP
Registry	Boardroom Pty Limited ABN 14 003 209 836
RFA	RF Active ARSN 168 740 805, ASX listed, stapled trading trust and related party of RFM
RFF	Rural Funds Group, a stapled entity consisting of RFT and RFA, listed on the ASX (ASX:RFF)
RFM, Manager, we or us	Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701)
RFP	RFM Poultry ARSN 164 851 218
RFT	Rural Funds Trust ARSN 112 951 578, ASX listed, stapled unit trust and related party of RFM
Sale Agreement	The sale agreement dated 26 October 2019 between ProTen, RFP and RFM
Sale Agreements	The CIF Sale Agreement and the Sale Agreement
Turi	Turosi Farming Pty Ltd ACN 626 773 126
Unit	A unit issued in RFP
Unitholders	Holders of Units in RFP

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