



Explanatory Memorandum

PROPOSED MERGER OF

RFM RiverBank

ARSN 112 951 578

RFM Chicken Income Fund

ARSN 105 754 461

RFM Australian Wine Fund

ARSN 099 573 485

AND LISTING ON THE AUSTRALIAN SECURITIES EXCHANGE OF

**RFM RiverBank to form the
Rural Funds Group (RFF)**

Issued by Rural Funds Management Ltd ACN 077 492 838
Issue Date: 21 October 2013

IMPORTANT INFORMATION

A number of words and terms used in this Explanatory Memorandum have defined meanings that appear in the Glossary of this Explanatory Memorandum. Words with defined meanings are capitalised.

This document is issued by Rural Funds Management Ltd ACN 077 492 838 (RFM), AFSL No. 226701 in relation to the merger of the Funds into the Rural Funds Group (RFF) and listing RFF on the Australian Securities Exchange (ASX). RFM acts as responsible entity of the Funds. For an explanation of the function of RFM refer to Section 7. This Explanatory Memorandum is dated 21 October 2013. It also intended that RFM Poultry (RFMP) be listed on the National Stock Exchange of Australia (NSX).

Neither ASIC, ASX or NSX nor their respective officers take any responsibility for the contents of this Explanatory Memorandum.

The fact that ASX may admit RFF to the Official List of the ASX and grant quotation of the Units is not to be taken as an indication of the merits of RFF or any investment in the Units.

The fact that NSX may admit RFMP to the Official List of the NSX and grant quotation of the Units is not to be taken as an indication of the merits of RFMP or any investment in the Units

This is an important document and requires your immediate attention. It forms part of, and should be read in conjunction with, the accompanying Notices of Meeting. If you are in any doubt as to what you should do, please consult your professional adviser.

It is important that you read and retain all documents you receive from RFM as they contain important information about the merger and listing of the Funds.

YOUR VOTE IS IMPORTANT

It is important that you vote on the resolutions. If you are unable to attend the Meetings in person, you should complete and return the proxy form accompanying the Notice of Meeting.

FORECASTS

This Explanatory Memorandum includes forecasts and statements regarding the Funds, including a path for growth. These forecasts have been based on RFM's current expectations of future performance.

These forecasts are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of RFM. Events may cause actual results, performance or achievements to differ materially from the future conduct, results, performance or achievements expressed or implied by the forecasts. For discussion of important risk factors, please refer to Section 11.

Neither RFM, their respective directors, officers or advisers, or any other person gives any representation, assurance nor guarantee that the occurrence or events expressed or implied including any of the forecasts in this Explanatory Memorandum will actually occur. Accordingly, Unitholders are cautioned not to place undue reliance on these forecasts. Investments are subject to investment risks, including possible delays in repayment and loss of capital. None of RFM, or its directors, officers or advisers, or their related entities guarantees any particular rate of return on Units, the performance of RFF or RFMP nor do they guarantee the repayment of capital.

NO INVESTMENT ADVICE

This Explanatory Memorandum contains important information but does not take into account your investment objectives, financial position or particular needs. Before making any decision based on information contained within this Explanatory Memorandum, you should consult a financial or other professional adviser.

OFFERING

No action has been taken to register this Explanatory Memorandum in any jurisdiction outside of Australia and New Zealand.

All financial amounts contained within this Explanatory Memorandum are expressed in Australian currency.

UPDATING INFORMATION

RFM will issue a supplementary Explanatory Memorandum if RFM becomes aware of any of the following between the issue of this Explanatory Memorandum and the date the RFF or RFMP's Units are quoted:

- a material statement in the Explanatory Memorandum is misleading or deceptive;
- there is a material omission from the Explanatory Memorandum;
- there has been a significant change affecting a matter included in the Explanatory Memorandum; or
- a significant new circumstance has arisen and it would have been required to be included in the Explanatory Memorandum.

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CHAIRMAN & MANAGING DIRECTOR'S LETTER

Dear Unitholder,

This document contains a proposal to merge the three Funds and create a property trust listed on the Australian Securities Exchange (ASX). This fund will be called the Rural Funds Group and have the ASX code: RFF. You are a member of at least one of the three Funds.

For convenience, this proposal to merge the three Funds and list on the ASX has been titled: 'Revaluation'.

Background to the RFM Funds

The three Funds were established between the years 2000 and 2005. They are illiquid Funds and there is currently no market for their Units.

While the majority of Unitholders do not currently wish to realise their investment, the absence of a market creates an illiquidity discount that is imposed on the value of your investment. Revaluation is being proposed to you, as a means of addressing this shortcoming.

Approximately 3.5% of Unitholders in the Funds are presently unable to realise their investment despite expressing their desire to do so. While you may not presently wish to sell your Units, a sale is inevitable at some point in time. The objective of Revaluation is to create a market for your investment.

The advantages of Revaluation include increased diversification of revenue, flexible borrowing facilities and better access to capital markets. An additional advantage is net cost reductions despite additional compliance costs associated with an ASX listing. The disadvantages of Revaluation include transaction costs, some dilution and the potential for RFF units to trade at a discount to their Net Asset Value. Refer to Section 5 and 11 of this document for further information.

An Independent Expert Report is included in this document and it should be read in full. The Independent Expert has concluded (on a control basis) the Merger is not fair but is reasonable.

The Rural Funds Group (RFF)

RFF will own a diversified portfolio of agricultural assets with a total value of \$235 million and will generate all of its revenue from lease rentals, rather than farm operations. The average weighted lease term of RFF's assets will be 14 years.

On Listing, current RiverBank Unitholders will own 37.1% of RFF, with CIF and AWF Unitholders representing 36.1% and 26.8% of RFF ownership respectively.

The RFM Directors intend to announce the record date of a Special Distribution of 2.05 cents per Unit immediately after Listing. Subsequently, whilst distributions are not guaranteed it is intended that RFF will pay quarterly distributions and for the 2014 financial year is forecast to pay a total of 8.2 cents per \$1 Unit. The assumptions underlying the forecast distributions are detailed in Section 9.

This Explanatory Memorandum has been provided to allow you to consider and vote on resolutions that will enable Revaluation.

Yours faithfully,



Guy Paynter
Chairman



David Bryant
Managing Director



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Executive Summary

1.1 REVALUATION

This Explanatory Memorandum contains a proposal to merge RFM Chicken Income Fund (CIF) and RFM Australian Wine Fund (AWF) with RFM RiverBank (Riverbank) to form one entity (Merger).

Once merged, RiverBank will be renamed as the Rural Funds Group and apply for listing on the Australian Securities Exchange (Listing). These two steps, the Merger and Listing in the Explanatory Memorandum are referred to as 'Revaluation'.

As a first step in the Revaluation process, and to ensure the risk profiles of each of the Funds are similar, it is necessary to ensure that there is no direct agricultural operating risk in any of the Funds. Both RiverBank and AWF lease out the assets that they own. This means that there is no direct agricultural operational risk associated with either of these entities.

In order to align CIF's risk profile with that of RiverBank and AWF, it is necessary to isolate any operational risk that CIF has exposure to. This is achieved by demerging CIF into two entities, with one entity owning the land and infrastructure and the other entity leasing and operating that land and infrastructure.

RFM has established RFM Poultry (RFMP) to be the entity that leases and operates CIF's assets. RFMP will hold the growing contracts with the chicken processor and be responsible for all operational matters. CIF will be the land and infrastructure owner and lease all assets to RFMP.

RFMP will be established with a transfer of \$6.8m from CIF, which represents approximately 13% of the total value in CIF. Only CIF Unitholders will receive units in RFMP. It is intended that RFMP units will be listed on the National Stock Exchange.

After considering numerous alternatives, Revaluation has been identified as the best solution for meeting the varying needs of Unitholders.

Since the global financial crisis, it is RFM's experience that the demand for equity investment in illiquid funds has reduced. This has limited options for providing investor liquidity and in turn created implications for the valuation of your investment.

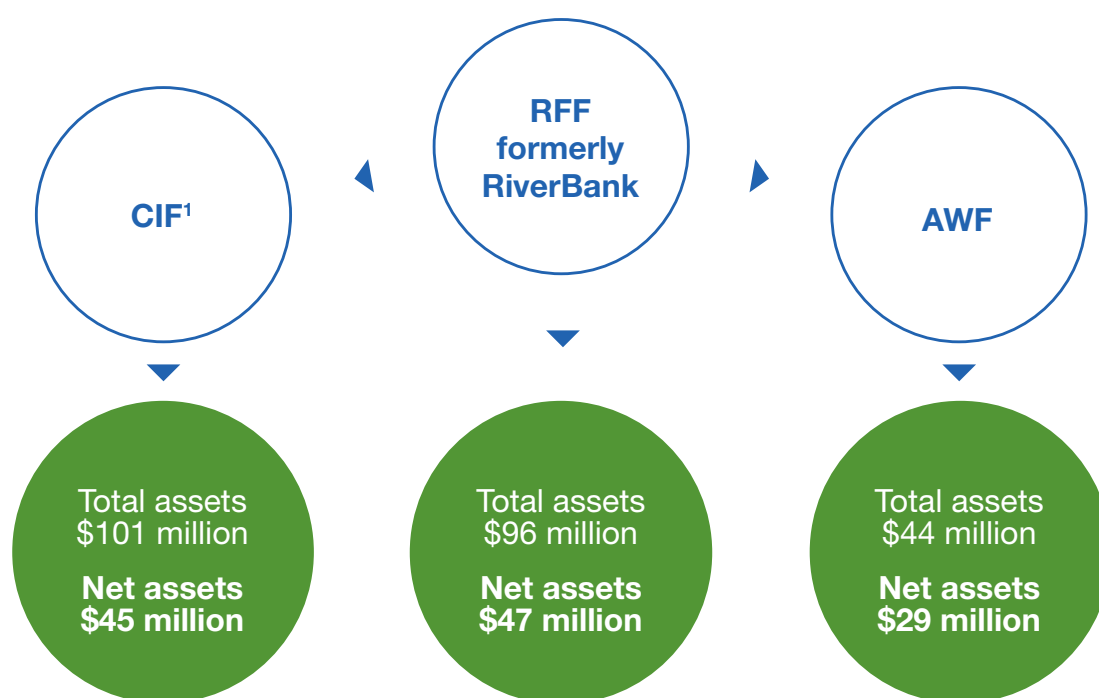
1.2 REASONS FOR REVALUATION

Liquidity

Revaluation will assist those Unitholders who may presently or at some point in the future, wish to realise their investment. Approximately 3.5% of all Unitholders by value in the Funds have registered their interest in selling Units. Despite this, during the calendar year 2012, arm's length sales of Units amounted to only 0.27% of the total of the three Funds. An objective of Revaluation is to provide a market for the sale and purchase of Units.

By merging the Funds and listing on the ASX, trading volumes are likely to increase substantially, compared to the current volume of off-market trading. As with any market, trading volumes will be dictated by the number of buyers and sellers. The value of a security traded on a market, is generally higher than the value that can be realised for an illiquid but otherwise identical security.

Figure 1.1: RFF as at Implementation Date



1 CIF total and net assets exclude the \$6.8 million of assets transferred to RFMP.

Figure 1.2: Unitholders registered as wishing to sell

Fund	% by value
RiverBank	1.7%
CIF	5.0%
AWF	1.3%
Combined	3.5%

Cost savings

RFM expects Revaluation will result in total cost reductions of approximately \$0.9 million per annum across the three Funds. This is a result of the reduction in the RFM management fee (\$0.3 million) and a reduction in fund overheads (\$0.6 million). For further details on fees please refer to Section 10.

Beyond this, a larger fund, supported by increased access to capital markets, is expected to enable further economies of scale, by spreading fixed costs across a larger asset base. The costs to carry out and implement Revaluation are estimated to be approximately \$3.2 million and will be shared between all Funds on a Net Asset Value basis. \$1.8 million of the forecast costs will be payable by the Funds if Revaluation is not approved, and the remaining \$1.4 million will be incurred after the meetings

and only if Revaluation proceeds. Please refer to Sections 5.2 (Transaction Costs) and 6.15.

Diversification

An important aspect of Revaluation is the management of risk. RFF will derive its revenue from owning and leasing agricultural assets, rather than owning and operating them. In addition, by merging the three Funds, you will have a more diversified investment.

Access to capital

In recent years raising equity for RFM funds has only been possible at significant discounts to net asset value. This has been driven by investor concerns regarding the limited ability for them to realise their investment. By listing on the ASX, RFF will simultaneously address the issue of investor liquidity and gain access to a much larger capital market.

The borrowing facility negotiated for RFF is more flexible than that available for each of RiverBank, CIF and AWF. The loan to security ratio covenant (LSR) for RFF is 50% compared to 45% or less for CIF and AWF. Under the RFF facility there is no initial amortisation requirement, compared to a \$0.9 million per annum requirement in CIF.

The forecast peak LSR of RFF will be 41.1% and will be higher than the forecast peak LSR of RiverBank (40.5%) and AWF (29.0%), however, it will be lower than CIF (43.3%).

Illiquidity discount

Unit values have typically been recorded based on the Net Asset Value (NAV) per Unit of the underlying Fund assets. RFM has been advised that it is more appropriate to record Unit prices, based on their market value taking into account an illiquidity discount. Given the thin trading of Units, this value may be significantly lower than NAV. Revaluation has been proposed as a means of reducing this discount.

Approximately 0.27% of Units were traded off market during 2012 at a discount of 20%–30% to NAV. The Independent Expert has noted RFF could potentially trade on the ASX at a discount to NAV of between 15%–25%. If this is correct, the reduction in the illiquidity discount may be as little as 5%. CIF Unitholders should also refer to Section 12.4.

Recording the value of your Units is an important component of a disciplined investment process. In fact many Unitholders, such as superannuation funds, have a statutory obligation to do so.

Consistent cash flow

RFF will derive all of its revenue from leasing agricultural assets and for this reason it is expected to be classified as a REIT. RFF will not experience the volatility of earnings typically associated with agricultural businesses. This will enable RFF to pay regular distributions to Unitholders over the forecast period. Refer to Section 9 for further information.

Future growth

Growing the scale of RFF has two advantages. Firstly, acquisitions can increase returns per Unit. Secondly, entities with larger market capitalisation have higher trading volumes.

RFF's investment strategy is to generate lease rentals and capital growth from owning agricultural assets. Consistent with this strategy, RFF will consider the acquisition of additional assets that grow the quantum and diversity of RFF's earnings.

Figure 1.3: Potential Advantages and Disadvantages

Identified potential advantages and disadvantages	RiverBank	CIF	AWF
On a minority basis Revaluation is fair (refer IER Section 12.2(a))	✓	✓	✓
Forecast increase distributions for FY14 under Revaluation (refer IER Section 12.2(b))	✓	✓	✓
Forecast increase distributions for FY15 under Revaluation (refer IER Section 12.2(b))	✓	✗	✓
Forecast improved total return for Unitholders under Revaluation for FY14 (refer IER Section 12.2(c))	✗	✗	✓
Forecast improved total return for Unitholders under Revaluation for FY15 (refer IER Section 12.2(c))	✓	✓	✓
Lower Indirect Cost Ratio (management fees and costs) under RFF (refer IER Section 12.2(d))	✓	✓	✓
Improved financial and operating stability due to increased size under RFF (refer IER Section 12.2(e))	✓	✓	✓
Greater diversity of investment portfolio (refer IER Section 12.2(f))	✓	✓	✓
Improved liquidity as Unitholders are more likely to be able to sell their Units (refer IER Section 12.2(g))	✓	✓	✓
Potential cost savings through reduced management fees and economies of scale (refer IER Section 12.2(h))	✓	✓	✓
Access to funds (refer IER Section 12.2(i))	✓	✓	✓
Higher loan to asset value ratio as a result of Revaluation (refer IER Section 12.2(j))	-	-	✗
Higher interest cover ratio as a result of Revaluation (refer IER Section 12.2(k))	✓	-	-
Lower interest cover ratio as a result of Revaluation (refer IER Section 12.2(k))	-	✗	✗
Revaluation will result in a dilution of Unitholder ownership (refer IER Section 12.2(l))	✗	✗	✗
Under Revaluation Unit prices will be more volatile because units will be listed (refer IER Section 12.2(m))	✗	✗	✗
Transaction costs (refer IER Section 12.2(n))	✗	✗	✗
Loss of deferred tax assets (refer IER Section 12.2(o))	✗	✗	✗
Revaluation has taxation implications (refer IER Section 12.2(p))	✗	✗	✗

Key: ✓ advantage ✗ disadvantage

More details on each of the advantages and disadvantages are contained in Section 5.

1.3 WHAT CAN I EXPECT TO RECEIVE FROM REVALUATION?

Once the Merger is approved, Unitholders in CIF and AWF will exchange their units for Units in RiverBank, and RiverBank will be renamed the Rural Funds Group. RFM will apply to list the units of RFF on the ASX.

Figure 1.4 demonstrates the conversion of 1,000 RiverBank, CIF and AWF units to RFF Units using forecast values as at 1 October 2013. The value of RiverBank units is forecast to be \$1.49 as at the Implementation Date. For simplicity RiverBank units will be reset to the value of \$1.00 per unit. This will require the current Units in RiverBank to be divided into additional units.

The 'exchange rate' or merger ratio for Units between CIF and AWF, and RFF has been determined based on the financial statements of each Fund as at 30 June 2013, adjusted for the items set out in Figure 9.25 including the price at which RiverBank will acquire the assets in CIF and AWF. Refer also Figure 9.26 and Section 9. Section 2.3 of the Independent Expert Report comments on this aspect of Revaluation.

The Independent Expert Report is included in this document and it should be read in full. The Independent Expert has concluded (on a control basis) the Merger is not fair but is reasonable.

The exact number of RFF Units you will receive is set out in separate correspondence which accompanies this Explanatory Memorandum. CIF Unitholders will also receive units in RFMP. Please refer to Section 12 for further information regarding RFMP.

The value of Unitholdings for RiverBank will be diluted 7.4%.and CIF Unitholders will be diluted 5.5%. This decrease in value is attributable to RiverBank acquiring the AWF assets at higher than carrying value, the payment of the Special Distribution to all Unitholders, the loss of certain deferred tax benefits relating to taxation losses, the cost of stamp duty and other transaction costs.

Figures 1.5–1.7 provide a comparison of forecast returns for each of the Funds on a stand-alone basis and under Revaluation over various periods. The forecast returns contained in the Figures demonstrate that returns for RiverBank and CIF Unitholders will be lower during FY 14 due to the costs and minor dilution of Revaluation. Subsequent to this, the forecasts demonstrate that total returns from RFF will be higher in FY 15 than the stand-alone Funds. This trend in returns is an important attribute of RFF. Returns are calculated in accordance with FSC Standard 6, which requires the assumption that distributions are reinvested. Refer also Figures 9.25 and 9.26 and Section 9. All returns are franking inclusive.

Assumed distributions are based on available forecast cash after taking into account the funds operating, investing, and financing activities. The financing activities do not assume the actual reinvestment of any distributions.

Figure 1.4: Unit conversion calculator using forecast Net Asset Values as at 1 October 2013

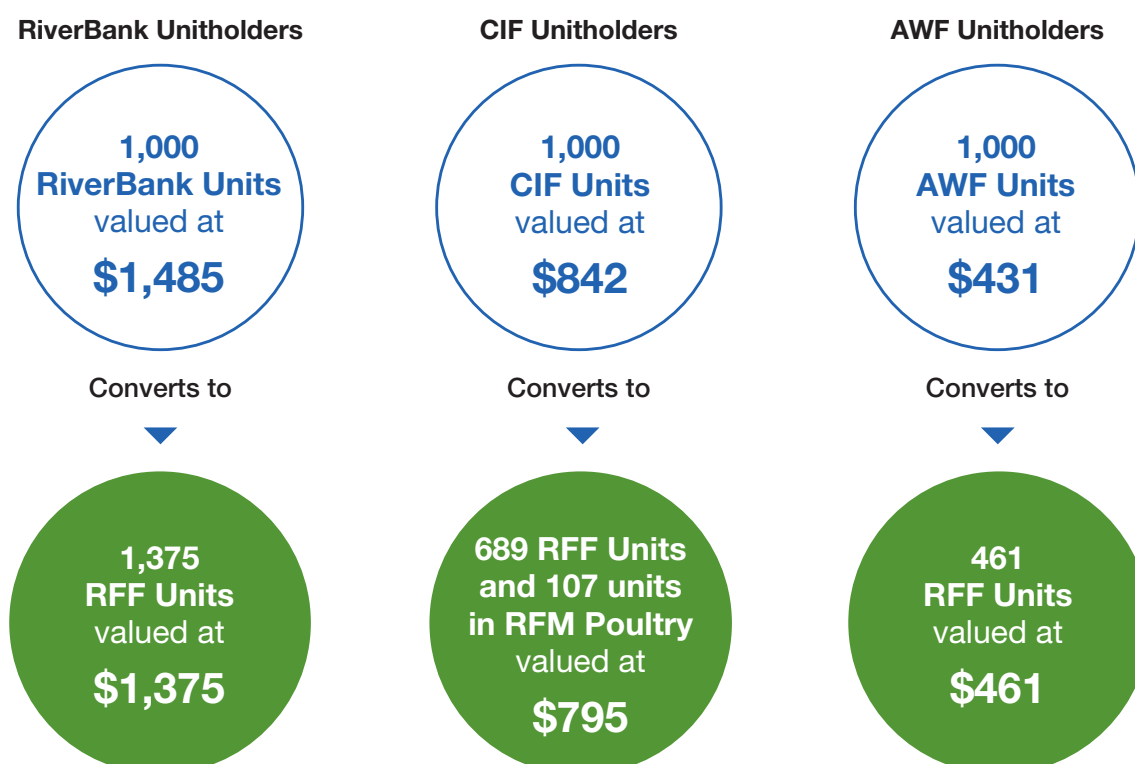


Figure 1.5: Comparison of RFF and stand-alone forecast returns for RiverBank

RiverBank % Returns ¹	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF²		
Distributions ⁴	7.81%	8.65%
Growth	-7.62%	0.46%
Total	0.19%	9.11%
Stand-alone		
Distributions ⁴	4.13%	5.48%
Growth	1.16%	2.08%
Total	5.28%	7.56%

Figure 1.6: Comparison of RFF & RFMP and stand-alone forecast returns for CIF

CIF % Returns ¹	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF (and RFMP)^{2,3}		
Distributions ⁴	8.21%	9.52%
Growth	-5.48%	0.55%
Total	2.73%	10.07%
Stand-alone		
Distributions ⁴	7.03%	11.37%
Growth	-2.19%	-4.49%
Total	4.84%	6.88%

Figure 1.7: Comparison of RFF and stand-alone forecast returns for AWF

AWF % Returns ¹	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF²		
Distributions ⁴	9.03%	8.65%
Growth	6.82%	0.46%
Total	15.86%	9.11%
Stand-alone		
Distributions ⁴	5.18%	4.80%
Growth	0.79%	1.60%
Total	5.97%	6.40%

Notes to Figures 1.5 to 1.7:

1. % returns are calculated in accordance with FSC Standards and assume reinvestment of distributions.
2. The RFF returns assume that Revaluation takes effect on 1 October 2013 and thus the 9 month period represented above is from 1 October 2013 to 30 June 2014.
3. RFF comparison to CIF includes returns from RFMP. See Section 12 and the RFMP Product Disclosure Statement dated the same date as this document.
4. Distributions are based on income derived from forecast operating cash flow and after consideration of capital requirements. The Special Distribution is paid from cash reserves held at commencement. The forecast assumes that the capital requirements of RiverBank and CIF are met. The underlying assumptions to these forecasts are contained in Section 9.

Based on the size and current market conditions for premium vineyard assets like those held by the AWF it is RFM's view the sale prices that could be achieved for the AWF assets would be comparable to their current book value. In addition, the market for premium vineyard assets has been depressed for some years and is now showing signs of recovery. This contrasts with the assets owned by RiverBank and CIF which are significantly larger in scale and thus would attract a smaller number of prospective buyers. For these reasons RFM considered the conversion rate for AWF Unitholders at a 15% premium to NAV appropriate.

1.4 IS RFF IN MY BEST INTERESTS?

It is RFM's view that RFF is in the best interests of Unitholders. Revaluation brings significant benefits to Unitholders, including:

- (a) **Liquidity:** Listing RFF on the ASX will provide you with the ability to sell your investment at a time of your choosing.

- (b) **Diversification:** Your investment will be diversified geographically, by industry and by lease counterpart.
- (c) **Reduced earnings volatility:** RFF will derive all of its revenue from leasing agricultural assets and thus investors will not experience the volatility of earnings typically associated with agricultural businesses.
- (d) **Lower costs and increased scale:** A larger fund enables economies of scale by spreading fixed costs across a larger asset base.
- (e) **Access to capital markets:** Since the global financial crisis, many illiquid funds have been unable to access equity markets. Listed and diversified funds have increased access to capital which can result in lower funding costs.

These benefits are further discussed in Section 5.1.

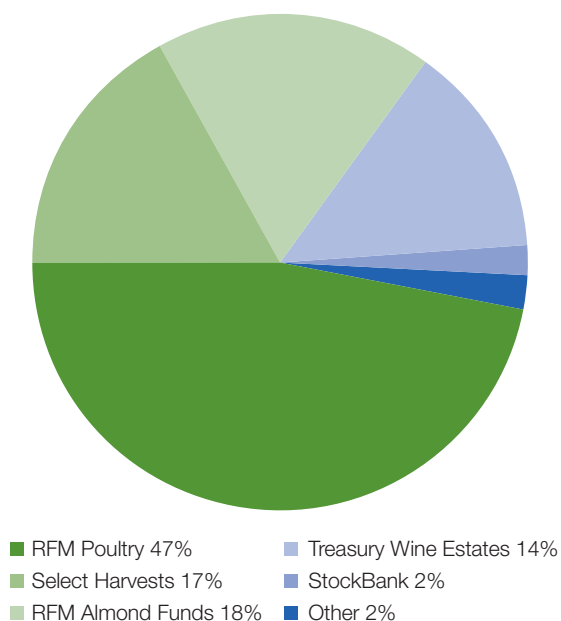
1.5 ABOUT THE RURAL FUNDS GROUP (RFF)

ASX Code	RFF												
Classification	RFM expects that RFF will be classified as a Real Estate Investment Trust (REIT)												
Principal business	Owning agricultural assets and deriving income from rental returns												
Forecast Distributions	<table><tr><th></th><th>Distributions per Unit (excluding franking)</th><th>Distributions per Unit (franking inclusive)</th><th>Annualised distributions yield (franking inclusive)</th></tr><tr><td>9 months ending 30 June 2014</td><td>8.20 cents</td><td>8.20 cents</td><td>10.9%</td></tr><tr><td>12 months ending 30 June 2015</td><td>7.15 cents</td><td>8.31 cents</td><td>8.3%</td></tr></table>		Distributions per Unit (excluding franking)	Distributions per Unit (franking inclusive)	Annualised distributions yield (franking inclusive)	9 months ending 30 June 2014	8.20 cents	8.20 cents	10.9%	12 months ending 30 June 2015	7.15 cents	8.31 cents	8.3%
	Distributions per Unit (excluding franking)	Distributions per Unit (franking inclusive)	Annualised distributions yield (franking inclusive)										
9 months ending 30 June 2014	8.20 cents	8.20 cents	10.9%										
12 months ending 30 June 2015	7.15 cents	8.31 cents	8.3%										
Earnings per Unit	9 months ending 30 June 2014 – 5.74 cents 12 months ending 30 June 2015 – 7.61 cents												
Operational cash flow per Unit	9 months ending 30 June 2014 – 6.89 cents 12 months ending 30 June 2015 – 9.28 cents												
Distribution payout ratio (Distributions per Unit divided by operation cash flow per Unit)	- Year ending 30 June 2014 – 90% (excluding Special Distribution) - Year ending 30 June 2015 – 90%												
Revenue sources	See Figure 1.8												
Occupancy rate	98%												
Average weighted lease expiry	14 years												
Net Asset Value	\$121 million												
Forecast loan security ratio	41.1% at Implementation Date 40.8% 30 June 2014 40.3% 30 June 2015												
Debt terms	5 year term 50% maximum loan security ratio - Interest cover ratio 2.5 times \$97.5 million outright limit - No amortisation												
Key risks	The key risks associated with RFF are: - Counterpart risk – an existing counterpart defaults on their contractual obligation - Takeover risk – RFM is replaced as responsible entity - Liquidity – the availability of buyers of RFF units - Decline in asset values – property prices fall - Property illiquidity – properties may take time to sell - Inflation – the uncertainty over the future real value of your investment - Details of these risks and others are contained in Section 11												

1.6 REVENUE SOURCES

Figure 1.8 sets out the RFF revenue sources for the financial year ending 30 June 2014.

Figure 1.8: RFF revenue sources



1.7 WHAT ARE THE REQUIREMENTS FOR REVALUATION TO PROCEED?

Revaluation requires Unitholders to vote on a number of resolutions. All resolutions must be approved in order for the Merger to proceed.

CIF and AWF Unitholders will be asked to consider Special Resolutions to approve the Merger into RiverBank. CIF Unitholders will also consider the establishment of RFMP, the entity that will lease and operate the poultry farms.

RiverBank Unitholders will be asked to consider an Ordinary Resolution to approve the Merger.

1.8 WHAT ARE THE CONSEQUENCES IF REVALUATION DOES NOT PROCEED?

If the resolutions are not approved, the Merger and Listing will not occur and there will be no change to the number and type of Units that you currently own and each of the Funds will continue to operate.

Illiquidity will make it highly improbable that Unitholders will be able to sell their Units in the Funds. RFM is prevented by law from maintaining a secondary market for your Units.

RFM believes that at present the majority of Unitholders wish to retain their investment in the Funds. However, at some point it is possible that a majority of Unitholders or RFM as Responsible Entity will resolve to windup the Funds. In that event, the assets of that Fund will be sold in an orderly manner and the net proceeds will be distributed to Unitholders.

Due to the illiquid nature of the three Funds, raising new capital will be difficult and thus it is unlikely that the Funds will grow significantly in the short to medium term.

The inability to raise capital means that any capital requirements of the Funds will need to be met within the Funds' current capital structure either by a reduction in distributions or through asset sales. Both RiverBank and CIF have debt repayment requirements and the details of how RFM intends to meet these repayments are set out in this section. The following capital requirements are applicable to each of the Funds on a stand-alone basis.

RiverBank capital requirements – stand-alone basis

The RiverBank banking facility provides for a maximum LSR of 50% and outright debt of \$38 million. Having recently sold 2808ML of groundwater, and suspended distributions, RiverBank is expected to be able to manage within these constraints whilst providing quarterly distributions of \$0.02 per unit commencing December 2013. RiverBank also plans to sell 949ML of high security surface water to provide additional financial capacity.

In the event that Revaluation does not proceed and RiverBank is unable to otherwise fund annual redemption offers, RFM is committed to selling assets to provide liquidity commencing in 2015 and every second year thereafter. In each of these years RFM's commitment is capped at 30% of RiverBank's assets.

CIF capital requirements – stand-alone basis

The CIF banking facility requires an annual repayment of \$0.9 million of debt commencing July 2014. This requirement will be met from the operating cashflow of CIF, and reducing distributions to 5.85 cents per Unit in FY 2014, and 9.14 cents per Unit in FY2015. CIF is also required to convert its poultry sheds to meet higher welfare standards adopted by Baiada. It is expected CIF will need to contribute \$500,000 to this conversion.

AWF capital requirements – stand-alone basis

AWF recently leased its vineyards to Treasury Wine Estates and no longer carries out grape production. This has unlocked working capital of \$5 million which may be used to reduce debt and/or make a distribution payment or redemption offer.



What you need to do

2.1 READ THE MATERIAL

You should read this material carefully as it is important to your investment and explains Revaluation.

2.2 FURTHER QUERIES?

After reading the material if you have any further queries in relation to Revaluation or your investment please contact your professional adviser, or call our Investor Services team on 1800 026 665 or email us at investorservices@ruralfunds.com.au.

2.3 VOTING ON REVALUATION

It is important that you consider and vote on the resolutions being considered at your Meeting. As contained in your Notice of Meeting, voting can be by either:

- (a) attending your Meeting; or
- (b) completing the proxy form so that it is received at least 48 hours prior to the commencement of your Meeting.

If you wish to attend the Meeting please advise RFM of your attendance by telephone 1800 026 665 or email investorservices@ruralfunds.com.au

The completed proxy form can be either:

- (a) mailed to:
Unit Registry – Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

- (b) delivered to:
Unit Registry – Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Australia

- (c) faxed to +61 2 9290 9655

- (d) emailed to rfmproxies@boardroomlimited.com.au

2.4 TIMETABLE

DATE	EVENT
48 hours prior to the commencement of the meeting	Latest date for receipt of proxy forms.
5.00pm on the Business Day before the Meeting	Date for determining eligibility to vote at the Meeting
18 November 2013	Meetings to be held to vote on Revaluation
19 November 2013	Date for advising Unitholders the results of the Meetings
25 November 2013	Implementation Date of Merger
10 December 2013	Units in RFF expected to be quoted on the ASX and Units in RFMP expected to be quoted on the NSX.

This timetable is indicative only and may be subject to change.



About Revaluation

3.1 PRESENT SITUATION

At present there are a total of 4,308 Unitholdings between the three discreet, sector specific Funds. All three Funds are classified under the Corporations Act as non liquid. This means that redemptions must be carried out as prescribed by the Corporations Act including a restriction preventing the offer of a redemption to any one Unitholder without offering it to all Unitholders.

The assets held by each of the Funds, which are described briefly below, are large scale and not readily or easily liquidated because of their size.

RiverBank assets are valued at approximately \$94 million and include almond orchards, water entitlements and plant and equipment located in New South Wales. The orchards are leased to Select Harvests and three RFM Almond Funds. There are 1,030 Unitholders in RiverBank.

The largest of the Funds is CIF with assets valued at approximately \$105 million. The assets of CIF include 13 poultry growing farms in New South Wales and four farms in Victoria, and an investment in RFM StockBank. CIF has long term growing contracts with Baiada, a poultry processor. There are 1,865 Unitholders in CIF.

The smallest Fund is AWF with assets valued at approximately \$37 million and 1,411 Unitholders. The assets include six vineyards located in South Australia, one vineyard located in Victoria, and a plant and equipment loan. The vineyards are leased to Treasury Wine Estates.

Figure 3.1 sets out the current assets of each of the Funds.

3.2 REVALUATION

Figure 3.2 illustrates the structure of RFF following the Merger. CIF and AWF Unitholders will be issued Units in RiverBank (to be renamed RFF) and RFF will be listed on the ASX.

3.3 RFM POULTRY

CIF Unitholders will be issued Units in RFM Poultry (RFMP). RFMP will be capitalised with funds transferred from CIF. RFMP will hold the chicken growing contracts and lease the poultry farms owned by RFF.

Further information about RFMP appears in Section 12 and has been provided to CIF Unitholders in the RFMP PDS.

3.4 CONDITIONS PRECEDENT

The Merger and Listing is conditional upon RiverBank, CIF and AWF Unitholders voting in favour of the resolutions.

Figure 3.1: RiverBank, CIF and AWF Funds – asset valuations as at 30 June 2013

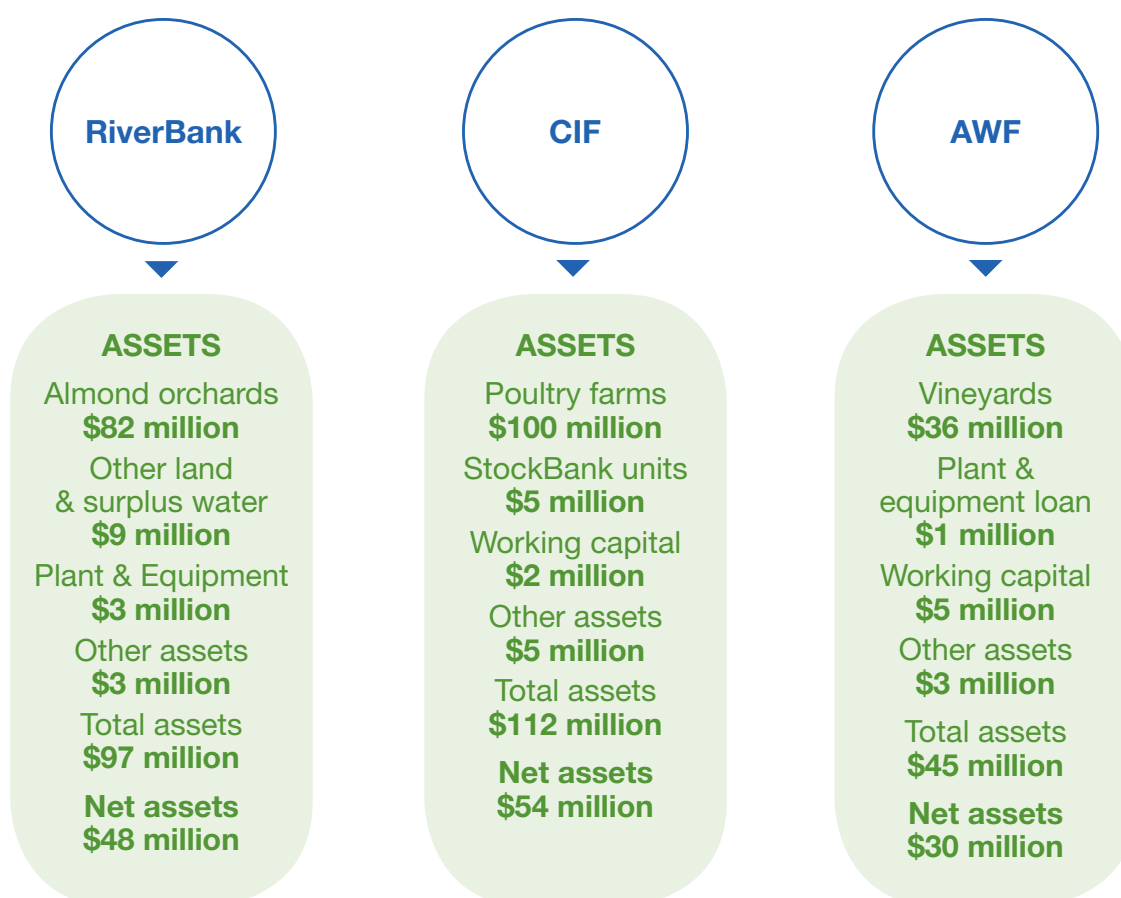
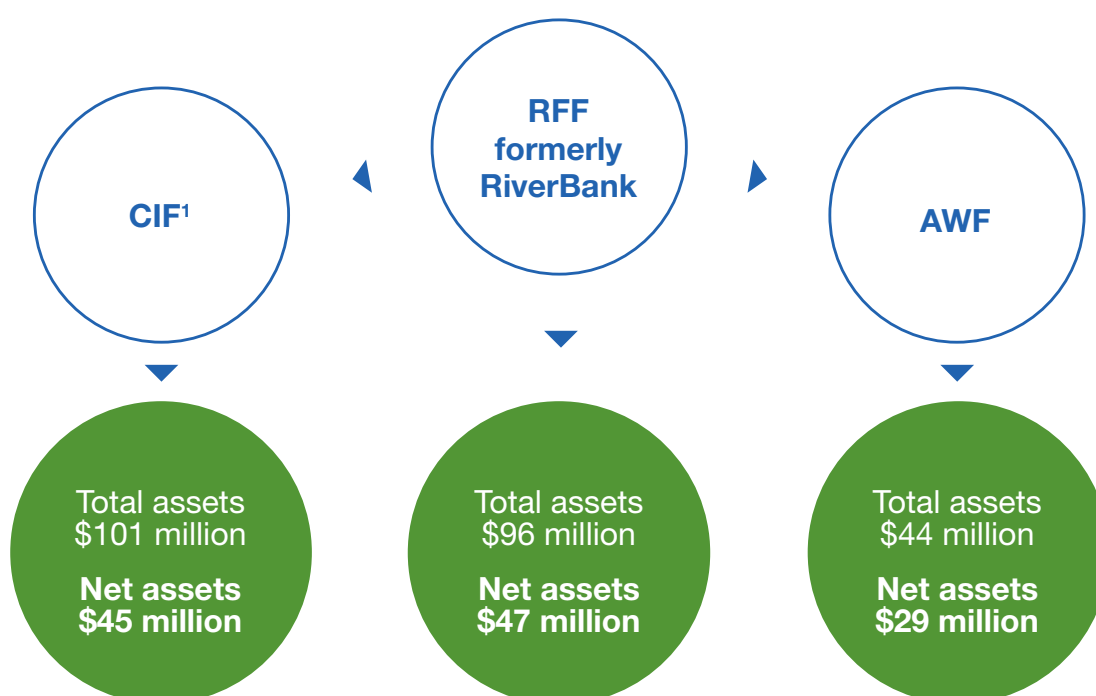


Figure 3.2: RFF as at Implementation Date



¹ CIF total and net assets exclude the \$6.8 million of assets transferred to RFMP.

3.5 FUTURE GROWTH OPPORTUNITIES

RFF is a rural property investor, not a farmer. It is also Australia's only diversified agricultural Real Estate Investment Trust (REIT), and one of very few commercial entities actively seeking to provide property leasing solutions to the Australian agricultural sector.

Australia's rural industries accounted for 2.4% of Australia's gross domestic product (GDP) in 2012, making it a smaller industry compared to mining (9.6%) and manufacturing (7.3%), though still an industry of substantial scale. The assets that contributed \$34 billion to GDP in that year were mainly owned by 93,000 farming families, managing 410 million hectares with an aggregate household net worth of \$121 billion. These statistics are evidence that the country's agricultural sector is very large but largely privately owned.

During 2012 investment in Australia's rural industries totalled \$16.2 billion. However due to the primarily private capital structure present in Australia's agricultural sector, this investment was largely financed by either bank debt or retained earnings. Compared to other industries then, Australia's rural industries lack access to alternatives sources of capital, such as equity investment or leasing.

RFF's investment strategy is to deliver leasing solutions to Australia's rural industries. In so doing it will generate

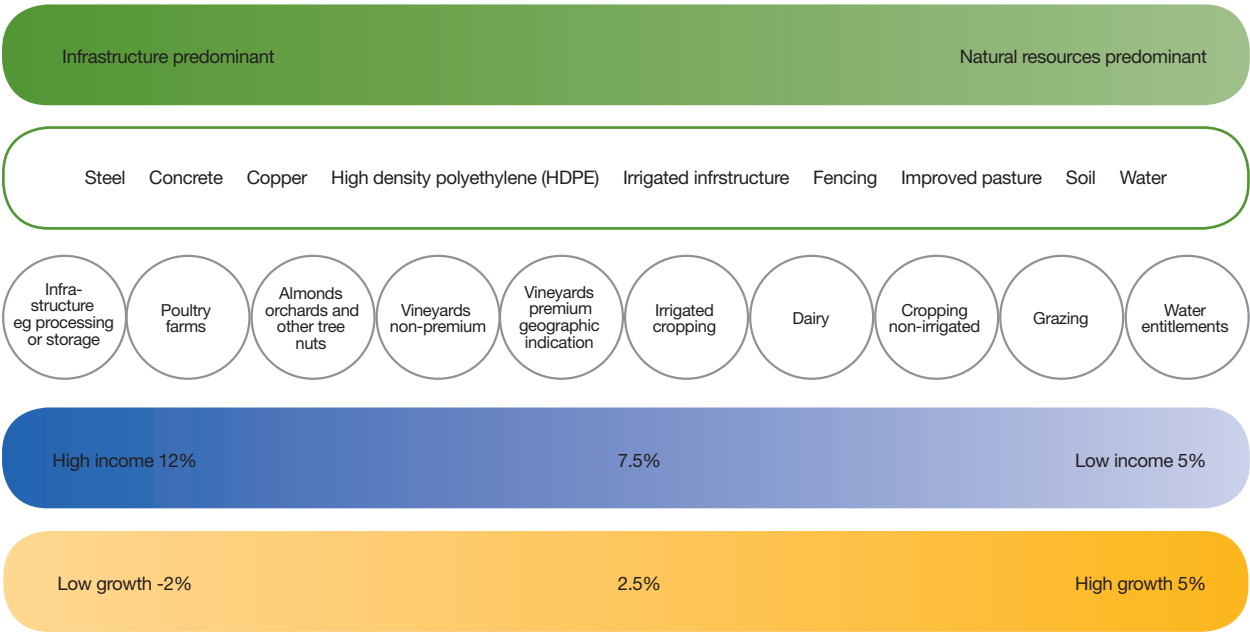
lease rentals and capital growth from owning and leasing out agricultural assets. Consistent with this strategy, RFF will pursue the acquisition of additional assets that grow the quantum and diversity of RFF's earnings.

Characteristics of the asset class

Figure 3.3 presents a range of assets currently operating in the Australian agricultural industry and sets them out along a continuum based on the relative level of natural resources embedded in their operations and therefore their capital value. At the left end of this asset continuum are infrastructure assets where natural resources have little presence, and therefore relevance to capital value. At the right end of the continuum, are assets where natural resources predominate and where values are highly influenced by the reliability and quantity of rainfall, and the water holding capacity of soils.

Figure 3.3 also illustrates the relative economic characteristics of the asset range. It notes that lease rates for infrastructure assets produce high initial yields, but asset values depreciate over time, as they approach the end of their useful life. By contrast, assets where natural resources predominate, produce low initial income yields but experience rental growth as productivity gains and the nominal value of the commodities these assets produce increase over time.

Figure 3.3: Australian Agricultural Industry Assets¹



1. The income and growth figures presented in Figure 3.3 have been provided to differentiate the profile of income and growth that can be derived from different assets. They are based on RFF's experience and observations of agricultural lease transactions and historical rates of growth. They are neither forecasts nor projections of future returns. Past performance is not a guide to future performance.

RFF's current portfolio of assets is weighted towards the left side of the continuum in Figure 3.3. It is this weighting that enables RFF to generate relatively high rental yields and hence distributions to Unitholders.

RFF's investment strategy is to invest across the full range of the asset continuum, whilst ensuring the asset mix continues to fund distributions consistent with current levels. RFF will acquire assets where natural resources predominate, because these assets can assist the growth of RFF earnings. In so doing, RFF will balance these lower yielding assets with acquisitions of infrastructure predominant assets that generate higher initial yields.

Where RFF acquires infrastructure type assets, they will be leased out to counterparties experienced in their operation. RFF will not operate infrastructure, nor take direct exposure to infrastructure risks.

Livestock Leasing

A significant portion of the capital stock of all businesses and industries is its working capital. In the agricultural sector, this includes plant and equipment, crops and livestock. For several years RFM has managed investments in livestock and RFF's initial asset portfolio includes a \$5m investment in livestock leasing.

Livestock leasing is an attractive alternative investment for RFF, because of its capacity to generate income from leasing and provide widespread diversification both by geography and counterparty. Because lease terms are typically three to nine months, this investment allocation provides a source of relatively liquid capital that can be realised for funding other long term investments when opportunities arise.

RFM utilises a network of stock agents and its own management to identify and analyse leasing opportunities. Livestock leasing is made possible by radio frequency identification tags in the case of cattle, and the ability to register ownership of all livestock with the national Personal Properties Securities Register.

Seasonal and market volatility generate price variation in livestock values and it is for this reason that RFF acquires additional protection from lessees. This protection may include an equity contribution by the lessee, additional security and full recourse for the payment of interest and principle.



RG46 Disclosure

4.1 INTRODUCTION

The ASIC Regulatory Guide 46 applies to registered unlisted property schemes in which retail investors have a direct or indirect investment. RiverBank is an unlisted property scheme as defined by RG46. Under RG46, RFM as the RE must report against six disclosure benchmarks

(benchmark reporting) and eight disclosure principles. RFM's benchmark reporting and disclosure will assist retail investors to analyse the relative risks and returns of an investment in RiverBank. The disclosures assume the members of RiverBank, CIF and AWF have voted to approve the merger of the three Funds.

Benchmark Reporting & Disclosure

Benchmark / Disclosure Principle	Compliance / Disclosure
Benchmark 1: Gearing policy The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.	Yes. RFM as RE maintains and complies with a written policy that governs the level of gearing. The policy stipulates that gearing of RFF should not exceed 50%, with a target ratio of 35%. A copy of the policy governing gearing can be obtained by contacting Investor Services.
Disclosure Principle 1: Gearing ratio Responsible entities should disclose a gearing ratio for the scheme calculated using the following formula: Gearing ratio = $\frac{\text{Total interest-bearing liabilities}}{\text{Total assets}}$	The gearing ratio of RFF after the Merger will be 41%. The gearing ratio demonstrates the extent to which RFF's assets are funded by interest bearing liabilities. It indicates the potential risk that RFF faces from increased interest rates or decreased property values. In RFM's view the RFF gearing ratio is appropriate given the current economic conditions.
Benchmark 2: Interest cover policy The responsible entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.	Yes. RFM as RE maintains and complies with a written interest cover policy that governs the level of interest cover. The policy stipulates that the interest cover ratio of RFF should not be less than 1.75 times earnings. In addition, RFF is required to comply with any interest cover covenant under the terms of RFF's credit limit facilities. A copy of the policy governing interest cover can be obtained by contacting Investor Services.

Benchmark / Disclosure Principle	Compliance / Disclosure
Disclosure Principle 2: Interest cover ratio The interest cover ratio gives an indication of an unlisted property scheme's ability to meet the interest payments from earnings. Responsible entities should disclose the scheme's interest cover ratio calculated using the following formula and based on the latest financial statements: $\text{Interest cover ratio} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$	The interest cover ratio of RFF is 2.94 times earnings. Interest cover demonstrates RFF's capacity to service interest payable on RFF's debts using its adjusted earnings. Interest cover is a critical indicator of RFF's financial position and of the sustainability and risks of RFF's debt level. In RFM's view, the interest cover is appropriate given the current economic conditions.
Benchmark 3: Interest capitalisation The interest expense of the scheme is not capitalised.	Yes. All interest costs are currently expensed in the profit and loss statement. RFF does not currently incur any interest costs that are required to be capitalised.
Disclosure Principle 3: Scheme borrowing If a scheme has borrowed funds (whether on or off balance sheet), responsible entities should clearly and prominently disclose details of the facilities. If borrowings and credit facilities will mature within 12 months, the responsible entity should make appropriate disclosure about the prospects of refinancing or possible alternative actions (e.g. sales of assets or further fundraising). If the responsible entity has no reasonable grounds for commenting on the prospect of refinancing or possible alternative actions, it should state this and explain why to investors: see Regulatory Guide 170 Prospective financial information (RG 170) at RG 170.91–RG 170.94. Responsible entities should explain any risks associated with their borrowing maturity profile, including whether borrowings have been hedged and, if so, to what extent. Responsible entities should also disclose any information about scheme borrowing and breaches of loan covenants that is reasonably required by investors. Responsible entities should update investors about the status of scheme borrowings and any breaches of covenants through ongoing disclosure.	Term loan: \$97.5m Maturity profile: no amortisation requirements for term of loan Facility termination date: 5 years from 1 October 2013 Loan to security ratio: • Covenant – 50% • Forecast on commencement – 41.1% • Forecast 30 June 2014 – 40.85% Interest cover ratio: • Covenant – at all times >2.25 times – if distribution lock-up <2.5 times • Forecast Interest Cover Ratio 30 June 2014 – 2.94 times Non-financial covenants: • Annual independent valuation • Financial reporting The loan facility will be secured by registered first mortgage over RFF's land holdings and a security interest registered over RFF's other assets. Various standard default and review events. At the commencement of the facility, interest rates will not be hedged. RFM intends to hedge up to 50% of the borrowings within 12 months of commencement. RFF is not in breach of any lending covenants under its current loan facility. Unitholders should note that money owing to RFF's financiers and creditors must be repaid in priority to money owing to Unitholders. RFM will update Unitholders on any material changes to borrowings or breaches of loan covenants.

Benchmark / Disclosure Principle	Compliance / Disclosure
Benchmark 4: Valuation policy The responsible entity maintains and complies with a written valuation policy that requires: (a) a valuer to: (i) be registered or licensed in the relevant state, territory or overseas jurisdiction in which the property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction; and (ii) be independent; (b) procedures to be followed for dealing with any conflicts of interest; (c) rotation and diversity of valuers; (d) valuations to be obtained in accordance with a set timetable; and (e) for each property, an independent valuation to be obtained: (i) before the property is purchased: (A) for a development property, on an 'as is' and 'as if complete' basis; and (B) for all other property, on an 'as is' basis; and (ii) within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.	Yes, RFM as RE maintains and complies with a written Asset Valuation Policy that requires: (a) the valuer to be registered or licensed; (b) the valuer to be independent; (c) procedures to be followed for dealing with conflicts of interest; (d) rotation of valuers every three years unless the Board considers there are special circumstances; (e) diversity of valuers based upon a pre-approved list, which is assessed annually; (f) valuations to be obtained in accordance with a set timetable; and (g) for each property an independent valuation to be obtained before a property is purchased and within two months after the Directors form a view that there is a likelihood that there has been a material change in the value of the property. RFF currently complies with this policy and a copy of this policy can be obtained by contacting Investor Services. All properties are valued on an 'as is' basis. RFF has no development properties.
Disclosure Principle 4: Portfolio diversification A responsible entity should disclose the current composition of the property scheme's direct property investment portfolio.	The composition of RFF's property investment portfolio is detailed in Section 8. RFF does not currently own any development or construction assets.
Benchmark 5: Related party transactions The responsible entity maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.	Yes. RFM as RE maintains and complies with a written policy on related party transactions. A copy of the RFM Conflict of Interest Management Policy can be obtained by contacting Investor Services.
Disclosure Principle 5: Related party transactions Responsible entities that enter into transactions with related parties should describe related party arrangements relevant to the investment decision.	Details of all related party transactions are set out in Section 13.3. The RFM Conflict of Interest Management Policy requires that all related parties be clearly identified and that all related party transactions be submitted to the RFM External Compliance Committee for review. RFM records all related party transactions in the Related Party Transaction Register. A copy of the RFM Conflict of Interest Management Policy can be obtained by contacting Investor Services.
Benchmark 6: Distribution practices The scheme will only pay distributions from its cash from operations (excluding borrowings) available for distribution.	Yes. Forecast distributions will be paid from cash from operations.

Benchmark / Disclosure Principle	Compliance / Disclosure
Disclosure Principle 6: Distribution practices If a scheme is making or forecasts making distributions to members, the responsible entity should disclose: (a) the source of the current distribution (e.g. from cash from operations available for distribution, capital, unrealised revaluation gains); (b) the source of any forecast distribution; (c) whether the current or forecast distributions are sustainable over the next 12 months; (d) if the current or forecast distribution is not solely sourced from cash from operations (excluding borrowings) available for distribution, the sources of funding and the reasons for making the distribution from these other sources; (e) if the current or forecast distribution is sourced other than from cash from operations (excluding borrowings) available for distribution, whether this is sustainable over the next 12 months; and (f) the impact of, and any risks associated with, the payment of distributions from the scheme from sources other than cash from operations (excluding borrowings) available for distribution.	RFM forecasts distributions to be paid quarterly as set out in Section 6.24. Recurring distributions are paid from operating cash flow and are considered to be sustainable over the forecast period subject to the assumptions and sensitivities set out in Section 9. There is a Special Distribution expected to be paid 45 days after merging and this distribution will be funded through opening retained earnings.
Disclosure Principle 7: Withdrawal arrangements If investors are given the right to withdraw from a scheme, the responsible entity should clearly disclose the circumstances surrounding those rights.	RFF is an illiquid registered managed investment fund and investors are only able to withdraw in response to a withdrawal offer or as the law otherwise permits. Once RFF is listed Unitholders will be able to trade their Units on the ASX.
Disclosure Principle 8: Net tangible assets The responsible entity of a closed-end scheme should clearly disclose the value of the net tangible assets (NTA) of the scheme on a per unit basis in pre-tax dollars. We consider that responsible entities should calculate the NTA of the scheme using the following formula: $\text{NTA per unit} = \frac{\text{Net assets} - \text{intangible assets} \pm \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$ The responsible entity should disclose the methodology for calculating the NTA per unit and details of the adjustments used in the calculation, including the reasons for the adjustments. Responsible entities should also explain to investors what the NTA per unit calculation means in practical terms and how investors can use the NTA per unit calculation to determine the scheme's level of risk.	The net tangible assets per unit is \$1.00 calculated on a pro forma basis as at Implementation Date. Unitholders should refer to Section 9 for further information.

Advantages & disadvantages

This section details the advantages and disadvantages of Revaluation that should be considered by Unitholders when deciding how to vote. Section 1 provides a summary of the advantages and disadvantages that are applicable to each Fund. This section provides more details on each of those advantages and disadvantages.

5.1 ADVANTAGES

Liquidity

Unitholders in the Funds have on average held their investment for 10 years. Whilst the majority of Unitholders have no immediate requirement for liquidity, all Unitholders will ultimately wish to realise their investment at some point in the future.

A key advantage of Revaluation is that your investment can be traded on the ASX. There are approximately 2,100 companies currently listed on the ASX. The largest listed entity is approximately \$119 billion in size and the smallest entity is less than \$0.5 million. Assuming RFF's capitalisation is similar to its net assets of \$121.4 million, RFF will be between the 500th and 600th entity by size.

Once listed, it is expected RFF will be classified as a REIT, and will be considered a 'small cap' stock. Analysis of small cap REITs indicates that the average trading volume of these entities was 19% for the calendar year 2012. As with any market, trading volumes will be dictated by the number of buyers and sellers.

In the absence of Revaluation, there are two ways of providing liquidity to Unitholders. The first is to sell some or all of the assets of a Fund and use the net proceeds to make a redemption offer. However, RFM estimates 90% of Unitholders do not currently wish to exit their investment. For this reason RFM would not be acting in the best interests of 90% of the Unitholders if it resolved to sell assets. Hence a liquidity deadlock exists between

Unitholders seeking to exit and those wishing to retain their investment.

In the absence of a redemption offer, and because Units in the Funds are not traded on a secondary market, the only remaining liquidity mechanism available to Unitholders is to sell their Units through an off market transfer.

RFM data on the volume of trades of this nature indicates that trading is extremely thin, thereby confirming the fact that Units in the Funds are very illiquid. Figure 5.1 sets out the volume and value of trades between arm's length parties in each of the Funds for the calendar year 2012. The data demonstrates that the liquidity of Units in the Funds is substantially less than the average liquidity of ASX small cap REITs.

The information in Figure 5.1 is not a forecast of the turnover that may occur in RFF.

Figure 5.1: Unit sales for 2012 compared to small cap REITs

Fund	No. of sales	No. of Unitholders	Turnover by value
RiverBank	3	941	0.41%
CIF	1	1,814	0.06%
AWF	2	1,403	0.04%
Small cap REITs	-	-	19.00%

As with any market, trading volumes will be dictated by the number of buyers and sellers.

Lower costs

RFM expects Revaluation will result in total cost reductions of approximately \$0.9 million per annum across the three Funds. This is a result of the reduction in the RFM management fee (\$0.4 million) and a reduction in fund overheads (\$0.5 million). The three Fund constitutions currently allow RFM to charge a higher management fee. Following the Merger, RFM will reduce its overall management fee and it is RFM's intention to keep management fees below their current level.

Beyond this, a larger fund, supported by increased access to capital markets, is expected to enable further economies of scale, by spreading fixed costs across a larger asset base.

Diversification

Diversification serves to reduce the volatility of an investment. By aggregating three sector specific Funds, your investment in RFF will have a diversity of agricultural sectors, geographic regions and counterparts as set out in Figure 5.2.

Figure 5.2: RFF sectors, regions and counterparts

Agricultural sector	Agricultural region	Counterparts	Revenue % FY 2014
Almonds	Riverina, NSW	Select Harvests	17.2%
	Riverina, NSW	RFM Farming	17.9%
Poultry	Riverina, NSW	RFMP	37.1%
	Western Districts, VIC	RFMP	9.3%
Winegrapes	Barossa, SA	Treasury Wine Estates	11.3%
	Adelaide Hills, SA	Treasury Wine Estates	1.6%
	Coonawarra, SA	Treasury Wine Estates	0.4%
	Grampians, VIC	Treasury Wine Estates	1.0%
Livestock	Various	Various landholders	2.3%
Olives, surplus water and land	Riverina, NSW	Various landholders	1.8%

Ongoing access to capital markets

Since the global financial crisis, many illiquid funds have been unable to access equity markets whilst simultaneously being required to reduce their level of debt. Illiquid funds therefore have very limited access to capital.

Limited access to capital imposes a cost on Unitholders, since debt terms may be less favourable and more expensive, and because the cost of equity is higher, as demonstrated by the dilution arising from the recent RiverBank and AWF capital raisings. While the Funds generally do not require additional equity, there is little capacity for contingencies. Revaluation addresses this shortcoming by improving access to capital markets. See Section 1.8 for further information about existing Fund requirements for capital.

Reducing the illiquidity discount

An illiquidity discount is typically applied to assets that cannot easily be sold. Reasons for the discount include the cost of bearing risk during the period that the asset cannot be sold, the cost of not having immediate access

to capital, and anticipation of the probability that the next buyer may apply similar discounts when valuing the asset. Put simply, where two assets are identical, the less liquid the asset, the lower its value.

Approximately 0.27% of Units were traded off market during 2012 at a discount of 20%–30% to NAV. The Independent Expert has noted RFF could potentially trade on the ASX at a discount to NAV of between 15%–25%. If this is correct, the reduction in the illiquidity discount may be as little as 5%. CIF Unitholders should also refer to Section 12.4.

Nevertheless an important aspect of Revaluation is its potential to unlock value for Unitholders, by increasing the marketability of their investment.

Consistent cash flow

RFF will derive all of its revenue from leasing agricultural assets and for this reason it is expected to be classified as a REIT. RFF will not experience the volatility of earnings typically associated with agricultural businesses. This will enable RFF to pay regular distributions to Unitholders.

Future growth

Growing the scale of RFF has two advantages. Firstly, acquisitions can increase returns per Unit. Secondly, entities with larger market capitalisation have higher trading volumes.

RFF's investment strategy is to generate lease rentals and capital growth from owning agricultural assets. Consistent with this strategy, RFF will consider the acquisition of additional assets that grow the quantum and diversity of RFF's earnings.

5.2 DISADVANTAGES

Volatility

Historically, the value of RiverBank, CIF and AWF Units has been recorded at NAV. Because the underlying agricultural assets have not been highly volatile the value of Units has exhibited very little volatility. Once listed, it is likely that Units in RFF will exhibit a higher level of volatility as their value will be influenced by additional factors including market sentiment. It is possible for a range of reasons including market sentiment, supply and demand and general economic conditions that the Units may trade below NAV.

Changes in profile

Your current Fund is sector specific. Following Revaluation, RFF Unitholders will own assets exposed to at least four agricultural sectors, being poultry, almonds, viticulture and livestock. It is possible that the performance of one or more of the assets, sectors or counterparts that comprise RFF may be different to the asset, sector or counterpart of your current investment or Fund.

The change in profile has a counterbalancing advantage in that this provides a diversified revenue stream, sourced from different locations and different lease counterparts.

Transaction costs

The costs to carry out and implement Revaluation are estimated to be approximately \$3.2 million and will be shared between all Funds on a Net Asset Value basis. \$1.8 million of the forecast costs will be payable by the Funds if Revaluation is not approved, and the remaining \$1.4 million will be incurred after the meetings and only if Revaluation proceeds. This is an estimate of costs and subject to change.

Further information about the costs of Revaluation is contained in Section 13.1.

Dilution

RiverBank and CIF Unitholders will have slightly lower values at the completion of Revaluation. This decrease in value is attributable to three major items being RiverBank acquiring the AWF assets at higher than carrying value, the cost to all three funds of stamp duty and other transaction costs, and the loss of carried forward deferred tax assets as set out below.

Loss of carried forward deferred tax assets

RFF will lose the benefit of \$1.9 million of RiverBank's income tax losses as a result of the change of ownership that will occur when RiverBank issues units to CIF and AWF Unitholders. These losses are recorded as a deferred tax asset of RiverBank and applied to offset deferred tax liabilities arising from the revaluation of RiverBank's assets.

Taxation implications for Unitholders

CIF and AWF Unitholders will be deemed to have disposed of their CIF and/or AWF Units in exchange for RFF Units. RFF has applied for a class ruling with the ATO to confirm that the exchange of CIF Units in return for RFF Units will qualify for rollover relief. CIF Unitholders should also refer to the taxation information in respect to RFMP contained in Section 12. The distribution applied to acquire RFMP units will be taxed partially as capital and partially as income. Rollover relief is not available to AWF Unitholders and therefore they will need to report this CGT event in their taxation returns. CGT rollover relief is not required for RiverBank Unitholders as RiverBank Unitholders are not exchanging any units, rather RiverBank is changing its name to Rural Funds Group (RFF).

ASX compliance costs

Once listed, RFF will have to ensure compliance to the ASX listing rules. This will result in a small amount of additional disclosure and an immaterial increase in compliance costs.

Potential disruption to asset allocation

Some Unitholders may question the merits of relinquishing an interest in a specific agricultural sector in exchange for Units in RFF.

Revaluation entails the exchange of your currently unlisted Units for securities listed on the ASX. While the acquisition of listed securities is contrary to the original intention of many Unitholders, this change must be weighed against the significant advantages that arise from Revaluation and the impact on your portfolio.



Questions & Answers

6.1 WHAT IS THE PURPOSE OF THIS DOCUMENT?

The purpose of this document is to describe the terms under which your managed investment will be restructured. You should read it carefully and seek professional advice. Included in this package is a voting 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.

6.2 WHY IS RFM RECOMMENDING REVALUATION?

RFM firmly believes the proposal is in the best interests of the Unitholders of the Funds. Revaluation brings the following significant benefits to Unitholders, including:

- (a) Liquidity;
- (b) Lower costs;
- (c) Diversification;
- (d) Ongoing access to capital markets;
- (e) Reducing the illiquidity discount;
- (f) Consistent cash flow; and
- (g) Future growth.

These are addressed in further detail in Section 5.1.

6.3 WHICH FUNDS ARE ELIGIBLE TO PARTICIPATE IN REVALUATION?

Unitholders in the following funds are eligible to participate in Revaluation:

- (a) RFM RiverBank (RiverBank)
- (b) RFM Chicken Income Fund (CIF)
- (c) RFM Australian Wine Fund (AWF)

If you have an investment in any or all of these Funds, it is recommended that you vote on Revaluation. All Funds need to approve Revaluation in order for it to proceed.

6.4 WHAT DO I RECEIVE IF MY FUND PARTICIPATES?

Unitholders in CIF and AWF will receive Units in RFF. RiverBank Unitholders will receive additional units as their units are reset to \$1 in value. Following this RiverBank will change its name to RFF.

CIF Unitholders will also receive Units in RFMP, a trust created to lease and operate the poultry farms owned by RFF. RFMP will be listed on the NSX. See Section 12 for further information about RFMP.

RFF will derive income from rental of land and infrastructure with an indicative value of \$228 million, and from leasing livestock and plant and equipment.

6.5 WILL REVALUATION DISRUPT MY ASSET ALLOCATION?

It is possible that RFF, like many listed securities will be less volatile than the general market. Factors that may assist this include the maintenance of moderate gearing and consistency of cash flow. Furthermore, agricultural commodities prices and land values have a historical negative correlation with the performance of equities markets.

These factors, combined with the relative size of your RFF investment within your portfolio, make it probable that RFF will not significantly increase the volatility of your portfolio.

6.6 HOW DOES REVALUATION COMPARE TO THE ALTERNATIVE OF SELLING ASSETS WITHIN INDIVIDUAL FUNDS?

One of the main aims of Revaluation is to provide Unitholders in the Funds with liquidity. An alternative solution is to fund a redemption offer through asset sales. In this instance, RFM could seek to sell underlying assets and then apply cash realised from these sales to a redemption offer.

This approach can create conflict between those Unitholders wishing to redeem their Units and those Unitholders wishing to continue with their investment. The primary reason for this conflict is that any reduction in scale does not trigger an equivalent reduction in the costs associated with operating the Fund. Thus reducing the size of the Fund results in higher ongoing costs for continuing investors. RFM has received advice from Unitholders representing 3.5% of total equity that they wish to sell their Units. Given this relatively low number, RFM believes the vast majority of Unitholders do not currently wish to exit their investment.

6.7 HOW DOES RFF COMPARE TO THE ALTERNATIVE OF WINDING-UP INDIVIDUAL FUNDS?

As noted above, the majority of Unitholders currently do not wish to exit their investment. As a result, RFM Directors currently have not considered the option of a full sale process for the three RFM Funds. However, in the unlikely event that a full sale process does need to be considered, RFM believes that the following factors will impact upon the value achieved:

- (a) There is currently a scarcity of institutional activity in the poultry farming industry and as a result a sale process may take over six to twelve months;
- (b) The assets owned by the three RFM Funds are enterprises of significant scale. This scale may ultimately narrow the number of buyers in any market;
- (c) Additional costs will be incurred as part of a sale process;

- (d) Given that the sale process may require a lengthy period of time, the market values as determined by the external valuers may have deviated and will be based upon market conditions prevalent at that time;

6.8 WHAT IS THE LONG-TERM INVESTMENT STRATEGY OF RFF?

Refer to Section 3.5.

6.9 WILL THERE BE AN EQUITY RAISING AS PART OF REVALUATION?

It is not intended to raise equity as part of Revaluation. RFM may undertake an equity raising in the future if appropriate. Proceeds from any equity raising may be used for investment acquisitions, or the reduction of gearing.

6.10 WHAT SHOULD I DO IF I WANT TO VOTE ON REVALUATION?

RFM is encouraging all Unitholders to submit their vote on Revaluation. If you want Revaluation to proceed you should vote "Yes" to the resolutions at the Fund meeting, or by proxy. If you do not want Revaluation to proceed you should vote "No" to the resolutions at the Fund meeting, or by proxy.

6.11 WHAT RESOLUTIONS WILL BE CONSIDERED BY UNITHOLDERS AND HOW MANY VOTES ARE REQUIRED TO APPROVE THE RESOLUTIONS?

Each of the three Funds must consider certain resolutions.

The CIF will consider one special resolution. The first part of this resolution seeks Unitholder approval to merge with RiverBank. The second part of this resolution seeks approval to establish RFM Poultry (RFMP), the entity that will lease and operate the poultry farms owned by CIF.

The AWF will consider a special resolution seeking Unitholder approval to merge with RiverBank.

RiverBank will consider an ordinary resolution seeking Unitholder approval of the merger with CIF and AWF.

In the event that any of the resolutions are not approved, Revaluation will not proceed. In the event that all resolutions are approved, Revaluation will proceed.

For the ordinary resolution to be approved, it must be adopted by at least 50% of Unitholders' votes cast at the meeting either in person or by proxy. For a special resolution to be approved, it must be adopted by at least 75% of Unitholders' votes cast at the meeting either in person or by proxy.

If the requisite number of Unitholders of each Fund do not support the resolutions, you will retain your current Unitholding.

6.12 IF I VOTE AGAINST REVALUATION AND REVALUATION IS APPROVED WHAT WILL HAPPEN TO MY INVESTMENT?

If Revaluation is approved by each of the Funds, you will hold Units in RFF, regardless of how you voted. If you are a Unitholder in CIF you will also receive Units in RFMP.

6.13 IS VOTING COMPULSORY?

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

6.14 HOW DO I VOTE IF I WANT REVALUATION TO PROCEED?

If you want Revaluation to proceed you should vote "Yes" to the resolutions at the Fund meeting, or by proxy. A proxy form is contained in this pack. Simply complete it and return it to RFM.

6.15 WHO PAYS FOR THE COSTS OF REVALUATION?

The costs to carry out and implement Revaluation are shared between all Funds prorata based on NAV. Further information about the costs of Revaluation are contained in Section 13.1.

6.16 WHAT PERFORMANCE FEE WILL BE PAID BY RFF TO RFM?

There is no performance fee paid by RFF to RFM.

6.17 WILL RFM BE ELIGIBLE FOR A FEE FROM RFF AS A CONSEQUENCE OF CARRYING OUT REVALUATION?

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

6.18 WILL UNITHOLDERS OF PARTICIPATING FUNDS BE LIABLE FOR CAPITAL GAINS TAX (CGT) ON THE IMPLEMENTATION DATE?

Revaluation will impact differently upon Unitholders depending upon their individual circumstances.

Unitholders should refer to the Taxation Report in Section 15 for further information.

6.19 WILL STAMP DUTY BE PAYABLE?

Unitholders will not be personally liable for stamp duty. However approximately \$700,000 of stamp duty will be payable by RFF. The final amount is subject to a determination in each relevant State jurisdiction where assets are held by the Funds.

6.20 DOES ASIC HAVE TO CONSENT TO REVALUATION?

No. ASIC has been requested to issue a series of exemptions and modifications, details of which are explained in Section 13.26.

6.21 HAS BANK FUNDING BEEN OBTAINED FOR RFF?

Yes. Following a competitive tender process, RFM has arranged a borrowing facility with a major Australian bank. See Section 9.6.

6.22 HOW DO I EXIT MY INVESTMENT IN RFF?

Once RFF is listed on the ASX you will be able to sell your investment in full or in part on the ASX. Securities on the ASX may be bought or sold using either a traditional full service stockbroker, or an online service.

Further information about trading on the ASX is available at www.asx.com.au

6.23 WHAT WILL BE THE DISTRIBUTIONS PAID BY RFF?

RFF is forecast to pay an annualised distribution yield of 10.9% for 9 months ending 30 June 2014 and 8.3% for the financial year ending 30 June 2015 franking inclusive.

6.24 WHEN WILL RFF'S DISTRIBUTIONS BE PAID?

RFM intends to announce a Special Distribution within 45 business days of merging. In addition it is forecast that RFF will pay regular quarterly distributions as set out in Figure 6.1.

RFF's distributions are based on the lease income that it receives from its tenants and the majority of these are on a calendar quarter. Distributions will be declared one month prior and paid one month after each calendar quarter and are expected to commence in January 2014. Distribution dates over the 21 months from commencement are detailed in Figure 6.1.

Figure 6.1: Distribution dates

Calendar Month	Declaration Month	Payment Month
December 2013	November 2013	January 2014
March 2014	February 2014	April 2014
June 2014	May 2014	July 2014
September 2014	August 2014	October 2014
December 2014	November 2014	January 2015
March 2015	February 2015	April 2015
June 2015	May 2015	July 2015

6.25 WILL RFF PAY ANY TAX DEFERRED DISTRIBUTIONS?

It is expected that RFF will pay a percentage of its future distributions as a tax deferred distribution. This percentage will be determined having regard to the relative amounts of net income and depreciation of fund assets at that time.

6.26 WHAT COST SAVINGS WILL RESULT FROM REVALUATION?

RFM expects Revaluation will result in total cost reductions of approximately \$0.9 million per annum. This is a result of the reduction in the RFM management fee, and a reduction in fund overhead cost due to increased scale. Beyond this, a larger fund, supported by increased access to capital markets, is expected to enable further economies of scale, by spreading fixed costs across a larger asset base.

6.27 WHAT IS THE PURPOSE OF THE INDEPENDENT EXPERT'S REPORT?

RFM, on behalf of the Unitholders, has obtained the opinion of an Independent Expert on whether Revaluation is fair and reasonable for Unitholders of each Fund.

The purpose of the Independent Expert Report is to provide guidance to Unitholders on the fairness and reasonableness of Revaluation. This report is prepared in accordance with ASIC guidelines.

The Independent Expert has reviewed Revaluation and concluded that (on a control basis) the Merger is not fair but is reasonable. Unitholders should read in full the Independent Expert's Report at Section 19 before deciding whether to vote for or against Revaluation.



About Rural Funds Management Ltd

7.1 PROFILE OF RFM

RFM is a boutique fund and asset manager specialising in the rural property sector. RFM was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets.

The RFM management team includes specialist fund managers, finance professionals, horticulturists, livestock managers, and agronomists. This team provides RFM with the specialised skills and experience required to manage the agricultural assets.

RFM also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced.

As Responsible Entity, RFM will have the primary responsibility for managing RFF on behalf of Unitholders. RFM's duties and responsibilities are governed by the Corporations Act and by the Constitutions of the Funds.

RFM is the Responsible Entity for ten agricultural investment funds. As at 30 June 2013 RFM had approximately \$308 million of agricultural assets under management in New South Wales, South Australia, Victoria, Tasmania, and Western Australia.

7.2 RFM BOARD OF DIRECTORS

The RFM Board of Directors comprises three members, two of whom are independent of RFM.

Guy Paynter LLB AICD

Non-executive Chairman

Guy Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy is also chairman of Aircruising Australia Limited.

Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.

Guy holds a Bachelor of Laws from The University of Melbourne.

David Bryant Dip FP MAGB

Managing Director

David Bryant established RFM in February 1997. Since then, David has led the RFM team that has acquired over \$300 million in agricultural assets across eight Australian agricultural regions. This has included negotiating the acquisition of more than 25 properties and over 60,000 megalitres of water entitlements.

David is responsible for leading the RFM Executive and sourcing and analysing new investment opportunities.

David holds a Diploma of Financial Planning from the RMIT University and a Master of Agribusiness from The University of Melbourne.

Michael Carroll BAgSc MBA

Non-executive Director

Michael Carroll serves a range of food and agricultural businesses in a board and advisory capacity. Michael is on the Boards of Queensland Sugar Limited, Warrnambool Cheese and Butter Limited, Select Harvests Limited, Sunny Queen Pty Ltd, and the Rural Finance Corporation of Victoria.

Michael also has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.

Michael holds a Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration (MBA) from The University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.

7.3 RFM EXECUTIVE MANAGEMENT

Stuart Waight

Chief Operating Officer

Stuart Waight joined RFM in 2003. Stuart is responsible for optimising the performance of the RFM funds, and analysing future developments, acquisitions, and investments. He oversees the asset and farm management activities undertaken by the National Managers of Poultry, Almonds and Cropping, and is responsible for the commercial and asset management of vineyards owned by AWF.

In addition, Stuart is responsible for the Corporate Services team incorporating Human Resources; Health, Safety, and Environment; Information Technology; Compliance; Office Management; and Insurance.

As a member of the Institute of Chartered Accountants Australia, Stuart brings to RFM extensive financial management experience in the accounting profession and in the commercial sector, including his role as a Chief Financial Officer of a publicly listed company with an annual turnover of \$500 million.

Stuart holds a Bachelor of Commerce (Accounting) from The University of Newcastle.

Andrea Lemmon

Executive Manager Funds Management

Andrea Lemmon has been with RFM since the company's commencement in 1997. Before joining RFM, Andrea was a partner at one of Canberra's largest financial planning firms. Andrea's strong financial planning background is an asset in assisting RFM in the design of its financial products.

Andrea is responsible for the development of new products, the continuous improvement of existing products, management of research activities, and the provision of services and communications to investors and advisers.

Andrea holds a Diploma of Financial Planning from Deakin University.

Melanie Doyle

Chief Financial Officer

Melanie Doyle joined RFM in December 2011, bringing over 20 years of experience working in a diverse range of industries including financial services and for a number of publicly listed companies. Melanie's experience includes roles as the CFO and Company Secretary for a global securities trading business operating in Australia, Asia, Europe and North America, and the CFO for a private equity company's investments.

As RFM's Chief Financial Officer, Melanie is responsible for the RFM Finance and Accounting team, which manages and reports on the financial performance of both the RFM business and the funds that RFM manages.

Melanie holds an Executive MBA from the University of Technology, Sydney and a Bachelor of Economics from the Australian National University, Canberra. Melanie is a Chartered Accountant and is a member of the Taxation Institute of Australia (Fellow). Melanie completed professional development programs at the Harvard Business School of Executive Education and the Wharton Executive Education Program at the University of Pennsylvania.

7.4 EXTERNAL COMPLIANCE COMMITTEE

RFM's External Compliance Committee (ECC) is responsible for monitoring RFM's compliance with:

- (a) the Corporations Act;
- (b) the Constitution of RFF; and
- (c) the Compliance Plan of RFF.

The ECC meets quarterly and must have at least three members. The majority of the ECC members must be external to RFM.

The broad functions of the ECC are to:

- (d) monitor RFM's compliance with the Compliance Plan and to report to RFM on the ECC's findings;
- (e) report to RFM any breach or potential breach of the Corporations Act involving the Funds of which the ECC becomes aware;

- (f) report to RFM any breach or potential breach of the Constitutions of the Funds of which the ECC becomes aware;
- (g) monitor and assess actions taken by RFM in respect of any breach of the Corporations Act or of the Constitutions of the Funds;
- (h) report to ASIC if the ECC is of the view that RFM has not taken, or does not propose to take, appropriate action to deal with a matter that the ECC has previously reported to RFM;
- (i) review related party transactions in accordance with the RFM Conflict of Interest Management Policy; and
- (j) assess whether the Compliance Plan is adequate, report to RFM on that assessment, and recommend to RFM any changes that the ECC considers should be made to the Compliance Plan.

7.5 MEMBERS OF THE ECC

Stuart Waight

Internal Member

See biography in Section 7.3.

Gary Ling

External Member

Gary Ling is a qualified lawyer with over 28 years of corporate law experience in banking law, securities and insurance law, and company secretarial practice. Gary has been an external member of the ECC since 2003.

Gary is currently a consultant with a prominent Sydney law firm specialising in superannuation law, financial services law, and insurance law. He is a member of a number of well recognised associations.

Previously, Gary held corporate legal and compliance roles at the Australia and New Zealand Banking Group Limited (ANZ) Funds Management, Tyndall, Tower Life, Mercantile Mutual, GIO, the ASX, and The Westpac Group.

Gary holds a Diploma of Law (Solicitors Admission Board) and a Diploma of Corporate Management from the Institute of Corporate Managers, Secretaries and Administrators. In 1982 Gary was admitted as a Solicitor of the Supreme Court of NSW. Gary is also an accredited mediator with the Lawyers Engaged in Alternative Dispute Resolution.

Janice Ryan

External Member

Janice Ryan was appointed as an External Member of the ECC in 2000. Janice's career spans accounting, superannuation, financial planning, and compliance. Through her varied career roles, Janice acquired solid understanding of the financial planning industry and tax and management accounting with particular emphasis on regulatory framework and requirements of managed investment funds, superannuation and corporate and multi-entity agriculture.

Janice has extensive experience in rural industries and currently operates grain and livestock enterprises in New South Wales.

Janice holds a Certificate of Superannuation Management from ASFA and has completed a number of continual professional development courses in accounting, superannuation and financial planning conducted by industry association.



About the Assets

8.1 INTRODUCTION

Once the Merger is complete, RFF (currently known as RiverBank) will control all the assets currently owned by RiverBank, and 100% of the issued Units in CIF and AWF (including the underlying assets of those Funds). RFF will derive income from leasing out these assets which have a total value of around \$236 million. RFF will remain the Responsible Entity of RFF, CIF and AWF.

8.2 RFF ASSETS

The RFF assets will consist of:

- (a) almond orchards and water entitlements currently owned by RiverBank;
- (b) poultry farms currently owned by CIF;
- (c) vineyards currently owned by AWF;
- (d) \$5 million of StockBank units currently owned by CIF; and
- (e) \$2.7 million plant and equipment currently owned by RiverBank.

Details of these assets are set out in this section.



(a) Almond orchards and water entitlements

The almond orchards and water entitlements are located at Hillston and are currently owned by RiverBank. Hillston is located 110 kilometres north west of Griffith in New South Wales. The orchards are leased to tenants who pay a regular rental. Details of those leases are set out in Figure 8.2. As at 30 June 2013 the Hillston orchards, land and water assets were independently valued at \$91.5 million. The following is a description of these assets.

(i) Yilgah

Yilgah is located 20 km north of Hillston and is 6,400 ha in size.

Yilgah consists of 1,006 ha of almond orchards planted in 2007 and 2008. The almond plantings, associated infrastructure and water entitlements of Yilgah are leased entirely to Select Harvests under a 20 year lease arrangement. The lease commenced in May 2010 and expires in May 2030. Further details about the lease are contained in Figure 8.2.

The property is supported by 15,090 ML of groundwater licensed entitlements and irrigation infrastructure that enables the delivery of water.

A further 959 ha of land at Yilgah has been developed for flood irrigation. The irrigation development includes a central holding dam and an integrated channel system to supply and recycle water.

The remaining land at Yilgah comprises lightly timbered creek frontage and open plains suited to grazing. Parts of Yilgah are often licensed on a short term basis for cropping purposes depending upon seasonal conditions.

(ii) Moorall

Moorall is located 25 km south west of Hillston and is 3,841 ha in size.

Moorall consists of 808 ha of almond orchards planted in 2006 and 2007. Of this, 551 ha are leased to three RFM Almond Funds, 215 ha are leased to Select Harvests and 42 ha are licensed to RFM.

Further details about the leases are contained in Figure 8.2.

The remaining 3,033 ha of land at Moorall comprises lightly timbered river frontage, grazing country, 320 ha of olive orchard, and 121 ha of irrigated land for broadacre cropping. The olive orchard has been leased and the irrigated cropping land is licensed to counterparts depending on seasonal conditions.

The property is supported by 12,120 ML of groundwater licensed entitlements, with a supplementary groundwater licensed entitlement of 3,223 ML.

(iii) Collaroy

Collaroy borders Yilgah and is considered a separate property. This property is 1,998 ha in size and includes a 64 ha irrigated olive orchard.

Collaroy is often licensed to counterparts on an annual basis for cropping purposes and in the long term will either be leased out or sold.

(iv) Other assets

RiverBank owns 949 ML of High Security Lachlan River water entitlement. Currently, the annual allocation for this entitlement is sold on a temporary basis and the permanent licensed entitlement has been listed for sale.



(b) Poultry Farms

The poultry growing farms, currently owned by CIF, are located in Griffith, New South Wales, and Lethbridge, Victoria. There are 17 farms in total, consisting of 154 sheds. The weighted average age of the sheds is 16.16 years. As at 30 June 2013 the poultry farms were independently valued at \$100.2 million. There is a small number of related water entitlements owned by CIF which are held in the Murrumbidgee Irrigation Area.

All sheds provide shelter, heating and cooling for the chickens. All sheds are fully automated with farm managers able to monitor and modify temperature, food and water supplies quickly and easily. An extensive maintenance program is required by the lessee RFMP to ensure the sheds remain in good condition and are economically efficient to operate.

The majority of the farms are located in Griffith, New South Wales, which is one of the major chicken meat producing regions in Australia. The Griffith farms are located within eight kilometres of the Baiada processing plant and are the primary contributor to that plant. The Baiada processing plant supplies chicken meat to the national market.

The farms will be leased to RFMP who will operate the farms in accordance with chicken growing contracts with Bartter Enterprises Pty Ltd – a wholly owned subsidiary of Baiada Poultry Pty Ltd. Baiada is a national poultry processor established in the 1950's, which acquired Bartter Enterprises and the Steggles brand in 2009. Further details of the lease to RFMP are contained in Section 12.8.



(c) Vineyards

There are seven vineyards currently owned by AWF, with six located in South Australia within the Barossa Valley, Adelaide Hills, and Coonawarra, and one vineyard located in the Grampians, Victoria. All of the vineyards are managed to produce premium quality grapes. As at 30 June 2013 the vineyards were independently valued at \$36.0 million.

Figure 8.1: Vineyard assets

Vineyard	Planted (ha)	Location
Kleinig	206.3	Barossa
Dohnt	29.7	Coonawarra
Rosebank	82.3	Grampians
Geier	243.3	Barossa
Hahn	49	Barossa
Mundy and Murphy	55.2	Adelaide Hills
	665.8	

The vineyards are leased to Treasury Wine Estates. The leases for all vineyards except Hahn commenced on 1 July 2012 and are for a ten year term. The Hahn Vineyard is leased for a nine year term commencing 1 July 2013. Further details about these leases are contained in Figure 8.2.

There are a number of water entitlements owned by AWF which provide the vineyards with sufficient water supplies and these are included in the lease to Treasury Wine Estates.

The plant and equipment previously owned by AWF has been sold to Murdock Viticulture subject to a loan agreement, with an interest rate of 12% per annum. The loan terms require full amortisation on or before 27 March 2018. The loan is secured by a registered security interest over the plant and equipment.

(d) StockBank Units

The StockBank Units are currently owned by CIF. As at 30 June 2013 the Units were valued at \$5 million.

StockBank is a fund managed by RFM which purchases livestock that are leased to landowners who are responsible for managing the livestock until they are sold. StockBank generally divides its investment between approximately 80% cattle and 20% sheep.

Upon sale of the livestock, the accrued lease payments are remitted to StockBank by the selling agent. Importantly, the landowner is contractually obliged to remit to StockBank any shortfall between the livestock sale price and the accrued lease payments.

StockBank is a liquid fund as defined by the Corporations Act. It does not own any land or infrastructure and has a risk management system which focuses on ensuring a geographic diversification of its livestock.

(e) Plant and Equipment

The plant and equipment currently owned by RiverBank will be retained. As at 30 June 2013 the plant and equipment was valued at \$2.7 million.

The plant and equipment is leased to the RFM Almond Funds and consists of mostly large farm machinery, including almond harvesting equipment, tractors and implements such as sprayers.

Property investment strategy

It is RFM's investment strategy for the property of RFF to be agricultural but with no exposure to direct agricultural operating risk. Any increase in investments will be dependent on increasing the size of RFF.

RFF has no development assets. RFM does not intend to invest in other external unlisted property trusts.

8.3 PROPERTY AND LEASE COUNTERPARTS

RFF earns its income from owning and leasing out agricultural assets and therefore RFM expects that it will be classified as a REIT once listed on the ASX. RFF receives income from a diverse range of counterparts who have entered into leases for various periods. Figure 8.2 sets out the material lease terms for RFF and its subsidiaries.

Figure 8.2: Material lease terms

Lessor:	RFF formerly RiverBank	RFF formerly RiverBank	RFF formerly RiverBank	RFF formerly RiverBank	CIF	AWF
Counterpart/ Lessee:	Select Harvests Limited	Select Harvests Limited	RFM as responsible entity for RFM Almond Fund 2006	AETL as custodian for RFM Almond Funds 2007 & 2008*	RFM Poultry	Treasury Wine Estates Pty Ltd
Property	Yilgah	Mooral	Mooral	Mooral	All poultry farms	All vineyards
Agreement Type	Lease	Lease	Lease	Lease	Lease	Lease
Expiry	31-May-30	31-May-30	30-Jun-26	31-Jul-28	Weighted average lease expiry 15-Jan-23	01-Jul-22
Area	1,006 hectares	215 hectares	272 hectares	321 hectares	303,216 sq metres	663 hectares
2014 rent	\$3.061 million	\$0.654 million	\$1.361 million	\$1.606 million	\$10.150 million	\$3.104 million
Other key terms						
Payment dates	Quarterly in advance	Quarterly in advance	Annually in October	Quarterly in advance	Quarterly in advance	Quarterly in advance
Capital commitments	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Structural capital expenditure	Lessor's expense, added to capital value and attracts additional rent.
Payment or rent review	Market review at 1 July 2016, and 5 years thereafter	Market review at 1 July 2016	Annual Indexation	Annual Indexation	The lessee and the lessor have the right of rent review where there is significant change to the profitability of chicken growing activities.	Capital value reassessed at fifth anniversary, based on independent valuation. Cannot be less than 2014 rent indexed for 5 years.
Indexation	2.5% per annum	2.5% per annum	2.5% per annum	2.5% per annum	2.25% per annum	2.5% per annum

Figure 8.2: Material lease terms (continued)

Lessor:	RFF formerly RiverBank	RFF formerly RiverBank	RFF formerly RiverBank	RFF formerly RiverBank	CIF	AWF
Counterpart/ Lessee:	Select Harvests Limited	Select Harvests Limited	RFM as responsible entity for RFM Almond Fund 2006	AETL as custodian for RFM Almond Funds 2007 & 2008*	RFM Poultry	Treasury Wine Estates Pty Ltd
Repairs & Maintenance	On account of Lessee	On account of Lessee	On account of Lessee	On account of Lessee	On account of Lessee	On account of Lessee
Property rates	On account of Lessor	On account of Lessor	On account of Lessor	On account of Lessor	On account of Lessee	On account of Lessee
Insurance	On account of Lessor, Lessee required to hold Public Liability insurance.	On account of Lessor, Lessee required to hold Public Liability insurance.	On account of Lessor, Lessee required to hold Public Liability insurance.	On account of Lessee	On account of Lessee	On account of Lessor
Water licences	15ML/ha	15ML/ha	15ML/ha	15ML/ha	Water provided by Lessor	Leased property includes all water entitlements attached to each vineyard
Suspension events:	N/A	N/A	N/A	N/A	See Suspension Event of chicken growing contracts detailed in Figure 12.9.	N/A
Termination events	Material breach and insolvency. Possible partial or total termination if orchard destruction where not covered by an insurance policy.	Material breach and insolvency. Possible partial or total termination if orchard destruction where not covered by an insurance policy.	Material breach and insolvency.	Material breach and insolvency. Possible partial or total termination if orchard destruction where not covered by an insurance policy	Material breach and insolvency. A failure by RFMP to fulfil the terms of the growing contracts. Change of RE.	Material breach and insolvency. Possible partial or total termination if vineyard destruction where not covered by an insurance policy.

* RFM is responsible entity for these projects.



Financial Information

This section includes financial information on RFF and each of the Funds.

9.1 BASIS OF PREPARATION

The financial information in this section has been prepared on the basis required by Australian Accounting Standards as issued by the Australian Accounting Standards Board unless otherwise stated.

Further, this financial information has been prepared on a going concern basis. The Directors are of the opinion that there are reasonable grounds to believe that RFF and each of the Funds will be able to pay their debts as and when they become due and payable.

9.2 HISTORICAL AND FORECAST FINANCIAL INFORMATION

The financial information in this section has been presented to show the following scenarios:

- Each Fund on a stand-alone basis assuming the Merger does not proceed; and
- The Merger where all three Funds are merged.

The financial information in this section includes the following financial statements:

- Audited Statements of Comprehensive Income and Changes in Net Assets for the 12 months ended 30 June 2013;
- Audited historical Statements of Financial Position as at 30 June 2013; and

- Forecast Statements of Comprehensive Income and Changes in Net Assets for the 12 months ending 30 June 2014 (9 months in the case of RFF), and 12 months ending 30 June 2015, and forecast Statements of Financial Position as at 30 June 2014 and 30 June 2015, collectively known as forecast financial statements.

The financial statements set out in this section should be read in conjunction with the notes that follow each figure. In addition, consideration should also be given to key risks identified in Section 11.

The forecast financial information is based on RFM's assessment of the present economic and operating conditions and a number of assumptions regarding future events and actions, which RFM expects to take place. These events or actions may or may not take place.

Whilst the Directors of RFM consider all key assumptions to be reasonable at the time of preparation of this Explanatory Memorandum, Unitholders should be aware that unforeseen events cannot be controlled and may lead to a deviation from the forecast financial statements.

The forecast financial information is by its very nature subject to uncertainty and unexpected events, many of which are outside the control of RFM. Events and circumstances often do not occur as anticipated and therefore, actual results may differ from the forecast financial information and these differences may be material. Accordingly, RFM cannot guarantee that the forecast financial information can or will be achieved.

Past performance is not indicative of future performance and returns are not guaranteed. Financial information is presented for financial years ended or ending on 30 June unless otherwise stated.

9.3 GENERAL ASSUMPTIONS

The following best estimate general assumptions are relevant to the forecast provided in Section 9 and should be read in conjunction with the notes and special assumptions at the end of each financial statement:

- All lease agreements are enforceable and are performed in accordance with the terms set out in Section 8;
- All leases are classified as operating leases;
- Expenses are indexed at 2.5% unless noted in the notes and specific assumptions;
- No specific change to the legislative regime and regulatory environment in the jurisdictions that the stand-alone entities or RFF operate;
- No material changes in applicable Australian Accounting Standards, other mandatory professional reporting requirements, or the Corporations Act during the forecast period;
- No material changes to the Australian income tax legislation;
- The movement in the fair value of investment is accounted for in accordance with the applicable accounting standards. Refer to notes and specific assumptions for details; and
- No material amendment to any key agreements relating to the stand-alone entities or RFF.

9.4 FUNDS' STAND-ALONE HISTORICAL AND FORECAST FINANCIAL STATEMENTS

Detailed in this section is each Fund's stand-alone historical and forecast Statement of Comprehensive Income and Changes in Net Assets Attributable to Unitholders, and Statement of Financial Position.

Detailed annual returns for the forecast period are shown under each of the respective Funds' financial statements below. This presents comparative returns between RFF and the existing Funds over the forecast period. The rolling annualised returns are calculated in accordance with FSC Standard 6, which requires the assumption that distributions are reinvested.

Assumed distributions are based on available forecast cash after taking into account the Funds' operating, investing, and financing activities.

Sensitivity analysis on profit and distributions for key assumptions of the forecast period are also shown under each of the respective Funds' financial statements below.

RFM RIVERBANK ARSN 112 951 578

Detailed in this section are RiverBank's stand-alone forecast Statement of Comprehensive Income and Changes in Net Assets, and historical and forecast Statements of Financial Position.

Figure 9.1: RiverBank forecast Statement of Comprehensive Income and Changes in Net Assets

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
Revenue				
Lease revenue	1	7,071	7,906	8,148
Harvest revenue	2	272	–	–
Unrealised gain on property assets	3	13,748	2,369	1,946
Unrealised gain on interest swaps	4	588	–	–
Other income		76	106	6
Total revenue		21,755	10,381	10,100
Operating and other costs	5	(1,966)	(1,839)	(1,420)
Management fees		(1,239)	(1,309)	(1,347)
Depreciation	6	(2,942)		
Finance costs	7	(2,990)	(2,411)	(2,224)
Net profit before income tax		12,618	4,822	5,110
Income tax expense		(3,977)	(1,210)	(1,464)
Net profit after income tax		8,640	3,612	3,646
Other comprehensive income				
Unrealised loss on fair value adjustments to property, plant and equipment	8	(117)	–	–
Income tax on other comprehensive income		15	–	–
Total comprehensive income attributable to Unitholders		8,539	3,612	3,646
Distributions paid to unitholders	9	(793)	(1,968)	(2,624)
Issue of units		503	–	–
Change in net assets attributable to Unitholders		8,248	1,644	1,022

Notes and specific assumptions to Figure 9.1:

1. Lease revenue relates to revenue from Select Harvests, RFM Almond Funds and Steak Plains Olive Farm Pty Ltd ACN 161 539 153. Lease revenue is set under the leases and indexed at 2.5% p.a., or CPI in some instances. Any capital expenditure under the leases attracts additional lease rental of 10% – 11% p.a plus depreciation allowances.
2. Harvest revenue relates to almond grove harvest owned by RiverBank up to 30 June 2013 net of costs. This portion of the orchard is leased from 2014 onwards.

3. Property assets comprise of land, water, almond trees, and irrigation infrastructure. For forecast years, property assets increase from the 30 June 2013 independent valuation at an assumed growth rate in the range of 1.5%-2.75% per annum. In FY 2013 the increase in the value of property assets is partly offset by the unrealised loss recorded in the comprehensive income – refer to Figure 9.1 note 8.
4. Unrealised gain on interest rate swaps and options are based on actuals to 30 June 2013 with no change in interest rates assumed for the forecast period.
5. Operating and other costs include direct operating costs, insurance, property rates, fund administration and compliance costs and are based upon historical costs of RiverBank. Revaluation costs of \$0.4 million in FY 2013 and \$0.5 million in FY 2014 are also included in operating and other costs.
6. In 2013 the Property Plant and Equipment (PPE) accounting standard is adopted requiring PPE to be depreciated. Depreciation of fixed assets includes depreciation on buildings and capitalised leased assets. All depreciation is calculated on a straight-line basis over the useful lives of the assets. In 2014 and 2015 the Investment Property Accounting Standard is adopted and therefore depreciation is not forecast.
7. Average forecast cost of debt is 5.5% p.a. based on market rates as at 20 August 2013 of 5.0% p.a, and on the assumption that 50% is hedged on a 5 year tenor at a rate of 6.0% p.a. Finance costs also include interest on plant and equipment at 9.00% p.a., and interest on a loan to RFM at 10.0% p.a.
8. Unrealised loss on fair value adjustments to PPE is based upon the June 2013 independent valuation of RiverBank's PPE.
9. FY 2013 distributions declared: 2.43 cents per Unit (distribution paid of 4.53 cents per Unit); FY 2014 forecast distributions declared: 6.01 cents per Unit (distribution paid of 4.01 cents per Unit). FY 2015 forecast distributions declared: 8.02 cents per Unit (distribution paid of 8.02 cents per Unit). Distributions are based on income derived from forecast operating cash flow and after consideration of capital requirements.

Figure 9.2: RiverBank Statement of Financial Position

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
ASSETS				
Cash		182	200	200
Other current assets	1	3,002	1,592	1,560
Property assets	2	90,789	92,672	96,774
Other non-current assets	3	2,724	1,235	800
TOTAL ASSETS		96,697	95,699	99,334
LIABILITIES				
Payables and accruals	4	1,574	894	918
Interest bearing liabilities	5	38,980	38,044	39,603
Deferred tax liabilities		4,433	5,224	6,255
Other non-current liabilities	6	4,146	2,329	2,329
TOTAL LIABILITIES		49,133	46,491	49,105
NET ASSETS		47,564	49,208	50,229

Notes and specific assumptions to Figure 9.2:

- Other current assets include trade receivables. 30 June 2013 includes inventory of \$0.987 million relating to almond harvest revenue.
- Property assets include land, water, almond trees, and irrigation infrastructure. Changes in the forecast period are due to capital expenditure, disposals and assumed growth rates. Assumed growth rates are in the range of 1.5%-2.75% per annum.
- Other non-current assets include plant and equipment that is leased to the RFM Almond Funds.
- Trade payables are generally on 30-90 day terms and are not interest bearing.
- Interest bearing liabilities include bank borrowings (2013: \$35.3m, 2014: \$36.1m, 2015: \$37.7m); Plant and Equipment facility (2013: \$1.9m, 2014: \$1.9m, 2015: \$1.9m); and loan from RFM (2013: \$1.8m, 2014: \$0.0m, 2015: \$0.0m). The total interest bearing debt that is due and payable in the next 12 months (current) is 2014: \$1.8m and 2015: \$0.0m. This will be funded from opening cash reserves and from operations. The bank borrowings are secured against the real property and subject to a general security agreement. The forecast LSR is 2014: 39.0% and 2015: 38.9%. This compares to the facility covenant of 50%. RFM's loan is forecast to be repaid in October 2013. The forecast interest cover ratio is 2.17 and 2.60 for 2014 and 2015 respectively. This compares to the interest cover ratio bank covenant of 1.75 and 2.05 for 2014 and 2015 respectively.
- Other non-current liabilities include derivative financial liabilities, provisions for distributions declared 30 June and the \$1.6 million Select Harvests security deposit. The forecast assumes that the derivative financial liabilities are partly repaid in FY 2014.

Figure 9.3: RiverBank key financial metrics

	Notes	Audited Actual 30 June 2013	Forecast 30 June 2014	Forecast 30 June 2015
Units on issue ('000)		32,733	32,748	32,748
Declared distributions per unit		\$0.0243	\$0.0601	\$0.0802
NAV		\$1.4531	\$1.5026	\$1.5337
LSR	1	39.3%	39.0%	38.9%

Note to Figure 9.3:

1. Bank LSR at 30 June 2013 is measured after excluding a \$3 million facility from total borrowings as specified by the facility's LSR covenant.

Figure 9.4 shows a comparison of forecast financial returns for RFF and RiverBank for the 9 months to 30 June 2014, and the 2015 financial year assuming distributions are reinvested.

Figure 9.4: RiverBank comparison of forecast returns

% Returns	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF		
Distributions	7.81%	8.65%
Growth	-7.62%	0.46%
Total	0.19%	9.11%
Stand-alone		
Distributions	4.13%	5.48%
Growth	1.16%	2.08%
Total	5.28%	7.56%

Notes to Figure 9.4:

1. The RFF return assumes that the Merger of the Funds will take effect on 1 October 2013 and therefore relates to a 9 month period ending 30 June 2014.
2. The financial forecast is based on a number of best estimate assumptions which are subject to change.

Set out in Figures 9.5 and 9.6 is the sensitivity analysis for changes to forecast net profit and distributions for the 12 months ending 30 June 2014 and 12 months ending 30 June 2015, as a result of:

- changes in variable expenses; and
- changes in interest rates.

RiverBank holds cash reserves that may be used to absorb the reduction in distributions presented in Figures 9.5 and 9.6.

Figure 9.5: RiverBank sensitivity analysis for the 12 months ending 30 June 2014

	Assumption \$'000	Amount \$'000	Change in net profit after tax \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	1,839	92	64	92	0.0028	4.7%
5% increase in variable expenses	1,839	(92)	(64)	(92)	(0.0028)	-4.7%
10% increase in variable expenses	1,839	(184)	(129)	(184)	(0.0056)	-9.3%
1% decrease in interest rates ¹	5%	195	136	195	0.0060	9.9%
1% increase in interest rates ¹	5%	(195)	(136)	(195)	(0.0060)	-9.9%

Notes to Figure 9.5:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

Figure 9.6: RiverBank sensitivity analysis for the 12 months ending 30 June 2015

	Assumption \$'000	Amount \$'000	Change in net profit after tax \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	1,420	71	50	71	0.0022	2.7%
5% increase in variable expenses	1,420	(71)	(50)	(71)	(0.0022)	-2.7%
10% increase in variable expenses	1,420	(142)	(99)	(142)	(0.0043)	-5.4%
1% decrease in interest rates ¹	5%	191	134	191	0.0058	7.3%
1% increase in interest rates ¹	5%	(191)	(134)	(191)	(0.0058)	-7.3%

Notes to Figure 9.6:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

RFM CHICKEN INCOME FUND ARSN 105 754 461

Detailed in this section are CIF's stand-alone forecast Statement of Comprehensive Income and Changes in Net Assets and historical and forecast Statements of Financial Position.

Figure 9.7: CIF forecast Statement of Comprehensive Income and Changes in Net Assets

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
Revenue				
Grower fees	1	23,756	23,968	24,983
Unrealised gain on interest swaps	2	664		
Other income		224	549	541
Total revenue		24,644	24,517	25,524
Operating and other costs	3	(12,500)	(12,657)	(12,427)
Management fees		(1,851)	(1,855)	(1,848)
Depreciation	4	(5,838)	(5,887)	(5,294)
Repairs and maintenance	5	(745)	(2,252)	(2,096)
Finance costs	6	(3,146)	(2,378)	(2,181)
Net profit before income tax		564	(512)	1,678
Income tax expense		(169)	154	(503)
Net profit after income tax		395	(358)	1,175
Other comprehensive income				
Unrealised loss on fair value adjustments to property, plant and equipment	7	5,984	3,854	3,294
Income tax on other comprehensive income		–	(1,156)	(988)
Total comprehensive income attributable to Unitholders		6,379	2,340	3,481
Distributions declared	8	(1,587)	(3,734)	(5,847)
Issue of units		186	191	192
Change in net assets attributable to Unitholders		4,977	(1,204)	(2,174)

Notes and specific assumptions to Figure 9.7:

1. Grower fees relate to services provided pursuant to growing contracts with Bartter Enterprises. Grower fees have been forecast based upon current growing contracts and the standard fee review mechanism specified in the contracts.
2. Unrealised gain on interest rates swaps and options is based on actuals to 30 June 2013 with no changes in interest rates assumed for the forecast periods.
3. Operating and other costs are based on historical trading results of CIF and include direct operating costs, property costs, insurance, administration and compliance costs. Revaluation transaction costs of \$0.4 million in FY 2013 and \$0.5 million in FY 2014 are also included in operating costs. Costs are indexed at 2.5% p.a.

4. Depreciation of fixed assets includes depreciation on buildings and capitalised leased assets. All depreciation is calculated on a straight-line basis over the useful lives of the assets.
5. The increase in FY 2014 and FY 2015 is due to a reclassification of capital expenditure to repairs and maintenance. Some items of actual expenditure may be classified as capital expenditure under accounting standards, capitalised in the balance sheet and depreciated.
6. Average forecast cost of debt is 5.5% p.a. based on market rates as at 20 August 2013 of 5.0% p.a., and on the assumption that 50% is hedged on a 5 year tenor at a rate of 6.0% p.a.
7. Fair value adjustments to property plant and equipment are recorded in the asset revaluation reserve – refer to note 2, Figure 9.8.
8. FY 2013 distributions declared including franking credits: 2.50 cents per Unit (distributions paid 5.0 cents). FY 2014 forecast distributions declared: 5.85 cents per Unit (distributions paid of 3.15 cents per Unit). FY 2015 forecast distributions declared: 9.14 cents per Unit (distributions paid of 9.30 cents per Unit). Distributions are based on income derived from forecast operating cash flow and after consideration of capital requirements.

Figure 9.8: CIF Statement of Financial Position

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
ASSETS				
Cash		2,215	354	352
Other current assets	1	4,540	4,292	4,376
Property, plant and equipment	2	100,695	98,411	96,458
Other non-current assets	3	5,026	5,277	5,231
TOTAL ASSETS		112,476	108,334	106,417
LIABILITIES				
Payables and accruals	4	2,761	485	1,077
Interest bearing liabilities	5	41,125	39,998	39,098
Deferred tax liabilities		12,428	13,276	13,937
Other non-current liabilities		2,412	2,030	1,933
TOTAL LIABILITIES		58,727	55,788	56,045
NET ASSETS		53,749	52,546	50,372

Notes and specific assumptions to Figure 9.8:

1. Other current assets include accrued revenue relating to incomplete chicken batches and trade receivables due from the processor.
2. Property, plant and equipment is based on June 2013 independent valuation less \$2.0 million p.a. decrement commencing FY 2014 to depreciate the sheds over their assessed remaining useful life. The assumed asset decrement is allocated to either the profit and loss or asset revaluation reserve depending on the accounting standard requirements.
3. Other non-current assets include 4.9 million units in StockBank valued at \$1.03 per unit. Forecast assumes no growth in the StockBank unit price due to the assumption that all income is distributed.
4. Trade payables are generally on 30-90 day terms and are not interest bearing.
5. Interest bearing liabilities include bank borrowings (2013: \$36.0m, 2014: \$34.9m, 2015: \$34.0); StockBank facility (2013: \$5.0m, 2014: \$5.0m, 2015: \$5.0m); and plant and equipment facility (2013: \$0.5m, 2014: \$0.5m, 2015: \$0.5m). The total interest bearing debt that is forecast to be repaid in the next 12 months (current) is 2014: \$1.0m, and 2015: \$0.9m. This will be funded from opening cash reserves and from operations. The Bank borrowings are secured against the real property and subject to a general security agreement. The forecast LSR is 2014: 41.3% and 2015: 41.2%. This compares to the facility covenant of 45%. The forecast interest cover ratio is 3.26 and 4.20 for 2014 and 2015 respectively. This compares to the interest cover ratio covenant of 3.0 and 3.35 for 2014 and 2015 respectively.

Figure 9.9: CIF key financial metrics

	Audited Actual 30 June 2013	Forecast 30 June 2014	Forecast 30 June 2015
Units on issue ('000)	63,638	63,831	64,066
Declared distributions per unit	\$0.0250	\$0.0585	\$0.0914
NAV	\$0.8446	\$0.8232	\$0.7862
LSR	41.5%	41.3%	41.2%

Figure 9.10 shows a comparison of forecast financial returns for RFF and CIF for the 9 months to 30 June 2014 and the 2015 financial year assuming distributions are reinvested.

Figure 9.10: CIF comparison of forecast returns

% Returns	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF & RFMP		
Distributions	8.21%	9.52%
Growth	-5.48%	0.55%
Total	2.73%	10.07%
Stand-alone		
Distributions	7.03%	11.37%
Growth	-2.19%	-4.49%
Total	4.84%	6.88%

Notes to Figure 9.10:

1. The RFF return assumes that the Merger of the Funds will take effect on 1 October 2013 and therefore relates to a 9 month period ending 30 June 2014.
2. The RFF return includes income which Unitholders will receive from RFMP.
3. The financial forecast is based on a number of best estimate assumptions that are subject to change.

Set out in Figures 9.11 and 9.12 is the sensitivity analysis for changes to forecast net profit and distributions for the 12 months ending 30 June 2014 and 12 months ending 30 June 2015, as a result of:

- changes in variable expenses (gas and electricity, direct agribusiness expenses, and repairs and maintenance);
- changes in interest rates; and
- changes in CPI on grower fee for the 12 months ending 30 June 2015.

CIF holds cash reserves that may be used to absorb the reduction in distributions presented in Figures 9.11 and 9.12.

Figure 9.11: CIF sensitivity analysis for the 12 months ending 30 June 2014

	Assumption \$'000	Amount \$'000	Change in net profit after tax \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	7,762	388	272	388	0.0061	10.4%
5% increase in variable expenses	7,762	(388)	(272)	(388)	(0.0061)	-10.4%
7.5% increase in variable expenses	7,762	(582)	(408)	(582)	(0.0091)	-15.6%
1% decrease in interest rates ¹	5%	206	144	206	0.0032	5.5%
1% increase in interest rates ¹	5%	(206)	(144)	(206)	(0.0032)	-5.5%

Notes to Figure 9.11:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

Figure 9.12: CIF sensitivity analysis for the 12 months ending 30 June 2015

	Assumption \$'000	Amount \$'000	Change in net profit after tax \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	7,773	389	272	389	0.0061	6.7%
5% increase in variable expenses	7,773	(389)	(272)	(389)	(0.0061)	-6.7%
10% increase in variable expenses	7,773	(583)	(408)	(583)	(0.0091)	-10.0%
1% decrease in interest rates ¹	5%	200	140	200	0.0031	3.4%
1% increase in interest rates ¹	5%	(200)	(140)	(200)	(0.0031)	-3.4%

Notes to Figure 9.12:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

RFM AUSTRALIAN WINE FUND ARSN 099 573 485

Detailed in this section are AWF's stand-alone forecast Statement of Comprehensive Income and Changes in Net Assets, and historical and forecast Statements of Financial Position.

Figure 9.13: AWF forecast Statement of Comprehensive Income and Changes in Net Assets

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
Revenue				
Lease revenue	1	2,783	3,104	3,212
Operating income	2	565	–	–
Unrealised gain on property assets	3	2,637	1,844	1,365
Other income	4	3,195	114	92
Total revenue		9,180	5,062	4,669
Operating and other costs	5	(4,694)	(1,546)	(1,166)
Management fees		(475)	(383)	(378)
Finance costs	6	(1,278)	(646)	(569)
Net profit before income tax		2,733	2,487	2,556
Income tax expense	7	2,028	(561)	(623)
Net profit after income tax		4,761	1,926	1,933
Other comprehensive income				
Unrealised loss on fair value adjustments to property, plant and equipment		(100)	–	–
Income tax on other comprehensive income		–	–	–
Total comprehensive income attributable to Unitholders		4,661	1,926	1,933
Distributions paid to Unitholders	8	–	(1,552)	(1,441)
Issue of units		29	–	–
Change in net assets attributable to Unitholders		4,690	374	492

Notes and specific assumptions to Figure 9.13:

1. Lease revenue relates to revenue from Treasury Wine Estates as per the lease terms set out in Section 8.3. It is assumed that the leases are classified as operating leases. Leases are indexed at 2.5% p.a. FY 2013 excludes lease revenue relating to Hahn Vineyard as the lease of that vineyard commenced on 1 July 2013.
2. Operating income in FY 2013 includes harvest revenue from the Hahn Vineyard.
3. Property assets include land, water, vines and irrigation infrastructure. For forecast years, property assets increase from the 30 June 2013 independent valuation at an assumed growth rate in the range of 2.5%–4.0% p.a.

4. Other income includes cost reimbursements from Treasury Wines Estates and interest payments from Murdock Viticulture on plant and equipment vendor finance.
5. Operating costs are based on historical operating costs for AWF adjusted to reflect the leasing business model and include direct operating costs, administration and compliance costs. Revaluation transaction cost of \$0.17 million in 2013 and \$0.25 million in 2014 are also included in operating costs.
6. Average forecast cost of debt is 5.5% p.a. based on market rates as at 20 August 2013 of 5.0% p.a., and on the assumption that 50% is hedged on a 5 year tenor at a rate of 6.0% p.a.
7. AWF assumed to form a tax consolidated group and be taxed as a company.
8. Forecast distributions declared for FY 2014: 2.20 cents per Unit (distributions paid of 1.16 cents per Unit). Forecast distributions declared for FY 2015: 2.04 cents per Unit (distributions paid of 2.45 cents per Unit). Distributions are based on income derived from forecast operating cash flow and after consideration of capital requirements.

Figure 9.14: AWF Statement of Financial Position

	Notes	Audited Actual 12 mths to 30 June 2013 \$'000	Forecast 12 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
ASSETS				
Cash		4,566	755	464
Other current assets	1	1,215	1,139	1,166
Property, plant and equipment	2	36,000	37,780	39,043
Deferred tax assets	3	2,071	1,510	887
Other non-current assets	4	893	728	552
TOTAL ASSETS		44,744	41,911	42,112
LIABILITIES				
Payables and accruals	5	101	101	101
Interest bearing liabilities	6	14,000	10,348	10,348
Other non-current liabilities	7	348	793	502
TOTAL LIABILITIES		14,449	11,242	10,951
NET ASSETS		30,296	30,669	31,161

Notes and specific assumptions to Figure 9.14:

- Other current assets include trade receivables which are generally issued on 30 day terms. 30 June 2013 includes a \$0.4 million receivable from a winery that is subject to legal proceedings which RFM expects to be resolved in favour of AWF.
- Property assets include land, water, vines and irrigation infrastructure. The change in the forecast period is due to capital expenditure, disposals and assumed growth rates. Assumed growth rates are in the range of 2.5–4.0% p.a.
- Deferred tax assets represent deferred tax assets arising due to tax losses net of deferred tax liabilities.
- Other non-current assets include a loan to Murdock Viticulture relating to the sale of plant and equipment.
- Trade payables are generally on 30-90 day terms and are not interest bearing.
- Interest bearing liabilities include bank borrowings (2013: \$14.0m, 2014: \$10.4, and 2015: \$10.4). The total interest bearing debt that is forecast to be repaid in the next 12 months (current) is 2014: \$1.2m. This will be funded from opening cash reserves and from operations. The forecast has assumed an additional \$2.4m is repaid during FY 2014 however this may be used to fund redemptions. The Bank borrowings are secured against the real property and subject to a general security agreement. The forecast bank loan to security ratio (LSR) is 2014: 27.5% and 2015: 26.3%. This compares to the facility covenant of 45%. The forecast interest cover ratio is 2.65 and 3.78 for 2014 and 2015 respectively. This compares to the interest cover ratio bank covenant of 2.0 and 2.0 for 2014 and 2015 respectively.
- Other non-current liabilities include derivative financial liabilities, employee provisions, and provision for distributions. Forecast assumes that the derivative financial liabilities are repaid in FY 2014.

Figure 9.15: AWF key financial metrics

	Audited Actual 30 June 2013	Forecast 30 June 2014	Forecast 30 June 2015
Units on issue ('000)	70,648	70,663	70,663
Declared distributions per unit	Nil	\$0.0220	\$0.0204
NAV	\$0.4288	\$0.4340	\$0.4410
LSR	39.4%	27.5%	26.3%

Figure 9.16 shows a comparison of forecast financial returns for RFF and AWF for the 9 months to 30 June 2014 and the 2015 financial year assuming distributions are reinvested.

Figure 9.16: AWF comparison of forecast returns

% Returns	9 months ending 30 June 2014	12 months ending 30 June 2015
RFF		
Distributions	9.03%	8.65%
Growth	6.80%	0.46%
Total	15.83%	9.11%
Stand-alone		
Distributions	5.18%	4.80%
Growth	0.79%	1.60%
Total	5.97%	6.40%

Notes to Figure 9.16:

1. The RFF return assumes that the Merger of the Funds will take effect on 1 October 2013 and therefore relates to a 9 month period ending 30 June 2014.
2. The financial forecast is based on a number of best estimate assumptions and these best estimate assumptions are subject to change.

Set out in Figures 9.17 and 9.18 is the sensitivity analysis for changes to forecast net profit and distributions for the 12 months ending 30 June 2014 and 12 months ending 30 June 2015, as a result of:

- changes in assumed recovery of vineyard receivable (refer to note 1 Figure 9.14);
- changes in variable expenses; and
- changes in interest rates.

AWF holds cash reserves that may be used to absorb the reduction in distributions presented in Figures 9.17 and 9.18.

Figure 9.17: AWF sensitivity analysis for the 12 months ending 30 June 2014

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
Full recovery of vineyard receivable ¹	361	361	253	361	0.0051	23.2%
No recovery of vineyard receivable ¹	361	(361)	(253)	(361)	(0.0051)	-23.2%
5% reduction in variable expenses	1,546	77	54	77	0.0011	5.0%
5% increase in variable expenses	1,546	(77)	(54)	(77)	(0.0011)	-5.0%
10% increase in variable expenses	1,546	(155)	(108)	(155)	(0.0022)	-9.9%
1% decrease in interest rates ²	5%	70	49	70	0.0010	4.5%
1% increase in interest rates ²	5%	(70)	(49)	(70)	(0.0010)	-4.5%

Notes to Figure 9.17:

1. The balance sheet contains a provision for 50% of the receivable (refer note 1, Figure 9.14).
2. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
3. Parenthesis indicates a negative value.

Figure 9.18: AWF sensitivity analysis for the 12 months ending 30 June 2015

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	1,166	58	41	58	0.0008	4.0%
5% increase in variable expenses	1,166	(58)	(41)	(58)	(0.0008)	-4.0%
10% increase in variable expenses	1,166	(117)	(82)	(117)	(0.0017)	-8.1%
1% decrease in interest rates ¹	5%	52	36	52	0.0007	3.6%
1% increase in interest rates ¹	5%	(52)	(36)	(52)	(0.0007)	-3.6%

Notes to Figure 9.18:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

9.5 RURAL FUNDS GROUP MERGED SCENARIO

The RFF Group comprises the RFF parent (formerly RiverBank) and its subsidiaries CIF and AWF. Detailed in this section are the consolidated forecast Statement of Comprehensive Income and Changes to Net Assets Attributable to Unitholders for the 9 month period ending 30 June 2014 and the 12 month period ending 30 June

2015. Figure 9.21 sets out the forecast Statement of Financial Position as at 30 June 2014 and 30 June 2015. It is assumed all three Funds will be merged on 1 October 2013.

It is also assumed that the group will not form a tax consolidated group, that is, each entity will continue to have its own taxation status and will be taxed accordingly. Figure 9.19 sets out each subsidiary, including a summary of the assumed tax positions for the forecast periods.

Figure 9.19: Assumed tax position

Entity	% Ownership	Assumed taxation status 2014	Assumed taxation status 2015
RFF formerly RiverBank	Parent entity	Public trading trust	Public trading trust
CIF	100%	Public trading trust	Public trading trust
AWF	100%	Tax consolidated group	Tax consolidated group

RFM intends that RiverBank and CIF become flow through trusts in 2015, however the forecasts assume public trading trust status for this year. This is because the flow through status is not certain and presenting the results on the same tax basis allows for better comparison between financial years.

Generally, public trading trusts are taxed as companies and any tax paid gives rise to franking credits that can be distributed to Unitholders under the imputation system. In contrast, flow through trusts, are not liable for corporate taxation; rather the trust's taxable income is calculated and fully distributed to the Unitholders each year. The financial information presented below adopts tax effect accounting on the basis that the taxable entity within the RFF group is subject to corporate income tax.

Based on public trading trust status for RFF parent and its significant subsidiary, CIF, the majority of the RFF Group profit will be liable for tax, as if the trust were a company (i.e. tax will be calculated on the profit derived by the trust during the year at the corporate tax rate, and will be paid by the trust).

As at 30 June 2014, RiverBank (RFF in forecast period) and CIF are expected to have net deferred income tax liabilities of \$7.2 million and \$12.9 million respectively, mainly relating to asset revaluations which give rise to differences between accounting and taxation values. If RFF and CIF are categorised as flow through trusts from 1 July 2014, then the forecast deferred tax liabilities at 30 June 2014 will no longer be recognised in the consolidated statutory accounts of RFF in accordance with accounting standards.

Figure 9.20: RFF consolidated forecast Statement of Comprehensive Income and Changes in Net Assets

	Notes	Forecast 9 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
Revenue			
Lease revenue	1	15,247	20,848
Unrealised gain on property assets	2	1,298	910
Other income	3	1,097	1,476
Total revenue		17,642	23,234
Property costs	4	(1,249)	(793)
Fund overhead costs	5	(1,616)	(2,312)
Management fees		(1,915)	(2,577)
Finance costs	6	(3,898)	(5,492)
Net profit before income tax		8,964	12,060
Income tax expense		(1,999)	(2,911)
Net profit after income tax		6,965	9,149
Total comprehensive income attributable to Unitholders			
		6,965	9,149
Distributions declared	7	(7,417)	(8,599)
Issue of units	8	(1,000)	–
Change in net assets attributable to Unitholders		(1,452)	550

Notes and specific assumptions to Figure 9.20:

- Lease revenue relates to lease agreements as set out in Section 8.3. It is assumed that the leases are classified as operating leases. Lease revenue is fixed under lease agreements and are assumed to index at the following rates:
 - RFMP Lease – 1.5% p.a.
 - Select Harvest – 2.5% p.a.
 - RFM Almond Fund 2006 – 2.5% p.a.
 - RFM Almond Fund 2007 – 2.5% p.a.
 - RFM Almond Fund 2008 – 2.5% p.a.
 - Treasury Wine Estates – 2.5% p.a.
- Property assets include land, water, almond trees, vines, irrigation and poultry infrastructure. For forecast years, property assets increase from the 30 June 2013 independent valuation at an assumed growth of:
 - CIF: June 2013 independent valuation less \$2.0 million p.a. decrement commencing FY 2014 to depreciate the sheds over their assessed remaining useful life. The assumed asset growth is allocated to either the profit and loss or asset revaluation reserve depending on the accounting standard requirements.
 - RiverBank: June 2013 independent valuation indexed at the assumed growth rate of 1.5% to 2.75% p.a.
 - AWF: June 2013 independent valuation indexed at assumed vineyard growth rate of 2.5% to 4.0% p.a.

3. Other income relates to distributions from StockBank (\$0.4 million), and lease income from plant and equipment leased to the RFM Almond Funds (\$0.7 million) for the 9 month period 30 June 2014 and annual indexing of 2.5% p.a. FY 2015 other income include distributions from StockBank (\$0.5 million), and lease income from plant and equipment leased to the RFM Almond Funds (\$0.9 million) and annual indexing of 2.5% p.a.
4. Property costs are based on the historical results of the Funds and include asset administration, insurance and property rates. The 9 month period ending 30 June 2014 includes \$0.7 million of stamp duty payable as a result of the Merger.
5. Fund overhead costs are based on the historical results of the Funds and include fund administration and compliance costs.
6. Average forecast cost of debt is 5.5% p.a. based on market rates as at 20 August 2013 of 5.0% p.a. and on the assumption that 50% is hedged on a 5 year tenor at a rate of 6.0% p.a. Finance costs also include interest on plant and equipment at 9.00% p.a.
7. Forecast distributions including franking declared in FY 2014 are 8.20 cents per Unit (distributions paid 6.15 cents per Unit). Forecast distributions including franking declared in FY 2015 are 8.31 cents per Unit (distributions paid 8.26 cents per Unit). Distributions have been calculated based upon forecast net operating cash flow.
8. It is assumed a \$1.0 million on-market Unit buyback will be offered at a 20% discount to NAV.

Figure 9.21: RFF Consolidated Statement of Financial Position

	Notes	Pro forma 1 October 2013 \$'000	Forecast 30 June 2014 \$'000	Forecast 30 June 2015 \$'000
ASSETS				
Cash		1,305	1,419	455
Other current assets	1	5,162	5,845	5,603
Property assets	2	227,766	229,115	232,480
RFM StockBank	3	5,026	5,026	5,026
Other non-current assets	4	2,707	2,875	2,873
TOTAL ASSETS		241,966	244,280	246,437
LIABILITIES				
Payables and accruals	5	1,025	3,076	2,899
Bank facilities	6	98,631	98,631	98,638
Deferred tax liabilities	7	16,827	18,567	20,284
Other non-current liabilities	8	4,043	4,017	4,079
TOTAL LIABILITIES		120,526	124,291	125,900
NET ASSETS		121,440	119,989	120,537

Notes and specific assumptions to Figure 9.21:

- Other current assets include trade receivables and inventory. As at 1 October 2013 the RiverBank trade receivables account for \$1.2 million, AWF trade receivables account for \$1.5 million (includes a \$0.4 million receivable from a winery that is subject to legal proceedings which RFF expects to be resolved in favour of RFF) and almond inventory valued at \$0.7 million.
- Property assets comprise of land, water, almond trees, vines, irrigation and poultry infrastructure. Changes in the forecast period are due to capital expenditure, disposals and assumed growth rates. Assumed growth rates applicable to each sector are:
 - CIF: June 2013 independent valuation less \$2.0 million p.a. decrement commencing FY 2014 to depreciate the sheds over their assessed remaining useful life.
 - RiverBank: June 2013 independent valuation indexed at the assumed growth rate of 1.5% to 2.75% p.a.
 - AWF: June 2013 independent valuation indexed at assumed vineyard growth rate of 2.5% to 4.0% p.a.
- 4.897 million units in RFM StockBank based on the 30 June 2013 unit price. Forecast assumes no growth in unit price due to the assumption that all income is distributed.
- Other non-current assets include plant and equipment leased to RFM Almond Funds (\$2.707 million), and loan to Murdock Viticulture (\$0.847 million).
- Payables and accruals include trade payables which are generally on 30–90 day terms and are not interest bearing.
- Refer to Section 9.6 for details of bank borrowing facility.
- Deferred tax liabilities are net of deferred tax assets.
- Other non-current liabilities include: 30 June 2014 security deposit relating to the Select Harvest lease (\$1.6 million) and provision for distributions (\$2.5 million); 30 June 2015 security deposit relating to the Select Harvest lease (\$1.6 million) and provision for distributions (\$2.5 million).

Figure 9.22: RFF key financial metrics

	Notes	Forecast 9 mths to 30 June 2014	Forecast 12 mths to 30 June 2015
Units on issue ('000)	1	121,440	120,186
Earnings per Unit (EPU)	2	\$0.0574	\$0.0761
Funds from operations (FFO) (\$'000)	3	\$8,365	\$9,766
FFO per Unit	4	\$0.0689	\$0.0928
Forecast distributions per Unit (including franking)		\$0.0615	\$0.0831
Forecast distributions per Unit (excluding franking)		\$0.0615	\$0.0715
Payout ratio (FFO)	5	89%	90%
Starting NAV per Unit		\$1.00	\$1.00
Closing NAV per Unit		\$1.00	\$1.00
Starting loan security ratio (LSR)		41.1%	40.8%
Closing LSR		40.8%	40.3%
Interest cover	6	2.94	3.01
Indirect cost ratio (ICR)		2.25%	2.25%
Weighted average lease expiry (WALE) (Years)		14	13

Notes and specific assumptions to Figure 9.22:

1. Units on issue at the beginning of forecast period.
2. Total comprehensive income attributable to Unitholders divided by Units on issue.
3. Funds from operations is the total forecast operating cashflow for the period.
4. FFO divided by units on issue.
5. Distributions per unit including franking divided by FFO. The 9 months ending 30 June 2014 excludes the payment of a special distribution.
6. Interest cover is earnings before interest, taxes, depreciation and amortisation (EBITDA) less increase in value of biological assets and unrealised gain (loss) on investment properties divided by core interest payments.
7. 2014 ICR is annualised.

The financial forecast is based on a number of best estimate assumptions and these best estimate assumptions are subject to change.

Set out in Figures 9.23 and 9.24 is the sensitivity analysis for changes to forecast net profit and distributions for the 9 months ending 30 June 2014, and 12 months ending 30 June 2015, as a result of:

- changes in assumed recovery of vineyard receivable (refer to note 1, Figure 9.21);
- changes in variable expenses; and
- changes in interest rates.

RFF holds cash reserves that may be used to absorb the reduction in distributions presented in Figures 9.23 and 9.24.

Figure 9.23: RFF sensitivity analysis for the 9 months ending 30 June 2014

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
Full recovery of vineyard receivable ¹	361	361	253	361	0.0030	3.6%
No recovery of vineyard receivable ¹	361	(361)	(253)	(361)	(0.0030)	-3.6%
5% reduction in variable expenses	2,865	143	100	143	0.0012	1.4%
5% increase in variable expenses	2,865	(143)	(100)	(143)	(0.0012)	-1.4%
10% increase in variable expenses	2,865	(287)	(201)	(287)	(0.0024)	-2.9%
1% decrease in interest rates ²	5%	493	345	493	0.0041	5.0%
1% increase in interest rates ²	5%	493	345	493	0.0041	5.0%

Notes to Figure 9.23:

1. The balance sheet contains a provision for 50% of the receivable (refer note 1, Figure 9.21).
2. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
3. Parenthesis indicates a negative value.

Figure 9.24: RFF sensitivity analysis for the 12 months ending 30 June 2015

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per unit	Change in distributions % per unit
5% reduction in variable expenses	3,105	155	109	155	0.0013	1.6%
5% increase in variable expenses	3,105	(155)	(109)	(155)	(0.0013)	-1.6%
10% increase in variable expenses	3,105	(311)	(217)	(311)	(0.0026)	-3.1%
1% decrease in interest rates ¹	5%	493	345	493	0.0041	4.9%
1% increase in interest rates ¹	5%	(493)	(345)	(493)	(0.0041)	-4.9%

Notes to Figure 9.24:

1. Assumes 50% of debt is hedged. Hedged debt is assumed at 6.0% p.a. and unhedged debt is based on a market rate of 5.0% p.a. Therefore any interest rate movements only impact the unhedged component.
2. Parenthesis indicates a negative value.

The calculation ownership for each of the existing Funds in RFF is shown in Figure 9.25.

Figure 9.25: Calculation of ownership in RFF

Entity	Notes	NAV 30 June 2013 \$'000	Adjustments \$'000	Premium \$'000	Total RFF consideration \$'000	Ownership RFF
RiverBank	1	47,564	309		47,874	37.1%
CIF	2	53,749	(7,150)		46,599	36.1%
AWF	3 & 4	30,296	(210)	4,513	34,599	26.8%
Total		131,610	(7,051)	4,513	129,072	100%

Notes and specific assumptions to Figure 9.25:

The ownership calculation is based on the 30 June 2013 audited accounts, plus the following adjustments:

1. \$0.3 million adjustment for RiverBank relates to the valuation of parcels of land and water which at 30 June were held for sale based on a proposed transaction which subsequently completed on better than anticipated terms and has therefore been adjusted to reflect this. In addition an accounting impairment of water has been reversed to reflect the independent valuation of water. These adjustments are net of tax.
2. (\$7.2 million) adjustment to the CIF NAV comprising the de-merger of RFMP (\$6.8 million) and (\$0.4 million) provision for future improvements on the chicken sheds required for the adoption of higher welfare standards.
3. AWF adjustment of \$0.2 million for future capital expenditure in FY 2014 required under the terms of the lease.
4. \$4.5 million adjustment to AWF due to RiverBank acquiring the AWF assets at higher than carrying value. Based on the size and current market conditions for premium vineyard assets like those held by the AWF it is RFM's view the sale prices that could be achieved for the AWF assets would be comparable to their current book value. In addition the market for premium vineyard assets has been depressed for some years and is now showing signs of recovery. This contrasts with the assets owned by RiverBank and CIF which are significantly larger in scale and thus would attract a smaller number of prospective buyers. For these reasons RFM considered the conversion rate for AWF Unitholders at a 15% premium to NAV appropriate.

The numbers of Units issued in RFF is based on the forecast 30 September 2013 NAV multiplied by the allocation of ownership of the total assets of RFF as between the three Funds (CIF, AWF and RiverBank) as at 30 June 2013. Figure 9.26 shows how many units will be offered to existing Unitholders in each of the Funds assuming a \$1.00 issue price.

Figure 9.26: Calculation of RFF units issued

Entity	Forecast NAV Sep 13 \$'000	Adjustments ¹	Forecast NAV Sep 13 \$'000	Forecast Units on issue '000	RFF Units issued '000	Ownership RFF	Merger ratio
RiverBank	48,646	(1,638)	47,008	32,748	45,043	37.1%	1.3755
CIF	46,780	(1,594)	45,186	63,662	43,844	36.1%	0.6890
AWF	30,431	(1,184)	29,247	70,663	32,554	26.8%	0.4608
Total	125,857	(4,416)	121,440		121,440	100%	

Notes to Figure 9.26

1. Adjustments relate to a provision for a special distribution of \$2.5 million and the loss of \$1.9 million of deferred tax losses.

Figures 9.27 and 9.28 show a comparison of the total comprehensive income attributable to Unitholders, and a comparison of net assets between RFF and the standalone entities.

Figure 9.27: Comparison of total comprehensive income attributable to Unitholders for the 9 months ending 30 June 2014 and 12 months ending 30 June 2015

	Notes	Forecast 9 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
RFF		6,965	9,149
RFMP		750	759
Total		7,715	9,908
RiverBank	1	3,612	3,646
CIF	1	2,340	3,481
AWF	1	1,926	1,933
Less comprehensive income attributable to Unitholders for 3 months prior to Merger	2	(1,000)	
Total		6,878	9,060
Variance		837	848
Fund expenses	3	635	967
Management fee	4	321	362
Interest	5	289	(374)
Stamp duty	6	(700)	-
Other	7	291	(106)
Total		837	848

Notes to Figure 9.27:

1. Represents a 12 month period ending 30 June 2014 refer to Figures 9.1, 9.7 and 9.13.
2. Adjustment excludes the 3 months of trading for the standalone entities from 1 July 2013 to 30 September 2013.
3. Reduction in fund overhead costs as a result of Revaluation.
4. Reduction in management fee payable to RFM as a result of Revaluation.
5. Lower interest costs payable as a result of Revaluation offset by additional drawings in FY 2015.
6. Payment of \$0.7 million of stamp duty as a result of Revaluation.
7. Includes other income, fair value adjustments to investment properties, and depreciation.

Figure 9.28: Comparison of net assets as at 1 October 2013, 30 June 2014, and 30 June 2015

	Notes	Forecast 1 October 2013 \$'000	Forecast 30 June 2014 \$'000	Forecast 30 June 2015 \$'000
RFF		121,440	119,989	120,537
RFMP		6,800	6,875	6,951
Total		128,240	126,864	127,488
RBK		48,646	49,208	50,229
CIF		53,580	52,541	50,372
AWF		30,431	30,669	31,161
Total		132,657	132,418	131,762
Variance		(4,416)	(5,554)	(4,275)
Opening variance – net asset			(4,416)	(5,555)
Total comprehensive income attributable to Unitholders	1	-	837	848
Loss of RiverBank tax assets	2	(1,927)	-	-
Variance in distribution	3	(2,490)	(838)	630
Issue of Units	4	-	(1,138)	(199)
Closing variance – net assets		(4,416)	(5,555)	(4,275)

Notes to Figure 9.28:

1. Refer to Figure 9.27
2. \$1.9 million reduction in RFF net assets due to the loss of RiverBank deferred tax assets.
3. Reduction in RFF net assets due to additional distributions paid as a result of Revaluation.
4. Reduction in RFF assets due to a \$1 million Unit buyback offset by reinvestment of Units.

9.6 RFF BANK FACILITIES

Figure 9.29 sets out the key terms of the bank facility for RFF.

Figure 9.29: RFF bank facilities key terms

Term Loan	Drawn to \$96.7 million at Implementation Date
Limit	\$97.5 million
Maturity profile	\$2 million per annum amortisation due commencing 30 September 2016
Facility termination date	5 years from 1 October 2013
Loan to Security Ratio (LSR)	• Covenant: 50% • Forecast on commencement: 41.1% • Forecast 30 June 2014: 40.8%
Interest cover ratio	• Covenant – at all times greater than 2.25 times, if less than 2.5 times distribution lock-up • Forecast interest cover ratio 30 June 2014: 2.94 times
Non-financial covenants	• Annual independent valuation • Financial reporting
Security	Borrowing facilities are secured by: • real property mortgages; • a general security agreement; and • cross guarantees between RFF and its subsidiaries.
Hedging	At the commencement of the facility, interest rates will not be hedged. RFM intends to hedge up to 50% of the borrowings within 12 months of the Implementation Date.
Other key terms	• Various standard default and review events. • Facility is subject to annual review.

Fees and other Costs

10.1 INTRODUCTION

Following the completion of Revaluation, fees and other costs will be levied in accordance with the RiverBank constitution.

Revaluation provides for cost savings in several areas with fees and costs identified as one of those areas. Figure 10.1 sets out the fees that RFM intends to charge, which are lower than the maximum allowed under RiverBank's constitution.

By law, RFM must provide you with the following Consumer Advisory Warning at the beginning of this section. Following the Consumer Advisory Warning, this section provides detailed information about the fees and other costs associated with investing in RFF.

Consumer Advisory Warning

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask RFM or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.

10.2 FEE TABLE

The table below sets out the fees and costs expected to be paid by RFF to RFM.

Figure 10.1: Fees and costs

Type of fee or cost	RFF amount	How and when paid
<i>Establishment fee</i>		
The fee to open your investment	Nil	Not applicable
<i>Contribution fee</i>		
The fee on each amount contributed to your investment.	Nil	Not applicable
<i>Withdrawal fee</i>		
The fee on each amount you take out of your investment	Nil	Not Applicable
<i>Termination fee</i>		
The fee to close your investment	Not applicable	
Management Costs		
Fund management fee	0.60% p.a. of gross assets of RFF	Fee calculated monthly based on the gross value of the RFF assets Fee reflected in the RFF Unit price Fee paid monthly in advance from RFF
Fund expenses	Estimated at 1.03% of the net value of RFF	Costs paid from RFF as and when RFM incurs the costs
Performance fee	Nil	Not applicable
Acquisition fee	1% of the total purchase price of the asset	Payable on acquisition of an asset
Development fee	Nil	Not applicable
Service Fees		
<i>Investment switching fee</i>		
The fee for changing investment options	Not applicable	

The maximum amount of fees permitted by the RFF constitution are set out in Figure 10.4.

10.3 ADDITIONAL EXPLANATION OF FEES AND COSTS

Management fee

This is the fee we charge for managing RFF's investments, overseeing RFF's operations and promoting RFF to investors. RFM will be paid a management fee equal to 0.60% p.a. of the gross value of RFF's assets. The management fee will be calculated and paid from RFF's assets monthly in advance.

The three Fund constitutions currently allow RFM to charge a higher management fee. Following the Merger, RFM will reduce its overall management fee and it is RFM's intention to keep management fees below their current level.

Fund operating expenses

Under RFF's constitution, RFM is entitled to be reimbursed for all expenses properly incurred in relation to the operation of RFF from RFF's assets. These expenses may be paid directly from RFF's assets or alternatively paid by RFM and then recovered from RFF's assets. For example, expenses relating to managing the Fund's underlying assets may be paid from the Fund's assets. Operating expenses may include abnormal items such as the cost of Unitholder meetings, changing the constitution or pursuing legal proceedings. The operating expenses disclosed in Sections 9 and 10.2 are an estimate (based on historical trading results) of the operating expenses likely to be incurred in relation to the operation of RFF for the financial year ending 30 June 2014, and should not be considered as limiting RFM's rights to pay all proper and reasonable expenses incurred in relation to the operation of RFF from RFF's assets. Actual operating expenses may be higher than the amount disclosed above in Section 9.

Acquisition fees

RFM may be paid an acquisition fee equal to 1% of the total purchase price paid for an asset. This fee may be paid from RFF's assets at the time or after the acquisition is made. Any acquisition fees are included in the management costs disclosed in the worked example of annual fees and costs set out in Figure 10.3. The example assumes that RFF will not derive acquisition fees during the financial year ending 30 June 2014.

Indirect Cost Ratio

The Indirect Cost Ratio (ICR) is the ratio of the fund management costs that are not deducted directly from the RFF Unitholder's account, divided by the RFF average net assets. The ICR calculation includes fund management fees and costs to administer the fund, provide investor services, fund audit, compliance, sales and marketing, and legal fees.

Figure 10.2 sets out the forecast ICR for RFF and compares it to the forecast ICRs for the existing Funds on a stand-alone basis.

Figure 10.2: Forecast ICRs for FY 2014.

Fund	Forecast
RFF	2.25%
OR	
RiverBank	3.88%
CIF	4.23%
AWF	3.62%

Under this offer there are no direct costs deducted from an individual Unitholder's account.

Asset management fees

RFF is charged a fee for asset management services provided by RFM. These services include, but are not limited to:

- contract management and lease negotiation;
- property management including overseeing any necessary capital expenditure; and
- finance and accounting services.

RFM intends to charge an asset management fee of 5% of the annual gross lease revenue, or 0.45%, if expressed as a percentage of gross assets. The fee is charged monthly in advance, and is separate from the cost recovery that RFM is entitled to under the RFF constitution.

Where assets are operated, rather than leased, RFM may charge up to 5% of operating expenses. RFF does not currently operate assets nor intends to do so.

10.4 EXAMPLE OF ANNUAL FEES AND COSTS FOR RFF

Figure 10.3 gives an example of how the fees and other costs can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

Figure 10.3: Forecast ICR for FY 2014

EXAMPLE	FEE	
Contribution fees	Nil	Not applicable
Plus management costs	2.25%	For every \$50,000 you have in RFF you will be charged \$1,250 each year
Equals cost of the fund		If you had an investment of \$50,000 at the beginning of the year and put in an additional \$5,000 at the end of that year, you will be charged a fee of: \$1,250

10.5 COMPARISON OF FEES

Figures 10.4 to 10.6 compare three aspects of fees: the fees currently paid by the stand-alone funds; the maximum fee payable under the RFF constitution; and the proposed fee that will be paid by RFF.

Figure 10.4: Comparison of RiverBank constitution fee limits and proposed RFF fees

	RiverBank current fee arrangement	Maximum fee under RiverBank Constitution	Proposed RFF fee	Notes
Contribution fee	up to 3% of the amount invested	up to 3% of the amount invested	nil	
Fund management fee	1.00% p.a. of the gross asset value of the Fund	1.5% p.a. of the gross asset value of the Fund	0.60% p.a. of the gross asset value of the Fund	
Performance fee	15% of the returns in excess of a return on equity of 15% p.a. on the amount invested	15% of the returns in excess of a return on equity of 15% p.a. on the amount invested	nil	
Acquisition fee	2% of the total purchase price of an asset	2% of the total purchase price of an asset	1% of the total purchase price of an asset	
Development fee	-	-	-	
Asset management fee	Where property is operated: 5% of the amount of annual operating expenses	Where property is operated: 5% of the amount of annual operating expenses	Where property is operated: 5% of the amount of annual operating expenses	The asset management fee is capped under the constitution at 1% p.a. of the gross asset value of the Fund
	Where property is leased: 5% p.a. of the annual rent	Where property is leased: 5% p.a. of the annual rent	Where property is leased: 5% p.a. of the annual rent	

Figure 10.5: Comparison of CIF current fee arrangements and proposed RFF fees

	CIF current fee arrangement	Proposed RFF fee	Notes
Contribution fee	up to 3% of the amount invested	Nil	
Fund management fee	1.25% p.a. of the gross asset value of the Fund	0.60% p.a. of the gross asset value of the Fund	
Performance fee	-	-	
Acquisition fee	-	-	
Development fee	-	-	
Asset management fee	Where property is operated: 5% of the amount of annual operating expenses	Where property is operated: 5% of the amount of annual operating expenses	The asset management fee is capped under the constitution at 1% p.a. of the gross asset value of the Fund
	Where property is leased: 5% p.a. of the annual rent	Where property is leased: 5% p.a. of the annual rent	

Figure 10.6: Comparison of AWF current fee arrangements and proposed RFF fees

	AWF current fee arrangement	Proposed RFF fee
Contribution fee	up to 3% of the amount invested	nil
Fund management fee	0.8% p.a. of the gross asset value of the Fund	0.60% p.a. of the gross asset value of the Fund
Performance fee	-	-
Acquisition fee	-	-
Development fee	-	-
Asset management fee	Where property is operated: 5% of the amount of annual operating expenses	Where property is operated: 5% of the amount of annual operating expenses Where property is leased: 5% p.a. of the annual rent

10.6 WHOLESALE INVESTORS

RFM may offer wholesale investors a discount on the fees payable by them to RFM for managing their investment. Any discounts will be individually negotiated with wholesale investors based on the amount invested. RFM would only exercise this discretion where wholesale investors were investing a significant sum into RFF.

10.7 CHANGES TO FEE STRUCTURE

Subject to the limitation contained in RFF's constitution, RFM may increase the amount of fees without investors' consent. Investors will be given 30 days prior notice of any changes to RFF's fee structure as set out in this EM.

10.8 GOVERNMENT CHARGES AND GST

Government taxes such as stamp duty and GST will apply as appropriate. Fees in this Section 10 are disclosed based upon the net effect of GST.

Risks

11.1 RISK FACTORS

An investment in RFF, like any investment, involves risk. These risks can be broadly divided between specific risks, property market risks, and general risks relevant to RFF.

Whilst the assumptions used in generating the forecasts within this Explanatory Memorandum are considered reasonable, a number of these risk factors could affect the achievement of the forecasts. Most risk factors are outside the control of RFM.

Detailed below are risk factors however this is not an exhaustive list. Unitholders should make their own independent assessment of Revaluation. Many of these risks apply to the Funds under the current ownership structure.

11.2 SPECIFIC RISKS

The key terms of the RFF property leases are set out in Section 8.3. These should be read in conjunction with the risks set out below.

Risk	Summary
Counterpart	All land and infrastructure assets owned by RFF are leased in order to ensure that Unitholders are not exposed to operational risk. There is a risk that a counterpart may default on its lease obligations to RFF. Any default would reduce RFF's revenue and thus its ability to meet its obligations and the payment of distributions. RFF has several lessees with the largest lessee (by rental income), being RFMP representing 43% of RFF's revenue stream during the 2014 financial year.
Takeover	RFM, an experienced agricultural manager, is the Responsible Entity of RFF. Another entity may seek to take over RFF. Any change of responsible entity will require Unitholder approval of an ordinary resolution at a Unitholder meeting.
Future distributions or reduction in distributions	RFF must meet its operating expenses, capital commitments and debt servicing obligations before distributions can be made to Unitholders. Consequently distributions may vary.
Unit price trades at below Net Asset Value	Following listing, there is a risk that RFF Units may trade at values less than their NAV per security. Currently there are approximately 3.5% of Unitholders by value in the existing Funds who have registered their interest in selling their Units. It is possible that some Unitholders may accept a price below NAV for their RFF Units. The trading price of the Units will be dependent on the financial performance of RFF. RFM expects that RFF will be classified as a REIT and for this reason its financial performance will be considered using metrics commonly considered for this sector.

Risk	Summary
	Analysis of the 45 REITs listed on the ASX at 31 July 2013, reveals a significant group trading at a premium to their NAV. REITs not paying regular distributions or with capital management issues, tend to trade at significant discounts to NAV. RFM analysis identified a third group of REITs. This group were paying regular distributions and trading on average at a discount of 1.58% to NAV. The Independent Expert has provided an analysis of REITs that have a current market capitalisation of less than \$600m, and reported gearing of between 25% and 70%. Their analysis found that this group of REITs is trading at a median discount of 17.7% to NAV. Refer to Section 11.4 of the Independent Expert Report. The Independent Expert's calculated trading discount has not taken into account whether the REIT was paying a regular distribution. Refer to Section 11.4 of the Independent Expert Report.
Liquidity	The ability to sell your RFF investment will depend on the availability of buyers. Larger stocks generally have a higher level of liquidity or turnover than smaller stocks. There are approximately 2,000 stocks listed on the ASX and the capitalisation of RFF will place it between 500th and 600th in size.
Suspension event	There is a risk that a suspension event could occur under the terms of the chicken growing contracts. Under the terms of the RFMP lease any reduction in the grower fee revenue relating to a suspension event will result in a proportional reduction in the rent payable to RFF. Details of suspension events under the chicken growing contracts are set out in Section 12.9
Welfare standards	The adoption by Baiada of higher animal welfare standards may lead to increased costs. The increased costs may not be included in the grower fee until the subsequent year, or not at all.

11.3 PROPERTY MARKET RISKS

Risk	Summary
Decline in asset value	RFF owns property including land, water and infrastructure for agricultural production. The value of these assets may rise or fall because of general economic conditions, local and global agricultural conditions, changes in independent valuation methodologies and changes in discount rates.
Destruction or damage of property	It is possible that the assets owned by RFF could be destroyed or damaged by natural or other events. RFM will maintain appropriate levels of insurance, provided it is economically sensible to do so.
Property illiquidity	The majority of assets owned by RFF are large scale. Given this scale, the number of potential buyers is limited. Therefore the sale of assets at book value may take longer to realise.
Water availability	Pursuant to the terms of the Treasury Wine Estates leases, and the lease for the RFM Almond Funds 2007 and 2008, where there is a reduction in water entitlements, RFF is required by the terms of the leases to replace the entitlements from an alternative source. Failure to do so may result in a rent abatement or a right to terminate the lease. There is no such requirement in any of the other existing leases.

11.4 GENERAL RISKS

Risk	Summary
Change in economic conditions	The following economic conditions may impact the performance of RFF assets: • national economic growth; • industry change; • interest rates; • inflation; • exchange rates; and • changes to government economic policy
Change in political and regulatory environment	The following international or domestic political conditions (as well as others that are not listed here) may adversely affect RFF's assets: • legislative changes; • regulatory changes; • taxation changes; and • foreign policy changes (including the status of trade agreements).
Hedging of interest rates	RFF undertakes interest rate hedging to help protect against changes in interest rates. Interest rate swaps, although used for hedging, can create interest rate risk and counterpart risk. Further, for accounting purposes, swaps are required to be valued at market value and this can create earnings volatility.
Gearing	RFF has secured a debt facility that sets limits for the next five years. Beyond this there is a risk that RFF's bank could reduce the gearing limit. In these circumstances, where asset values have not increased sufficiently to offset any decrease in gearing limits, RFF may be required to sell assets and reduce or suspend distributions to retire debt.
Taxation changes	Section 15 provides an outline of the current taxation status of RFF. As a Unitholder, you should be aware that taxation law can change which may materially impact your taxation position or the value of your investment in RFF.
Reliance on RFM's skills	RFF Unitholders have no direct control over the decisions that affect the day-to-day management of RFF. Instead they rely on the skills of RFM and of RFM's employees to manage RFF assets. An RFM employee may have a specialist skill set that is used to manage those assets. If that RFM employee resigns, then RFM may not be able to replace that specialist skill set quickly or easily.
Conflict of interest and related party transactions	RFM is the Responsible Entity for RFF and for a number of other funds. It is possible that investment opportunities will arise for RFF through RFM's relationship with those other funds. Therefore, from time to time, RFM may face a conflict of interest that arises because of its role as the Responsible Entity for RFF and its role as the Responsible Entity for other funds. Related party transactions are subject to the RFM Conflict of Interest Management Policy and are submitted to the ECC for review. The ECC comprises a majority of members who are external to RFM. See Section 13.3 for further detail about related party transactions.
Inflation	Inflation risk is the uncertainty over the future real value of your investment and specifically whether revenue or profitability will increase at least in line with inflation. The Select Harvests and Treasury Wine Estates leases allow for annual indexing of 2.5% p.a. with five yearly reviews to market. The RFMP lease is subject to standard indexation capped at 2% p.a. The leases to RFM's Almond Projects are subject to standard indexation of 2.5% p.a. There is the risk that inflation will be more than the results achieved by the market reviews and annual indexing.

RFM Poultry

This section only applies to existing CIF Unitholders.

12.1 INVESTMENT SUMMARY

In order to create a merged entity that does not operate agricultural enterprises, it is necessary to isolate the poultry growing operations from RFF. For this reason, current CIF Unitholders will be issued units in a separate entity known as RFM Poultry (RFMP). RFMP will lease and operate the poultry farms owned by RFF. RFMP will be funded with working capital transferred from CIF.

RFMP will be treated separately to RFF and will be listed on the National Stock Exchange (NSX) to provide a market for Units. It is listed on a different exchange from RFF as it is a relatively small entity with capitalisation of approximately \$6.8 million.

12.2 ABOUT RFMP

The beneficial entitlement of the broiler chicken contracts will be held by RFMP as part of Revaluation.

The chicken growing facilities in New South Wales and Victoria currently owned by CIF will be leased to RFMP on a commercial basis as outlined in Figure 12.3.

Importantly, like CIF, RFMP will not own any chickens and therefore will not have a direct exposure to the chicken meat price and feed costs. Rather, RFMP will provide, through the leasing arrangements, the facilities and management to raise the chickens. Baiada, RFMP's contractual counterpart, delivers day old chicks, provides the necessary food and other inputs, and then collects the chickens for processing when they reach marketable weight.

The grower fee that RFMP receives under the contract is based on the size of the chicken growing facilities not on throughput. In the case of the New South Wales facilities, a performance fee or penalty is contained in the contract. The bonus or penalty component is based on metrics for growing efficiency. During the 2012 financial year, CIF received a net bonus of \$0.370 million based on its performance during the period. The fee also includes an amount that compensates RFMP for the majority of costs it incurs in growing the chickens. Given this contractual arrangement, the revenue received by RFMP from Baiada will not be volatile.

12.3 KEY INFORMATION – RFMP

Figure 12.1: RFMP Key Information

NSX Code	RFMP
Principal business	Operating chicken broiler farms and deriving income from chicken growing contracts.
Forecast distributions per Unit	• 9 months ending 30 June 2014 – 9.93 cents per unit franking inclusive (9.93 cents excluding franking) • 12 months ending 30 June 2015 – 14.35 cents per Unit franking inclusive (10.04 cents excluding franking)
Annualised distribution yield	• Year ending 30 June 2014 – 13.71% based on NAV of \$1.00 per Unit franking inclusive • Year ending 30 June 2015 – 15.01% based on NAV of \$1.01 per Unit franking inclusive
Revenue Sources	Bartter Enterprises chicken Growing Contracts
Net equity (1 October 2013)	\$6.8 million
Net Asset Value (1 October 2013)	\$1.00
Loan security ratio	No debt anticipated

12.4 LISTING RFMP

Existing CIF Unitholders will receive 0.1069 Units in RFMP for every 1 Unit held in CIF. It is intended to list these Units on the National Stock Exchange. The risks associated with an NSX listing are similar to those associated with an ASX listing (refer Section 11) and trading in RFMP units will be dependent on the numbers of buyers and sellers.

The NSX is a stock exchange focusing on small to medium size entities. It is owned and operated by NSX Limited, which is listed on the ASX (listed 13 January 2005). The NSX enables trading in the securities of entities that meet its listing rule requirements. Settlement of securities is electronic and on trade date plus three business days.

The NSX has 130 quoted securities and 25 market participants (brokers). For the 2012 calendar year, 3,370 trades were executed through the market with a value of \$291 million.

Further information about the NSX is available on their website: www.nsx.com.au

In the 2012 calendar year 0.4% by value of the Units in CIF were traded at a discount range to NTA of approximately 20% to 30%. The Independent Expert considers that RFMP units could potentially trade at a discount range to NTA of approximately 35% to 45%.

RFM considered the option of selling individual poultry farms to fund an equal access buyback, to provide liquidity to CIF Unitholders. This option has been discounted because:

- the sale of assets will reduce the scale of CIF and therefore increase fund operating costs per issued Unit, due to the substantial fixed costs of operating CIF;
- any withdrawal offer is unlikely to allow Unitholders who apply to fully exit CIF, thereby leaving the same number (and cost) of Unitholders in CIF with a smaller income producing asset base; and
- based on RFM's experience the limited market for poultry farms is likely to lead to the farms being sold at a significant discount to their value whilst withdrawing members would be exiting at net asset value.

12.5 DISTRIBUTION TO ESTABLISH RFMP

CIF will make a distribution to CIF Unitholders of 10.69 cents per Unit in order to fund the establishment of RFMP. This distribution will be applied to acquire Units in RFMP on behalf of each CIF Unitholder.

The tax treatment of the CIF distribution is the subject of a class ruling request which has been lodged with the ATO. RFM believes that the ATO will rule that the distribution should be treated as a distribution partly made out of income and partly made out of capital for tax purposes.

To the extent the distribution is taxed as a capital distribution, it will reduce the investor's CGT cost base in CIF Units. To the extent that the distribution is income (which RFM believes should be no more than 58% of the distribution), it should be included in the Unitholder's assessable income. The full amount of the distribution will form the Unitholder's CGT cost base in RFMP.

12.6 RFMP OPERATIONS

RFMP will lease the farms in New South Wales and Victoria currently owned by CIF. The terms of the lease are outlined in further detail in Figure 12.2. RFMP will be capitalised to \$6.8 million to support its chicken growing activities.

12.7 THE BROILER CHICKEN GROWING CONTRACTS COUNTERPART

Established in the 1950s, Baiada is a privately owned Australian company and one of the two largest poultry processors in Australia. In 2009, Baiada purchased Bartter Enterprises thereby giving the company national distribution. Baiada is also a significant Australian employer, with over 2,200 employees.

Baiada's retail chicken brands – Steggles, Lilydale, and Baiada – are well known by Australians and are sold through Coles, Woolworths, Franklins, Aldi, and a range of independent retailers. In addition to their retail chicken brands, Baiada supplies a number of quick service restaurants, including McDonalds, KFC, Red Rooster, Subway, Pizza Hut, and Nandos. They also supply charcoal chicken shops, butchers, and specialty poultry retailers.

Baiada's business operations include broiler and breeder farms, hatcheries, processing plants and feed milling. Their products include sales of live poultry including breeding stock, poultry feed, fertile eggs, day old chickens, fresh chicken and further processed chicken products.

12.8 LEASE FROM CIF

RFMP will lease the chicken growing assets owned by CIF as outlined in Figure 12.2.



Figure 12.2: Lease Terms

Item	Term
Lessor	RFM Chicken Income Fund
Lessee	RFM Poultry
Leased assets	154 sheds: • Griffith farms 53-66 – 110 sheds • Griffith farms 67-68 – 24 sheds • Lethbridge farms – 20 sheds
Commencing rent	\$10.150 million
Rent indexing	Same as ROI component of Growing Contracts (refer to Figure 12.3)
Rent review	No standard review. Lessee can request a review where there has been a material adverse event affecting the chicken growing gross margin.
Term	The lease term is to match the term of the growing contracts for each category of assets: • Griffith farms 53-66 – 11 years • Griffith farms 67-68 – 16 years • Lethbridge farms – 26 years
Assignment	The lease can only be assigned with the Lessor's approval.
Default events	• Insolvency • Breach of growing contract • Change of Responsible Entity
Consequence of Lessee default	Lessor may: • Take possession • Cancel the lease • Assign Growing Contracts to Lessor
Outgoings	All on account of Lessee unless otherwise specified
Insurance	On account of Lessee
Rates	On account of Lessor
Repairs & maintenance	On account of Lessee
Capital expenditure	• Ongoing or recurring capital expenditure on account of Lessee. • Structural capital expenditure on account of Lessor

12.9 CHICKEN GROWING CONTRACTS

The details of the chicken growing contracts are set out in Figure 12.3.

Figure 12.3: Bartter Enterprises broiler chicken growing contracts

Property	Farm 53 – 66	Farm 67	Farm 68	Lethbridge
Counterpart	Bartter Enterprises	Bartter Enterprises	Bartter Enterprises	Bartter Enterprises
Agreement Type	Chicken Growing Contract	Chicken Growing Contract	Chicken Growing Contract	Chicken Growing Contract
Expiry	31-Mar-24	23-Feb-26	30-Sep-27	03-Jul-36
Area	173,472 sq metres	35,088 sq metres	35,496 sq metres	59,160 sq metres
2014 grower fee¹	\$13.514 million	\$2.994 million	\$3.056 million	\$4.825 million
Other key terms				
Payment dates	Payment at end of each batch by farm	Payment at end of each batch by farm	Payment at end of each batch by farm	Monthly
Fee review – cash cost component	Annually as per contract: wages based on award, gas & electricity actual costs, all other CPI	Annually as per contract: wages based on award, gas & electricity actual costs, all other CPI	Annually as per contract: wages based on award, gas & electricity actual costs, all other CPI	Annually as per contract: wages based on award, gas & electricity actual costs, all other CPI
Fee review – return on investment (ROI) component	2.25% p.a.	2.25% p.a.	2.25% p.a.	2.25% p.a.
Repairs & Maintenance	On account of Grower	On account of Grower	On account of Grower	On account of Grower
Insurance	On account of Grower	On account of Grower	On account of Grower	On account of Grower
Water licences	Water provided by Grower	Water provided by Grower	Water provided by Grower	Water provided by Grower
Suspension events	If suspension event, obligations under the contract including bird placement and payment are suspended until rectified. Included, but not limited to: • Acts of God • Epidemics • Fires • Industrial disputes by Bartter employees	If suspension event, obligations under the contract including bird placement and payment are suspended until rectified. Included, but not limited to: • Acts of God • Epidemics • Fires • Industrial disputes by Bartter employees	If suspension event, obligations under the contract including bird placement and payment are suspended until rectified. Included, but not limited to: • Acts of God • Epidemics • Fires • Industrial disputes by Bartter employees	If suspension event, obligations under the contract including bird placement and payment are suspended until rectified. Included, but not limited to: • Acts of God • Epidemics • Fires • Industrial disputes by Bartter employees

Property	Farm 53 – 66	Farm 67	Farm 68	Lethbridge
Suspension events (continued)	• Livestock husbandry issues • Disease caused by RFM Poultry • Chicken meat importation	• Livestock husbandry issues • Disease caused by RFM Poultry • Chicken meat importation	• Livestock husbandry issues • Disease caused by RFM Poultry • Chicken meat importation	• Livestock husbandry issues • Disease, although contract payments suspended, RFM Poultry compensated when next batch placed. • Chicken meat importation, although contract payments suspended, RFM Poultry compensated when next batch placed.
Change of control/ Assignment:	Subject to written consent by Bartter	Subject to written consent by Bartter	Subject to written consent by Bartter	Subject to written consent by Bartter
Termination events:	• Mutual agreement • After 6 month suspension period • Business ceasing • Material breach • Insolvency	• Mutual agreement • After 6 month suspension period • Business ceasing • Material breach • Insolvency	• Mutual agreement • After 6 month suspension period • Business ceasing • Material breach • Insolvency	• Mutual agreement • After 6 month suspension period • Business ceasing • Material breach • Insolvency

1. Forecast only. Fee to be negotiated with processor

12.10 FINANCIAL INFORMATION

This section includes financial information on RFMP.

Basis of preparation

The financial information in this section has been prepared on the basis required by Australian Accounting Standards as issued by the Australian Accounting Standards Board.

Historical and forecast financial information

The financial information in this section includes:

- Forecast Statements of Comprehensive Income and Changes in Net Assets for the 9 months ending 30 June 2014, and 12 months ending 30 June 2015; and
- Forecast Statements of Financial Position as at 30 September 2013, 30 June 2014 and 30 June 2015.

These are collectively known as forecast financial statements.

The financial statements set out in this section should be read in conjunction with the summary of key assumptions. In addition, consideration should also be given to key risks identified in Section 12.19.

The forecast financial information is based on RFM's assessment of the present economic and operating conditions and a number of assumptions regarding future events and actions, which RFM expects to take place. These events or actions may or may not take place.

Whilst the Directors of RFM consider all key assumptions to be reasonable at the time of preparation, Unitholders should be aware that unforeseen events cannot be controlled and may lead to a deviation from the forecast financial statements.

The forecast financial information is by its very nature subject to uncertainty and unexpected events, many of which are outside the control of RFM. Events and circumstances often do not occur as anticipated and, therefore, actual results may differ from the forecast financial information and these differences may be material. Accordingly, RFM cannot guarantee that the forecast financial information can or will be achieved.

Unitholders are reminded that past performance is not indicative of future performance and RFMP returns are not guaranteed.

Sensitivity analysis on profit and distributions for key assumptions for the forecast period are also shown under RFMP's financial statements.

General assumptions

The following best estimate general assumptions are relevant to the forecast provided in Figures 12.4 and 12.5 and should be read in conjunction with the notes and special assumptions at the end of each financial statement.

- All grower and lease agreements are enforceable and are performed in accordance with the terms set out in Figures 12.2 and 12.3;
- All leases are classified as operating leases;
- CPI of 2.5% p.a. unless noted in the notes and specific assumptions;
- No specific change to the legislative regime and regulatory environment in the jurisdictions in which RFMP operates;
- No material changes in applicable Australian Accounting Standards, other mandatory professional reporting requirements, and the Corporations Act during the forecast period;
- No material changes to the Australian income tax legislation; and
- No material amendment to any key agreements relating to RFMP.

RFM Poultry forecast financial statements

Detailed in Figures 12.4 and 12.5 are the forecast Statement of Comprehensive Income and Changes in Net Assets, and Statement of Financial Position for RFMP.

Figure 12.4: RFM Poultry Statement of Comprehensive Income and Changes in Net Assets

	Notes	Forecast 9 mths to 30 June 2014 \$'000	Forecast 12 mths to 30 June 2015 \$'000
Revenue			
Grower fee income	1	17,927	24,983
Interest		86	121
Total revenue		18,013	25,104
Operating and other costs	2	(7,497)	(10,941)
Rental payments	3	(7,592)	(10,302)
Repairs and maintenance	4	(1,423)	(2,096)
Management fees		(394)	(634)
Depreciation & asset revaluation	5	(36)	(46)
Net profit before income tax		1,071	1,084
Income tax expense		(321)	(325)
Net profit after income tax		750	759
Distributions paid to Unitholders	6	(675)	(683)
Change in net assets		75	76

Notes to Figure 12.4:

1. Grower fees relate to services provided pursuant to growing contracts with Bartter Enterprises. Grower fees have been forecast based upon current growing contracts which are in place and the standard fee review mechanism specified in the contracts.
2. Operating costs include direct operating costs, administration and compliance costs assumed to index in the range of 1.75% to 2.5% p.a.
3. Rental payments to RFMP are set under the lease agreements and assumed to index at 1.5% p.a. Refer to lease agreement set out in Section 12.8.
4. All expenditure incurred on the facilities is assumed to be repairs and maintenance. Some items of actual expenditure may be classified as capital expenditure under accounting standards, capitalised in the balance sheet and depreciated. Expenditure is assumed to be indexed at 2.5% p.a.
5. Includes depreciation on plant and equipment, calculated on a straight-line basis over the useful life.
6. FY 2014 distributions franking inclusive of 9.93 cents per Unit declared; FY 2015 distributions franking inclusive of 14.35 cents per Unit declared. Distributions have been calculated based upon forecast revenue from RFMP's trading activities less forecast expenses and amounts set aside for cash reserves.

Figure 12.5: RFM Poultry Statement of Financial Position

	Notes	Pro forma 1 October 2013 \$'000	Forecast 30 June 2014 \$'000	Forecast 30 June 2015 \$'000
ASSETS				
Cash		3,402	5,068	4,563
Other current assets	1	4,411	4,157	4,496
Other non-current assets		287	271	206
TOTAL ASSETS		8,100	9,496	9,265
LIABILITIES				
Payables and accruals	2	1,070	2,235	1,971
Bank facilities		46	46	46
Other non-current liabilities	3	184	340	296
TOTAL LIABILITIES		1,300	2,621	2,313
NET ASSETS		6,800	6,875	6,952

Notes to Figure 12.5:

1. Other current assets include accrued revenue relating to incomplete chicken batches and trade receivables due from processor.
2. Trade payables are generally on 30-90 day terms and are not interest bearing.
3. Other non-current liabilities include deferred tax liabilities, and provisions for distributions.

Figure 12.6: RFM Poultry key financial metrics

Financial metrics	FY 2014	FY 2015
Forecast declared Distributions (excluding franking) per Unit	\$ 0.0993	\$ 0.1004
Forecast declared Distributions (including franking) per Unit	\$ 0.0993	\$ 0.1435
Forecast NAV	\$ 1.0110	\$ 1.0222

Figure 12.7: Forecast returns assuming distributions are reinvested

	9 months ending 30 June 2014	12 months ending 30 June 2015
Income	10.28%	10.34%
Growth	1.10%	1.10%
Total	11.38%	11.45%
Franking	0.00%	4.66%
Total Return	11.38%	16.11%

The financial forecast is based on a number of best estimate assumptions which are subject to change.

Set out in Figures 12.8 and 12.9 is a summary of the key sensitivities of the forecast net profit and distributions for the 9 months ending 30 June 2014, and 12 months ending 30 June 2015, being change in variable expenses (gas and electricity, direct agribusiness expenses, and repairs and maintenance).

RFMP holds cash reserves that may be used to absorb the reduction in distributions presented in Figures 12.8 and 12.9.

Whilst the sensitivity analysis below demonstrates potential volatility of RFMP, this investment only represents 13% of the current CIF holdings. Figures 12.8 and 12.9 should be read in conjunction with the RFF sensitivity analysis presented in Section 9 Figure 9.23 and 9.24.

Figure 12.8: RFM Poultry sensitivity analysis for the 9 months ending 30 June 2014

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per Unit	Percentage change in distributions per Unit
5% reduction in variable expenses	4,876	244	171	244	0.0359	36.1%
5% increase in variable expenses	4,876	(244)	(171)	(244)	(0.0359)	-36.1%
7.5% increase in variable expenses	4,876	(366)	(256)	(366)	(0.0538)	-54.2%

Notes to Figure 12.8

1. Parenthesis indicate a negative value.

Figure 12.9: RFM Poultry sensitivity analysis for the 12 months ending 30 June 2015

	Assumption \$'000	Amount \$'000	Change in net profit \$'000	Change in total distributions \$'000	Change in distributions \$ per Unit	Percentage change in distributions per Unit
5% reduction in variable expenses	7,497	375	262	375	0.0551	36.9%
5% increase in variable expenses	7,497	(375)	(262)	(375)	(0.0551)	-36.9%
7.5% increase in variable expenses	7,497	(562)	(394)	(562)	(0.0827)	-55.3%

Notes to Figure 12.9

1. Parenthesis indicate a negative value.

12.11 FEES AND COSTS

This section provides detailed information about the fees and other costs associated with investing in RFMP.

Explanation of fees and costs

By law, RFM must provide you with the following Consumer Advisory Warning at the beginning of this section. Following the Consumer Advisory Warning, this section provides detailed information about the fees and other costs associated with investing in RFMP.

Consumer Advisory Warning

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask RFM or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.

Figure 12.10 is a comparison of the current fees and costs payable by CIF and those fees and costs expected to be paid by RFMP.

Figure 12.10: RFMP Fees and Costs

Type of fee or cost	CIF Fees	RFMP Amount	How and when paid
<i>Establishment fee</i>			
The fee to open your investment	Nil	Nil	Not applicable
<i>Contribution fee</i>			
The fee on each amount contributed to your investment.	Up to 3% of the amount contributed	Nil	Not applicable
<i>Withdrawal fee</i>			
The fee on each amount you take out of your investment	Nil, however the redemption price incorporates a sell spread and may incorporate a discount to NAV	Nil	Not applicable
<i>Termination fee</i>			
The fee to close your investment	Nil	Nil	Not applicable

Type of fee or cost	CIF Fees	RFMP Amount	How and when paid
Management Costs			
The fees and costs for managing your investment			
Fund management fee	1.25% per annum of gross assets	Nil	Not applicable
Fund expenses	Estimated at 4.23% of the net asset value of the CIF	Estimated at 3.23% of the net asset value of the RFMP	Costs paid from RFMP as and when RFM incurs the costs
Performance Fee	15% (excluding GST) of any CIF distribution return that exceeds 15% per annum	Nil	Not applicable
Acquisition fee	2.00% of the total purchase price of the CIF asset	Nil	
Development fee	Nil	Nil	Not applicable
Service Fees			
<i>Investment switching fee</i>			
The fee for changing investment options	Nil		Not applicable

12.12 ADDITIONAL EXPLANATION OF FEES AND COSTS

Fund operating expenses

Under RFMP's constitution, RFM must pay all expenses properly incurred in relation to the operation of RFMP from RFMP's assets. These expenses may be paid directly from RFMP's assets or alternatively paid by RFM and then recovered from RFMP's assets. Operating expenses may include abnormal items such as the cost of Unitholder meetings, changing the constitution or pursuing legal proceedings. The operating expenses disclosed in Sections 12.10 and 12.11 are an estimate (based on historical trading results) of the operating expenses likely to be incurred in relation to the operation of RFMP for the financial year ending 30 June 2014. They should not be considered as limiting RFM's rights to pay all proper and reasonable expenses incurred in relation to the operation of RFMP from RFMP's assets. Actual operating expenses may be higher than the amount disclosed above in Section 12.10.

Indirect Cost Ratio

The Indirect Cost Ratio (**ICR**) for RFMP is the ratio of the fund management costs that are not deducted directly from the RFMP's Unitholder's account, divided by the RFMP average net assets. The ICR calculation includes fund management fees and costs to administer the fund, provide investor services, fund audit, compliance, sales and marketing, and legal fees.

Under this offer there are no direct costs deducted from an individual Unitholder's account.

For the 2014 financial year, the RFMP ICR is estimated at 3.23%.

12.13 EXAMPLE OF ANNUAL FEES AND COSTS FOR RFMP

Figure 12.11 gives an example of how the fees and other costs can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

Figure 12.11: Example of annual fees and costs

Example		Balance of \$50,000 with a contribution of \$5,000 during year ¹
Contribution fees	Nil	Not applicable ²
Plus management costs	3.23%	And, for every \$50,000 you have in RFF you will be charged \$1,615 each year ³
Equals cost of the fund		If you had an investment of \$50,000 at the beginning of the year and put in an additional \$5,000 at the end of that year, you will be charged a fee of: \$1,615 ⁴ What it costs you will depend on the investment option you choose and the fees you negotiate with your fund or your financial adviser. ⁵

Notes to Figure 12.11

1. It is a requirement of the *Corporations Regulations* that the above example assumes a balance of \$50,000.
2. This example is required under the *Corporations Regulations*, notwithstanding that RFMP does not charge contribution fees.
3. The management costs disclosed above include an estimate for operating expenses. In practice, your actual investment balance will vary daily and fees we charge are based upon the gross asset value will also fluctuate daily. The management costs disclosed above incorporate an estimate of an Investor's contribution towards the forecast operating expenses. Additional fees and costs may be charged.
4. It is a requirement of the *Corporations Regulations* that the additional \$5,000 invested is excluded for the purposes of calculating management costs in this example.
5. This disclosure is prescribed under the *Corporations Regulations*. Fees will be only negotiable in the circumstances set out in Section 12.16 RFMP has only one class of Units. No investment options apply.

12.14 COMMERCIAL ARM'S LENGTH FEES

RFM will charge RFMP an asset management fee for work undertaken. The services include farm management, procurement services, contract management and finance and accounting services. Where RFM or a related entity provides RFMP with these services, RFM will charge

RFMP an asset management fee that is equivalent to 5% of operating expenses. The fee is separate from the cost recovery RFM is entitled to charge under the Constitution.

12.15 MAXIMUM FEES

The maximum fees allowed under the RFMP constitution are set out in Figure 12.12.

Figure 12.12: Maximum fees allowed under RFMP constitution

Fee	Amount
Contribution fee	3% of the amount invested (not applicable to this Offer)
Management fee	2.5% pa of value of the gross asset value of RFMP
Performance bonus	15% of the amount by which the Return on Equity in that Financial Year exceeds an amount equal to 15% per annum of the total Application Price of Units on issue during that Financial Year
Farm management fee	5% of annual operating expenses
Acquisition fee	2% of the total purchase price of an asset purchased by the Fund.

12.16 WHOLESALE INVESTORS

RFM may offer wholesale investors a discount on the fees payable by them to RFM for managing their investment. Any discounts will be individually negotiated with wholesale investors based on the amount invested. RFM would only exercise this discretion where wholesale investors were investing a significant sum into RFMP.

12.17 CHANGES TO FEE STRUCTURE

Subject to the limitation contained in RFMP's constitution, RFM may increase the amount of fees without investors' consent. Investors will be given 30 days prior notice of any changes to RFMP's fee structure.

12.18 GOVERNMENT CHARGES AND GST

Government taxes such as stamp duty and GST will apply as appropriate. Fees in this Section 12 are disclosed based upon the net effect of GST.

12.19 RISK FACTORS

An investment in RFMP, like any investment, involves risk. These risks can be broadly divided between commercial risks and agricultural risks.

Whilst the assumptions used in generating the forecasts within this Explanatory Memorandum are considered reasonable, a number of these risk factors could affect the achievement of the forecasts. Some risk factors are outside the control of RFM.

Detailed below are some of the risk factors, however this is not an exhaustive list of all the risks. Unitholders should make their own independent assessment of RFMP.

Existing Unitholders in CIF are currently exposed to all of the risks outlined in this section, with the exception of the first item.

Figure 12.13: Risks of investing in RFM Poultry (RFMP)

Risk	Summary
Commercial risks	
Reduced capitalisation and greater operational leverage	RFMP will have initial net assets of approximately \$6.8 million – compared to the current net assets in CIF of \$53.6 million and will continue to operate a poultry growing business of the same scale. For this reason, the operating results of RFMP can be expected to be more volatile than those historically experienced by CIF. CIF Unitholders should evaluate this within the context of the totality of the Revaluation proposal.
Increased costs	Increases in facilities maintenance and operating costs expenditure may not be recoverable in full or in part under the standard fee review mechanism under the Growing Contracts.
Welfare standards	The adoption by Baiada of higher animal welfare standards may lead to increased costs that are not recoverable by an increase in the growing fee. The increased costs may not be included in the growing fee until the subsequent year, or not at all. The adoption of the standards may also expose RFMP to increased performance penalties or claims.
Inflation	Inflation risk is the uncertainty over the future real value of your investment and specifically whether revenue or profitability will increase at least in line with inflation. The capital component of the RFMP growing contracts are subject to standard indexation of 2.25% per annum. The RFMP lease is subject to standard indexation of 2.25% per annum. There is the risk that inflation will be more than the results achieved by the market reviews and standard indexing.
Counterpart risk	There is a risk that a counterpart may default on its contractual obligations to RFMP. Baiada is RFMP's sole counterpart in relation to chicken growing and has a sound track record of making payments within the contractual terms currently in place. RFMP will be the beneficiary of the chicken growing contracts whilst RFM remains the legal owner. There is a risk Baiada may attempt to take issue with the arrangement despite there being no change to the contracts. Any dispute with Baiada may be time consuming and costly and put the current contracts at risk.

Risk	Summary
Diversification risk	RFMP's income will be derived exclusively from the operation of poultry farms. A disruption within the poultry industry may impact RFMP and due to its single revenue stream, this would impact returns.
Disease	Chicken health can be affected by a range of diseases that can reduce feed conversion or increase mortality which in turn can affect grower payments. In addition, the presence of disease can increase operational costs, reducing profit margins. Disease outbreaks could result in the requirement to slaughter birds. In this event RFMP would not suffer a direct loss as the birds are owned by Baiada, however there could be a secondary claim brought against RFMP if the introduction of the disease was as a result of management practices. In addition, such a disease could cause a suspension event and result in that farm or farms being inoperable until the farm is declared disease free. Virulent disease could also impact Australia's ability to maintain bio-security based import restrictions. See other risk: "Imported chicken meat". A disease outbreak could impact demand for chicken meat and lead to an oversupply. Disease risk is mitigated by strict quarantine measures, environmental condition control, and experienced personnel. RFMP and poultry growers and processors undertake a number of precautions to reduce the risk and impact of a disease including: • both RFM and Baiada maintain a level of strict biosecurity control which either meets or exceeds national standards; • the water used for drinking and cooling in the sheds is chlorinated to prevent disease transmission; • chicken feed is heat treated; • all poultry sheds are completely closed off, removing the possibility of birds from outside the sheds accessing and infecting the chickens inside the sheds; • each RFMP farm is fenced to control access; • the sheds are washed down and sanitised between each batch of chickens; and • employees must observe the strict biosecurity arrangements. The biosecurity measures that RFM and Baiada have in place, along with the strict quarantine guidelines enforced by the Australian government, further reduce the chance of a disease outbreak occurring at any of RFMP's farms. In the event of compulsory slaughter of a whole flock due to quarantine regulations, there are government provisions for compensation. This compensation, depending on the circumstances, would be shared between Baiada and RFMP.
Farm performance	There is a risk that the poultry farms will not perform to the standards required under the chicken growing contracts. This risk is mitigated because farm management implements the appropriate management practices and technologies. Griffith farms Under the chicken growing contracts, RFMP will receive a base growing fee from Baiada, with an adjustment to the fee based on the performance of the Griffith farms. This adjustment is limited to 20% of the grower fee under the contract; however during the 2012 financial year the actual performance adjustment was a net bonus of \$0.370 million. Lethbridge farms The chicken growth rates do not affect the base fee that RFMP receives under the chicken growing contracts.

Risk	Summary
Imported chicken meat	Current bio-security requirements restrict the importation of chicken meat into Australia. Canned chicken meat may be imported and this must be free from nine prescribed meat diseases. Import restrictions are designed to protect Australia's domestic poultry flock from these diseases. There is a risk that Australia's bio-security restrictions could be removed in the event that prescribed diseases entered Australia. Competition in the domestic market over recent years has driven down the cost of chicken meat in real terms, which provides some protection against cheaper imports. Due to the short shelf life of fresh chicken meat, it is unlikely that fresh chicken could be imported by sea freight. Over 90% of Australia's chicken meat consumption is fresh chicken meat. Due to the low cost of chicken meat, it is unlikely that fresh chicken meat can be imported by air freight. Nevertheless the importation of frozen chicken meat would displace a proportion of Australia's production and lead to an oversupply of broiler chicken growing capacity. With the exception of the Lethbridge farm, the importation of chicken does not constitute a suspension event under the growing contracts.
Contract farm managers	RFM (on behalf of RFMP) does not directly employ staff to work on the majority of farms. Instead, RFM contracts the farm management services in each case to a contract farm manager. The contractor model aims to reduce operational risk and corporate overheads. There is a risk that a contract farm manager may default on its contractual obligations to RFMP. RFMP requires contract managers to hold Directors and Officers Liability insurance against negligence by the manager or their employees, Public Liability insurance and workers' compensation insurance. In addition, the contractor agreement would provide RFMP with the following termination rights: • at RFMP's discretion if the farm performance is significantly below Performance Index Factor (PIF); and • without notice for negligence, breach of material contract terms or breach of law.
Change of control	Under the Lethbridge growing contracts, if RFM ceases to be the responsible entity of RFMP, Bartter Enterprises has the right to terminate the growing contracts. Under the leases from CIF to RFMP, if RFM ceases to be the responsible entity of RFMP then CIF may terminate the growing contracts.
Agricultural and operational risks	
Suspension events under the chicken growing contracts	There is a risk that a suspension event will prevent a party from fulfilling obligations under the chicken growing contracts. Under the contracts, an event is a suspension event if, because of the event, a party cannot fulfil an obligation under the contract when it has to and the party could not have prevented the event by taking reasonable care. If a suspension event occurs, and the required written notice is given to the other party, then the obligation under the contract is suspended from the date the notice is given until the party is able to perform the obligation. This period is called the suspension period. The following are defined as 'suspension events' under the chicken growing contracts for the Griffith farms and for the Lethbridge farms: • acts of God; • acts of public enemies, sabotage, civil disturbances; • wars, blockades, insurrections, riots; • epidemics; • landslides, lightning, earthquakes, storms, cyclones, fires, wash-outs, extreme weather conditions; • explosions; • industrial disputes by Bartter Enterprises employees; and • livestock husbandry issues (as such issues relate to the grower's obligations under the growing contract).

Risk	Summary
Suspension events under the chicken growing contracts (continued)	The following are additional 'suspension events' under the chicken growing contracts for the Lethbridge farms: • importation of chicken product which has a significant effect on the domestic demand for chicken; and • disease. Under the contracts for the Griffith farms and for the Lethbridge farms, if a suspension period lasts for more than six months, then either RFM or Baiada may terminate the contract.
Climatic conditions	There is a risk that weather conditions will adversely affect returns from agricultural operations. RFMP mitigates this risk by having sheds that are fully enclosed and fully ventilated.
Interruption to business operations	Like all businesses, agricultural operations such as RFMP face risks relating to: • equipment failure; • lack of access or damage to infrastructure (such as utilities and transport); and • labour shortages. RFMP has business interruption insurance within RFM's Industrial Special Risks insurance policy. The business interruption section of the policy provides up to \$14.6 million cover with a business interruption sub-limit of \$5 million on any one loss and any one location. The insurance covers the following events when those events result in a loss of income to RFMP: • damage to RFMP property caused by events including fire, storm, and flood (limited to \$1 million); and • damage to Bartter Enterprises property caused by events including fire, storm, and flood. The insurance does not cover contractual disputes or insolvency events.



Additional information

13.1 COSTS OF REVALUATION

The costs to carry out and implement Revaluation are estimated to be approximately \$3.2 million and will be shared prorata between all Funds on a Net Asset Value basis.

\$1.8 million of the forecast costs will be payable by the Funds if Revaluation is not approved, and the remaining \$1.4 million will be incurred after the meetings and only if Revaluation proceeds. These figures are estimates and are subject to change.

Revaluation transaction costs include:

- (a) Advisory fees;
- (b) Costs for the preparation of the Notice of Meeting and this Explanatory Memorandum;
- (c) Professional fees and costs associated with the dispatch of documents; and
- (d) Stamp duty.

The individual Fund allocation of these costs is detailed in the notes to the Fund forecasts in Section 9.

13.2 RFM DIRECTORS' AND RELATED PARTIES INTEREST

Detailed below is the nature and extent of any interest now, or in the past 2 years of every director of RFM in the promotion of RFF, or in property acquired or proposed to be acquired by RFF. These units were acquired on the same terms as available to all Unitholders.

Figure 13.1: Register of Directors' interests

RFM Directors & Family Members	AWF Units	CIF Units	RiverBank Units
Bryant Family Services Pty Ltd <BFS Super Fund>	1,174,156	203,265	854,512
Boskenna Pty Ltd (Guy Paynter)	493,432	201,210	Nil

13.3 RELATED PARTY TRANSACTIONS

RFM's External Compliance Committee monitors compliance with all constituent documents and key policies including the Conflict of Interest Management Policy. The Policy requires that before any related party transaction is considered it must:

- be on arm's length; and
- include at least one independent valuation of an external party which confirms the terms are no more favourable to the related party

If there is doubt the transaction may not be on arm's length, then Unitholder approval must be sought.

In accordance with its compliance plan RFM maintains Related Party Transactions and Conflicts of Interest registers. Related party transactions are subject to review by RFM's External Compliance Committee and are only approved by the RFM Board if they consider them to be at arm's length. The following related party transactions currently exist for the Funds:

- (a) RiverBank has entered into a licence with RFM Farming with respect to the Yilgah property for grazing and cropping to 30 June 2014. The agreement provides RFF with \$40,000 of lease revenue in FY 2014. RFM Farming is a wholly owned subsidiary of RFM.
- (b) RiverBank has entered into a licence with RFM Farming with respect to the Collaroy property for grazing and cropping to 30 June 2014. The agreement provides RFF with \$34,000 of lease revenue in FY 2014. RFM Farming is a wholly owned subsidiary of RFM.
- (c) StockBank, in which RFF will be invested, currently has livestock placed on properties leased by AgLink Pty Ltd ACN 153 808 354, a company partly owned by David Bryant and Stuart Waight, both officeholders and shareholders of RFM. For the year ending 30 June 2013 AgLink leased sheep to the value of \$1,380,000, and the associated lease revenue to StockBank was \$232,000.
- (d) AWF has entered into a Loan Agreement with Murdock Viticulture with respect to the sale of plant and equipment. Further details about this loan are set out in Section 8.2. RFM holds 28% of the issued shares in Murdock Viticulture.
- (e) Treasury Wine Estates has appointed Murdock Viticulture to manage the viticultural operations on a contract basis. Murdock Viticulture will manage Kleinig, Geier, Hahn, Adelaide Hills and Rosebank vineyards (Treasury Wine Estates will manage Dohnt vineyard). The agreement is for a term of 5 + 5 years, and Murdock Viticulture will be entitled to receive the cost of managing the vineyards plus a fixed margin. The terms of the agreement are considered commercial and arm's length based on industry practices, and Treasury Wine Estates's agreement to the arrangements. This agreement does not directly benefit RFF.
- (f) RiverBank currently has a loan from RFM in the amount of \$1.8 million which is repayable by 1 January 2015. For the year ending 30 June 2013 RiverBank paid RFM interest of \$180,000.
- (g) RiverBank has entered into a Funding Agreement with RFM Almond Fund 2007 pursuant to which it has agreed to take a licence over all cancelled almondlots and to provide shortfall funding as a loan at any time up to 30 June 2015, where the responsible entity of the RFM Almond Fund 2007 has insufficient available funds to operate the fund, to meet immediately pending operating costs and expenses of the fund (capped at \$1,675,000). Interest is payable on any amounts funded at BBSW plus 4%. All amounts of funding and interest must be repaid by no later than 30 June 2015. For the year ending 30 June 2013 RFM Almond Fund 2007 borrowed \$115,757, and the associated interest cost was \$3,767. The RFF forecast assumes no funding going forward.
- (h) RiverBank has entered into a Funding Agreement with RFM Almond Fund 2008 pursuant to which it has agreed to take a licence over all cancelled almondlots and to provide shortfall funding:
- up to 30 June 2012, for any shortfall in the management fees collected and the actual costs incurred by the responsible entity of the RFM Almond Fund 2008 in providing the management services (capped at \$2 million); and
 - as a loan from 1 July 2012 to 30 June 2015, where the responsible entity of the RFM Almond Fund 2008 has insufficient available funds to operate the fund, to meet immediately pending operating costs and expenses of the fund (capped at \$2,657,600).
 - Interest is payable on any amounts funded at BBSW plus 4%. All amounts of funding and interest must be repaid by no later than 30 June 2015.
- For the year ending 30 June 2013 RFM Almond Fund 2008 borrowed \$360,136, and the associated interest cost was \$11,720. The RFF forecast assumes no funding going forward.
- (i) RiverBank has leased 42 hectares of almond orchards to RFM. The lease is for a 15 year period commencing 1 July 2013 and the starting rent is \$205,800 indexed at 2.5% per annum. The lease rental and other terms are on the same basis as the RiverBank leases with the RFM Almond Schemes with the exception that the lease terminates on change of Responsible Entity and RFM can terminate the lease at any time by giving notice and paying two years rental.
- (j) The lease arrangement RFMP will enter into with CIF will amount to a related party transaction, even though RMFP and CIF will initially have the same Unitholders. The Board of RFM has satisfied itself that the lease is on commercial arm's length terms. The material terms of the lease are summarised in Section 12.8.
- (k) RFM Farming entered into an Operating Contract with StockBank in June 2013 under which RFM Farming leased \$55,050 of cattle. The contract contained the standard terms and conditions which are identical to the Operating Contracts entered into by StockBank with third party Operators.
- The Board of RFM is satisfied all related party transactions are on an 'arm's length basis'. Each transaction has been considered by the External Compliance Committee and approved by the Board of RFM. RFM is in compliance with its Conflict of Interest Management Policy. Related party arrangements are reviewed annually to ensure they remain within originally approved terms.
- Unitholder approval has not been sought for any related party transaction. The risks associated with related party transactions are set out in Section 11.4.

13.4 AUDITOR

It is RFM's intention that PricewaterhouseCoopers be appointed auditor of the fund when the opportunity arises after the end of the 2013 financial year.

13.5 CONSENTS

The Directors have consented to and authorised the issue of this Explanatory Memorandum.

The following parties have given and not withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named including their reports or extracts of their reports:

- (a) McCullough Robertson Lawyers; and
- (b) Crowe Horwath

13.6 INTERESTS OF EXPERTS

McCullough Robertson Lawyers, Crowe Horwath and their principals and employees do not have any interest in the promotion of RFF or any property proposed to be acquired by RFF.

McCullough Robertson Lawyers' professional fees for acting as RFM's lawyers in connection with the Merger and preparing the taxation report in Section 15 were approximately \$160,000 (including GST). Crowe Horwath's professional fees for preparing the Independent Expert's Report were approximately \$140,000 (excluding GST). Any additional work required to be undertaken by McCullough Robertson Lawyers or Crowe Horwath will be charged out at their standard charge out rates.

13.7 DIRECTORS' STATEMENT

RFF has not raised any capital for the three months before the date of issue of this Explanatory Memorandum and will not need to raise any capital for three months after the date of this Explanatory Memorandum. The Directors are of the opinion RFF will have sufficient working capital to carry out its stated objectives.

The Directors confirm this Explanatory Memorandum contains all the information that would be required under Section 1013C of the Corporations Act if the Explanatory Memorandum were a product disclosure statement offering for subscription the same number of units in RFF for which quotation will be sought is contained in the Explanatory Memorandum.

Signed by each of the Directors

Dated: 21 October 2013



David Bryant



Guy Paynter



Michael Carroll

13.8 TRUST CONSTITUTION

Each of RFF and RFMP (**Listing Trusts**) are managed investment schemes which have been registered with ASIC in accordance with Chapter 5C of the Corporations Act. The Listing Trusts have each been established in the form of a unit trust pursuant to the relevant trust constitution.

RFM is the responsible entity of each of the Listing Trusts and the holder of AFSL No 226701 which permits it to operate the Listing Trusts.

The respective rights and obligations of RFM and Unitholders in each of the Listing Trusts are determined by the relevant Listing Trust constitution, the Corporations Act, the ASX Listing Rules (for RFF) and the NSX Listing Rules (for RFMP), together with any exemptions and declarations issued by ASIC, and the general law relating to trusts. Neither the provisions of these laws and rules, nor their effect on the relevant Listing Trust constitution, have been summarised below.

Each Listing Trust constitution may be amended by a deed executed by RFM, provided that RFM reasonably considers that the amendment will not adversely affect the rights of Unitholders, or by a resolution of Unitholders. If a Listing Trust constitution is amended, RFM must lodge a copy of the change with ASIC. The change will not be effected until it is lodged with ASIC.

13.9 UNITS AND UNITHOLDERS' RIGHTS

Each Listing Trust is divided into Units, each of which confers a proportionate beneficial interest in the net assets of the relevant Listing Trust. Each Unit confers an equal interest in the relevant Listing Trust property. A Unit does not confer any interest in a particular part or asset of the relevant Listing Trust, nor does it confer any rights over the management of that Listing Trust. A Unitholder holds a Unit subject to the rights and obligations attaching to that Unit. The rights of Unitholders include rights to:

- (a) receive income and other distributions attributable to Units held;
- (b) transfer Units (subject to the relevant listing rules and any permitted refusal by RFM);
- (c) convene, or request that RFM convene, a meeting of Unitholders;
- (d) attend and vote at meetings of Unitholders;
- (e) receive the annual audited accounts of the relevant Listing Trust; and
- (f) participate in the winding up of the relevant Listing Trust.

13.10 CREATION OF UNITS

RFM can issue Units in accordance with the relevant Listing Trust constitution.

13.11 ISSUE PRICE OF UNITS

Each Listing Trust constitution contains provisions for calculating the issue price of Units. While the Units are officially quoted the issue price will be the market price of the Units. The relevant Listing Trust constitution also provides for RFM to determine a different issue price in relation to some Units, a class of Units or all Units to the extent it is permitted to do so by an ASIC exemption and the relevant listing rules.

13.12 OPTIONS AND FINANCIAL INSTRUMENTS

RFM has the power to issue options in respect of Units and other financial instruments.

13.13 INCOME

RFM will determine the distributable income of each Listing Trust for each financial year. If RFM does not make a determination prior to the end of a financial year then the distributable income for that financial year is the taxable income for the financial year. On and from the last day of each financial year, Unitholders are entitled to a share in the relevant Listing Trust's income based on the number of Units held. The relevant Listing Trust constitution

provides that, if RFM approves, Unitholders may choose to reinvest some or all of the distribution by acquiring more Units in the relevant Listing Trust.

13.14 NO REDEMPTION

A Unitholder cannot redeem Units while the relevant Listing Trust is listed.

13.15 LIABILITY OF UNITHOLDERS

The relevant Listing Trust constitution states that each Unitholder's liability to RFM or the relevant Listing Trust is limited to the aggregate of amounts paid by the Unitholder for the issue of Units. This provision seeks to ensure that no Unitholder will be personally liable to indemnify RFM or any creditor of RFM in the event that the liabilities of the relevant Listing Trust exceed its assets. However, the ultimate liability of Unitholders in unit trusts has not been finally determined by the courts.

13.16 RFM'S POWERS AND DUTIES

RFM holds the assets of the relevant Listing Trust on trust, and may manage these assets as if it were the absolute and beneficial owner of them. In the exercise of its powers, RFM may, without limitation, acquire or dispose of any real or personal property, borrow raise money, encumber any asset, incur any liability, give any indemnity, provide any guarantee, apply for listing of the relevant Listing Trust, enter into derivative and currency swap arrangements, enter into joint venture arrangements or fetter any power. RFM may appoint delegates or agents (including custodians) to perform any act or exercise any of its powers, as well as advisers to assist it with its duties and functions.

RFM is responsible for the proper and efficient administration and management of each of the relevant Listing Trust, including all investment decisions. In discharging this responsibility, RFM is required to comply with the relevant Listing Trust constitution, the Corporations Act, the ASX Listing Rules (for RFF) and the NSX Listing Rules (for RFMP), the general law in Australia and any additional obligations contained in this document.

RFM must keep true accounts of the relevant Listing Trust. These accounts must be audited yearly and sent to Unitholders and the ASX or NSX (as the case may be). RFM has prepared a compliance plan setting out the key ways in which RFM will ensure compliance with the Corporations Act and the relevant Listing Trust constitution. Each compliance plan has been lodged with ASIC and is audited annually. RFM must establish a compliance committee if less than half of the directors are considered external. Where a majority of directors are external, RFM may at its discretion, establish a compliance committee.

13.17 INTERESTED DEALINGS

RFM (in its personal capacity or in any capacity other than as responsible entity of the relevant Listing Trust) or any of its associates may:

- (a) deal with RFM (as responsible entity of the relevant Listing Trust) or any Unitholder;
- (b) be interested in any contract, transaction or matter with RFM (as responsible entity of the relevant Listing Trust) or any Unitholder;
- (c) act as trustee or responsible entity of any other trust or managed investment scheme; and
- (d) deal with any entity in which RFM holds an investment on behalf of the relevant Listing Trust and in each case RFM (or an associate) may retain for its own benefit all profits or benefits derived from that activity.

13.18 RFM'S LIMITATION OF LIABILITY

RFM is not liable for any loss or damage to any person arising out of any matter unless, in respect of that matter, it acted both otherwise than in accordance with the relevant Listing Trust constitution and without a belief held in good faith that it was acting in accordance with the relevant Listing Trust constitution. In any case, the liability of RFM in relation to each Listing Trust is limited to the assets of the relevant Listing Trust from which RFM is indemnified.

In particular, RFM is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:

- (a) to the extent permitted by law, it relied in good faith on the services of, or information or advice from, or purporting to be from, any person appointed by RFM; or
- (b) it acted as required by law.

This limitation of liability is subject to the Corporations Act.

13.19 RFM'S INDEMNITY

Except for its own fraud, negligence or breach of trust, RFM is indemnified out of the assets of the relevant Listing Trust against all liabilities and losses incurred by it in relation to the operation, administration and management of the relevant Listing Trust or otherwise in connection with the relevant Listing Trust.

13.20 FEES AND EXPENSES

RFM can charge management fees as summarised in Sections 10 and 12.11 of this document. In addition to these fees, and any other right of indemnity under the relevant Listing Trust constitution or the law, RFM is indemnified and entitled to be reimbursed out of the assets of the relevant Listing Trust for all expenses

reasonably and properly incurred in connection with the relevant Listing Trust or in performing its obligations under the relevant Listing Trust constitution, including:

- (a) administration fees;
- (b) audit, accounting and record keeping fees;
- (c) the engagement of agents, valuers, contractors and advisers;
- (d) fees related to the provision of reports to Unitholders;
- (e) fees incurred in convening and conducting Unitholder meetings;
- (f) costs associated with the operation of the relevant Listing Trust's ECC;
- (g) insurance costs;
- (h) costs associated with the establishment and promotion of the relevant Listing Trust; and
- (i) costs arising out of the operation of the relevant Listing Trust, including transaction costs and government charges, costs associated with borrowing and costs to satisfy regulatory requirements.

13.21 DURATION OF EACH LISTING TRUST

Each Listing Trust will terminate on the earliest to occur of the following:

- (a) the date specified by RFM in a notice given to Unitholders;
- (b) the date agreed by Unitholders by special resolution; or
- (c) the date on which the relevant Listing Trust is terminated in accordance with another provision of the relevant Listing Trust constitution or by operation of law.

On termination of each Listing Trust, the net proceeds from realisation of the property of the relevant Listing Trust will be distributed among the Unitholders of the relevant Listing Trust in proportion to the number of Units in the relevant Listing Trust they hold. Any unpaid fees payable (or to be payable) to RFM and any expenses of termination will be deducted from the net proceeds from realisation before they are distributed to Unitholders.

13.22 CONVENING MEETINGS OF UNITHOLDERS

RFM may convene a meeting of Unitholders at any time. A meeting of Unitholders must be convened by RFM on receipt of written requests from the lesser of Unitholders holding at least 5% of the votes or 100 of the Unitholders.

13.23 JOINT UNITHOLDERS

Joint Unitholders are jointly and severally liable in respect of all payments.

13.24 CUSTODY AGREEMENT

In accordance with the Corporations Act, ASIC policy and the terms of RFM's AFSL, the assets of each relevant Listing Trust will be held by the custodian of the Listing Trust (the Custodian). The Custodian is not liable to Unitholders and RFM is liable for the acts of the Custodian, subject to certain conditions under a Custody Agreement. The Custodian may only act on proper instructions (as set out in the Custody Agreement) given by RFM. The custodian is indemnified by RFM for any action taken and all claims and liabilities arising in connection with the assets of the relevant Listing Trust, except where the custodian has failed to perform its obligations under the Custody Agreement.

13.25 ASX WAIVERS AND CONFIRMATIONS

(a) Waivers

RFM will also on behalf of RFF as part of the listing application apply to ASX for the following waiver in relation to the requirements of the following ASX Listing Rules as they will apply to RFF: a waiver from Listing Rule 6.24 in respect of compliance with clause 1 of Appendix 6A to the extent necessary that the rate and amount of a distribution need not be advised to ASX by RFM or RFF when announcing a distribution and record date on the basis that an estimated distribution rate is advised to ASX and the actual distribution rate is advised to ASX as soon as it becomes known.

(b) Confirmations

RFM has applied to ASX for the following confirmations in relation to the operation of the following ASX Listing Rules as they will apply to RFF.

- i. RFF structure and operations are appropriate for a listed entity;
- ii. the constitution of RFF is consistent with the Listing Rules; and
- iii. RFF has complied with Listing Rule 1.1 condition 3 in that the Explanatory Memorandum complies with the requirements of Listing Rule 1.4 and will be sufficient instead of a prospectus or product disclosure statement.

13.26 ASIC DECLARATIONS

RFM has received from ASIC modifications to the sections of the Corporations Act listed below:

- (d) Paragraph 1020F(1)(c) – Declaration modifying section 1015C and allowing the Notices of Meetings, Explanatory Memorandum and product disclosure statements to be sent to the address of Unitholders on the register.
- (e) Paragraph 1020F(1)(a) – Exemption from compliance with section 1016A(2) that an application form accompany the product disclosure statements.

13.27 ENVIRONMENTAL, SOCIAL, ETHICAL, AND LABOUR STANDARDS CONSIDERATIONS

When it makes decisions about the relevant Listing Trust, RFM will take the following considerations into account only to the extent that RFM considers that they have the potential to materially impact the investment returns of the relevant Listing Trust:

- (a) environmental;
- (b) social;
- (c) ethical; and
- (d) labour standards.
- (e) Therefore, where the sustainability or value of the relevant Listing Trust is adversely affected by unacceptable labour standards or environmental, social or ethical factors, RFM may choose not to invest further or may choose to dispose of the relevant investment.

13.28 RFM INVESTOR SERVICES

RFM is committed to providing excellent service to Unitholders.

You can register a compliment, complaint or a suggestion by:

- (a) phoning RFM Investor Services on 1800 026 665; or
- (b) writing to RFM at Locked Bag 150, KINGSTON ACT 2604.

In the case of a complaint, RFM will seek to resolve your complaint efficiently and promptly. RFM will:

- (a) acknowledge in writing that we have received your complaint. RFM will provide this written acknowledgement as soon as reasonably practicable or in any event within 14 days of receiving your complaint; and
- (b) address your complaint within 45 days.

If you are dissatisfied with our response to your complaint, you can refer your complaint to the Financial Ombudsman Service by:

- (a) phoning the Financial Ombudsman Service on 1300 780 808; or
- (b) writing to the Financial Ombudsman Service at GPO Box 3, MELBOURNE VIC 3001.

13.29 ONGOING DISCLOSURE

RFF is a disclosing entity which is subject to regular reporting and disclosure requirements. Investors have a right to obtain a copy of the following documents:

- the annual financial report for RFF most recently lodged with ASIC;
- any half-yearly report lodged with ASIC; and
- any continuous disclosure notices given by RFF.

Continuous disclosure notices and financial statements for RFF are posted on the RFF website.

Mechanics of Revaluation

If Revaluation is approved by Unitholders in all three Funds, the following legal process will be carried out to give effect to Revaluation.

14.1 STAGE ONE: RIVERBANK RENAMED RURAL FUNDS GROUP (RFF)

All existing RiverBank Unitholdings reset to \$1.00 per Unit.

14.2 STAGE TWO: ISSUE OF UNITS IN RFM POULTRY

The CIF will pay a distribution to CIF Unitholders which will be used to subscribe for Units in RFMP (see Section 12 for further information about RFMP).

The subscription money received by RFMP will be used to conduct the growing operations formerly conducted by CIF. CIF will continue to own the 17 poultry farms and lease those farms to RFMP.

14.3 STAGE THREE: CIF UNITHOLDERS ISSUED UNITS IN RFF

The Unitholders of CIF will be issued Units in RFF in exchange for their Units in CIF, effectively merging the two funds.

14.4 STAGE FOUR: AWF UNITHOLDERS ISSUED UNITS IN RFF

The Unitholders of AWF will be issued Units in RFF in exchange for their Units in AWF, effectively merging the two funds.

14.5 STAGE FIVE: RFF IS LISTED

The RFF Units are listed on the ASX and the units in RFMP are listed on the NSX. RFM will remain the responsible entity of both RFF and RFMP.

Taxation Report

2 October 2013

The Directors
Rural Funds Management Limited
Level 2
2 King Street
DEAKIN ACT 2600

Dear Directors

Tax opinion - Merger

The following tax summary has been prepared for inclusion in the explanatory memorandum for the proposed merger of RFM Riverbank (**RBK**), RFM Chicken Income Fund (**CIF**) and RFM Australian Wine Fund (**AWF**), to form the Rural Funds Group (**RFF**).

Scope of opinion

- 1 The following is a general summary of the potential tax consequences for the Unitholders who participate in Revaluation (**Merger**). This summary is based on the law and practice in effect on the date of this Explanatory Memorandum.
- 2 However, it is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every Unitholder. In particular, the summary is only relevant to Unitholders that are Australian tax residents, who hold their units on capital account for investment purposes and only considers the Australian tax position. Unitholders who are residents of, or subject to taxation in, other countries will also need to obtain advice on the tax consequences of that country.
- 3 RFM has applied to the Australian Taxation Office (**ATO**) for a class ruling regarding certain taxation consequences of the Merger for the Unitholders of CIF. This ruling is expected to confirm the ATO view of the tax consequences of the Merger for the Unitholders of CIF – in particular, the tax treatment of the distribution paid to the Unitholders of CIF under Stage 2 of the Merger, and the availability of scrip for scrip rollover relief from capital gains tax (**CGT**) in respect of Stage 3 of the Merger.
- 4 RFM has also requested that the ATO issue a class ruling to the Unitholders of AWF to confirm the taxation consequences of the Merger and in particular, whether scrip for scrip rollover relief will be available to AWF Unitholders in respect of the exchange of units in AWF for units in RFF under Stage 4 of the Merger.
- 5 In accordance with usual practice, a class ruling will only be issued sometime after the public announcement of the transaction and will not become operative until it is published in the Government

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Partners Brett Heading Guy Humble James Peterson Peter Kennedy Rodney Bell Ian Hazard	Peter Sweeney Brad McCosker Dominic Clarke Dominic McGarr Bill Morrissey Stuart Macrae Brad Russell	Sean Robertson Malcolm McIsaac John Kentle Mark West Matthew Burgess Timothy Longwell Dana Lobbich	Patrick Holland Trudy Naylor Russell Thirgood Derek Pocock Keesa Walker Kristen Conlon Daren White	Kristen Podagiel David Mansfield Tina Wedman Michael Rochester Haydon Bentley Scott Butler Matt Bradbury	Scott White Jeremy Kennedy Paul McLachlan Heather Watson Cameron Dean Janette Moody Troy Webb	Brendan Tobin Michael Moy Tim Hammond Brett Hawkins Tim Sayer Oliver Tabbot Peter Stokes	Isaac West Tim Case Samantha Daly Duncan Bedford Sarah Blatlock
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Gazette. Once issued, copies of the class ruling will be available on www.ato.gov.au and on the Rural Funds Management Limited website, www.ruralfunds.com.au.

- 6 Each Unitholders' circumstances will determine how the tax laws apply to them. The Directors are not licensed under the tax agent services regime and cannot provide tax advice to Unitholders. All Unitholders are advised to seek independent professional advice about their particular circumstances (including non-resident Unitholders on the foreign tax consequences of the Merger).

Stage 1 – Standardisation of units in RFF (currently RBK)

This stage is relevant for Unitholders in RBK

- 7 Under Stage 1 of the Merger, all of the units in RBK (to be renamed RFF) will be split, so that the net asset value of each unit on issue immediately prior to the following steps in the transaction will be \$1.00.
- 8 No capital gains tax (CGT) event should occur as a result of the 'split' of units in RBK. However, each Unitholders' existing cost base in respect of their units in RBK should be apportioned equally across all of the units each Unitholder will hold in RBK immediately after the unit 'split'.

Stage 2 – Issue of units in RFMP

This stage is relevant for Unitholders in CIF

Tax treatment of distribution

- 9 While the full amount of the distribution will be debited to unit capital, RFM believes that the ATO will consider that the distribution to the Unitholders of CIF under Stage 2 of the Merger should be treated as a distribution partly of income and partly of capital for tax purposes. RFM expects that the ATO will consider that the amount treated as capital for tax purposes will be limited to the proportion of the total accounting equity (including the assets revaluation reserve) that is represented by unit capital.
- 10 RFM considers that the potential split will be approximately:
 - (a) capital - 42.26% of the distribution; and
 - (b) income - 57.74% of the distribution.
- 11 To the extent the distribution is taxed as a capital distribution, it will proportionately reduce each investor's CGT cost base in respect of their CIF units. Where the amount of the capital component of the distribution is greater than an investor's cost base in their units, the cost base will reduce to nil and the excess will give rise to a taxable capital gain. Where a capital gain does arise in this step, the comments in paragraphs 18 (capital gains and losses) and 27 to 32 (CGT discount) apply equally to this gain.
- 12 To the extent that the distribution is income it will be taxed like a dividend and should be included in the investor's assessable income for the relevant year. Where CIF has available franking credits, it may frank the income component of the distribution. At this point RFM does not have sufficient certainty to advise as to whether or not any income component may be franked, in whole or in part. If however the income component is franked the comments in paragraphs 53 to 55 would apply in respect of any franked component.

Cost base of units in RFMP

- 13 Each CIF Unitholder's cost base in respect of their units in RFMP should be equal to the value of the distribution (both income and capital components) received from CIF under Stage 2 of the Merger.

Stage 3 – Exchange of units in CIF for units in RFF

This stage is relevant for Unitholders in CIF

CGT event on disposal of CIF Units

- 14 The disposal of CIF units will constitute a CGT event for Australian resident CIF Unitholders. This CGT event should occur on the Implementation Date.
- 15 CIF Unitholders will derive a capital gain on the disposal of their units in CIF to the extent the market value of the total consideration received (capital proceeds) exceeds the tax cost base of their CIF units. Conversely, CIF Unitholders should incur a capital loss on the disposal of their units in CIF to the extent that the market value of the total consideration received (capital proceeds) is less than the reduced tax cost base of their CIF units.

Capital proceeds received under the Scheme

- 16 The capital proceeds received for the disposal of units in CIF should be calculated by reference to the market value of the RFF units that each CIF Unitholder will receive.

Cost base

- 17 Generally, the tax cost base of any CIF units should be equal to the amount paid to acquire the units, reduced by any capital distributions received from CIF in respect of their Units (including the capital component of the distribution made under Stage 2 of the Merger). Other incidental costs incurred by a CIF Unitholder in respect of their acquisition or ownership of CIF units may also be included in the cost base of the CIF units they own.
- 18 The sum of all capital gains incurred by a CIF Unitholder in the year in which the Implementation Date occurs, reduced by any capital loss incurred during that year, or carried forward from prior years (known as the net capital gain), should be included in the assessable income of the CIF Unitholder (subject to any election to apply CGT rollover relief, as described below).
- 19 Alternatively, a CIF Unitholder will make a capital loss on the transfer of their units to RFF, equal to the amount by which the reduced cost base of their CIF units is more than the capital proceeds (i.e. value of units in RFF) they receive as a result of the Merger. A capital loss may be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year (subject to the satisfaction of certain loss recoupment tests which apply if the CIF Unitholder is a company or trust).

Availability of CGT rollover relief

- 20 If a CIF Unitholder would make a capital gain on the disposal of their CIF units, they should be eligible to make a choice whether or not to apply CGT rollover relief to defer that gain. The availability of CGT rollover relief is expected to be confirmed in the Class Ruling issued to the CIF Unitholders in respect of the Merger.
- 21 If a CIF Unitholder elects to apply CGT rollover relief, a capital gain that they would otherwise make on the disposal will be disregarded, as the only consideration that the CIF Unitholders will receive in respect of their CIF units are replacement units in RFF.
- 22 The benefit of choosing scrip for scrip rollover relief will depend on the individual circumstances of each CIF Unitholder and therefore Unitholders should discuss this with their tax advisers.

- 23 Where rollover relief is chosen, the tax cost base of the RFF units received by the CIF Unitholders should equal the tax cost base of the CIF units disposed of. This tax cost base will be allocated on a proportionate basis across the RFF units received.
- 24 For the purposes of determining whether the CGT discount applies on any subsequent disposal of RFF units where rollover relief is chosen, the date on which the CIF Unitholders will be deemed to have acquired the RFF units will be the day they acquired their original CIF units.
- 25 Generally, where CIF Unitholders prepare their income tax return on the basis that scrip for scrip rollover has been applied, this will be sufficient evidence of making the choice to obtain rollover relief.
- 26 RFF, as the acquirer of the CIF units, can choose to prevent CIF Unitholders obtaining scrip for scrip rollover relief but, in order to do so, must notify the CIF Unitholders in writing of this prior to the exchange of shares. RFF will not make a choice to prevent CIF Unitholders obtaining scrip for scrip rollover relief in respect of the Merger should they choose.

CGT discount

- 27 Where CIF Unitholders have a capital gain and do not choose rollover relief, they may be entitled to a 'CGT discount'.
- 28 Any Australian resident CIF Unitholder who is an individual, the trustee of a trust or a complying superannuation entity may be entitled to claim the CGT discount in calculating any capital gain if their CIF Units were acquired at least 12 months before the Implementation Date.
- 29 The CGT discount is applied to reduce the capital gain after any available capital losses are first offset against that capital gain.
- 30 A CIF Unitholder that is an individual or the trustee of a trust may discount the capital gain by 50% and include only 50% of the net capital gain in the taxable income of that individual or trust.
- 31 A CIF Unitholder that is a complying superannuation entity may discount the capital gain by 33 1/3% and include 66 2/3% of the net capital gain in the taxable income of that complying superannuation entity.
- 32 No CGT discount is available to a CIF Unitholder that is a company.

Subsequent disposal of RFF Units

- 33 If a CIF Unitholder sells their RFF Units after the Implementation Date, any gain or loss will be subject to CGT, as the RFF Units received by the CIF Unitholder will be an asset for CGT purposes.
- 34 For CIF Unitholders who elected for scrip for scrip rollover relief to apply, the cost base or reduced cost base for their RFF Units will reflect the cost base or reduced cost base for the CIF Units that were exchanged by the CIF Unitholder (reduced by the amount of the distribution received under Stage 2 of the Merger, as noted above). For the purposes of determining the availability of the CGT discount, the acquisition date for CIF Unitholders who elected for scrip for scrip rollover relief to apply will be the date their original CIF Units were acquired.
- 35 If a scrip for scrip election is not made, the cost base of the RFF Units will be equal to the market value of the replacement RFF Units at the Implementation Date. The CGT discount will only be available once the CIF Unitholder has held their RFF Units for at least 12 months.

Stage 4 – Exchange of units in AWF for units in RFF

This stage is relevant for Unitholders in AWF

CGT event on disposal of CIF Units

- 36 The disposal of AWF units will constitute a CGT event for Australian resident AWF Unitholders. This CGT event should occur on the Implementation Date.
- 37 AWF Unitholders will derive a capital gain on the disposal of their units in AWF to the extent the market value of the total consideration received (capital proceeds) exceeds the tax cost base of their AWF units. Conversely, AWF Unitholders should incur a capital loss on the disposal of their units in AWF to the extent that the market value of the total consideration received (capital proceeds) is less than the reduced tax cost base of their AWF units.

Capital proceeds received under the Scheme

- 38 The capital proceeds received for the disposal of units in AWF should be calculated by reference to the market value of the RFF units that each AWF Unitholder will receive under the Merger.

Cost base

- 39 Generally, the tax cost base of any AWF units should be equal to the amount paid to acquire the units, less any capital distributions received from AWF in prior years. Other incidental costs incurred by an AWF Unitholder in respect of their acquisition or ownership of AWF units may also be included in the cost base of the AWF units they own.
- 40 The sum of all capital gains incurred by an AWF Unitholder in the year in which the Implementation Date occurs, reduced by any capital loss incurred during that year, or carried forward from prior years (known as the net capital gain), should be included in the assessable income of each AWF Unitholder.
- 41 Alternatively, an AWF Unitholder may make a capital loss on the transfer of their units to RFF, equal to the amount by which the reduced cost base of their AWF units is more than the capital proceeds (i.e. value of units in RFF) they receive as a result of the Merger. A capital loss may be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year (subject to the satisfaction of certain loss recoupment tests which apply if the AWF Unitholder is a company or trust).

Availability of CGT rollover relief

- 42 The AWF Unitholders will not be eligible to apply scrip for scrip rollover to defer any capital gain they might otherwise make in respect of the exchange of units in AWF for units in RFF.
- 43 RFM expects that this will be confirmed in the Class Ruling issued to AWF Unitholders in respect of the Merger.

CGT discount

- 44 AWF Unitholders that derive a capital gain on the exchange of their units in AWF for units in RFF may be entitled to a 'CGT discount'.
- 45 Any Australian resident AWF Unitholder who is an individual, the trustee of a trust or a complying superannuation entity may be entitled to claim the CGT discount in calculating any capital gain if their AWF Units were acquired at least 12 months before disposal under the Merger.

- 46 The CGT discount is applied to reduce the capital gain which remains after any available capital losses are offset.
- 47 An AWF Unitholder that is an individual or the trustee of a trust may discount the capital gain by 50% and include only 50% of the net capital gain in the taxable income of that individual or trust.
- 48 An AWF Unitholder that is a complying superannuation entity may discount the capital gain by 33 1/3% and include 66 2/3% of the net capital gain in the taxable income of that complying superannuation entity.
- 49 No CGT discount is available to an AWF Unitholder that is a company.

Subsequent disposal of RFF Units

- 50 If an AWF Unitholder sells their RFF Units after the Implementation Date, any gain or loss will be subject to CGT as the RFF Units received by the CIF Unitholder will be an asset for CGT purposes.
- 51 The cost base or reduced cost base of each AWF Unitholders' units in RFF will be equal to the market value of the replacement RFF Units at the Implementation Date. The CGT discount will only be available once the AWF Unitholder has held their RFF Units for at least 12 months.

General tax advice for all Unitholders

This comment is relevant for Unitholders in CIF, AWF and RBK who will each become Unitholders in RFF as a result of the Merger.

Dividends from RFF

- 52 Immediately after the Merger, RFF should continue to be treated as a public trading trust for tax purposes. This means that RFF:
 - (a) will pay tax on any profit derived during the year at the corporate tax rate of 30%; and
 - (b) may distribute the profit to Unitholders in the form of dividends (which may be franked).
- 53 Any dividends and franking credits received from RFF should be included in the assessable income of the Unitholder. Where the Unitholder is a resident individual or complying superannuation fund, and the Unitholder has excess franking credits available for the income year, those excess franking credits may be refunded to the Unitholder.
- 54 Whilst corporate Unitholders are not eligible to receive a refund of excess franking credits, they may be entitled to convert any excess into a loss that may be used to offset income earned in future years (subject to satisfaction of the loss utilisation rules).
- 55 It is noted that Unitholders are generally required to have held their units 'at risk' for 45 days in order to be eligible for the franking benefits outlined above. Unitholders should obtain their own advice on the application of these rules to their circumstances.

Stamp Duty

- 56 None of the stages required to effect the Merger should give rise to any stamp duty liability for Unitholders. In any event, RFF has agreed to pay any stamp duty in connection with the Merger.

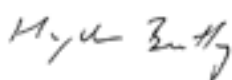
Goods and Services Tax (GST)

- 57 The transfer of Units by existing Unitholders to RFF as contemplated will not attract GST. Similarly, no GST will be payable on the acquisition of RFF Units.
- 58 Where Unitholders are registered or required to be registered for GST, any GST incurred on expenses that relate to the sale of existing units or acquisition of new units may not be recoverable if the individual Unitholder exceeds the financial acquisitions threshold as set out in the relevant GST legislation. However, a reduced input tax credit equal to 75% of the GST incurred may still be available if the acquisition constitutes a reduced credit acquisition.
- 59 Where Unitholders are not registered, or required to be registered for GST, no GST implications should arise in relation to the Merger.

Future status of RFF

- 60 As part of the 2010-11 Budget, the Government announced its intention to introduce a new taxation regime for managed investment trusts (**MIT**), in response to the Board of Taxation Report released in August 2009. On 30 July 2012, the Government announced the start date of the new laws would be 1 July 2014. Legislation has not yet been enacted to give effect to these changes and the Government has deferred consideration of some other Board recommendations that may narrow the scope of the public trading trust rules.
- 61 The Board has also more recently considered whether a broader range of tax flow-through vehicles should be permitted, having regard to the new MIT tax framework. The outcome of this review will likely be released when the Government releases its response to this Board of Taxation Report.
- 62 Irrespective of any future changes to the law, if RFF's business activities change over time, RFF may cease to be taxed as a trading trust in future years and instead be taxed as a flow through trust.
- 63 When a trust becomes a flow through trust, the income derived by the trust each year should retain its character when distributed to investors. The income will then be subject to tax based on the income tax profile of the investor. This may allow the investor to offset any tax losses from other activities.

Yours faithfully



Hayden Bentley
Partner

Summary of Fund constitutional amendments

16.1 CHANGES TO CIF CONSTITUTION

New clause 4.13 Demerger of CIF

The Manager may:

- (c) transfer cash from the Trust to RFM Poultry ARSN 164 851 218 (**RFM Poultry**); and
- (d) distribute funds from the Trust to Members and then as agent and attorney of each Member apply the distributed funds to acquire units in RFM Poultry,

in the manner set out in the Explanatory Memorandum provided the proportional interest of each Member in RFM Poultry is the same as each Member's proportional interest in the Trust (**De-merger**).

New Clause 4.14 Merger

The Manager may as agent and attorney of each Member transfer each Member's units in the Trust to Rural Funds Management Limited as responsible entity of RFM RiverBank ARSN 112 951 578 (**RFM RiverBank**) in exchange for RFM as responsible entity of RFM RiverBank issuing units in RFM RiverBank to each Member at the conversion rate as set out in the Explanatory Memorandum (**Merger**).

New Clause 4.15 Limited Power of Attorney

- (e) Each Member irrevocably appoints the Manager for valuable consideration as the agent and attorney of each Member to apply for membership of both RFM Poultry and RFM RiverBank in the manner disclosed in the Explanatory Memorandum.

- (f) Each Member irrevocably appoints the Manager for valuable consideration as the agent and attorney of each Member to execute all documents and do all things which the Manager reasonably considers necessary or desirable to be executed or done on behalf of each Member to effect:

- i. the De-merger; and
- ii. the Merger.

in the manner set out in the Explanatory Memorandum without needing further authority or approval from any Member.

New Clause 4.16 Communications

For the purposes of receiving communications from the Manager (including product disclosure statements, notices of meeting and other statutory communications) each Member confirms the address for receipt of that communication is their address as recorded on the Register and that the posting of any communication to the Member at that address will be effective receipt of that communication by the Member.

Additional definition

Clause 25.1 is amended by inserting the following additional definition:

Explanatory Memorandum means the explanatory memorandum which accompanied the notice of meeting of the Trust which considered and adopted the changes to clauses 4.13 to 4.16 of the Trust deed.

16.2 CHANGES TO AWF CONSTITUTION

New Clause 4.13 Merger

The Manager may as agent and attorney of each Member transfer each Member's units in the Trust to Rural Funds Management Limited as responsible entity of RFM RiverBank ARSN 112 951 578 (**RFM RiverBank**) in exchange for RFM as responsible entity of RFM RiverBank issuing units in RFM RiverBank to each Member at the conversion rate as set out in the Explanatory Memorandum (**Merger**).

New Clause 4.14 Limited Power of Attorney

- (g) Each Member irrevocably appoints the Manager for valuable consideration as the agent and attorney of each Member to apply for membership of RFM RiverBank in the manner disclosed in the Explanatory Memorandum.
- (h) Each Member irrevocably appoints the Manager for valuable consideration as the agent and attorney of each Member to execute all documents and do all things which the Manager reasonably considers necessary or desirable to be executed or done on behalf of each Member to effect the Merger in the manner set out in the Explanatory Memorandum without needing further authority or approval from any Member.

New Clause 4.15 Communications

For the purposes of receiving communications from the Manager (including product disclosure statements, notices of meeting and other statutory communications) each Member confirms the address for receipt of that communication is their address as recorded on the Register and that the posting of any communication to the Member at that address will be effective receipt of that communication by the Member.

Additional definition

Clause 25.1 is amended by inserting the following additional definition:

Explanatory Memorandum means the explanatory memorandum which accompanied the notice of meeting of the Trust which considered and adopted the changes to clauses 4.13 to 4.15 of the Trust deed.

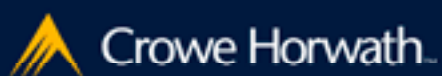


Glossary

Term	Definition
ABN	Australian Business Number
AFSL	Australian Financial Services Licence
ARSN	Australian Registered Scheme Number
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWF	RFM Australian Wine Fund ARSN 099 573 485
ASX	ASX Limited ACN 008 624 691
Baiada or Bartter Enterprises	Includes both Bartter Enterprises Pty Limited ABN 22 000 451 374 and Baiada Poultry Pty Limited ABN 96 002 925 948
Business Day	A day that is not a Saturday, Sunday or a public holiday in Canberra, Australian Capital Territory
CIF	RFM Chicken Income Fund ARSN 105 754 461
Compliance Plan	The Compliance Plan of RFF and RFMP
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Directors	The directors of RFM
ECC	External Compliance Committee
Foreign Unitholders	A Unitholder who has an address on the Fund register outside Australia, New Zealand, Vietnam or Hong Kong.
Funds	RFM RiverBank ARSN 112 951 578 RFM Chicken Income Fund ARSN 105 754 461 RFM Australian Wine Fund ARSN 099 573 485
FSC	Financial Services Council
FY	Financial Year

Term	Definition
Growing Contracts	The Chicken Growing Contracts with Bartter Enterprises, the details of which are set out in Figure 12.3
ICR	Indirect Cost Ratio
Implementation Date	The date of implementation of the Merger, expected 25 November 2013
Independent Expert	Crowe Horwath Corporate Finance Limited ABN 95 001 508 363
Listing	The listing of RFF (currently known as RiverBank) on the Australian Securities Exchange
Listing Trust	RFF and/or RFMP
LSR	Loan security ratio
Meetings	The meetings of Unitholders to consider and vote on Revaluation
Merger	The merger of RFM Chicken Income Fund (CIF) and RFM Australian Wine Fund (AWF) with RFM RiverBank (RiverBank):
Murdock Viticulture	Murdock Viticulture & Advisory Pty Ltd ACN 161 344 252
Net Asset Value or NAV	A measure of the value of a Unit in the Funds, RFF or RFMP as the case may be. The NAV is the net value of the assets divided by the number of Units on issue.
NSX	National Stock Exchange of Australia Limited ACN 000 902 063
REIT	Real Estate Investment Trust
Responsible Entity or RFM or we	Rural Funds Management Limited ABN 65 077 492 838
Revaluation	The proposal by RFM contained in this Explanatory Memorandum for CIF and AWF Unitholders to vote on the Merger and RiverBank Unitholders to vote on the Listing.
RFF	Rural Funds Group (formerly RFM RiverBank) ARSN 112 951 578
RFM	Rural Funds Management Ltd ACN 077 492 838
RFM Farming	RFM Farming Pty Ltd ACN 105 842 671
RFMP	RFM Poultry ARSN 112 951 578
RiverBank	RFM RiverBank ARSN 112 951 578
RFM Almond Funds	RFM Almond Fund 2006 ARSN 117 859 391, RFM Almond Fund 2007 ARSN 124 998 527, and RFM Almond Fund 2008 ARSN 127 947 960
Select Harvests	Select Harvests Limited ACN 000 721 380
StockBank	RFM StockBank ARSN 153 436 803
TFN	Tax File Number
Treasury Wine Estates	Treasury Wine Estates Vintners Limited ACN 004 094 599
Unit	A Unit in one of the Funds, RFF or RFMP as the case may be
Unitholder or Investor	The holder of the legal title of Units in one or more of the Funds

Independent Experts Report



Rural Funds Management Limited

INDEPENDENT EXPERT'S REPORT

In relation to the proposed merger of RFM RiverBank, RFM Chicken Income Fund and RFM Australian Wine Fund.

10 October 2013

For further information please contact:

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Financial Services Guide

Dated 10 October 2013

What is the purpose of this Financial Services Guide?

This Financial Services Guide is designed to help retail clients make a decision as to their use of the relevant general financial product advice; to ensure that we comply with our obligations as a financial services licensee; and to provide you with information on:

- how we and our associates are paid;
- any potential conflict of interest we may have; and
- our internal and external dispute resolution procedures and how you can access them.

Crowe Horwath Corporate Finance (Aust) Ltd ABN 95 001 508 363 has been engaged to issue general financial product advice in the form of an Independent Expert's Report (the **Report**) for inclusion in a Notice of Meeting and Explanatory Memorandum to be sent to shareholders.

What type of advice is being provided to me?

In the Report we provide general financial product advice, not personal financial product advice, because the advice has been prepared without taking into account your personal objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs.

Who is responsible for the financial services provided to me?

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What kinds of financial services are you authorised to provide to me?

We are authorised to provide advice on, and deal in, the following classes of financial products to wholesale and retail clients:

- provide financial product advice for derivatives and securities;
- deal in a financial product by issuing, applying for, acquiring, varying or disposing of a financial product in respect of derivatives, and
- deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of derivatives and securities.

What is the financial service being provided to me?

We are providing financial product advice by issuing an Independent Expert's Report in connection with a financial product of another person or entity. Our Report includes a description of the circumstances of our engagement and identifies the person or entity who has engaged us. You have not engaged us directly but you will be provided with a copy of the Report due to your connection to the matters in respect of which we have been engaged to report.

Any Report we provide is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

Do you have any relationships or associations with financial product issuers?

Crowe Horwath Corporate Finance (Aust) Ltd and any of its associated entities may at any time provide professional or financial services to financial product issuers in the ordinary course of our business.

How is Crowe Horwath Corporate Finance (Aust) Ltd paid to produce an Independent Expert's Report?

We will charge a fee in the vicinity of \$140,000 excluding GST for providing this Report. This fee will be paid by the person or entity which engages us to provide the Report. The fee has not affected the opinion we have expressed in the Report.

Except for this fee, neither Crowe Horwath Corporate Finance (Aust) Ltd, nor any of its principals, employees or related entities, receives any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

Does Crowe Horwath Corporate Finance (Aust) Ltd get paid for referring clients to invest in the products associated with your Independent Expert's Reports?

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the Report that we are engaged to provide.

We do not receive commissions or any other benefits for referring clients in connection with the underlying financial product and/or financial service that is the subject of the Report we are engaged to provide.

Who can I complain to if I have a complaint about the financial services provided?

If you have any complaint about the service provided to you, you should take the following steps:

- (i) Contact us and tell us about your complaint.
- (ii) If your complaint is not satisfactorily resolved within three business days, please contact the Complaints Officer on (03) 9522 0888, or put your complaint in writing and send it to us at compliance@crowehorwath.com.au or:

The Complaints Officer
Crowe Horwath Corporate Finance (Aust) Ltd
Level 9, 473 Bourke Street
Melbourne VIC 3000
- (iii) If you still do not get a satisfactory outcome you can contact the Financial Ombudsman Service (**FOS**) of which Crowe Horwath Corporate Finance (Aust) Ltd is a member. FOS can be contacted on 1300 780 808 or you can write to them at GPO Box 3, Melbourne, Victoria 3001.

The Australian Securities & Investments Commission has a freecall information line on 1300 300 630 which you may also use to make a complaint or obtain information about your rights.

If you have any further questions about the financial services Crowe Horwath Corporate Finance (Aust) Ltd provides, please contact our office on (07) 3233 3555.



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The Board of Directors
Rural Funds Management Ltd
Locked Bag 150
KINGSTON ACT 2604

The Directors

RE: INDEPENDENT EXPERT'S REPORT (THE "REPORT")

1. Introduction

1.1. Purpose of the Report

In January 2013, Rural Funds Management Ltd (**RFM**), in its capacity as responsible entity, announced plans to merge three of its managed funds – RFM RiverBank (**RBK**), RFM Chicken Income Fund (**CIF**) and RFM Australian Wine Fund (**AWF**) (the **Proposed Transaction**). Under the Proposed Transaction, CIF and AWF will be merged into RBK and the merged entity will be renamed to Rural Funds Group. The Proposed Transaction is conditional upon RFM obtaining relevant approvals from unitholders of RBK, CIF and AWF (collectively, the **Funds**).

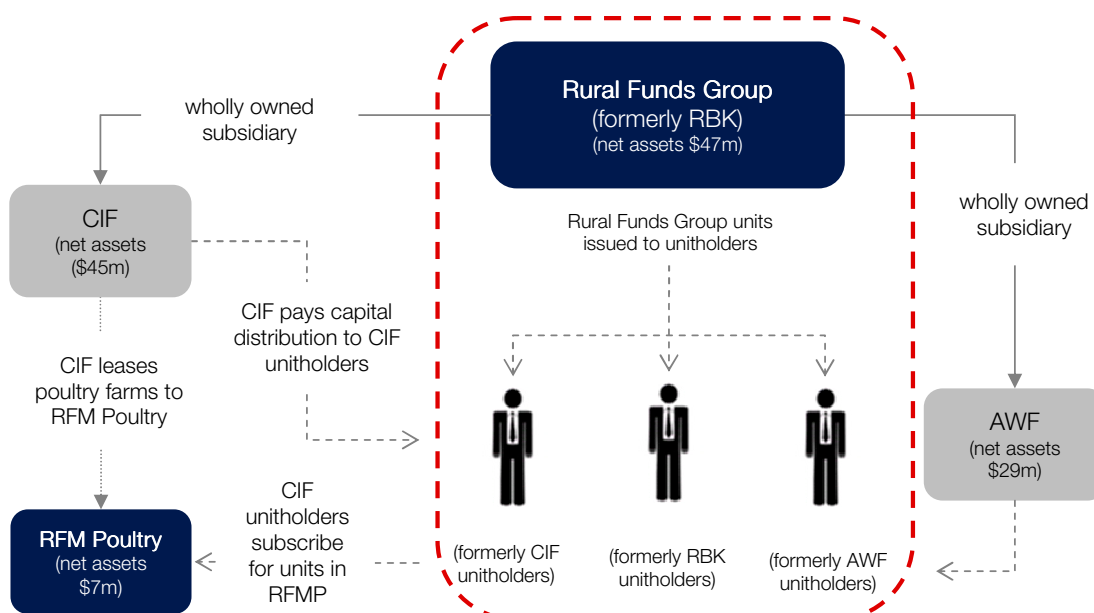
The Directors of RFM have appointed Crowe Horwath Corporate Finance (Aust) Ltd (**Crowe Horwath**) to prepare an independent expert's report (the **Report**) to opine whether the Proposed Transaction is fair and reasonable to the unitholders of the Funds. As responsible entity for the Funds, RFM has voluntarily commissioned the Report for inclusion in a Notice of Meeting and Explanatory Memorandum to be forwarded to each Fund's unitholders for their consideration in determining whether to approve the Proposed Transaction. Each Fund's unitholders may vote on the Proposed Transaction at a meeting of unitholders convened for the purposes of the Corporations Act 2001 (Cth) (**Corporations Act**).

1.2. Overview of the Proposed Transaction

Upon approval by the Funds' unitholders, the Proposed Transaction will be implemented. RBK will change its name to Rural Funds Group and will apply to list on the Australian Securities Exchange (**ASX**). Rural Funds Group will acquire 100% of the units on issue in both CIF and AWF. In return, Rural Funds Group will issue units in itself to the former unitholders of CIF and AWF. Post-implementation, the units in Rural Funds Group will be held by the current unitholders of RBK (37%), CIF (36%) and AWF (27%). In addition, former CIF unitholders will hold units in the newly created RFM Poultry which will apply to list on the National Stock Exchange of Australia (**NSX**).

An overview of the Proposed Transaction is provided below.

Figure 1: Overview of the Proposed Transaction



Source: RFM management

Note: Pro-forma net assets as at 1 October 2013.

An overview of the Proposed Transaction implementation process is provided below.

Table 1: Overview of the Proposed Transaction

Stage	Overview
Stage 1	RBK will be renamed Rural Funds Group and the value of all existing units standardised at \$1.00 per unit.
Stage 2	Issue of units in RFM Poultry to existing CIF unitholders.
Stage 3	CIF unitholders will be issued units in Rural Funds Group in exchange for their units in CIF.
Stage 4	AWF unitholders will be issued units in Rural Funds Group in exchange for their units in AWF.
Stage 5	Listing of Rural Funds Group on the ASX and RFM Poultry on the NSX.

Source: RFM management.

Rural Funds Group will initially own a diversified portfolio of agricultural assets of approximately \$230 million. Its principal business will be the owning of agricultural assets and deriving income from rental returns. Further information on the Proposed Transaction can be found in Section 2 of the Report.

1.3. Approach to Our Assessment

In forming our opinion as to whether the Proposed Transaction is fair to the Funds' unitholders, we have adopted the approach set out in Regulatory Guide 111 'Content of Expert's Reports' (**Regulatory Guide 111**) issued by the Australian Securities Investments Commission (**ASIC**). This approach involved comparing:

- the value of a unit in CIF, RBK and AWF pre-implementation of the Proposed Transaction, on a controlling basis; and
- the value of a unit in Rural Funds Group and, where relevant, a unit in RFM Poultry post-implementation of the Proposed Transaction, on a minority basis.

Under Regulatory Guide 111, an offer is reasonable if it is fair, however, an offer might also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior alternative.

In assessing whether the Proposed Transaction is reasonable, we considered the potential advantages and disadvantages of the Proposed Transaction to the unitholders of each Fund and assessed whether the advantages outweigh the disadvantages. The advantages and disadvantages in relation to the Proposed Transaction are summarised in Section 12.2 of the Report.

1.4. Summary of Our Opinion

In our opinion the Proposed Transaction is not fair but reasonable to the unitholders of CIF, RBK and AWF. This opinion should be read in conjunction with the remainder of the Report which sets out our scope and findings in detail.

1.4.1. Assessment of Fairness

The Proposed Transaction is not fair as the consideration offered is less than the range of the valuation assessments of CIF, RBK and AWF, as follows:

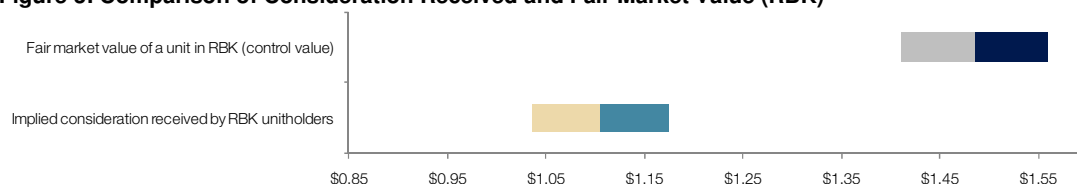
Table 2: Assessment of Fairness under the Proposed Transaction

	Low Value	Mid Value	High Value
RFM Chicken Income Fund			
Fair market value of a unit in CIF (control value)	\$0.80	\$0.84	\$0.88
Implied consideration received by CIF unitholders	\$0.58	\$0.62	\$0.65
RFM RiverBank			
Fair market value of a unit in RBK (control value)	\$1.41	\$1.49	\$1.56
Implied consideration received by RBK unitholders	\$1.03	\$1.10	\$1.17
RFM Australian Wine Fund			
Fair market value of a unit in AWF (control value)	\$0.41	\$0.43	\$0.45
Implied consideration received by AWF unitholders	\$0.35	\$0.37	\$0.39

Source: Crowe Horwath analysis.

**Figure 2: Comparison of Consideration Received and Fair Market Value (CIF)**

Source: Crowe Horwath analysis.

Figure 3: Comparison of Consideration Received and Fair Market Value (RBK)

Source: Crowe Horwath analysis.

Figure 4: Comparison of Consideration Received and Fair Market Value (AWF)

Source: Crowe Horwath analysis.

Our detailed valuation can be found in Section 11 of the Report.

1.4.2. Assessment of Reasonableness

Despite being not fair, the Proposed Transaction is, in our opinion, reasonable as the advantages outweigh the disadvantages for the unitholders of CIF, RBK and AWF.

To assess the reasonableness of the Proposed Transaction, we have considered the following significant factors:

- analysis of the Proposed Transaction on a non-controlling basis – this involved comparing the pre transaction value of a unit in CIF, RBK and AWF on a minority basis to the value of a unit of Rural Funds Group (including a unit of RFM Poultry, where relevant) on a minority basis;
- financial metrics for CIF, RBK and AWF pre-implementation of the Proposed Transaction, compared with financial metrics for Rural Funds Group (and RFM Poultry, where relevant) post-implementation of the Proposed Transaction (e.g. forecast distributions, forecast total return, forecast loan to value ratios and forecast interest cover ratios);
- cost savings arising from the Proposed Transaction and the resulting impact to the indirect cost ratio;
- financial flexibility of the Rural Funds Group, including access to funding;
- potential improvements to the underlying liquidity for unitholders;
- the likely impact on the control of the Funds and any dilution effects; and

- other advantages and disadvantages for the Funds' unitholders in accepting or rejecting the Proposed Transaction.

A summary of the advantages and disadvantages of the Proposed Transaction for each of the Funds are provided below.

Table 3: Summary of Advantages and Disadvantages of the Proposed Transaction for each Fund

Potential Advantages and Disadvantages	Report Cross-reference	CIF	RBK	AWF
On a minority basis, the Proposed Transaction is fair	Section 12.2 (a)	✓	✓	✓
Distributions FY14	Section 12.2 (b)	✓	✓	✓
Distributions FY15	Section 12.2 (b)	x	✓	✓
Total return FY14	Section 12.2 (c)	x	x	✓
Total return FY15	Section 12.2 (c)	✓	✓	✓
Indirect cost ratio	Section 12.2 (d)	✓	✓	✓
Financial and operating stability	Section 12.2 (e)	✓	✓	✓
Diversification	Section 12.2 (f)	✓	✓	✓
Liquidity	Section 12.2 (g)	✓	✓	✓
Cost savings	Section 12.2 (h)	✓	✓	✓
Access to funds	Section 12.2 (i)	✓	✓	✓
Loan to value ratio	Section 12.2 (j)	✓	x	x
Interest cover FY14	Section 12.2 (k)	x	✓	✓
Interest cover FY15	Section 12.2 (k)	x	✓	x
Dilutionary / incremental ownership	Section 12.2 (l)	x	x	✓
Pricing volatility	Section 12.2 (m)	x	x	x
Transaction costs	Section 12.2 (n)	x	x	x
Deferred tax assets	Section 12.2 (o)	x	x	x
Taxation implications	Section 12.2 (p)	x	x	x

Source: Crowe Horwath analysis.
Key: ✓ advantage, x disadvantage

A more detailed discussion of our assessment of reasonableness can be found in Section 12.2 of the Report.



1.5. Other

This letter is a summary of our analysis and opinion and should not be substituted for the reading of the entire Report. Unitholders of the Funds should read the Proposed Transaction documentation issued by RFM, together with this Report in full, prior to deciding whether to approve the Proposed Transaction.

Capitalised terms and certain abbreviations used in the Report are defined in the Glossary.

For the avoidance of doubt, references to “we”, “our” or similar terms refer to Crowe Horwath unless the context requires otherwise.

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in the Report are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in the Report.

All references to currency are to Australian dollars unless otherwise indicated.

Yours faithfully

A handwritten signature in blue ink that reads "Crowe Horwath".

Crowe Horwath Corporate Finance (Aust) Ltd

ABN 95 001 508 363
AFSL 239170

Crowe Horwath Corporate Finance (Aust) Ltd is a member of Crowe Horwath International, a Swiss verein. Each member of Crowe Horwath is a separate and independent legal entity.

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2. The Proposed Transaction

2.1. Rationale for the Proposed Transaction

CIF, RBK and AWF are managed investments funds established by RFM between 2000 and 2005. They are illiquid funds and there is currently no active market for their units. RFM have advised that approximately 3.5% (by value) of the unitholders in the Funds are presently unable to realise their investment despite expressing a desire to do so. The Proposed Transaction aims to meet the varying needs of the Funds' unitholders including those who may wish to realise their investment in the Funds now or in the future.

RFM cites the following benefits for the Proposed Transaction:

- **Liquidity:** Listing Rural Funds Group on the ASX will provide unitholders with the ability to sell their investment at a time of their choosing.
- **Diversification:** the investment in Rural Funds Group will be diversified geographically, by industry and by lease counterpart.
- **Reduced earnings volatility:** Rural Funds Group will derive all of its revenue from leasing agricultural assets and thus investors may not experience the volatility of earnings typically associated with agricultural businesses.
- **Lower costs and increased scale:** A larger fund enables economies of scale by spreading fixed costs across a larger asset base.
- **Access to capital markets:** Since the global financial crisis, many illiquid funds have been unable to access equity markets. Listed and diversified funds tend to have increased access to capital which may result in lower funding costs.

2.2. Overview of the Proposed Transaction

In January 2013, RFM, in its capacity as responsible entity, announced plans to merge three of its managed funds – RBK, CIF and AWF. Under the Proposed Transaction, CIF and AWF will be merged into RBK and the merged entity will be renamed to Rural Funds Group.

2.2.1. Conditions Precedent

The Proposed Transaction is subject to the approval of the unitholders of CIF, RBK and AWF.

- CIF will be asked to consider a special resolution¹ seeking unitholder approval to merge with RBK and establish RFM Poultry.
- AWF unitholders will be asked to consider a special resolution² seeking unitholder approval to merge with RBK.
- RBK unitholders will be asked to consider an ordinary resolution³ seeking unitholder approval of the merger with CIF and AWF.

In the event that any of the above resolutions are not approved, the Proposed Transaction will not proceed as RFM will not be empowered to undertake the necessary changes to the Constitutions of each Fund.

In the event that all the resolutions are approved, the Proposed Transaction will proceed.

¹ For a special resolution to be approved, it must be adopted by at least 75% of unitholders' votes cast at the meeting either in person or by proxy.

² See note 1.

³ For an ordinary resolution to be approved, it must be adopted by at least 50% of unitholders' votes cast at the meeting either in person or by proxy.

2.2.2. Implementation Process

If the resolutions are approved, the Proposed Transaction will be implemented by way of a five stage process in which RBK will change its name to Rural Funds Group and will apply to list on the Australian Securities Exchange (**ASX**). Rural Funds Group will acquire 100% of the units on issue in both CIF and AWF. In return, Rural Funds Group will issue units in itself to the former unitholders of CIF and AWF. Post-implementation, the units in Rural Funds Group will be held by the current unitholders of RBK (37%), CIF (36%) and AWF (27%). In addition, former CIF unitholders will hold units in the newly created RFM Poultry which will apply to list on the National Stock Exchange of Australia (**NSX**).

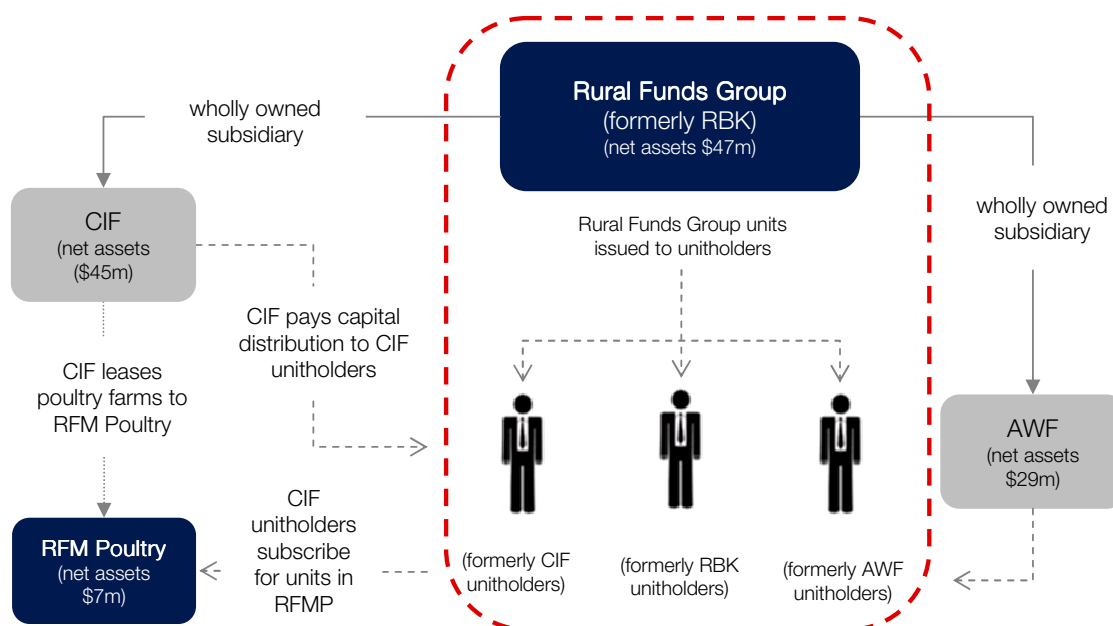
The five primary stages of the Proposed Transaction are as follows:

- **Stage 1:** RBK will be renamed Rural Funds Group and the value of all existing units standardised at \$1.00 per unit. Existing RBK unitholders will be issued additional units as per the merger ratios set out in Section 2.3.
- **Stage 2:** CIF will pay a distribution to CIF unitholders which will be used to subscribe for units in RFM Poultry using the merger ratios set out in Section 2.3. RFM Poultry will be a newly created managed investment fund established by RFM for the purpose of operating the poultry farm assets owned by Rural Funds Group. CIF will continue to own the 17 poultry farms and lease those farms to RFM Poultry (refer Section 10 for more information on RFM Poultry).
- **Stage 3:** CIF unitholders will be issued units in Rural Funds Group in exchange for their units in CIF using the merger ratios set out in Section 2.3.
- **Stage 4:** AWF unitholders will be issued units in Rural Funds Group in exchange for their units in AWF using the merger ratios set out in Section 2.3.
- **Stage 5:** Rural Funds Group will list on the Australian Securities Exchange (proposed ASX ticker: RFF) and is expected to be classed as An Australian Real Estate Investment Trust (**A-REIT**). RFM Poultry will be listed on the National Stock Exchange of Australia (**NSX**). RFM will remain the responsible entity of RFM Poultry and Rural Funds Group.

Rural Funds Group (formerly RBK) will initially own a diversified portfolio of agricultural assets of approximately \$230 million. Its principal business will be the owning of agricultural assets and deriving income from rental returns. As part of its assets, Rural Funds Group will initially have approximately \$5 million investment in RFM StockBank (**StockBank**) held through its subsidiary, CIF (refer Sections 6.2.3 and 6.3.2). We also note that in the first year of trading, Rural Funds Group intends to conduct an on-market unit buy-back of approximately \$1 million.

An overview of the Proposed Transaction process is provided below.

Figure 5: Overview of the Proposed Transaction



Source: RFM management.
Note: Pro-forma net assets at 1 October 2013.

For more information on Rural Funds Group refer to Section 9 of the Report.

2.3. Merger Ratios

RFM has derived the merger ratios using the audited net asset values (**NAV**) of each fund at 30 June 2013. The NAV for each Fund was then adjusted by RFM, as detailed below and in the Explanatory Memorandum:

Table 4: Ownership of Rural Funds Group for RBK, CIF and AWF

Entity	Notes	NAV at 30 Jun 2013 (\$'000s)	Adjustments (\$'000s)	Premium (\$'000s)	Rural Funds Group	
					Adjusted NAV (\$'000s)	Ownership
RBK	1	47,564	309	-	47,874	37%
CIF	2	53,749	(7,150)	-	46,599	36%
AWF	3 & 4	30,296	(210)	4,513	34,599	27%
Total		131,610	(7,051)	4,513	129,072	100%

Source: RFM management.

The ownership calculation is based on the 30 June 2013 audited accounts, plus the following adjustments:

- \$0.3 million adjustment for RBK relates to the valuation of parcels of land and water which at 30 June were held for sale based on a proposed transaction, which subsequently completed on better than anticipated terms. In addition, an accounting impairment of water has been reversed to reflect the independent valuation of water. These adjustments are net of tax.
- \$7.2 million adjustment to the CIF NAV comprising the de-merger of RFM Poultry (\$6.8 million) and provision for future improvements on the chicken sheds required for the adoption of higher welfare standards (\$0.4 million).



3. AWF adjustment of \$0.2 million for future capital expenditure in FY14 required under the terms of the lease.
4. \$4.5 million adjustment to AWF due to RBK acquiring the AWF assets at higher than carrying value.

The numbers of units issued in Rural Funds Group is based on the forecast 30 September 2013 NAV multiplied by the ownership calculation above. The table below shows how many units will be offered to existing unitholders in each of the Funds assuming a \$1.00 issue price.

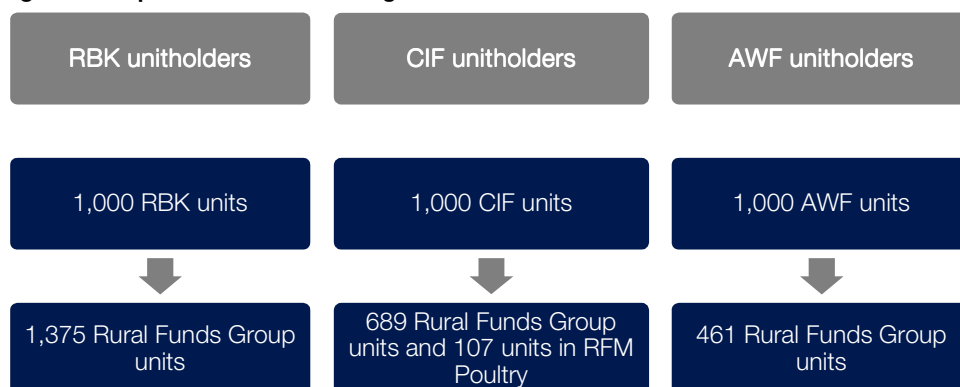
Table 5: Merger Ratios

Entity	Forecast NAV at	Adjusted Forecast		Forecast Units on Issue ('000s)	Rural Funds Group	
	30 Sep 2013 (\$'000s)	Adjustments (\$'000s)	NAV at 30 Sep 2013 (\$'000s)		Units Issued ('000s)	Merger Ratio
RBK	48,646	(1,638)	47,008	32,748	45,043	1.375
CIF	46,780	(1,594)	45,186	63,662	43,844	0.689
AWF	30,431	(1,184)	29,247	70,663	32,554	0.461
Total	125,857	(4,416)	121,440	167,072	121,440	

Source: RFM management.

The adjustments in the above table relate to a provision for distributions of \$2.5 million and the loss of \$1.9 million of deferred tax assets. The merger ratios shown above will be used in determining the number of issued units in Rural Funds Group for unitholders under Stages 1 to 4 of the Proposed Transaction (refer Section 2.2.2). Based on 1,000 units, the amount of units for each Fund is as follows (refer also Table 52 of the Report):

Figure 6: Proposed Transaction Merger Ratios



Source: RFM management.

2.4. Proposed Transaction Timetable

Table 6: Proposed Transaction Timetable

Event	Anticipated Date
Unitholder meetings held for each Fund	18 November 2013
Date for advising unitholders the results of the meetings	19 November 2013
Expected effective implementation date	1 October 2013
Expected admission date for Rural Funds Group (ASX) and RFM Poultry (NSX).	12 December 2013

Source: RFM management.

Note: This timetable is indicative only and is subject to change.

3. Scope of the Report

3.1. Purpose of the Report

The directors of RFM have appointed Crowe Horwath to prepare an independent expert's report to opine whether the Proposed Transaction is fair and reasonable to the unitholders of each of the Funds. As responsible entity for the Funds, RFM has voluntarily commissioned a Report for inclusion in a Notice of Meeting and Explanatory Memorandum to be forwarded to the Funds' unitholders for their consideration in determining whether to approve the Proposed Transaction. Each Fund's unitholders may vote on the Proposed Transaction at a meeting of members convened for the purposes of the Corporations Act.

An individual unitholder's decision in relation to the Proposed Transaction documentation may be influenced by his or her particular circumstances. Crowe Horwath has considered the Proposed Transaction generally and has not taken into account the objectives, financial situation or needs of each unitholder of the Funds. Due to particular circumstances, individual unitholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in our Report. Accordingly, individual unitholders may reach different conclusions as to whether to approve the Proposed Transaction.

3.2. Regulatory Requirements

There is no regulatory requirement for RFM to commission an independent expert's report in relation to the Proposed Transaction. However, the RFM Directors consider that the appointment of an independent expert to opine on the Proposed Transaction will assist the Funds' unitholders with their decisions.

3.3. Evaluation Criteria

In evaluating the Proposed Transaction we have considered the nature of the Proposed Transaction and how it will impact upon unitholders. Due consideration has been given to the relevant Regulatory Guides issued by ASIC and in particular, Regulatory Guide 111.

The terms fair and reasonable are not defined in the Corporations Act however Regulatory Guide 111 provides the following guidance on interpretation:

- an offer is fair if the value of the consideration is equal to or greater than the value of the securities the subject of the offer;
- an offer is reasonable if it is fair; and
- an offer may be reasonable if, despite not being fair, the expert believes after considering other significant factors, unitholders should accept the offer in the absence of any higher bid.

Regulatory Guide 111 states that the comparison of the offer price to the value of the securities that are the subject of the offer should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company. While we do not consider the Proposed Transaction to be a control transaction (refer Section 11) it is still a requirement under Regulatory Guide 111 and we have therefore included a control premium in determining the fairness of the Proposed Transaction. We acknowledge that the outcome of the fairness analysis may yield a different result in the case where a control premium is excluded, that is, where the Proposed Transaction is analysed on a minority basis.



In determining the fairness of the Proposed Transaction we have compared:

- the value of a unit in CIF, RBK and AWF pre-implementation of the Proposed Transaction, on a controlling basis; and
- the value of a unit in Rural Funds Group and, where relevant, a unit in RFM Poultry post-implementation of the Proposed Transaction, on a minority basis.

To assess the reasonableness of the Proposed Transaction, we have considered the following significant factors:

- analysis of the Proposed Transaction on a non-controlling basis – this involved comparing the pre transaction value of a unit in CIF, RBK and AWF on a minority basis to the value of a unit of Rural Funds Group (including a unit of RFM Poultry, where relevant) on a minority basis;
- financial metrics for CIF, RBK and AWF pre-implementation of the Proposed Transaction, compared with financial metrics for Rural Funds Group (and RFM Poultry, where relevant) post-implementation of the Proposed Transaction (e.g. forecast distributions, forecast total return, forecast loan to value ratios and forecast interest cover ratios);
- cost savings arising from the Proposed Transaction and the resulting impact to the indirect cost ratio;
- financial flexibility of the Rural Funds Group, including access to funding;
- potential improvements to the underlying liquidity for unitholders;
- the likely impact on the control of the Funds and any dilution effects; and
- other advantages and disadvantages for the Funds' unitholders in accepting or rejecting the Proposed Transaction.

3.4. Limitations and Reliance on Information

Our opinion is based on economic, share market, business and trading conditions prevailing at the date of this Report. These conditions can change significantly over relatively short periods. Should they change materially, our valuation and opinion could vary significantly. Should we become aware of any factors that alter our assumptions as given, we reserve the right to alter our Report.

This Report is based on financial and non-financial information provided by RFM and their advisers which we have used and relied on for the purposes of our analysis. We have considered and relied on this information and have no reason to believe that any material facts have been withheld. The information provided to us has been evaluated through analysis, inquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the Funds' unitholders. We do not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, we:

- assume no responsibility and offer no legal opinion or interpretation on any issue; and
- have generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no legal proceedings, other than as publicly disclosed.

4. Industry Overview

4.1. Introduction

RFM operates in the managed fund industry with a portfolio of agricultural investments and properties located within Australia. Managed funds allow investors to purchase an interest in a portfolio of real estate or other investments. Therefore, investors are exposed to the performance of those underlying assets. Funds that are currently managed by RFM predominately have interests in:

- rural and agricultural property;
- horticultural operations:
- grape growing;
- almond growing;
- meat operations:
- chicken meat farming; and
- sheep and beef farming.

These sectors are affected by movements in their respective industry and the economy as a whole. Accordingly, we provide below our high level observations regarding RFM's associated industries. The following is not intended to be a comprehensive analysis, but rather provide a high level overview of the demand and industry outlook associated with RFM's operations.

4.2. Real Estate

4.2.1. Australian Real Estate Investment Trusts

Rural Funds Group will be comparable to an Australian Real Estate Investment Trust (**A-REIT**), as its assets largely comprise of direct investments in Australian property assets such as land, infrastructure and water. Similar to a managed fund, an A-REIT is an investment vehicle which enables security-holders to purchase an interest in a single real estate asset or a portfolio of managed assets. Returns from A-REITs are generated from lease or rental income and capital growth of the underlying fund assets. It is noted that A-REITs may be listed or unlisted.

A-REITs are usually categorised by the type of property held, such as:

- industrial – warehouses, manufacturing facilities and factories;
- hotel / leisure – hotels, nightclubs, pubs, cinemas and theme parks;
- retail – shopping centres and warehouses of various sizes; and
- commercial – office buildings and office parks.

4.2.2. Current Performance and Outlook

As with other sectors, A-REITs were greatly affected by the global financial crisis (**GFC**). The GFC commenced in late 2007 when a loss of confidence by United States (**US**) investors in the value of sub-prime mortgages caused a liquidity crisis. To recover, the US Federal Bank injected capital into the country's financial markets. This in turn greatly affected global markets, causing mass volatility and decline in asset values. The fall in prices put pressure on debt covenants and resulted in aggressive asset sales or equity raisings to repay debt. Credit shortages meant higher funding costs, with financiers becoming more stringent in their lending criteria and debt becoming more difficult to refinance at a viable price. As a consequence, many A-REITs traded at a significant discount to their net tangible asset⁴ value post the GFC. In more recent times however, the A-REIT sector has shown resilience, having emerged from the GFC with lower gearing levels, stronger balance sheets, and greater reliance on rental cash flows than previously.⁵

The figure below represents the performance of the S&P/ASX 200 A-REIT Index, an index that contains any listed vehicle that is classified as a real estate investment trust, compared to the S&P/ASX200 and S&P/ASX All Ordinaries Index over the last three years.

Figure 7: S&P/ASX 200 A-REIT Index



Source: S&P Capital IQ.

We note the following with respect to the above figure:

- The S&P/ASX 200 A-REIT Index underperformed both the S&P/ASX 200 and S&P/ASX All Ordinaries Index in the first half of the identified period, having been influenced by general market conditions as described above.
- The second half of the identified period indicates a reversal of performance, with the S&P/ASX 200 A-REIT Index significantly outperforming the S&P/ASX 200 and S&P/ASX All Ordinaries Index.

⁴ NTAs are calculated as the total assets of an entity that have a physical form such as machinery, inventory, plant and equipment less all related liabilities.

⁵ Jones Lang LaSalle, 2012, *A-REITs: A Case for Cautious Optimism*.

4.2.3. Australian Rural and Agricultural Property Sector

Although A-REITs generally invest in traditional property sectors (refer Section 4.2.1), RFM's funds predominately holds interests in Australian agricultural property. This sector is considered a viable investment alternative to the traditional property sectors. Below is a high level overview of the Australian rural property sector.

The rural property sector can be categorised as follows:

- wine sector – vineyards;
- horticultural land – fruit and vegetable growing;
- pastoral / grazing – sheep, beef cattle, veal and poultry farming; and
- forestry.

The rural property sector has received greater interest in recent years as investors seek to diversify their property portfolios. Sales of rural farm land increased in 2011-12 and 2012-13, however many of those sales were of distressed assets. Investors (both domestically and internationally) with sufficient capital to purchase will be a key industry driver in the sector long term. Similarly, more than \$2 billion in equity was raised in 2011-12 for investment in Australian farmland.⁶ Returns from crop and livestock production are greatly affected by weather and climatic conditions. Therefore rural properties that enjoy more favourable climate conditions tend to perform well and attract higher values.

Global food demand is rising and Australia is well positioned to service that demand.⁷ As such, foreign investment in Australian agribusiness has been increasing, particularly since the GFC. Countries such as China are looking to invest in agriculture (such as the dairy and cattle industries) to assist in ensuring future higher quality food supplies for its growing population. Foreign-sourced dairy products are highly sought after in China since a series of contaminations in locally produced dairy products. In 2012, China became the world's largest importer of food, as imports grew by 34 per cent.⁸ Moreover, Canegrowers Australia claim that around 75% of Australian sugar milling assets are now foreign owned (up from 15% just three years prior). IBISWorld also predicts further investment in Australian agriculture to emerge from Indonesia, Singapore and Malaysia.

Exports of Australian produce are expected to rise in coming years. Australia will be able to capitalise on its close proximity to major export markets such as China, India and Japan, meaning lower transportation costs to export. Additionally, Australia had 398 million hectares of agricultural land in 2009-10; approximately 52% of the country's total land area dedicated to agribusiness. The Department of Agriculture, Fisheries and Forestry (**ABARES**) estimates world food demand to increase by 70% by 2050. As such, demand for alternative investments (such as rural property) is set to strengthen in the coming years.

Below are examples of large offshore investments which took place during 2012.⁹

- Hassad Food Group, a Qatar based food company, increased its pastoral land investments in New South Wales (**NSW**), Queensland, Western Australia (**WA**) and Victoria.
- Ross Estate winery was sold to a specialist Chinese wine company.
- The Teachers Insurance and Annuity Association College Retirement Equities Fund raised \$2 billion to invest in farmland in the US, Australia and Brazil. The company comprises seven international institutional investors.

⁶ Colliers International, 2012, National Research Report, *2012 Rural and Agribusiness*.

⁷ Colliers International, 2013, *Property Outlook (Australia) 2013*.

⁸ Grigg A & Massola J, 2012, 'China targets dairy industry', *Australian Financial Review*, 24 September.

⁹ Above note 2.

4.3. Horticulture in Australia

4.3.1. Grape Growing

The Australian grape industry consists of businesses which grow grapes for winemaking, sultana production and for eating; to sell directly to winemakers and wholesalers or retailers. Grapes are grown in all parts of Australia except the Northern Territory. South Australia however is the dominant wine grape growing region, accounting for 48% of total production in 2009-10. The level of annual rainfall greatly dictates production levels and quality. The five years to 2011-2012 saw heavy rainfall and flooding across eastern states of Australia. Such conditions have caused widespread crop damage and splitting, rotting and the spread of disease in surviving vines.¹⁰

The grape and wine industry in Australia has operated in challenging market conditions over the past decade. Overplanting since the 1990's, a significant decline in exports, the high Australian dollar, increased international competition and weak domestic sales has resulted in an oversupply of both grapes and wine. The onset of the GFC further exacerbated these downward trends. With the wine market saturated, grape prices fell dramatically, impacting the viability of vineyard productions and values. Over the past 10 years, warm-climate red grape prices have fallen an average 67%. In 2009, local wine industry bodies estimated that Australia is producing 20 to 40 million more cases of wine than it is selling.¹¹

The Australian Bureau of Statistics (ABS) predicts levels of wine production will remain stagnant during 2012-13. Red wine grapes, Shiraz in particular, will account for the majority of the grapes grown. Chardonnay is to be the next largest variety, followed by cabernet sauvignon. Together, these three varieties are expected to account for nearly 60% of total Australian wine grape production in 2012-13. In spite of stagnant production levels the industry is still experiencing an oversupply of winemaking grapes. Prices have been lowered substantially to maintain sales levels at the expense of gross profit margins.

The outlook for the industry is increasingly positive however, as demand for grapes are set to strengthen in line with exports to China and a recovering retail sector. Grape prices are beginning to recover, particularly for premium fruit. Growers may be able to expand profitability by investing in achieving economies of scale through consolidation and joint management arrangements. There is likely to be a smaller number of vineyards in future years, although they will be larger in size. This is tempered by the prediction that the cost of irrigation water will rise, and growers will need to consider more water-efficient operation models.¹²

4.3.2. Almond Growing

In Australia, there are several areas which are most suitable for almond growing. These include four areas along the Murray Basin: the Adelaide and Riverland regions of South Australia, the Riverina region of NSW and the Sunraysia region of Victoria. According to the Almond Board of Australia, Australia enjoys a number of advantages as an almond producer including:

- favourable weather conditions;
- suitable land and soil;
- relatively few pests and diseases;
- highly developed infrastructure; and,
- a leader in world's best practice production, processing and marketing.

¹⁰ IBISWorld, 2012, *Grape Growing in Australia*.

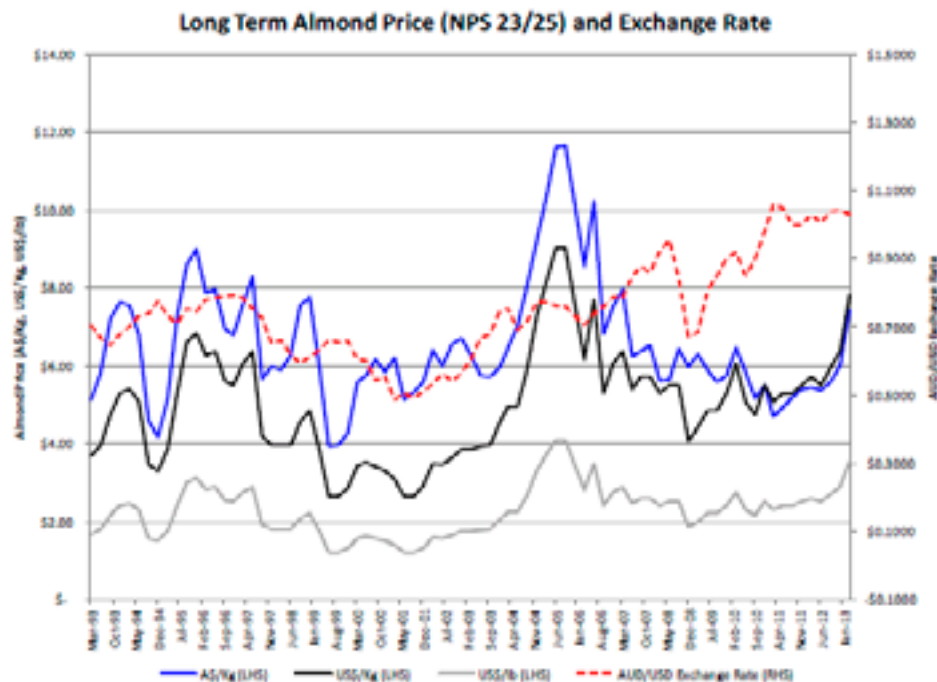
¹¹ Commonwealth Bank of Australia, 2011, Global Markets Research, *International Wine Industry Review*.

¹² ABARES, 2011, Research Report, *Australian Wine Grape Production Projections to 2012-13*.

World almond consumption is at an all time high, and increasing. Almond production in Australia totalled 37,626 tonnes in 2011 and that figure is expected to more than double by 2016.¹³ Consumer demand for almonds has increased globally, with world almond consumption doubling in the last decade. Despite such expansion, the rate of growth in supply is not currently meeting the rate of growth in demand. This is largely due to the relatively long time period from planting to full production.

Demand for nuts though is highly sensitive to price changes. A large increase in price can hamper demand and encourage the consumers to choose alternatives. The price of almonds is determined by a number of factors, principally supply and demand. The trend in almond prices, until 2007, has been steadily increasing due to strongly rising world demand. The price earned by Australian producers is largely governed by the world almond price and the exchange rate for the Australian dollar. It should be noted that when almond prices were at their peak in 2006 (refer diagram below), the level of global supply was higher than demand, indicating a possible similar trend in forthcoming years.

Figure 8: Seasonal Price for Almonds



Source: Select Harvest Limited Presentation 2013.

Australian fruit and nut growers are expected to benefit over the next 5 years from growing export demand, rising domestic spending on fruit, improved water availability, increased crop yields and niche market development. These factors in line with the maturing of young plantings are expected to result in an annual boost to revenue by 3.0% into 2017-18.¹⁴

¹³ Almond Board of Australia, 2009, *All About Australian Almonds*.

¹⁴ IBISWorld, 2012, *Citrus, Banana and Other Fruit Growing in Australia*.

4.4. Meat Industry

4.4.1. Chicken Meat Farming

Businesses in this industry engage in the hatching and raising of chickens for meat production. Demand for chicken meat is significantly driven by upstream poultry processors, as approximately 95% of all meat is sold to processors for slaughter.¹⁵ Industry participants often operate as part of an integrated operation. Levels of live poultry imports and exports are extremely low as a result of border quarantine regulations in place to protect against the spread of disease in Australian poultry farms. NSW and Victoria are the largest producers of chicken meat, while the Northern Territory does not have any chicken farming or processing businesses.

Currently, the industry is dominated by larger vertically integrated businesses. These businesses manage their own breeder farms, hatcheries, and processing plants. According to IBISWorld, approximately 95% of all chicken meat in Australia is produced by a small number of private company processors, such as Inghams, Baiada and Turi Foods. The industry is moving towards a fewer number of larger players, much like the grape growing sector. Poultry growers are facing increasing input costs such as electricity costs for the heating and cooling of sheds. There has also been pressure on growers to upgrade their sheds and facilities in order to run more efficiently and keep contracts with upstream processors. As with grape growing, industry players will need to gain economies of scale to operate profitably going forward.

Future demand for chicken meat will depend greatly on household consumption patterns. There has been an increasing move towards more health conscious eating choices. Chicken is seen as a lower fat alternative to other meats, and thus has risen in popularity in recent times. Demand for chicken meat is also affected by the price of substitutes such as pork, beef and lamb. When meats such as these are lower in price, consumers subsequently purchase more of those meats and less poultry. Growth in consumption also follows a trend towards convenience foods which incorporate chicken more so than other substitutes. It should be noted that consumer concerns regarding the use of antibiotics in production and the welfare of caged chickens could threaten industry expansion. Overall though, industry revenue is predicted by IBISWorld to grow by 1.9% each year to 2017-18.

4.4.2. Sheep and Beef Farming

The industry is engaged in farming sheep for their meat and wool, and the operation of sheep and cattle feedlots. Most of the country's sheep and beef farming operations are located in Queensland, NSW, South Australia and Victoria. In fact, over 70% of NSW's land mass is dedicated to agricultural operations due to the state's river systems and ample water supply.¹⁶ Success in the industry is largely dependant on establishing long term large-scale contracts with buyers, economies of scale and a farming location that is close to key markets and suppliers and enjoys suitable weather conditions.

¹⁵ IBISWorld, 2012, *Poultry Meat Farming in Australia*.

¹⁶ IBISWorld, 2012, *Sheep and Beef Cattle Farming in Australia*.

The industry is driven largely by price movements and weather conditions. Australia exports a significant amount of live cattle and meat. As such, movements in the exchange rate and the strength of the Australian dollar strongly impact the demand for exports. Wool prices affect production as a rise in the price of wool encourages greater sheep production. Demand in developing nations such as China and India support increased wool prices. The domestic price of sheep and beef elevates returns to farmers per animal, making their operations more profitable. Prices for lamb have increased considerably in recent years due to increased demand worldwide while there has been increase in lamb supply. At the same time, annual rainfall effect's industry performance, as for example, during drought time slaughter rates are increased, therefore as supply is higher prices drop. It should also be noted that the industry has seen increased competition from healthier protein alternatives in recent years, thus dampening the consumption of red meat.¹⁷

The Australian red meat industry is currently experiencing contraction and consolidation. This is largely due to weather conditions and natural disasters, diminished demand as a result of the GFC and rising input costs. Australia has seen a combination of both drought conditions and severe flooding in recent years. Concurrently, demand for expensive cuts of beef fell, demand for more economical cuts rose, as did the cost of inputs (such as feed). To adapt to such conditions farmers have increased their slaughter rates, changed their business model or exited their operations. In the last five years farms are becoming fewer in number but larger in size, as industry players turn their focus on gaining economies of scale and cutting costs.

Despite recent industry contraction, predicted price rises, increased demand and more favourable weather conditions should see revenue grow over the next five years to 2017-18 according to IBISWorld. As slaughter rates have been high, farmers will now need to replenish their stock supply. This will cause a shortage of supply in the market. Coupled with improving economic conditions and larger disposable incomes, prices are expected to be driven upwards. The cost of feed and other inputs will be lower while weather conditions are favourable. This is predicted to bring a rise in profit and in revenue. However, Australia will compete with US and New Zealand for cheaper exports with the Australian dollar predicted to stay strong.

4.5. Industry Summary

The key points from our industry overview are provided below:

- The almond growing, grape growing, poultry and red meat industries are undergoing consolidation as fewer but larger businesses dominate these sectors.
- Surviving industry players are seeking economies of scale to remain profitable as margins become slimmer.
- Levels of economic activity, the Australian dollar, weather conditions and commodity prices are the major business drivers for the above industries.
- Global food demand is rising and Australian agricultural land and businesses are well positioned to service that demand.

¹⁷ Commonwealth Bank of Australia, 2012, Global Markets Research, *Commodities: Agri Updates - Outlook for Australian Agriculture*.

5. Profile of Rural Funds Management Ltd

5.1. About RFM

Founded in 1997, Rural Funds Management Ltd is a fund manager and asset manager specialising in the Australian agricultural sector. RFM is also the holder of Australian Financial Services License No. 226701 and is currently the responsible entity for ten agricultural managed funds, among these CIF, RBK and AWF. As at 30 June 2013 RFM had approximately \$308 million in agricultural assets under management in New South Wales, South Australia, Victoria, Tasmania and Western Australia.

For more information on RFM and its managed funds, please refer to the RFM website at www.ruralfunds.com.au.

5.2. RFM Board and Management

The RFM Board of Directors comprises three members, two of whom are independent:

- **David Bryant, RFM Managing Director** – Mr Bryant established RFM in February 1997 and has since then led the team in its acquisition of over \$300 million in agricultural assets across Australia including acquisition negotiations in relation to more than 25 properties and over 60,000 mega litres of water entitlements. He holds a Diploma of Financial Planning from the RMIT University and a Master of Agribusiness from the University of Melbourne.
- **Guy Paynter, Non-executive Chairman** – Mr Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years experience in corporate finance. He is chairman of Aircruising Australia Limited and a member of the Australian Institute of Company Directors. His agricultural interests include cattle breeding in the Upper Hunter region in New South Wales. Guy holds a Bachelor of Laws from the University of Melbourne.
- **Michael Carroll, Non-executive Director** – Mr Carroll is on the boards of Queensland Sugar Limited, Warrnambool Cheese and Butter Limited, Select Harvests Limited, Sunny Queen Pty Ltd, and the Rural Finance Corporation of Victoria. He holds a Bachelor of Agricultural Science from La Trobe University, a Master of Business Administration from the Melbourne Business School, and is a Fellow of the Australian Institute of Company Directors.

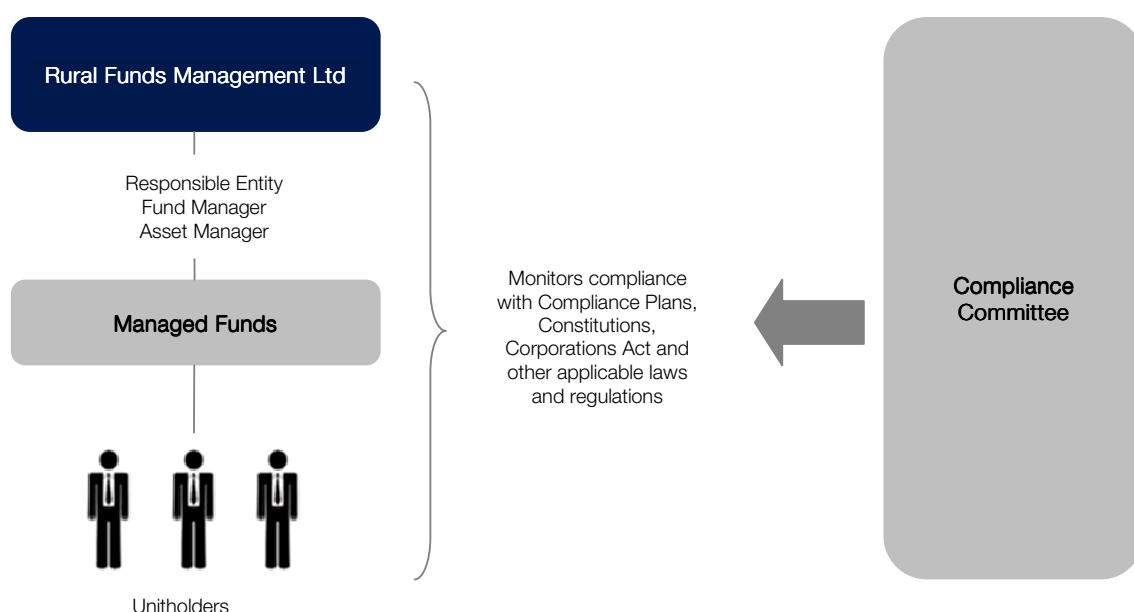
The RFM executive management team comprises:

- **Stuart Waight, Chief Operating Officer** – Mr Waight joined RFM in 2003. He is responsible for optimising the performance of the RFM funds and analysing future developments, acquisitions, and investments. He oversees the asset and farm management activities undertaken by the National Managers of Poultry, Almonds and Cotton and is responsible for the commercial and asset management of vineyards owned by AWF. Mr Waight is a member of the Institute of Chartered Accountants Australia and holds a Bachelor of Commerce (Accounting) from the University of Newcastle.
- **Andrea Lemmon, Executive Manager Funds Management** – Ms Lemmon has been with RFM since the firm's commencement in 1997. Ms Lemmon is responsible for development of new products, continuous improvement of existing products, management of research activities and the provision of services and communications to investors and advisers. She holds a Diploma of Financial Planning from Deakin University.
- **Melanie Doyle, Chief Financial Officer** – Ms Doyle joined RFM in 2011 and has over 20 years experience working in a diverse range of industries and for several publicly listed companies. At RFM, Ms Doyle is responsible for the finance and accounting function of both the RFM business and its managed funds. Ms Doyle holds an Executive MBA from the University of Technology, Sydney and a Bachelor of Economics from the Australian National University, Canberra.

5.3. Fund Compliance

The duties and responsibilities of RFM as responsible entity are governed by the Corporations Act, the constitutions of the various funds and their respective Compliance Plans. RFM has a Compliance Committee who is responsible for monitoring the extent to which RFM is compliant with applicable laws and regulations. RFM's compliance with each fund's Compliance Plan is also externally audited on an annual basis.

Figure 9: RFM Compliance Structure



Source: RFM management.

5.4. Members of the Compliance Committee

RFM's Compliance Committee comprises:

- **Gary Ling** – An external member of the Compliance Committee since 2003, Mr Ling is a qualified lawyer with over 28 years of corporate law experience in banking law, securities and insurance law, and company secretarial practice. He held previous corporate legal and compliance roles at ANZ Funds Management, Tyndall, Tower Life, Mercantile Mutual, GIO, the ASX, and the Westpac Group. He holds a Diploma of Law (Solicitors Admission Board) and a Diploma of Corporate Management from the Institute of Corporate Managers, Secretaries and Administrators. He is also an accredited mediator with the Lawyers Engaged in Alternative Dispute Resolution.
- **Janice Ryan** – Ms Ryan was appointed as an external member of the Compliance Committee in 2000. Her career spans accounting, superannuation, financial planning, and compliance. She has extensive experience in rural industries and currently operates grain and livestock enterprises in New South Wales. Ms Ryan holds a Certificate of Superannuation Management from ASFA and has completed a number of continual professional development courses in accounting, superannuation and financial planning.
- **Stuart Waight** – Mr Waight is an internal member of the Compliance Committee and the Chief Operating Officer of RFM (refer Section 5.2).

6. Profile of RFM Chicken Income Fund

6.1. CIF Fund Overview

An overview of CIF is provided below.

Table 7: CIF Fund Overview

Fund Overview	
Fund name	RFM Chicken Income Fund ARSN 105 754 461
Investment objective	Provide investors with risk-adjusted returns generated by contract chicken growing activities
Investment period	5 years plus
Structure	Unlisted unit trust
Responsible entity / fund manager	Rural Funds Management Ltd ACN 077 492 838 AFSL 226701
Custodian	Australian Executor Trustees Limited ACN 007 869 794
Inception date	August 2003
Investment sector	Rural property and meat farming
Investment size	NAV of approximately \$53.7 million at 30 June 2013
Investment structure	Open-end fund
Liquidity	Low
Distributions	Quarterly

Source: RFM management.

As at 2 August 2013, CIF had 63,645,920 of fully paid units on issue. Details of the top 10 unitholdings in CIF are provided below.

Table 8: Top 10 CIF Unitholders

Unitholder	No. Units	Unitholding (%)
1 Asset Custodian Nominees (Aust) Pty Ltd	3,806,369	6.0%
2 BT Financial Group	1,861,677	2.9%
3 Avanteos Investments Limited	1,504,934	2.4%
4 Netwealth Investments Limited <Wrap Services Account>	1,227,243	1.9%
5 Perpetual Corporate Trust Limited <Millinium Capital Managers Limited RE Multi Strategy Income Sub Fund Class for Multi-Strategy Fund>	597,370	0.9%
6 SCCASP Holdings Pty Ltd <H & R Super Fund>	484,710	0.8%
7 Westro Pty Ltd	458,421	0.7%
8 Mr Rodney Maruff & Mrs Margaret Maruff <R & M Maruff Superannuation Fund>	427,409	0.7%
9 Rural Funds Management	373,005	0.6%
10 Navigator Australia Limited <MLC Navigator Investment Plan>	346,470	0.5%
Subtotal (Top 10 unitholders)	11,087,608	17.4%
Balance of unitholders	52,558,312	82.6%
Total unitholders	63,645,920	100.0%

Source: RFM management.

Note: Unitholding figures are as at 2 August 2013 and may not match the pro-forma financial information for each Fund.

6.2. CIF Assets

6.2.1. CIF Property Assets

CIF currently owns property and chicken growing infrastructure consisting of 17 separate farms in Griffith, New South Wales and Lethbridge, Victoria. These farms comprise a total of 154 poultry sheds, with the sheds housing an average throughput of 30 million chickens per annum. The income from the chicken growing activities is supported by growing contracts with Bartter Enterprises Pty Ltd, a wholly owned subsidiary of Baiada Poultry Pty Ltd (**Baiada**). Baiada is a privately owned Australian company based in New South Wales which provides premium quality poultry products throughout Australia.

A summary of CIF's property assets are provided below:

Table 9: CIF Property Assets

Property	Location	No. of sheds	Total farm size (sqm)	Contract Expiry
Farms 53A & 53B	Griffith, NSW	20	37,512	31 Mar 2024
Farms 54,55,56,57 & 58	Griffith, NSW	50	75,960	31 Mar 2024
Farms 63,64,65 & 66	Griffith, NSW	40	60,000	31 Mar 2024
Farms 67 & 68	Griffith, NSW	24	70,584	23 Feb 2026; 30 Sep 2027
Farms 1 & 2	Lethbridge, VIC	10	29,580	03 Jul 2036
Farm 3 & 4	Lethbridge, VIC	10	29,580	03 Jul 2036
Total		154	303,216	

Source: Opteon valuations and RFM management.

6.2.2. Independent Valuations of CIF Property Assets

Opteon (Victoria) Pty Ltd (**Opteon**) performed independent property valuations of CIF's Lethbridge and Griffith properties as presented below:

Table 10: Opteon Valuations of CIF Property Assets

Property	Location	Indicated Value	
		30 Jun 2012 (\$'000s)	30 Jun 2013 (\$'000s)
Farms 53A & 53B	Griffith, NSW	10,000	10,600
Farms 54,55,56,57 & 58	Griffith, NSW	21,650	23,050
Farms 63,64,65 & 66	Griffith, NSW	16,600	17,725
Farms 67 & 68	Griffith, NSW	25,600	25,550
Farms 1-4	Lethbridge, VIC	23,300	23,300
Total		97,150	100,225

Source: Opteon valuations.

We note that the value of Farms 53-66 increased from \$48.3 million to \$51.4 million which Opteon attributed to:

- capital upgrade programs of approximately \$3 million completed over 2011 and 2012; and
- increase in gross profit for these farms of 11.5% in FY12.

A reconciliation of the above Opteon valuations to CIF's balance sheets is provided at Table 16.

6.2.3. CIF Investment in StockBank

CIF holds a direct interest in StockBank of 4.9 million units (approximately 45% of total units issued). RFM is the responsible entity for StockBank. StockBank is a managed fund which operates a sheep and cattle leasing business whereby livestock are leased to landowners for fattening and finishing and are then sold when the livestock has reached a marketable weight or breeding quality. Under this leasing model, StockBank finances the acquisition of livestock and places them on suitable farms with landowners. On the sale of the livestock, StockBank is paid the accrued lease payments and the landowner receives the balance of the proceeds.

Table 11: StockBank Fund Overview

Fund Overview	
Fund name	RFM StockBank ARSN 153 436 803
Investment objective	Provide investors with a reliable yield by financing the acquisition of livestock that are placed on a portfolio of diversified properties.
Investment period	3 years plus
Structure	Unlisted unit trust
Responsible entity / fund manager	Rural Funds Management Limited ACN 077 492 838 AFSL 226701
Custodian	Australian Executor Trustees Limited ACN 007 869 794
Inception date	May 2011
Investment sector	Rural Property and Meat Growing
Investment size	NAV of approximately \$11.2 million at 30 June 2013
Investment structure	Open-ended
Liquidity	Medium
Distributions	Income distributions are made on a bi-annual basis

Source: RFM management.

StockBank does not own any land or infrastructure. During FY13, 14,619 head of cattle were acquired, 8,422 sold and 10,567 remained on hand at the end of the year. StockBank also acquired 32,154 head of sheep, of which 24,217 were sold and 17,444 remained on hand as at 30 June 2013. StockBank divides its investment between approximately 80% cattle and 20% sheep with livestock being held for periods of between 70 and 280 days.

StockBank recently raised \$6 million at \$1.05 per unit from external investors to fund further purchases of sheep and cattle to grow the fund. CIF did not participate in the capital raising. The NAV of StockBank after the capital raising was \$11.56 million as at 15 August 2013.

6.3. CIF Performance

This section contains a summary of CIF's performance with reference to CIF's:

- audited financials for FY12 and FY13; and
- forecast financials for FY14 and FY15.

CIF's key financial metrics are presented below.

Table 12: CIF Key Financial Metrics

Period	Distribution (per unit)	Distribution Return	Loan to Value Ratio	Indirect Cost Ratio	Interest Cover	Net Asset Value (per unit)
FY12	\$0.100	11.75%	42.85%	3.09%	1.36x	\$0.768
FY13	\$0.025	3.61%	41.51%	3.99%	3.04x	\$0.845
FY14	\$0.059	7.07%	41.30%	4.23%	3.26x	\$0.823
FY15	\$0.091	11.37%	41.23%	3.29%	4.20x	\$0.786

Source: RFM management.

Note: Distribution returns are based on distributions declared and include franking.

The distribution returns shown above assumes a full year of trading. For comparative purposes, distribution return for 9 months to 30 June 2014 is 7.03%.

With respect to CIF's key financial metrics table above, we note the following:

- Distribution returns have been calculated on a rolling returns basis, i.e. assuming distributions are reinvested. In FY13 and FY14, distributions reduce due to costs associated with the Proposed Transaction, debt amortisation of \$0.9 million per year and capital expenditure.
- Loan to value ratio (**LVR**) marginally reduces in FY13 to FY15 due to debt amortisation and an increase in property, plant and equipment value.
- Indirect cost ratio increased substantially in FY13, predominantly due to a 0.25% increase in management fees effective 20 August 2012. Indirect cost ratio drops in FY15 mainly due to the absence of costs associated with the Proposed Transaction that were in FY13 and FY14.
- Interest cover is forecast to improve over the period, predominantly due to lower debt, lower interest charges and increased earnings.
- NAV per unit improves in FY13, predominantly due to a decrease in provisions which were previously provided for unit distributions, as well as an expected increase in the value of property, plant and equipment. NAV is forecast to decline in FY14 and FY15 due to:
 - the capital intensive nature of chicken farming operations and the associated depreciation of capital items; and
 - deferred income tax liabilities generated by tax depreciation exceeding accounting depreciation.



6.3.1. CIF Income Statements

Table 13: CIF Income Statements

	Notes	FY12 Audited (\$'000s)	FY13 Audited (\$'000s)	FY14 Forecast (\$'000s)	FY15 Forecast (\$'000s)
Grower fees	1	23,709	23,756	23,968	24,983
Loss on interest rate swaps	2	(2,604)	-	-	-
Increase in biological assets	3	1,859	-	-	-
Other income		278	888	46	39
Profit - Stockbank	4	-	-	503	503
Total revenue		23,242	24,644	24,517	25,524
Direct grower costs - CIF	5	7,000	8,009	8,573	8,856
Direct grower costs - StockBank	5	1,307	-	-	-
Employee costs	5	3,215	1,279	664	679
Impairment		158	-	-	-
Management fee	6	1,703	1,851	1,855	1,848
Transaction costs	7	-	382	598	-
Other expenses	8	3,702	3,575	5,074	4,988
Total expenses		17,085	15,096	16,764	16,371
EBITDA		6,157	9,547	7,753	9,153
Depreciation		5,348	5,838	5,887	5,294
EBIT		809	3,710	1,866	3,859
Finance costs	9	3,160	3,146	2,378	2,181
NPBT		(2,351)	564	(512)	1,678
Income tax expense / (benefit)	10	(670)	169	(154)	503
NPAT		(1,681)	395	(358)	1,175
Unrealised loss / (gain) on fair value adjustments to property, plant and equipment	11	(3,196)	(5,984)	(3,854)	(3,294)
Income tax on other comprehensive income		959	-	1,156	988
Total comprehensive income attributable to unitholders		556	6,379	2,340	3,480

Source: RFM management.

Note: Only the FY12 audited accounts have been prepared on a consolidated basis, i.e. FY13 to FY15 figures have accounted for StockBank as an investment rather than on a consolidated basis.

Figures for the individual line items in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents line items on an aggregated basis. We note however, that the overall result is consistent for all the financial years shown.

With respect to CIF's summary income statements table above, we note the following:

1. Grower fees are solely derived from growing contracts with Baiada, with contract inflation reflected in the year on year increases.
2. Existing interest rate swaps are paid out in FY12 and from FY13 are 50% hedged. Cost of debt is assumed to be 5.5% with no change for FY13 to FY15.
3. The increase in biological assets relates to the increase in value of sheep and cattle held by StockBank. There was no change in FY13 and none forecast for FY14 and FY15.
4. StockBank is forecast to make a 10% distribution in FY14 and in FY15.
5. Direct grower costs for CIF combined with employee costs declined due to the use of contractors which continued to deliver operational efficiencies in FY13. Direct grower costs for StockBank ceased from FY13 due to CIF no longer holding a controlling interest in StockBank.
6. Management fees represent remuneration to RFM as responsible entity based on the fee structure set out in Appendix A. The increase in FY13 is due to 0.25% increase in the funds management fee effective 20 August 2012.
7. Transaction costs relate to advisory fees, structuring costs, internal overheads and other fees which will be incurred in relation to the Proposed Transaction regardless of whether it proceeds.

8. A breakdown of other expenses is presented below. With respect to the table below, we note the following:
- Actual insurance expense decreased in FY13 from FY12 due to a reduction in premiums, the forecast has assumed an increase in insurance premiums for FY14.
 - Fund overheads decreases from FY13 to FY14 due to cost savings associated with the use of contract labour (i.e. reduced training expenses).
 - Repairs and maintenance increased substantially in FY14 due to a reclassification of capital expenditure to repairs and maintenance.

Table 14: CIF Other Expenses Detail

	FY12 (\$'000s)	FY13 (\$'000s)	FY14 (\$'000s)	FY15 (\$'000s)
Property expenses	173	78	270	276
Insurance expenses	799	696	769	788
Fund overheads	1,837	2,056	1,783	1,827
Repairs and maintenance	893	745	2,252	2,096
Total	3,702	3,575	5,074	4,988

Source: RFM management.

9. Finance costs are forecast to decrease from FY12 to FY15 due to a forecast reduction in interest-bearing liabilities and lower interest rates.
10. CIF is a public trading trust for taxation purposes and is therefore subject to the corporate tax rate of 30%.
11. Unrealised gain on fair value adjustments to property, plant and equipment relates to revaluation of property, plant and equipment to fair value. The large gain in FY13 was due to the increase in value attributed by the independent valuers.

6.3.2. CIF Balance Sheets

Table 15: CIF Balance Sheets

	Notes	30 June 2012 Audited (\$'000s)	30 June 2013 Audited (\$'000s)	30 June 2014 Forecast (\$'000s)	30 June 2015 Forecast (\$'000s)
Cash and cash equivalents	1	2,015	2,215	354	352
Trade and other receivables		4,465	4,096	3,848	3,932
Biological assets	2	4,520	5,026	5,026	5,026
Property, plant and equipment	3 & 4	96,511	99,646	97,613	95,613
Intangible assets	3	1,049	1,049	1,049	1,049
Other assets		386	444	444	444
Total assets		108,946	112,476	108,334	106,417
Trade and other payables	5	3,458	2,575	418	363
Provisions	6	1,708	184	1,910	1,813
Interest bearing liabilities	7	41,228	41,125	39,998	39,098
Deferred tax liabilities	8	9,692	12,428	13,276	13,937
Derivative financial liabilities	9	3,066	2,402	120	120
Other liabilities		-	12	67	714
Total liabilities		59,152	58,727	55,788	56,045
Net assets		49,794	53,749	52,546	50,371
Non-controlling interest		1,146	-	-	-
Net assets attributable to unitholders		48,648	53,749	52,546	50,371
Number of units issued	10	63,396,831	63,638,267	63,830,992	64,066,150

Source: RFM management.

Note: Only the FY12 audited accounts have been prepared on a consolidated basis, i.e. FY13 to FY15 figures have accounted for StockBank as an investment rather than on a consolidated basis.

Figures for the accounts in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents accounts on an aggregated basis. We note however, that the net position is consistent for all the financial years shown.



With respect to CIF's balance sheet table above, we note the following:

1. Cash decreases in FY14 due to the payment of distributions that were on hold given the Proposed Transaction and the previous financing arrangements which require the debt to be reduced.
2. Biological assets in FY12 represent the livestock held by StockBank at fair value less estimated sales costs. The biological assets in FY13 to FY15 represent the investment held in StockBank.
3. Property, plant and equipment predominately consist of land, poultry infrastructure, and plant and equipment. These assets, along with the intangible assets (i.e. water licences) have been valued by independent property valuers as at 30 June 2013 (refer Section 6.2.2). The reconciliation to the Opteon valuations is provided below.

Table 16: Reconciliation of CIF Balance Sheets to Opteon Valuations

	30 Jun 2012 (\$'000s)	30 Jun 2013 (\$'000s)
Property, plant and equipment	96,511	99,646
Less: Other equipment excluded from external valuation	(410)	(470)
Intangible assets	1,049	1,049
Total	97,150	100,225
<i>Reconciliation to Opteon valuations</i>	<i>97,150</i>	<i>100,225</i>

Source: Crowe Horwath analysis.

4. Property, plant and equipment decreased from FY13 to FY15 due to the effect of depreciation, which is relatively high due to the capital intensive nature of chicken farming operations. The depreciation is calculated based on the remaining useful life of depreciable assets, assuming a 45 year lifespan for poultry sheds. CIF property values are based on FY13 independent property valuations less a \$2.0 million depreciation decrement for FY14 and a \$4.0 million depreciation decrement for FY15.
5. Trade and other payables reduce in FY14 due to payment of management fees and cost recoveries incurred in FY12 and FY13.
6. Provisions predominately relate to distributions declared and yet to be paid.
7. Interest bearing liabilities decrease from FY13 due to new financing arrangements that require a \$1.0 million repayment in FY14 and \$0.9 million repayment in FY15. Bank borrowings are secured against the real property and subject to a general security agreement. The forecast LVR is 41% as at 30 June 2014 and 30 June 2015. This compares to the facility covenant of 45%. The forecast interest cover ratio is 3.26x and 4.2x for FY14 and FY15, respectively. This compares to the interest cover ratio covenant of 3.00x and 3.35x for FY14 and FY15, respectively.
8. The increase in deferred tax liabilities in FY13 is due to the asset revaluation of chicken sheds.
9. The decrease in derivative financial liabilities is due to the payout of existing interest rate hedges.
10. The increase in the unitholdings between the financial years relate to distribution reinvestment.
11. Other movements in account balances relate to ongoing operations.

7. Profile of RFM RiverBank

7.1. RBK Fund Overview

An overview of RBK is provided below:

Table 17: RBK Fund Overview

Fund Overview	
Fund name	RFM RiverBank ARSN 112 951 578
Investment objective	Provide consistent, risk-adjusted returns generated through the acquisition and long-term lease of almond orchards and water entitlements
Investment period	5 years plus
Structure	Unlisted unit trust
Responsible entity / fund manager	Rural Funds Management Limited ACN 077 492 838 AFSL 226701
Custodian	Australian Executor Trustees Limited ACN 007 869 794
Inception date	February 2005
Investment sector	Rural Property and Horticulture
Investment size	NAV of approximately \$47.6 million at 30 June 2013
Investment structure	Open-ended
Liquidity	Low
Distributions	Quarterly

Source: RFM management and RFM website.

As at 2 August 2013, RBK had 32,737,860 of fully paid units on issue. Details of the top 10 unitholdings in RBK are provided below.

Table 18: Top 10 RBK Unitholders

Unitholder	No. Units	Unitholding (%)
1 Netwealth Investments Limited <Super Services A/c>	1,371,336	4.2%
2 R & J Family Pty Ltd <Naylerach Staff Super Fund A/C>	1,009,493	3.1%
3 Asset Custodian Nominees (Aust) Pty Ltd	936,172	2.9%
4 Bryant Family Services Pty Ltd <BFS Super Fund>	855,175	2.6%
5 Perpetual Corporate Trust Limited <Millinium Capital Managers Limited RE Multi Strategy Income Sub Fund Class for Multi-Strategy Fund>	778,030	2.4%
6 Netwealth Investments Limited <Wrap Services Account>	527,857	1.6%
7 Avanteos Investments Limited	512,421	1.6%
8 Rural Funds Management	414,876	1.3%
9 BT Financial Group	359,116	1.1%
10 Lacey Consulting Group Pty Ltd	348,392	1.1%
Subtotal (Top 10 unitholders)	7,112,868	21.7%
Balance of unitholders	25,624,992	78.3%
Total unitholders	32,737,860	100.0%

Source: RFM management.

Note: Unitholding figures are as at 2 August 2013 and may not match the pro-forma financial information for each Fund.

7.2. RBK Assets

7.2.1. RBK Property Assets

RBK primarily invests in horticultural land, water and infrastructure. RBK's main assets are almond orchards situated on two properties near Hillston, 100 kilometres north of Griffith, NSW. These assets include the land, almond trees, irrigation infrastructure and associated water extraction rights based on the Lower Lachlan Aquifer.

RBK does not undertake farming activities out of its own accord; rather it leases assets to third parties. The majority of RBK's almond orchards are leased to Select Harvests Limited, an ASX listed Australian agribusiness company, for a period of 20 years. The remaining almond orchards are leased to the following three managed investment trusts which are also managed by RFM:

- RFM Almond Fund 2006;
- RFM Almond Fund 2007, and
- RFM Almond Fund 2008.

A summary of RBK's main property assets are provided below.

Table 19: RBK's Property Assets

Property	Location	Total Land (ha)	Land Leased (ha) ¹	Developed Orchard (ha)	Orchard Maturity (years)	Allocated Water Volume (ML)	Estimated Excess Water (ML) ²
Yilgah ³	Hillston, NSW	6,400	6,400	1,006	6-7	15,090	2,494
Mooral ³	Hillston, NSW	3,334	1,054	808	7-8	12,120	3,223
Steak Plains ³	Carrathool, NSW	507	320	320	5-6	-	-
Collaroy ⁴	Carrathool, NSW	1,998	-	-	-	3,149	1,200
Total		12,239	7,774	2,134		30,359	6,917

Source: Barnden valuations, Riverina valuations and Colliers valuations.

¹ Land leased to three RFM Almond Funds, Select Harvests Limited and Steak Plains Olive Farm Pty Ltd.

² Estimated excess water includes a supplementary allocation on Yilgah and Moorai that decreases over time and high security river water that is not allocated to a property.

³ Orchards for Yilgah and Moorai relate to almonds while Steak Plains relates to olives.

⁴ Collaroy is unencumbered with the main asset being water and the land primarily used for grazing and a small area (64ha) of olive trees.

7.2.2. Independent Valuations of RBK Property Assets

RBK's property assets have been independently valued as follows:

- Barnden Property Pty Ltd (**Barnden**) performed comprehensive valuations as at 30 June 2012 and desktop valuations as at 20 December 2012 of the Moorai and Yilgah assets.
- Riverina Property Services Pty Ltd (**Riverina**) performed comprehensive valuations as at 30 June 2012 and desktop valuations as at 20 December 2012 of the Steak Plains and Collaroy assets.
- Colliers International Consultancy and Valuation Pty Ltd (**Colliers**) performed valuations as at 30 June 2013 of the Moorai, Yilgah, Steak Plains and Collaroy assets.

A summary of the independent property valuations at June 2012 and June 2013 are presented below:

Table 20: Barnden's, Riverina's and Colliers' Valuations of RBK Property Assets

Property	Location	Indicated Value	
		30 June 2012 (\$'000s)	30 June 2013 (\$'000s)
Yilgah	Hillston, NSW	42,650	43,952
Mooral	Hillston, NSW	34,514	41,718
Steak Plains	Carrathool, NSW	690	2,061
Collaroy	Carrathool, NSW	6,350	3,726
Total		84,204	91,458

Source: Barnden valuations, Riverina valuations and Colliers valuations.

With reference to the above table, we note the following:

- The value for Mooral at June 2012 excludes \$1.8 million for water entitlements to ensure consistency across the independent property valuations.
- Subsequent to Colliers' valuations at June 2013, 250ML of high security river water in relation to Yilgah was contracted for sale at \$1,164/ML (total of \$291,000) and 2,808ML of ground water in relation to Collaroy was contracted for sale at \$700/ML (total of \$2.0 million).
- The increase in values for Yilgah and Mooral can be attributed mainly to improved market conditions.
- The value of Steak Plains increased substantially due to the finalisation of a long term lease with Steak Plains Olive Farm Pty Ltd.
- The decrease in value for Collaroy is attributed to moderation in water values and seasonal changes.

A reconciliation of the above valuations to RBK's balance sheets is provided at Table 24.

7.3. RBK Performance

This section contains a summary of RBK's performance with reference to RBK's:

- audited financials for FY12 and FY13; and
- forecast financials for FY14 and FY15.

7.3.1. RBK Key Financial Metrics

RBK's key financial metrics are presented below.

Table 21: RBK Key Financial Metrics

Period	Distribution (per unit)	Distribution Return	Loan to Value Ratio	Indirect Cost Ratio	Interest Net Asset Value Cover	Net Asset Value (per unit)
FY12	\$0.084	7.78%	46.80%	3.93%	0.48x	\$1.452
FY13	\$0.024	1.84%	39.33%	3.85%	1.71x	\$1.453
FY14	\$0.060	4.08%	39.00%	3.88%	2.17x	\$1.504
FY15	\$0.080	5.48%	38.94%	3.23%	2.60x	\$1.535

Source: RFM management.

Note: Distribution returns are based on distributions declared and include franking.

The distribution returns shown above assumes a full year of trading. For comparative purposes, distribution return for 9 months to 30 June 2014 is 4.13%. This is higher than the full year distribution return for FY14 and is due to the reduction in NAV over the first three months of FY14.

With respect to RBK's key financial metrics in the above table, we note the following:

- Distribution returns have been calculated on a rolling returns basis, i.e. assuming distributions are reinvested. Distributions are lower in FY13, as distributions have been withheld to meet costs associated with the Proposed Transaction and debt amortisation requirements.

- The forecast decrease in LVR from FY12 to FY15 can be attributed to:
 - repayment of debt;
 - increases in the value of property, plant and equipment; and
 - increases in the value of biological assets.
- The forecast improvement in the indirect cost ratio in FY12 compared to FY15 is due to the maturing profile of the business and associated lower operational costs.
- The forecast improvement in interest cover from FY12 through to FY15 is predominantly due to the forecast increase in the value of biological assets. This in turn positively impacts earnings and the interest cover calculation. In addition the debt is forecast to reduce.
- The assumed increase in biological asset values year on year is also a contributing factor to the improvement in NAV per unit from FY12 to FY15.

7.3.2. RBK Income Statements

Table 22: RBK Income Statements

	Notes	FY12 Audited (\$'000s)	FY13 Audited (\$'000s)	FY14 Forecast (\$'000s)	FY15 Forecast (\$'000s)
Rental revenue	1	6,816	7,071	7,906	8,148
Increase in biological assets	2	4,004	13,748	2,425	3,208
Other income	3	(173)	936	106	6
Total revenue		10,647	21,755	10,437	11,362
Impairment	4	927	-	-	-
Management fees	5	1,175	1,239	1,309	1,347
Transaction costs	6	-	358	523	-
Other expenses	7	2,949	1,609	1,316	1,420
Total expenses		5,051	3,205	3,148	2,767
EBITDA		5,596	18,549	7,288	8,595
Depreciation		1,291	2,942	1,631	1,721
Unrealised loss / (gain) on investment properties	8	-	-	(1,575)	(459)
EBIT		4,305	15,608	7,233	7,333
Finance costs	9	3,396	2,990	2,411	2,224
NPBT		909	12,618	4,822	5,110
Income tax expense	10	412	3,977	1,210	1,464
NPAT		497	8,640	3,612	3,646
Unrealised loss / (gain) on fair value adjustments to property, plant and equipment	11	2,910	117	-	-
Income tax on other comprehensive income		(437)	(15)	-	-
Total comprehensive income attributable to unitholders		(1,977)	8,539	3,612	3,646

Source: RFM management.

Note: Figures for the individual line items in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents line items on an aggregated basis. We note however, that the overall result is consistent for all the financial years shown.

With respect to RBK's summary income statements table above, we note the following:

1. Rental revenue comprises predominantly lease payments from RFM's Almond Funds, Select Harvests Limited and Steak Plains Olive Farm Pty Ltd.
2. For FY13, the significant increase in the value of biological assets is predominately due to a change in allocation of the orchard value from water to biological assets in addition to orchard value growth in accordance with the independent valuation.
3. Other income for FY13 comprised mainly revenue on grower proceeds and movements in interest rate swaps.
4. Impairment expense in FY12 related to orchard maintenance costs written off.

5. Management fees represent remuneration to RFM as responsible entity based on the fee structure set out in Appendix A.
6. Transaction costs relate to advisory fees, structuring costs, internal overheads and other fees which will be incurred in relation to the Proposed Transaction, regardless of whether it proceeds.
7. Other expenses have consistently trended downwards due to reduced capital expenditure projects in line with the maturing orchard, i.e. project management costs, and the reduction in direct operating expenses associated with the recent sale of the unleased orchard area.
8. Unrealised gain on investment properties relates to revaluation of the asset to fair value. This does not exist prior to FY14 as none of these assets were able to be classified as investment properties under applicable accounting standards due to the derivation of operational revenue. The movement between FY14 and FY15 is due to:
 - capital expenditure; and
 - reclassification of some assets to biological assets under accounting standards, as a result of orchard maturity.
9. Finance costs also include interest on plant and equipment at 9.00% pa for the reported periods, and interest on a loan to RFM at 10.00% pa for FY13 only. The decrease in finance costs reflects the improved rates under the new loan facility and debt reduction in FY13.
10. RBK is a public trading trust for taxation purposes and is therefore subject to the corporate tax rate of 30%.
11. Unrealised gain on fair value adjustments to property, plant and equipment relates to revaluation of property, plant and equipment to fair value. This does not exist in FY14 and FY15 as it was reclassified to unrealised gain on investment properties.

7.3.3. RBK Balance Sheets

Table 23: RBK Balance Sheets

	Notes	30 June 2012 Audited (\$'000s)	30 June 2013 Audited (\$'000s)	30 June 2014 Forecast (\$'000s)	30 June 2015 Forecast (\$'000s)
Cash and cash equivalents	1	5,041	182	200	200
Trade and other receivables	2	2,045	3,002	1,592	1,560
Property plant and equipment	3 & 6	27,107	27,898	29,500	30,022
Intangible assets	4 & 6	35,193	27,497	25,354	25,726
Biological assets	5 & 6	21,904	35,394	37,818	41,026
Other assets	7	3,260	2,724	2,235	1,800
Total assets		94,550	96,697	96,699	100,334
Trade and other payables	2	2,466	1,574	894	918
Interest-bearing liabilities	8	41,359	38,980	39,044	40,603
Deferred tax liabilities	7	1,419	4,433	5,224	6,255
Derivative financial liabilities	9	3,180	2,593	120	120
Other liabilities	10	1,553	1,553	2,209	2,209
Total liabilities		49,977	49,133	47,491	50,105
Net assets		44,573	47,564	49,208	50,229

Number of units issued	32,303,126	32,733,121	32,724,225	32,724,225
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Source: RFM management.

Note: RFM management adopted a change in accounting policies with respect to the valuation of its intangible assets (water licences). Specifically, a cost or impairment model has been adopted for FY13 to FY15. We note that the FY12 figures for intangible assets in the table above are recognised at fair value and do not reflect the change to accounting policies. As a result, the total comprehensive income attributable to unit holders (less any distributions paid) in FY13 as shown in Table 22 will not match the movement in net assets between FY12 and FY13.



With respect to RBK's balance sheets above, we note the following:

1. Cash decreased in FY13 predominantly due to the repayment of \$3 million vendor finance and the operational costs of the unleased area.
2. Both receivables balance and payables balance decreased from FY13 to FY14 as result of presenting a net figure for unearned income rather than totals for receivables and payables.
3. Property, plant and equipment comprises infrastructure, land, and plant and equipment. These values are based on the June 2013 independent valuations plus capital expenditure. The assumed growth rate for FY14 and FY15 is in the range of 1.5% and 2.75%, in addition to capital expenditure assumptions.
4. Intangible assets relate to water licences held for Lower Lachlan ground water and high security river water. The value of these assets decreased substantially in FY13 due to a moderation in water values (increased temporary river water availability/rainfall) and the reclassification of water values to biological asset values.
5. Biological assets comprise predominantly almond orchards. The substantial increase in biological assets in FY13 is predominantly due to reclassification of biological assets to include water values.
6. Property, plant and equipment, intangible assets and biological assets were independently valued by Barnden and Riverina at 30 June 2012, and more recently by Colliers at 30 June 2013. The reconciliation to the independent valuations is provided below.

Table 24: Reconciliation of RBK Balance Sheets to Barnden, Riverina and Colliers Valuations

	30 June 2012 (\$'000s)	30 June 2013 (\$'000s)
Barnden, Riverina & Colliers valuations	84,204	91,458
Surface Water adjustment ¹	-	291
Collaroy Land and Water adjustment ²	-	(658)
Accounting Policy adjustment ³	-	(378)
Capital Expenditure adjustment ⁴	-	76
Total - Valuations and Adjustments	84,204	90,789
Property plant and equipment	27,107	27,898
Intangible assets	35,193	27,497
Biological assets	21,904	35,394
Total - Balance Sheet	84,204	90,789

Source: RFM management and Crowe Horwath analysis.

Note: The 30 June 2012 balance for intangible assets are not reflective of the change in accounting policies (which has been adopted from FY13). We note also that the movement in the intangible asset balance between FY12 and FY13 is accounted for within the asset revaluation account as opposed to the profit and loss statement.

¹ At the June 2013 valuation, the valuers excluded \$0.291 million from their valuations on the assumption that the surface water had been sold. However, as at 30 June 2013, the surface water asset had yet to be sold and hence was added back to the accounts by RFM management.

² At the June 2013 valuation, Collaroy land and a portion of water was valued at \$3.4 million by the valuers. RBK however received a potential contract to sell this asset at \$2.75 million. As such, RBK has recognised in the account balance, the difference between the ascribed value by the valuers and the potential sale value (i.e. \$0.66 million).

³ RFM management adopted a change in accounting policies with respect to the valuation of its intangible assets (water licences). Specifically, a cost or impairment model has been adopted for FY13. This has resulted in an adjustment of \$0.4 million to the property valuations.

⁴ An amount of \$0.08 million was added to the valuations to account for capital improvements to the Steak Plains Olive orchard that was not reflected in the valuation figure.

7. From FY13, other assets include tax assets which were previously netted off in deferred tax liabilities.
8. Bank borrowings are secured against the real property and subject to a general security agreement. The forecast LVR is 39% as at 30 June 2014 and as at 30 June 2015. This compares to the facility covenant of 50%. Included in interest bearing liabilities is a \$1.8 million loan from RFM which is forecast to be repaid in October 2013. The forecast interest cover ratio is 2.17x and 2.60x for FY14 and FY15, respectively. This compares to the interest cover ratio bank covenant of 1.75x and 2.05x for FY14 and FY15, respectively.



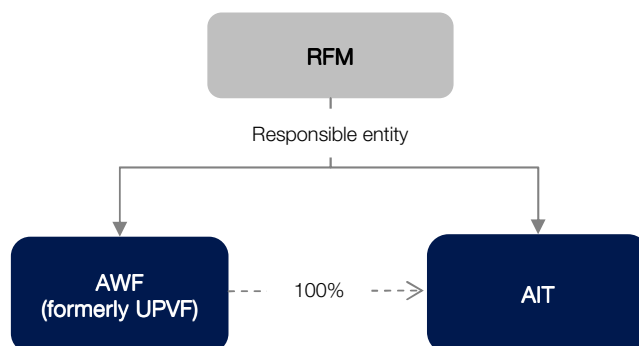
9. The decrease in derivative financial liabilities is due to the payout of interest rate hedges in FY14.
10. Other liabilities are forecast to increase in FY14 due to provisions for distributions.

8. Profile of RFM Australian Wine Fund

8.1. AWF Fund Overview

AWF was formerly called the RFM Ultra Premium Vineyard Fund (**UPVF**). The fund name was changed on March 2011 following a merger of UPVF with the Agricultural Income Trust Fund 1 (**AIT**) on 28 February 2011. As part of the merger, AIT unitholders relinquished their AIT units and were issued with 1 UPVF unit for every 1.0235 AIT units held. The AIT continues to exist as an entity, however all AIT units are wholly owned by AWF. RFM is the responsible entity for AIT.

Figure 10: AWF Structure



Source: RFM management.

Table 25: AWF Fund Overview

Fund Overview	
Fund name	RFM Australian Wine Fund ARSN 099 573 485
Investment objective	Provide an investment with potential capital growth in rural assets through the ownership of vineyards suited to the production of high quality wine grapes
Investment period	5 years plus
Structure	Unlisted unit trust
Responsible entity / fund manager	Rural Funds Management Limited ACN 077 492 838 AFSL 226701
Custodian	Australian Executor Trustees Limited ACN 007 869 794
Inception date	February 2002
Investment sector	Rural Property and Viticulture
Investment size	NAV of approximately \$30.3 million at 30 June 2013
Investment structure	Open-ended
Liquidity	Low
Distributions	Quarterly (from 31 December 2013)

Source: RFM management.

As at 2 August 2013, AWF has 70,653,212 of fully paid units on issue. Details of the top 10 unitholdings in AWF are provided below.

Table 26: Top 10 AWF Unitholders

Unitholder	No. Units	Unitholding (%)
1 Myer Family Investments Pty Ltd	4,199,811	5.9%
2 Avanteos Investments Limited	3,171,680	4.5%
3 BT Financial Group	1,725,384	2.4%
4 Rural Funds Management	1,482,362	2.1%
5 HSBC Custody Nominees (Australia) Limited	1,309,044	1.9%
6 Karen Mitchell Nominees Pty Ltd <Karen Mitchell Family Trust>	1,185,526	1.7%
7 Bryant Family Services Pty Ltd <BFS Super Fund>	1,174,156	1.7%
8 Zena Nominees Pty Ltd <Hind Family Trust>	978,744	1.4%
9 Netwealth Investments Limited <Wrap Services Account>	960,329	1.4%
10 SCA FT Pty Ltd <The Rowe Family Trust>	817,019	1.2%
Subtotal (Top 10 unitholders)	17,004,055	24.1%
Balance of unitholders	53,649,157	75.9%
Total unitholders	70,653,212	100.0%

Source: RFM management.

Note: Unitholding figures are as at 2 August 2013 and may not match the pro-forma financial information for each Fund.

8.2. AWF Assets

8.2.1. AWF Property Assets

The AWF has seven vineyards with six located in South Australia within the Barossa Valley, Adelaide Hills and Coonawarra. The one remaining property is located in the Grampians, Victoria.

From 15 February 2013, six vineyards were leased to Treasury Wine Estates for a period of 10 years with initial rental based upon 9% of the 30 June 2012 capital value. The remaining Hahn Vineyard will also be leased to Treasury Wine Estates, however from 1 July 2013, for a period of 9 years based upon 9% of the capital value at lease commencement date. Under these agreements, AWF no longer incurs production costs but will invest in capital expenditure where required. Any capital expenditure will be charged back to Treasury Wine Estates via increases in rental payments.

A summary of AWF's main property assets are provided below:

Table 27: AWF Property Assets

Property & Location	Planted (ha)	Land (ha)	Type of Grape	Planting Year	2013 Expected Yields (tonnes/ha)	Expected Tonnes
Kleing Vineyard Koonunga, SA	206	260	Shiraz	2002/2003	6	1,094
			Grenache	2002/2003	12	363
			Mouvedre; Cabernet Sauvignon	2002	6	74
Geier Vineyard Greenock, SA	243	319	Shiraz	2000-02	6 – 9	1,209
			Cabernet Sauvignon	2000-01	6 – 7	350
			Merlot; Mouvedre	2000-01; 2000	9 – 10	286
Hahn Vineyard Light Pass, SA	49	56	Shiraz	1970/2001/2005	7	85
			Sauvignon Blanc	1986-87/2000-07	12	106
			Chardonnay	2000/2005	12	109
			Merlot	1996/2001	11	87
			Viognier	1997/2006; 2001	12	101
Dohnt Vineyard Coonawarra, SA	30	37	Cabernet Sauvignon	1976/2001	8.5	32
			Shiraz	1994-95/2002/2008	4	69
			Cabernet Sauvignon	1999/2001	6	109
Mundy & Murphy Vineyards Forresteron, SA	55	67	Pinot Noir	2000/2000-09/2001-08	8	69
			Chardonnay	2000	11	126
			Pinot Gris	2000	12	50
			Sauvignon Blanc	2000; 2001/07	12	57
			Riesling	2001	11	46
Rosebank Vineyard Moyston, VIC	82	291	Shiraz	2001	6	466
			Cabernet Sauvignon	2001	6	109
Total	665	1,030				4,997

Source: Gaetjens valuations and RFM website.



8.2.2. Independent Valuations of AWF Property Assets

Gaetjens Pickett Valuers (**Gaetjens**) performed independent valuations of AWF's property assets as at 30 June 2012 and updated desktop valuations at 30 June 2013.

Table 28: Gaetjens Valuations of AWF's Property Assets

Property	Location	Indicated Value	
		30 Jun 2012 (\$'000s)	30 Jun 2013 (\$'000s)
Kleinig Vineyard	Koonunga, SA	11,000	12,700
Geier Vineyard	Greenock, SA	13,000	14,000
Hahn Vineyard	Light Pass, SA	2,400	2,400
Dohnt Vineyard	Coonawarra, SA	950	950
Mundy & Murphy Vineyards	Forreston, SA	3,650	3,650
Rosebank Vineyard	Moyston, VIC	2,300	2,300
Total		33,300	36,000

Source: Gaetjens valuations

With respect to Gaetjens's valuations of AWF's property assets table above, we note the following:

- The proposed lease of the properties to Treasury Wine Estates for a term of 10 years has been taken into account.
- Kleinig and Geier Vineyards have both increased in value due to the strong demand for Barossa located vineyards. This is largely driven by Treasury Wine Estates' acquisitions of property in the Barossa locality.
- The 30 June 2013 values reflect the purchase of 270 ML permanent River Murray water entitlements for the Kleinig vineyard at a total cost of \$418,500 per annum.

A reconciliation of the above Gaetjens valuations to AWF's balance sheets is provided at Table 32.

8.3. AWF Performance

This section contains a summary of AWF's performance with reference to AWF's:

- audited financials for FY12 and FY13; and
- forecast financials for FY14 and FY15.

8.3.1. AWF Key Financial Metrics

AWF's key financial metrics are presented below.

Table 29: AWF Key Financial Metrics

Period	Distribution (per unit)	Distribution Return	Loan to Value Ratio	Indirect Cost Ratio	Interest Net Asset Value Cover	Net Asset Value (per unit)
FY12	\$0.000	0.00%	39.00%	2.89%	2.21x	\$0.357
FY13	\$0.000	0.00%	39.44%	3.46%	1.26x	\$0.429
FY14	\$0.022	5.23%	27.47%	3.62%	2.65x	\$0.434
FY15	\$0.020	4.80%	26.32%	2.79%	3.78x	\$0.441

Source: RFM management.

Note: Distribution returns are based on distributions declared and include franking.

The distribution returns shown above assumes a full year of trading. For comparative purposes, distribution return for 9 months to 30 June 2014 is 5.18%.

With respect to AWF's key financial metrics table above, we note the following:

- Distribution returns have been calculated on a rolling returns basis, i.e. assuming distributions are reinvested. No distributions were declared during FY12 and FY13 due to reduced profitability as a result of severe weather conditions.

- LVR is forecast to decrease from FY12 to FY15 due to increased biological assets and property, plant and equipment values, and repayment of debt in FY14. The repayment of debt also is reflected in the improved interest cover for FY14.
- Indirect cost ratio increases in FY13 and FY14 due to costs associated with the Proposed Transaction and an increase in management fees.
- NAV improves from FY12 to FY15 due to an increase in total assets. This is predominately driven by an increase in the value of biological assets and property, plant and equipment as mentioned above.

8.3.2. AWF Income Statements

Table 30: AWF Income Statements

	Notes	FY12 Audited (\$'000s)	FY13 Audited (\$'000s)	FY14 Forecast (\$'000s)	FY15 Forecast (\$'000s)
Sale of grapes	1	7,499	565	-	-
Rental revenue	2	-	2,783	3,193	3,290
Increase in biological assets	3	-	2,637	611	405
Other income	4	2,070	3,195	25	14
Total revenue		9,569	9,180	3,829	3,709
Direct operating expense	5	1,992	1,004	-	-
Employee costs		824	1,522	-	-
Impairment		128	-	-	-
Management fees	6	479	475	383	378
Transaction costs	7	-	191	251	-
Other expenses		1,589	1,697	892	764
Total expenses		5,012	4,888	1,526	1,143
EBITDA		4,557	4,292	2,303	2,567
Depreciation		459	281	404	401
Unrealised loss / (gain) on investment properties	8	-	-	(1,233)	(960)
EBIT		4,098	4,011	3,132	3,125
Finance costs		955	1,278	646	569
NPBT		3,143	2,732	2,487	2,556
Income tax expense	9	(9)	(2,028)	561	623
NPAT		3,152	4,760	1,926	1,933
Unrealised loss / (gain) on fair value adjustments to property, plant and equipment	10	259	100	-	-
Income tax on other comprehensive income		2	-	-	-
Total comprehensive income attributable to unitholders		2,890	4,660	1,926	1,933

Source: RFM management.

Note: Figures for the individual line items in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents line items on an aggregated basis. We note however, that the overall result is consistent for all the financial years shown.

With respect to AWF's summary income statements table above, we note the following:

1. In FY12, AWF received payments for the sale of its grapes to third parties. The sale of grapes is lower in FY13 given that from 15 February 2013, six out of seven vineyards were leased to Treasury Wine Estates (backdated to 1 July 2012). The amount recognised in the income statement therefore relates to remaining crops on hand attributed to the Hahn Vineyard. The Hahn Vineyard is leased to Treasury Wine Estates from 1 July 2013.
2. Rental revenue comprises lease payments from Treasury Wine Estates. Given the financial risk associated with agricultural activity and to provide consistency of returns for unitholders, AWF from FY13 leases all its vineyards to Treasury Wine Estates for a period of 10 years.
3. Increase in biological assets relate to the value of grape vines and grapes on the vines. This asset value increased substantially in FY13 due predominantly to improved assessed values for the

Kleinig and Geier Vineyards as per the independent property valuations. For forecast years, property assets increase from the 30 June 2013 independent valuation at an assumed growth rate in the range of 2.5% - 4.0% per annum.

4. Other income in FY13 predominantly relates to operating cost recovery from Treasury Wine Estates for seven months to 31 January 2013.
5. Direct operating expenses relates to deferred crop expenditure and direct agribusiness expenses. This expense, along with employee costs, ceases post FY13 as the vineyards are leased by Treasury Wine Estates.
6. Management fees represent remuneration to RFM as responsible entity of AWF based on the fee structure set out in Appendix A.
7. Transaction costs relate to advisory fees, structuring costs, internal overheads and other fees which will be incurred in relation to the Proposed Transaction regardless of whether it proceeds.
8. Unrealised gain on investment properties relates to revaluation of the asset to fair value. This does not exist prior to FY14 as none of these assets were able to be classified as investment properties under applicable accounting standards due to the derivation of operational revenue.
9. AWF is a public trading trust for taxation purposes and is therefore subject to the corporate tax rate of 30%. The large negative tax losses recognised in FY13 is due to the crystallisations of tax losses. Specifically, deferred tax asset of approximately \$8.0 million and deferred tax liability of approximately \$5.7 million were recognised in FY13 due to the existence of consistent cash flow stemming from the lease contract with Treasury Wine Estates.

8.3.3. AWF Balance Sheets

Table 31: AWF Balance Sheets

	Notes	30 June 2012 Audited (\$'000s)	30 June 2013 Audited (\$'000s)	30 June 2014 Forecast (\$'000s)	30 June 2015 Forecast (\$'000s)
Cash and cash equivalents	1	2,667	4,566	755	464
Trade and other receivables		2,948	2,026	1,785	1,636
Property plant and equipment		19,664	18,542	19,691	20,536
Intangible assets	2	82	500	520	533
Biological assets	2	13,025	15,270	15,881	16,286
Investments	2	1,688	1,688	1,688	1,688
Deferred tax asset	3	-	2,071	1,510	887
Other assets		402	81	81	81
Total assets		40,476	44,744	41,911	42,112
Trade and other payables		268	101	101	101
Short term provisions		76	-	-	-
Interest-bearing liabilities	4	14,384	14,000	10,348	10,348
Derivative financial liabilities	5	125	348	60	60
Provision for distributions		-	-	733	442
Other liabilities		16	-	-	-
Total liabilities		14,869	14,449	11,242	10,951
Net assets		25,607	30,296	30,669	31,161
Number of units issued		70,572,756	70,647,901	70,663,323	70,663,323

Source: RFM management.

Note: Figures for the accounts in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents accounts on an aggregated basis. We note however, that the net position is consistent for all the financial years shown.

With respect to AWF's balance sheets table above, we note the following:

1. The increase in cash account for FY13 is a direct result of the rental income derived from Treasury Wine Estates and associated sale of plant and equipment and planted crop cost recovery. The cash account will decrease in FY14 to fund a debt payment of \$4.0 million offset by a payout of interest rate swaps.

2. AWF's assets have been valued by independent property valuers (refer Section 8.2.2). A reconciliation of property, plant and equipment to the Gaetjens valuations is provided below:

Table 32: Reconciliation of AWF Balance Sheet to Gaetjens Valuations

	30 June 2012 (\$'000s)	30 June 2013 (\$'000s)
Property plant and equipment	19,664	18,542
Less: Other equipment excluded from external valuation	(754)	-
Intangible assets	82	500
Biological assets	13,025	15,270
Less: Biological assets excluded from external valuation	(405)	-
Investments	1,688	1,688
Total	33,300	36,000
<i>Reconciliation to Gaetjens valuations</i>	<i>33,300</i>	<i>36,000</i>

Source: RFM management.

Property, plant and equipment predominately comprises land, buildings and improvements, and plant and equipment. Intangible assets relate to water licences and biological assets consist of grape vines and grapes on the vines. Investments relate to unlisted shares in Barossa Infrastructure Ltd. The increase in the value of the biological assets from FY12 to FY13 is based on the independent valuation at June 2013 indexed at assumed vineyard growth rate of 2.5% to 4% per annum.

3. Deferred tax asset and deferred tax liability were recognised in FY13 due to the existence of consistent cash flow stemming from the lease contract with Treasury Wine Estates.
4. LVR is forecast to improve after FY14 due to increases in property, plant and equipment values, increases in biological asset values and repayment of debt. Bank borrowings are secured against the real property and subject to a general security agreement. The forecast bank LVR is 27% as at 30 June 2014 and 26% as at 30 June 2015. This compares to the facility covenant of 45%. The forecast interest cover ratio is 2.65x and 3.78x for FY14 and FY15, respectively. This compares to the interest cover ratio bank covenant of 2.0x for FY14 and FY15.
5. Derivative financial liabilities relate to movements in the value of interest rate swap derivatives that are used to manage exposures resulting from changes in interest rates.
6. Other movements in account balances relate to ongoing operations.

9. Profile of Rural Funds Group

9.1. Rural Funds Group Overview

The Proposed Transaction comprises of a five stage process which will result in the formation of the Rural Funds Group. Rural Funds Group will have combined total assets of approximately \$242 million comprised of CIF, RBK and AWF assets.

Figure 11: Rural Funds Group Leasing Structure



Source: RFM management.

Rural Funds Group's initial and long term investment strategy will be to generate lease rentals and capital growth through the owning and leasing of agricultural assets. In addition, the Rural Funds Group will consider acquisition of additional assets to grow and diversify its income streams, such as broad acre cropping properties leased to farming businesses and further investment in almond orchards, vineyards or grazing land. It is envisaged that Rural Funds Group will not operate assets, but instead lease its assets to various counterparties as summarised in the table below:

Table 33: Summary of Rural Funds Group Material Leases

Lessor	Counterpart/ Lessee	Property	Expiry (year)	Area (ha)	FY14 Rent (\$'000s)
CIF	RFM Poultry	All farms	2023 ¹	30	10,150
AWF	Treasury Wine Estates	All vineyards	2022	663	3,104
RBK	Select Harvests Limited	Yilgah	2030	1,006	3,061
RBK	Select Harvests Limited	Mooral	2030	215	654
RBK	RFM Almond Project 2006	Mooral	2026	272	1,360
RBK	RFM Almond Projects 2007 & 2008	Mooral	2028	321	1,606
Total				2,507	19,935

Source: RFM management.

¹ Weighted average lease expiry.

The table below sets out Rural Funds Group's tenants, sectors and regions post-implementation of the Proposed Transaction:

Table 34: Rural Funds Group Tenants, Sectors and Regions

Agricultural Sector	Agricultural Region	Counterpart	% of Revenue FY14
Almonds	Riverina, NSW	Select Harvests Limited	17.2%
Almonds	Riverina, NSW	RFM Farming	17.9%
Poultry	Riverina, NSW	RFM Poultry	37.1%
Poultry	Western Districts, VIC	RFM Poultry	9.3%
Wine grapes	Barossa, SA	Treasury Wine Estates	11.3%
Wine grapes	Adelaide Hills, SA	Treasury Wine Estates	1.6%
Wine grapes	Coonawarra, SA	Treasury Wine Estates	0.4%
Wine grapes	Grampians, VIC	Treasury Wine Estates	1.0%
Livestock	Various	Various landholders	2.3%
Other	Riverina, NSW	Various landholders	1.8%
Total			100%

Source: RFM management.

9.2. Rural Funds Group Pro-forma Financials

This section contains a summary of Rural Funds Group's pro-forma financials for FY14 and FY15. The effective implementation date of the Proposed Transaction is assumed to be 1 October 2013.

9.2.1. Rural Funds Group Pro-forma Key Financial Metrics

Rural Funds Group's key financial metrics are presented below.

Table 35: Rural Funds Group Key Financial Metrics

Period	Distribution (per unit)	Distribution Return	Loan to Value Ratio	Indirect Cost Ratio	Interest Cover	Net Asset Value (per unit)
9 mths to 30 Jun 2014	\$0.082	8.44%	40.85%	1.69%	2.94x	\$0.998
12 mths to 30 Jun 2015	\$0.083	8.65%	40.27%	2.25%	3.01x	\$1.003

Source: RFM management.

Note: Distribution returns are calculated on a rolling returns basis (assuming distributions are reinvested) and are based on distributions declared. Distributions include franking. The 2014 distribution per unit figure includes a special distribution of 2.05 cents per unit to all unitholders. RFM management proposed that this special distribution will only be declared upon unitholder approval for the Proposed Transaction and is non-recurring.



9.2.2. Rural Funds Group Pro-forma Consolidated Income Statements

Table 36: Rural Funds Group Pro-forma Consolidated Income Statements

	Notes	9 mths to 30 June 2014 Pro-forma (\$'000s)	12 mths to 30 June 2015 Pro-forma (\$'000s)
Rental income	1	15,929	21,740
Asset revaluation	2	2,749	3,613
Other income	3	415	584
Total revenue		19,093	25,938
Property expenses	4	1,249	793
Management fees	5	1,915	2,577
Other expenses	6	1,616	2,312
Total expenses		4,780	5,683
EBITDA		14,313	20,255
Depreciation	7	5,937	7,370
Unrealised loss / (gain) on investment properties	8	(4,486)	(4,667)
EBIT		12,862	17,552
Finance costs	9	3,898	5,492
NPBT		8,964	12,060
Income tax expense		1,999	2,911
NPAT		6,965	9,149
Total comprehensive income attributable to unitholders		6,965	9,149

Source: RFM management.

Note: Figures for the individual line items in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents line items on an aggregated basis. We note however, that the overall result is consistent for all the financial years shown.

With respect to Rural Fund Group's pro-forma income statements table above, we note the following:

1. Revenue will be derived from a range of counterparts who have entered into lease arrangements for various terms. A key assumption is that there are no major changes to lease profile, occupancy rates and rental income under Rural Funds Group.
2. Asset revaluation relates to the movement in biological asset values.
3. Other income comprises primarily distributions from StockBank.
4. Property expenses in FY14 include stamp duty of \$0.7 million in relation to the Proposed Transaction.
5. Management fees represent remuneration to RFM as responsible entity of Rural Funds Group based on the proposed fee structure set out in Appendix A.
6. Other expenses relate to asset management expenses (FY14: \$0.7 million, FY15: \$0.9 million), fund overheads (FY14: \$0.9 million, FY15: \$1.2 million) and repairs and maintenance (FY14: \$0.02 million, FY15: \$0.2 million). These represent payments to RFM and external suppliers on wages payable and compliance related expenditure.
7. All assets are depreciated on a straight-line basis over their useful lives.
8. Unrealised gain on investment properties relates to revaluation of the asset to fair value.
9. Average forecast cost of debt is 5.50% pa based on market rates of 5.0% pa as at 20 August 2013. It is assumed that 50% is hedged on a 5 year basis at a rate of 6.0% pa. Finance costs also include interest on plant and equipment at 9.00% pa.

9.2.3. Rural Funds Group Pro-forma Consolidated Balance Sheets

Table 37: Rural Funds Group Pro-forma Consolidated Balance Sheets

	Notes	1 Oct 2013 Pro-forma (\$'000s)	30 June 2014 Pro-forma (\$'000s)	30 June 2015 Pro-forma (\$'000s)
Cash		1,305	1,419	455
Receivables		4,086	5,510	5,268
Inventory		774	34	34
Prepayment		301	301	301
Investment properties	1	164,875	165,943	165,728
Water	1	27,497	25,354	25,726
Biological assets	1	35,394	37,818	41,026
Plant & equipment		2,707	2,655	2,653
Investment in StockBank		5,026	5,026	5,026
Derivative financial asset		-	220	220
Total assets		241,966	244,279	246,437
Creditors		1,025	2,916	2,933
Bank debt	2	98,631	98,631	98,638
Current tax liability		1	159	(35)
Deferred income tax liabilities		16,827	18,567	20,284
Provision for distributions	3	2,490	2,464	2,525
Other liabilities		1,553	1,553	1,553
Total liabilities		120,526	124,291	125,899
Net assets		121,440	119,988	120,538
Number of units issued	4	121,440,255	120,185,675	120,185,675

Source: RFM management.

Note: Figures for the accounts in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents accounts on an aggregated basis. We note however, that the net position is consistent for all the financial years shown.

With respect to Rural Funds Group's pro-forma balance sheets table above, we note the following:

1. A key assumption is that land, water and infrastructure values will increase overall, as follows:
 - **CIF**: At June 2014, CIF property values are the June 2013 independent property valuations less a \$2.0 million depreciation decrement.¹⁸ Similarly, at June 2015, CIF property values are based on the June 2013 independent property valuations less a \$4.0 million depreciation decrement.
 - **RBK**: RBK asset values are based on the June 2013 independent valuation indexed at the assumed growth rate of 1.5% to 2.75% per annum, in addition to any assumed capital expenditure.
 - **AWF**: AWF asset values are based on the June 2013 independent valuation indexed at the assumed vineyard growth rate of 2.5% to 4.0% per annum.

Table 38: Rural Funds Group Pro-forma Changes in Asset Value

Land, water & infrastructure assets	1 Oct 2013 Pro-forma (\$'000s)	2013-14 Movement (\$'000s)	30 June 2014 Pro-forma (\$'000s)	2014-15 Movement (\$'000s)	30 June 2015 Pro-forma (\$'000s)
CIF	99,876	(1,213)	98,662	(2,000)	96,662
RBK	91,446	1,227	92,673	4,102	96,774
AWF	36,445	1,335	37,780	1,263	39,043
Total	227,766	1,348	229,115	3,365	232,480

Source: RFM management.

¹⁸ A systematic approach based on the remaining useful life of depreciable assets, assuming a 45 year lifespan for poultry sheds. The depreciation may result in lower values compared to the independent valuations, however the two approaches are expected to converge over time.



2. Set out below are the proposed debt facility terms for the Rural Funds Group.

Table 39: Rural Funds Group Proposed Debt Facility

Description	Term
Debt limit	\$97.5 million
Maximum loan security ratio	50% (total facility)
Minimum interest cover	2.25x
Loan term	5 years
Amortisation requirement	Nil
Covenants concerning trading price of units	Nil

Source: RFM management.

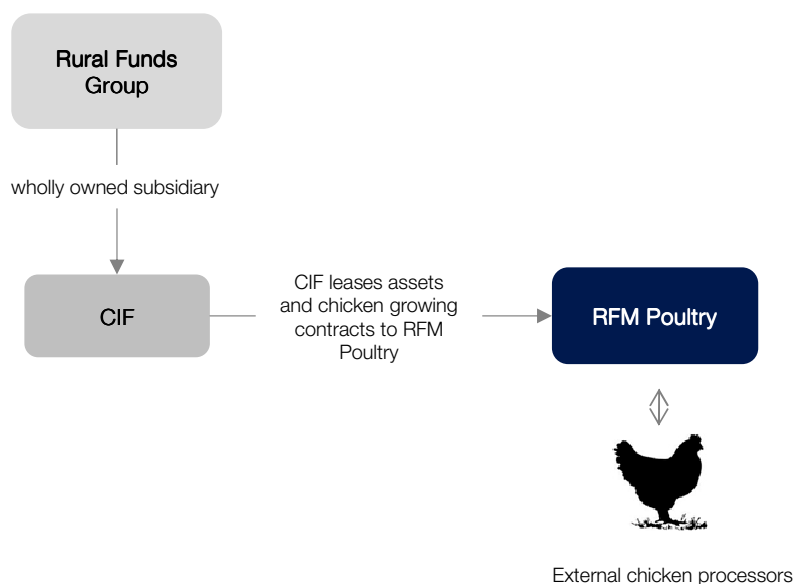
3. Forecast distributions declared for FY14 and FY15 are \$0.082 and \$0.083, respectively, inclusive of any franking credits. The 2014 distribution per unit figure includes a special distribution of 2.05 cents per unit to all unitholders. RFM management proposes that this special distribution will only be declared upon unitholder approval for the Proposed Transaction and is non-recurring.
4. A key assumption is that Rural Funds Group will conduct a \$1 million on-market unit buy-back at 20% discount to NAV.

10. Profile of RFM Poultry

10.1. RFM Poultry Overview

Under the Proposed Transaction, the chicken growing operations of CIF will be separated and transferred into a newly created managed fund, RFM Poultry. RFM Poultry is to remain separate from Rural Funds Group and will initially be capitalised with working capital transferred from CIF. CIF unitholders will be issued units in RFM Poultry in proportion to their unitholding percentages in CIF as per the merger ratios (refer Section 2.3).

Figure 12: RFM Poultry Group Structure



Source: RFM management.

10.2. RFM Poultry Assets

RFM Poultry will not own any poultry farms but will lease the farms in New South Wales and Victoria currently owned by CIF (refer Table 33). RFM Poultry will lease the chicken growing contracts owned by CIF. A summary of the existing chicken growing contracts which RFM Poultry will be assigned is provided in the table below:

Table 40: Summary of Chicken Growing Contracts

Grower	Counterpart	Property	Expiry (year)	Area (sqm)	FY14 Grower Fee (\$'000s)
RFM Poultry	Bartter Enterprises Pty Ltd	Farm 53 - 66	2024	173,472	13,670
		Farm 67	2026	35,088	2,973
		Farm 68	2027	35,496	3,161
		Lethbridge	2036	59,160	4,984
Total				303,216	24,788

Source: RFM management.



10.3. RFM Poultry Pro-Forma Financials

This section contains a summary of RFM Poultry's pro-forma financials for FY14 and FY15. The effective implementation date of the Proposed Transaction is assumed to be 1 October 2013.

10.3.1. RFM Poultry Pro-forma Key Financial Metrics

RFM Poultry's key financial metrics are presented below.

Table 41: RFM Poultry Pro-forma Key Financial Metrics

Period	Distribution (per unit)	Distribution Return	Loan to Value Ratio	Indirect Cost Ratio	Interest Cover	Net Asset Value (per unit)
9 mths to 30 Jun 2014	\$0.0993	10.28%	-	3.23%	-	\$1.011
12 mths to 30 Jun 2015	\$0.1435	15.01%	-	3.25%	-	\$1.022

Source: RFM management.

Note: Distribution returns are calculated on a rolling returns basis (assuming distributions are reinvested) and are based on distributions declared. Distributions include franking.

10.3.2. RFM Poultry Pro-forma Income Statements

Table 42: RFM Poultry Income Statements

	Notes	9 mths to 30 June 2014 Pro-forma (\$'000s)	12 mths to 30 June 2015 Pro-forma (\$'000s)
Grower fee income	1	17,927	24,983
Other income		86	121
Total revenue		18,013	25,104
Contractor fees		2,507	3,456
Direct agribusiness expense		484	665
Employee costs		497	679
Gas & electricity		2,970	4,736
Management fee	2	394	634
Property rental	3	7,592	10,302
Repairs and maintenance		1,423	2,096
Other expenses		1,041	1,406
Total expenses		16,906	23,974
EBITDA		1,107	1,130
Depreciation		36	46
EBIT		1,071	1,084
Finance costs		-	-
NPBT		1,071	1,084
Income tax expense		321	325
NPAT		750	759
Total comprehensive income attributable to unitholders		750	759

Source: RFM management.

Note: Figures for the individual line items in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents line items on an aggregated basis. We note however, that the overall result is consistent for all the financial years shown.

With respect to RFM Poultry's pro-forma income statement table above, we note the following:

1. Grower fee income is attributable to the chicken growing contracts with Bartter Enterprises Pty Ltd (refer Table 40, note the Grower fee income in the above table to 30 June 2014 represents 9 months of trading).
2. Management fees represent remuneration to RFM as responsible entity of RFM Poultry based on the proposed fee structure set out in Appendix A.

3. Property rental relates to the farms in New South Wales and Victoria currently owned by CIF (refer Table 33).

10.3.3. RFM Poultry Pro-forma Balance Sheets

Table 43: RFM Poultry Pro-forma Balance Sheets

	Notes	1 Oct 2013 Pro-forma (\$'000s)	30 June 2014 Pro-forma (\$'000s)	30 June 2015 Pro-forma (\$'000s)
Cash	1	3,402	5,068	4,563
Receivables	2	3,967	3,713	4,051
Inventories		74	74	74
Prepayments		370	370	370
Plant & equipment		287	251	205
Total assets		8,100	9,476	9,263
Creditors		1,116	1,940	1,881
Employee provisions		184	184	184
Current tax liability		-	342	136
Deferred tax liability		-	(20)	(1)
Provisions for distribution		-	156	113
Total liabilities		1,300	2,601	2,312
Net assets		6,800	6,875	6,951
Number of units issued		6,800,000	6,800,000	6,800,000

Source: RFM management.

Note: Figures for the accounts in the table above may differ from the financial information included in RFM's Explanatory Memorandum, which occasionally presents accounts on an aggregated basis. We note however, that the net position is consistent for all the financial years shown.

We note the following with reference to the above table:

1. The high cash balance at June 2014 and June 2015 is predominantly due to timing of rental expenses, e.g. \$2.6 million is payable in July 2014 and July 2015. An amount of cash is also required for distribution purposes given the payout ratio of 90%.
2. Receivables are historically high due to expected grower payments in accordance with payment terms, with approximately 95% coming from Baiada.

11. Valuation Analysis

11.1. Valuation Methodology

Regulatory Guide 111 outlines the appropriate methodologies a valuation expert should consider when valuing assets or securities. The use of different methodologies is however, dependent upon individual circumstances, the nature of the company and availability of information.

In valuing CIF, RBK, AWF, Rural Funds Group and RFM Poultry, we adopted the net tangible assets (**NTA**) valuation methodology on a going concern basis. Under the going concern basis, an asset based valuation will estimate the value of net assets of an entity at its fair market value and will not account for realisation costs. This method involves making any necessary adjustments required to reflect the fair market value of the net assets of the business.

A more detailed overview of the valuation methodologies we considered is provided in Appendix B.

In arriving at the fair market value of the NTA of CIF, RBK, AWF, Rural Funds Group and RFM Poultry, we considered the following:

- the audited financials for FY12 and FY13;
- the forecast / pro-forma accounts for the period to 30 September 2013; and
- any adjustments required to assets and liabilities as a result of the Proposed Transaction.

We note that although CIF, RBK, AWF, Rural Funds Group and RFM Poultry may own water entitlements and other such intangible assets, we consider these to be intrinsic to their revenue earning ability and as such, have included these assets in our valuation approach. Therefore the NAV of CIF, RBK, AWF, Rural Funds Group and RFM Poultry are adopted in this Report as the NTAs in our valuation analysis.

11.2. Implied Control Value of CIF, RBK and AWF

We have assessed the value of the Funds using a NTA approach on a going concern basis. In deriving the NTA of CIF, RBK and AWF, we examined the 30 September 2013 pro-forma balance sheets prepared by RFM management on the basis that the Funds continue individually as a going concern. As such, the rationale for using 30 September 2013 pro-forma accounts as the valuation basis is as follows:

- The effective implementation date of the Proposed Transaction is assumed to be 1 October 2013.
- There have been no material movements between the 30 June 2013 audited accounts and 30 September 2013 pro-forma accounts.
- Agricultural assets represent approximately 90% of total NAV for CIF, RBK and AWF combined, which are supported by independent property valuations as at 30 June 2013. These property valuations are still relevant as at 30 September 2013 given the timeframe.

Table 44: NAV for CIF, RBK and AWF at 30 September 2013

	30 Sep 2013			
	CIF Forecast (\$'000s)	RBK Forecast (\$'000s)	AWF Forecast (\$'000s)	Total (\$'000s)
Cash and cash equivalents	30	200	22	251
Trade and other receivables	3,967	2,815	2,265	9,047
Infrastructure	105,188	91,446	36,445	233,079
Other assets	444	2,538	2,147	5,130
Total assets	109,629	96,999	40,879	247,507
Trade and other payables	1,070	913	101	2,084
Short term provisions	184	-	-	184
Interest-bearing liabilities	42,448	41,425	10,348	94,221
Derivative financial liabilities	12,335	4,462	-	16,797
Other liabilities	12	1,553	-	1,565
Total liabilities	56,049	48,354	10,449	114,851
Net assets	53,580	48,646	30,430	132,656

Source: RFM management.

We applied a $\pm 5\%$ to the values provided by RFM management (the mid value), to derive a low and high value. This range reflects the impact from modelling risk, potential yield variations and uncertainty surrounding the potential increases and decreases to the value of biological assets. We further note that this approach derives a stand alone control value.

The implied values of CIF, RBK and AWF on a control basis are presented in the table below.

Table 45: Implied Control Value of CIF, RBK and AWF

	Low Value	Mid Value	High Value
CIF net assets (\$'000s)	50,901	53,580	56,259
Number of CIF units ('000s)	63,662	63,662	63,662
NAV per CIF unit (control value)	\$0.80	\$0.84	\$0.88
RBK net assets (\$'000s)	46,214	48,646	51,078
Number of RBK units ('000s)	32,724	32,724	32,724
NAV per RBK unit (control value)	\$1.41	\$1.49	\$1.56
AWF net assets (\$'000s)	28,909	30,430	31,952
Number of AWF units ('000s)	70,663	70,663	70,663
NAV per AWF unit (control value)	\$0.41	\$0.43	\$0.45

Source: Crowe Horwath analysis.

11.3. Implied Control Value of Rural Funds Group and RFM Poultry

We have assessed the value of the Rural Funds Group and RFM Poultry using a NTA approach on a going concern basis. In deriving the NTA of Rural Funds Group and RFM Poultry, we examined the assets and liabilities that are to be transferred to them from CIF, RBK and AWF as part of the Proposed Transaction. The values associated with these assets and liabilities are based on the forecast financials at 30 September 2013 provided by RFM management, as shown previously in Table 44.



RFM management has adjusted the 30 September 2013 figures to arrive at the 1 October 2013 NAV for Rural Funds Group and RFM Poultry as presented below.

Table 46: NAV for Rural Funds Group and RFM Poultry at 1 October 2013

Funds	30 Sep 2013 Forecast NAV	Adjustment	Rural Funds Group	RFM Poultry
CIF (\$'000s)	53,580	(1,594)	45,186	6,800
RBK (\$'000s)	48,646	(1,638)	47,008	-
AWF (\$'000s)	30,430	(1,184)	29,246	-
Total NAV (\$'000s)	132,656	(4,416)	121,440	6,800
Number of units			121,439,745	6,800,000
NAV per unit (control value)			\$1.00	\$1.00

Source: RFM management.

The adjustments set out above are allocated to each of the funds based on their post-implementation ownership percentages, being RBK (37%), CIF (36%) and AWF (27%). As such, the \$4.4 million adjustment relates to the following:

- an adjustment of \$2.5 million for the provision of a special distribution of 2.05 cents to Rural Funds Group unitholders; and
- an adjustment of \$1.9 million for the write-off of RBK tax assets under the Proposed Transaction (refer Section 12.2).

11.4. Implied Minority Value of Rural Funds Group

The value of Rural Funds Group calculated in Section 11.3 is reflective of a controlling interest. To value a minority shareholding a minority discount is typically applied to reduce the pro rata value of the entire company to reflect the absence of the power of control. The reasoning underlying the discount is that the value of the whole is worth more than the sum of the value of the component parts. In addition to a minority discount, a marketability discount will often apply to illiquid unitholdings. This marketability discount acknowledges that the number of willing buyers is restricted and that the search costs of finding a buyer are high.

A marketability discount applied to the valuation of illiquid unitholdings in alternative assets can be significant. The extent of the discount will, however, depend upon marketability, nature of the business and existing unitholders. We have considered the pricing of ASX-listed A-REITS (compared to its NTA) to infer an implied value of Rural Funds Group on a non-controlling (or minority) basis. The use of ASX-listed A-REITS is based on the following reasoning:

- ASX-listed prices are reflective of a minority shareholding and are comparable to the Proposed Transaction given that:
 - unitholders will continue to hold minority interests in Rural Funds Group; and
 - it is proposed that Rural Funds Group be listed on the ASX.
- Given that the CIF, RBK and AWF predominately hold interests in Australian agricultural property and generate regular cash flows from leasing of their properties, A-REITS that typically invest in property sectors are deemed to be comparable. The following table includes a list of A-REITS that have similar characteristics to Rural Funds Group. These funds have been selected based on a combination of the following criterion:
 - current market capitalisation of less than \$600 million;
 - last reported gearing between 25% and 70%; and
 - fund investment strategy and sector.

Table 47: Comparable A-REITs Discount to NTA Analysis

Entity	Investment Focus	Market Capitalisation ¹ (\$ million)	Premium / (Discount) to NTA ¹	Gearing ¹	FY13 Distribution Yield ²
Challenger Diversified Property Group (ASX:CDI)	Office	537.4	(11.7%)	29.6%	7.1%
Carindale Property Trust (ASX:CDP)	Ownership of a Shopping Centre	399.0	(13.8%)	31.0%	4.9%
Aspen Group (ASX:APZ)	Property Portfolio	190.7	(31.2%)	30.6%	11.3%
CIC Australia Limited (ASX:CNB)	Property Development	75.6	(11.6%)	34.8%	6.7%
Australian Social Infrastructure Fund (ASX:AZF)	Property Investment	66.9	(9.8%)	34.0%	6.8%
Lantern Hotel Group (ASX:LTN)	Hospitality and Entertainment Property	66.2	(19.9%)	52.2%	0.0%
Mirvac Industrial Trust (ASX:MIX)	Industrial Property Investment	65.2	(17.7%)	63.0%	0.0%
Trinity Group (ASX:TCQ)	Funds Management (All property sectors)	37.1	(34.7%)	43.8%	0.0%
Hudson Investment Group Limited (ASX:HGL)	Commercial Property Agricultural Products	30.9	(33.7%)	40.4%	0.0%
Median		66.9	(17.7%)	34.8%	4.9%

Source: Crowe Horwath analysis and S&P Capital IQ.

¹ As at 15 August 2013

² Calculated on the last reported distributions per unit divided by the trading price as at 15 August 2013.

In undertaking our analysis, we were unable to identify comparable agricultural funds listed on the ASX. With the absence of direct comparables for Rural Funds Group we analysed the A-REIT sector based on certain parameters as set out above. This is consistent with the approach we expect the market to adopt. We further note that RFM expects that Rural Funds Group will be classified as a REIT and for this reason its financial performance was considered using metrics commonly considered for this sector.

Based on the above analyses of comparable A-REITs and implied yields, as well as consideration of the investment characteristics and risks of Rural Funds Group, we consider that upon listing Rural Funds Group will potentially trade at a discount to NTA of between 15% to 25%. The minority value of Rural Funds Group based on this discounted range is represented in the table below.

Table 48: Implied Minority Value of Rural Funds Group

	Low Value	Mid Value	High Value
NAV per Rural Funds Group unit	\$1.00	\$1.00	\$1.00
Discounts applied	(25%)	(20%)	(15%)
NAV per Rural Funds Group unit (minority value)	\$0.75	\$0.80	\$0.85

Source: Crowe Horwath analysis.

11.5. Implied Minority Value of RFM Poultry

The value of RFM Poultry as calculated in Section 11.3 is reflective of a controlling interest. We have considered the application of marketability and minority discounts given the following:

- under the Proposed Transaction RFM Poultry will be listed on the NSX; and
- CIF unitholders will hold minority interests in RFM Poultry post-implementation of the proposed Transaction.

Whilst we understand that RFM Poultry will be listed on the NSX, in our opinion we do not consider that RFM Poultry will have the same level of liquidity as A-REITS listed on the ASX. We have based this opinion on research we have conducted on listed managed investment funds on the NSX which indicate relatively low levels of trading and liquidity. As a result, whilst we have given consideration to the pricing discounts to NTA examined previously, we have focused primarily on the following in determining appropriate marketability and minority discounts applicable to RFM Poultry:

- Secondary raisings for comparable listed A-REITS within the last two years indicate that placements have a discount of approximately 20% to their trading price (refer Table 49 below). We note that this is in addition to the discount for listed A-REITS when comparing their trading price pre-announcement and their last reported NTA.
- Secondary raisings for unlisted unit funds in the agricultural sector indicate a discount to NTA ranging from 30% to 69% (refer Table 50 below).
- We note that anecdotal evidence indicates that premiums required to obtain control of companies range between 20% and 40% of holding values. As such, a minority interest discount can be inferred, being the inverse of a premium for control, of between 15% and 30%.
- The off-market transfers that have occurred during the 2012 calendar year for CIF, RBK and AWF indicate a discount range of approximately 20% to 30%. We note that the sizes of these transactions are less than 0.27% of the total units on issue.

Table 49: Comparable A-REITs Secondary Raisings Analysis

Entity	Offer Date	Amount raised (\$ million)	Offer price premium / (discount) to closing price	Closing price premium / (discount) to last reported NTA
Charter Hall Group (ASX:CHC)	10 Mar 2010	195.2	(14%)	57%
Australian Education Trust (ASX:AEU)	20 Apr 2011	30.4	(10%)	(38%)
Real Estate Capital Partners USA Property Trust (ASX:RCUJ)	4 Apr 2012	20.0	(21%)	(71%)
Aspen Group (ASX:APZ)	19 Oct 2012	101.4	(28%)	(39%)
Median		65.9	(17%)	(39%)

Source: Crowe Horwath analysis and S&P Capital IQ.

Table 50: Unlisted Agricultural Funds Secondary Raisings Analysis

Entity	Offer Date	Amount Raised (\$ million)	Price Raised (per unit)	Premium / (discount) to NTA
RFM Ultra Premium Vineyard Fund	15 Dec 2010	6.0	\$0.17	(69%)
Arena Investment Management Limited	11 May 2012	207.2	\$34.12	(36%)
RFM Riverbank	21 Jun 2012	7.5	\$1.06	(30%)

Source: Crowe Horwath analysis and S&P Capital IQ.

Based upon the above analysis, we consider that the relevant marketability and minority discount for RFM Poultry will be in the range of 35% to 45%. Whilst this range is relatively wide, our opinion is that it is reasonable taking into account:

- the illiquidity of NSX-listed securities;
- the size of RFM Poultry with NAV of approximately \$6.8 million;
- the historical transaction evidence for RFM's funds; and
- the investment strategy and risks associated with RFM Poultry.

The minority value of RFM Poultry, with the minority and marketability discounts applied, is presented in the table below:

Table 51: Implied Minority Value of RFM Poultry

	Low Value	Mid Value	High Value
NAV per RFM Poultry unit	\$1.00	\$1.00	\$1.00
<i>Discounts applied</i>	<i>(45%)</i>	<i>(40%)</i>	<i>(35%)</i>
NAV per RFM Poultry unit (minority value)	\$0.55	\$0.60	\$0.65

Source: Crowe Horwath analysis.

11.6. Proposed Transaction Consideration

Under the Proposed Transaction, existing unitholders in CIF, RBK and AWF will be issued units in Rural Funds Group and units in RFM Poultry on the following basis:

Table 52: Proposed Transaction Merger Ratios

	Rural Funds Group (1 unit)	RFM Poultry (1 unit)
CIF (1 unit)	0.689	0.107
RBK (1 unit)	1.375	n/a
AWF (1 unit)	0.461	n/a

Source: RFM management

The implied value received by the unitholders of CIF, RBK and AWF based on the above merger ratios are presented in the tables below.

Table 53: Implied Consideration per CIF Unit

	Low Value	Mid Value	High Value
Rural Funds Group per unit (minority value)	\$0.75	\$0.80	\$0.85
Rural Funds Group merger ratio	0.689	0.689	0.689
Rural Funds Group implied consideration	\$0.52	\$0.55	\$0.59
RFM Poultry per unit (minority value)	\$0.55	\$0.60	\$0.65
RFM Poultry merger ratio	0.107	0.107	0.107
RFM Poultry implied consideration	\$0.06	\$0.06	\$0.07
Total implied consideration per CIF unit	\$0.58	\$0.62	\$0.65

Source: Crowe Horwath analysis.

Note: Figures subject to rounding.

Table 54: Implied Consideration per RBK Unit

	Low Value	Mid Value	High Value
Rural Funds Group per unit (minority value)	\$0.75	\$0.80	\$0.85
Rural Funds Group merger ratio	1.375	1.375	1.375
Implied consideration per RBK unit	\$1.03	\$1.10	\$1.17

Source: Crowe Horwath analysis.

Table 55: Implied Consideration per AWF Unit

	Low Value	Mid Value	High Value
Rural Funds Group per unit (minority value)	\$0.75	\$0.80	\$0.85
Rural Funds Group merger ratio	0.461	0.461	0.461
Implied consideration per AWF unit	\$0.35	\$0.37	\$0.39

Source: Crowe Horwath analysis.

12. Evaluation of the Proposed Transaction

12.1. The Proposed Transaction is Not Fair

Regulatory Guide 111 provides that if an offeror is offering non-cash consideration in a control transaction, the expert should examine the value of that consideration compared with the valuation of the target's securities. The comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- the acquirer is obtaining or increasing control of the target; and
- the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

Regulatory Guide 111 further defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer. Our assessment of the fair market value of CIF, RBK and AWF, compared to the value of the implied consideration received is set out in the table below:

Table 56: Analysis of Fairness under the Proposed Transaction

	Low Value	Mid Value	High Value
RFM Chicken Income Fund			
Fair market value of a unit in CIF (control value)	\$0.80	\$0.84	\$0.88
Implied consideration received by CIF unitholders	\$0.58	\$0.62	\$0.65
RFM RiverBank			
Fair market value of a unit in RBK (control value)	\$1.41	\$1.49	\$1.56
Implied consideration received by RBK unitholders	\$1.03	\$1.10	\$1.17
RFM Australian Wine Fund			
Fair market value of a unit in AWF (control value)	\$0.41	\$0.43	\$0.45
Implied consideration received by AWF unitholders	\$0.35	\$0.37	\$0.39

Source: Crowe Horwath analysis.

Given the above, the Proposed Transaction is not fair as the consideration offered to CIF, RBK and AWF unitholders are lower than the fair market value of their respective units on a control basis.

12.2. The Proposed Transaction is Reasonable

The following advantages and disadvantages have been considered in assessing the reasonableness of the Proposed Transaction:

Table 57: Summary of Advantages and Disadvantages of the Proposed Transaction

Potential Advantages and Disadvantages	Report Cross-reference	CIF	RBK	AWF
On a minority basis, the Proposed Transaction is fair	Section 12.2 (a)	✓	✓	✓
Distributions FY14	Section 12.2 (b)	✓	✓	✓
Distributions FY15	Section 12.2 (b)	x	✓	✓
Total return FY14	Section 12.2 (c)	x	x	✓
Total return FY15	Section 12.2 (c)	✓	✓	✓
Indirect cost ratio	Section 12.2 (d)	✓	✓	✓
Financial and operating stability	Section 12.2 (e)	✓	✓	✓
Diversification	Section 12.2 (f)	✓	✓	✓
Liquidity	Section 12.2 (g)	✓	✓	✓
Cost savings	Section 12.2 (h)	✓	✓	✓
Access to funds	Section 12.2 (i)	✓	✓	✓
Loan to value ratio	Section 12.2 (j)	✓	x	x
Interest cover FY14	Section 12.2 (k)	x	✓	✓
Interest cover FY15	Section 12.2 (k)	x	✓	x
Dilutionary / incremental ownership	Section 12.2 (l)	x	x	✓
Pricing volatility	Section 12.2 (m)	x	x	x
Transaction costs	Section 12.2 (n)	x	x	x
Deferred tax assets	Section 12.2 (o)	x	x	x
Taxation implications	Section 12.2 (p)	x	x	x

Source: Crowe Horwath analysis.

Key: ✓ advantage, x disadvantage

In addition, we took into account other considerations (refer Section 12.2(q)), namely:

- change in investment characteristics; and
- the possible options available to unitholders of the Funds.

(a) On a minority basis the Proposed Transaction is fair

✓ Advantage: On a minority basis, the Proposed Transaction is considered 'fair' and this represents an advantage for CIF, RBK and AWF.

Although Regulatory Guide 111 requires Crowe Horwath to assume 100% ownership of CIF, RBK and AWF when analysing whether the Proposed Transaction is fair, we consider the application of a full control premium to be inappropriate given the following:

- The Proposed Transaction does not result in a controlling interest in Rural Funds Group or RFM Poultry.
- The Proposed Transaction will effectively dilute the unitholder shareholdings, with no unitholder holding greater than a 3.4% interest in Rural Funds Group and 6.0% in RFM Poultry.



- The Proposed Transaction does not preclude existing unitholders from receiving a control premium in the future should such a transaction occur.

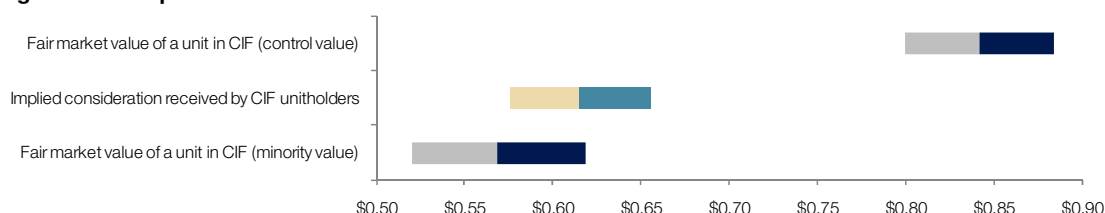
For these reasons we consider that a control premium is not appropriate for the Proposed Transaction, given that the Proposed Transaction does not result in any material transfer of control. Had the control premium not been applied (refer Section 11.2), this would have resulted in the Proposed Transaction being fair to CIF, RBK and AWF Unitholders as demonstrated below:

Table 58: Proposed Transaction Minority Value Analysis

	Low Value	Mid Value	High Value
RFM Chicken Income Fund			
Fair market value of a unit in CIF (control value)	\$0.80	\$0.84	\$0.88
<i>Discounts applied</i>	<i>(35%)</i>	<i>(33%)</i>	<i>(30%)</i>
Fair market value of a unit in CIF (minority value)	\$0.52	\$0.57	\$0.62
Implied consideration received by CIF unitholders	\$0.58	\$0.62	\$0.65
RFM RiverBank			
Fair market value of a unit in RBK (control value)	\$1.41	\$1.49	\$1.56
<i>Discounts applied</i>	<i>(35%)</i>	<i>(33%)</i>	<i>(30%)</i>
Fair market value of a unit in RBK (minority value)	\$0.92	\$1.00	\$1.09
Implied consideration received by RBK unitholders	\$1.03	\$1.10	\$1.17
RFM Australian Wine Fund			
Fair market value of a unit in AWF (control value)	\$0.41	\$0.43	\$0.45
<i>Discounts applied</i>	<i>(35%)</i>	<i>(33%)</i>	<i>(30%)</i>
Fair market value of a unit in AWF (minority value)	\$0.27	\$0.29	\$0.32
Implied consideration received by AWF unitholders	\$0.35	\$0.37	\$0.39

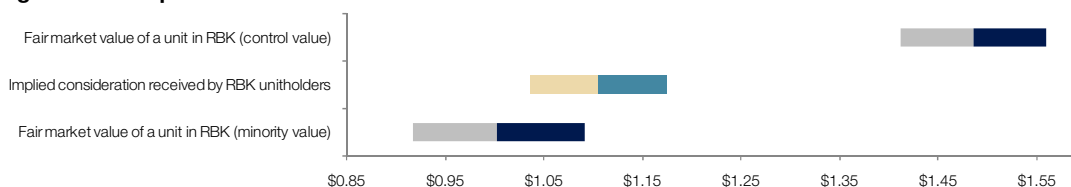
Source: Crowe Horwath analysis.

Figure 13: Comparison of Consideration and Fair Market Value of a CIF Unit



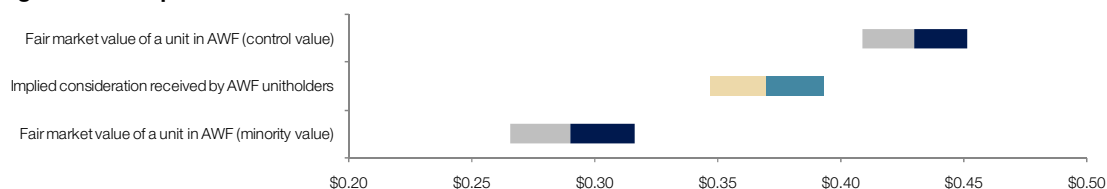
Source: Crowe Horwath analysis.

Figure 14: Comparison of Consideration and Fair Market Value of a RBK Unit



Source: Crowe Horwath analysis.

Figure 15: Comparison of Consideration and Fair Market Value of an AWF Unit



Source: Crowe Horwath analysis.

In calculating a minority value for CIF, RBK and AWF, Crowe Horwath has applied a marketability and minority discount range of 30% to 35%. This particular discount range was determined based on the same analysis conducted in Section 11.5 and included examining the following:

- Secondary raisings for comparable listed A-REITS in the last two years indicate that placements have a discount of approximately 20% to their trading price (refer Table 49).
- Secondary raisings for unlisted unit funds in the agricultural sector indicate a discount to NTA ranging from 30% to 69% (refer Table 50).
- Anecdotal evidence indicates that premiums required to obtain control of companies range between 20% and 40% of holding values. As such, a minority interest discount can be inferred, being the inverse of a premium for control, of between 15% and 30%.
- The off-market transfers that have occurred during the 2012 calendar year for CIF, RBK and AWF indicate a discount range of approximately 20% to 30%.
- Individual fund characteristics of CIF, RBK and AWF, including their respective size, investment strategy and risk.

Whilst we recognise that the discount range applied to CIF, RBK and AWF is different to the discount range adopted for RFM Poultry (i.e. 35% to 45%), we believe this to be reasonable due to the following reasons:

- Although RFM Poultry is to be listed on the NSX, we are of the view that this will provide limited liquidity for the fund. This is based on data we considered on NSX All Property Index constituents and their trading history. The data revealed relatively low levels of trading activity or no trading activity in the last few years.
- We also considered the individual fund characteristics of RFM Poultry and compared the fund characteristics of CIF, RBK and AWF. Notably, RFM Poultry will have approximately \$6.8 million in net assets which is significantly smaller in size to CIF, RBK and AWF.

(b) Distributions

✓ **Advantage:** In comparing distributions pre and post the Proposed Transaction, distributions are higher for CIF, RBK and AWF in FY14 and higher for RBK and AWF in FY15.

✗ **Disadvantage:** Distributions are lower for CIF in FY15.

The below table summarises the FY14 and FY15 distributions for CIF, RBK and AWF on a stand-alone basis, compared with FY14 and FY15 distributions post-implementation of the Proposed Transaction. We note that distributions are based on management assumptions and are not guaranteed.

Table 59: Returns Analysis

	Distribution FY14	Growth FY14	Total Return FY14	Distribution FY15	Growth FY15	Total Return FY15
RFM Chicken Income Fund						
Pre transaction	7.03%	(2.19%)	4.84%	11.37%	(4.49%)	6.88%
Post transaction	8.21%	(5.48%)	2.73%	9.52%	0.55%	10.06%
<i>Difference</i>	<i>1.18%</i>	<i>(3.29%)</i>	<i>(2.11%)</i>	<i>(1.85%)</i>	<i>5.04%</i>	<i>3.19%</i>
RFM RiverBank						
Pre transaction	4.13%	1.16%	5.28%	5.48%	2.08%	7.56%
Post transaction	7.81%	(7.62%)	0.19%	8.65%	0.46%	9.11%
<i>Difference</i>	<i>3.68%</i>	<i>(8.78%)</i>	<i>(5.10%)</i>	<i>3.17%</i>	<i>(1.62%)</i>	<i>1.55%</i>
RFM Australian Wine Fund						
Pre transaction	5.18%	0.79%	5.97%	4.80%	1.60%	6.40%
Post transaction	9.03%	6.80%	15.83%	8.65%	0.46%	9.11%
<i>Difference</i>	<i>3.85%</i>	<i>6.01%</i>	<i>9.86%</i>	<i>3.85%</i>	<i>(1.15%)</i>	<i>2.71%</i>

Source: RFM management.

Note: The FY14 post transaction returns for the Funds adopt a common basis that is Rural Funds Group's NAV at Implementation Date multiplied by the relevant merger ratio.
The FY14 returns are based on 9 months to 30 June 2014.

It is envisaged that the Proposed Transaction will provide improved distributions for CIF, RBK and AWF unitholders in FY14 and FY15 (except for CIF in FY15 which is lower) as a result of an improved cash flow position and an increased ability to access capital. This is supported by the following assumptions:

- **Improved financing arrangements** - Consolidation of debt under the Proposed Transaction will allow Rural Funds Group to increase its ability to borrow as a collective group and thereby attain a higher LVR covenant of 50% (compared with a 45% LVR covenant for AWF and CIF on a stand alone basis). Furthermore, Rural Funds Group will not be required to undertake principal repayments, compared with a \$0.9 million per annum repayment requirement for CIF.
- **Unlocking cash reserves** – Both CIF and RBK had previously withheld a number of distributions in FY13 for debt reduction and capital expenditure purposes. These will now be accessible under the Rural Funds Group. We further note that it is RFM's intention to announce a special distribution of 2.05 cents per unit within 45 business days of the successful completion of the Proposed Transaction – this distribution is in addition to the regular quarterly distribution.
- **Potential cost savings** – RFM management expects total management fees and fund overheads to decrease by approximately \$0.9 million due to economies of scale derived from the scaling up of operations (refer Section 12.2(h)).

(c) Total return

✓ **Advantage:** In comparing total return pre and post the Proposed Transaction, total return is higher for AWF in FY14, and higher for CIF, RBK and AWF in FY15.

✗ **Disadvantage:** Total return is lower for CIF and RBK in FY14.

With reference to Table 59 above, the Proposed Transaction will provide improved total returns for AWF unitholders in FY14 and for all three Funds in FY15 based on the pro-forma financials prepared by RFM management. Specifically, we note the following:

- The lower total return for CIF and RBK in FY14 is due to the dilution of existing ownership (refer Section 12.2(l)), loss of deferred tax benefits (refer Section 12.2(o)) and once-off transactions costs (i.e. stamp duty of approximately \$700,000).

- Growth appears to be lower for RBK and AWF in FY15 (i.e. a difference of 1.62% and 1.15% respectively between pre and post transaction) and is due to the following:
 - The capital intensive nature of chicken farming operations requires CIF to hold significant depreciable capital items. As RBK and AWF unitholders will share in the common ownership of these assets under the Rural Fund Group, the capital growth will be negatively impacted by these depreciable capital items. On the other hand, CIF unitholders will benefit from this decrease in depreciable asset exposure.
 - Higher levels of distribution will result in lower levels of capital growth, given that the distribution will decrease the unit price of the underlying fund.
- We note that for RBK, the combined total return for FY14 and FY15 is lower on a post transaction basis. RFM management however has advised that it expects the total return differences for the Funds to continue to persist in future financial years and thus provide ongoing financial benefit.

(d) Indirect cost ratio

✓ **Advantage:** In comparing the indirect cost ratio pre and post the Proposed Transaction, indirect cost ratio is lower for CIF, RBK and AWF.

For the unitholders in CIF, RBK and AWF, the indirect cost ratio will be lower post-implementation of the Proposed Transaction compared to pre-implementation of the Proposed Transaction due to lower applicable management fees. The post transaction figures for CIF below include RFM Poultry.

Table 60: Indirect Cost Ratio Analysis

	Indirect Cost Ratio FY14	Indirect Cost Ratio FY15
RFM Chicken Income Fund		
Pre transaction	4.23%	3.29%
Post transaction	2.36%	2.30%
Difference	(1.87%)	(0.99%)
RFM RiverBank		
Pre transaction	3.88%	3.23%
Post transaction	2.25%	2.25%
Difference	(1.63%)	(0.98%)
RFM Australian Wine Fund		
Pre transaction	3.62%	2.79%
Post transaction	2.25%	2.25%
Difference	(1.37%)	(0.54%)

Source: RFM management.

Note: The post transaction Indirect Cost Ratio for FY14 is shown on an annualised basis for comparative purposes. RFM have retained the ability to raise fees in the future, however RFM are forecasting lower fees for FY14 and FY15.

(e) Financial and operating stability

✓ **Advantage:** The potential for greater financial and operating stability under the Proposed Transaction represents an advantage for CIF, RBK and AWF.

Should the Proposed Transaction proceed, Rural Funds Group will become an agricultural property fund with combined total assets of approximately \$242 million. This increase in size will provide the following benefits:

- lower administrative and operating costs by combining three funds into one merged group;
- ability to raise further debt and equity finance improvements;
- greater certainty around assumed future distributions; and
- ability to negotiate improved bank terms due to larger fund scale and diversification of assets (i.e. more favourable LVR covenants).

(f) Diversified portfolio

✓ **Advantage:** Increased diversification represents a potential advantage for CIF, RBK and AWF unitholders.

Should the Proposed Transaction proceed, CIF, RBK and AWF unitholders will have a stake in the merged group's participating entities and therefore an interest in a larger property portfolio with varying properties across different locations and agricultural sectors (refer Table 34). Generally, a broader portfolio and greater diversity of tenants reduces the risk specific to a particular property or location. This may offer CIF, RBK and AWF unitholders greater certainty of income through a larger tenant base and reduce the risk of distributions being suspended due to a single vacancy or default of a single tenant.

(g) Liquidity

✓ **Advantage:** Improved liquidity under the Proposed Transaction represents a potential advantage for CIF, RBK and AWF.

The proposal to list Rural Funds Group on the ASX will provide RBK, CIF and AWF unitholders with the advantage of increased liquidity. We note that currently, each of the Funds is unable to achieve the level of liquidity required and has only been able to provide limited redemption offers to its unitholders. For example, since inception only 1.1 million units in CIF were redeemed compared to the 6.3 million units in CIF requested for redemption.

We further note that in the absence of capital inflow to fund redemptions, RFM management has considered other liquidity alternatives. These alternatives however, have negative connotations to unitholders as summarised below:

- **Off-market transfer of units** – Anecdotal evidence suggests that off-market transfers occur at a deep discount to compensate for a funds' illiquidity.
- **Redemption offer funded by asset sales** – The sale of rural property assets is highly dependent upon current market conditions. The time period until a successful sale is highly variable in nature thus unable to provide timely access to liquidity. Furthermore, the sale down of assets will also reduce the size of a fund, potentially impacting remaining unitholder's returns due to the fixed costs necessary to fund the operations.

RFM have estimated that approximately 96% of unitholders (by value) across the Funds do not currently wish to exit their investment. For this reason RFM would not be acting in the best interests of the majority of unitholders if RFM resolved to proceed with an asset sale. A liquidity deadlock thus exists between unitholders wishing to exit and those wishing to retain their investment.

(h) Cost savings derived from the merger

✓ **Advantage:** Potential ongoing cost savings arising from the Proposed Transaction represent an advantage for CIF, AWF and RBK.

RFM management have identified a number of cost savings that may arise from the Proposed Transaction of approximately \$0.9 million on an ongoing basis. These cost savings are net of additional costs such as listing costs. The costs savings are due to reductions to RFM management fees and fund overheads arising from economies of scale as shown in the table below. If realised, these cost savings will assist in improving the underlying profitability of the Rural Funds Group.

Table 61: Cost Savings Breakdown

	Pre Transaction	Post Transaction	Cost savings
Fund overheads	2,434	1,862	571
Management fees	2,673	2,342	331
Total	5,107	4,205	902

Source: RFM management.

Note: RFM have retained the ability to raise fees in the future, however RFM are forecasting lower fees for FY14 and FY15.

The potential net cost savings from the Proposed Transaction are based upon RFM management's best estimates of future events. As such, there is no guarantee that the potential net cost savings will eventuate or that they will be the amount assumed.

(i) Access to Funds

✓ **Advantage:** Improved access to funds under the Proposed Transaction represent an advantage for CIF, AWF and RBK.

It is envisaged that under the Proposed Transaction, Rural Funds Group will have increased access to additional funds. Specifically, from discussions between RFM management and potential lenders, it is understood that Rural Funds Group will potentially be able to borrow up to 50% of its total assets (compared with 45% for AWF and CIF on a stand alone basis, and a debt ceiling for RBK). Given Rural Funds Group as at FY14 will have a LVR of approximately 40.8%, this entails that Rural Funds Group will have excess borrowings at its disposal, thereby minimising the need for capital raisings as shown in the following table:

Table 62: Funding Analysis Post-implementation of the Proposed Transaction

	FY14	FY15
Interest-bearing liabilities ('000s)	\$96,721	\$96,721
LVR	40.8%	40.3%
Additional debt funding available ('000s)	\$21,676	\$23,358

Source: RFM management.

Note: the interest bearing liabilities represents debt funding in relation to property assets only and does not include debt for property, plant and equipment.

(j) Loan to value ratio

✓ **Advantage:** In comparing LVR pre and post the Proposed Transaction, LVR is lower for CIF.

✗ **Disadvantage:** LVR is higher for RBK and AWF.

The LVR of Rural Funds Group upon formation will be higher for RBK and AWF on a pre-implementation of the Proposed Transaction basis due to an increased exposure to the debt levels of CIF. The LVR for individual funds pre-implementation and post-implementation of the Proposed Transaction are shown in the table below.



Table 63: LVR Analysis Post Transaction

	Loan to Value Ratio FY14	Loan to Value Ratio FY15
RFM Chicken Income Fund		
Pre transaction	41.30%	41.23%
Post transaction	40.85%	40.27%
<i>Difference</i>	<i>(0.46%)</i>	<i>(0.95%)</i>
RFM RiverBank		
Pre transaction	39.00%	38.94%
Post transaction	40.85%	40.27%
<i>Difference</i>	<i>1.85%</i>	<i>1.33%</i>
RFM Australian Wine Fund		
Pre transaction	27.47%	26.32%
Post transaction	40.85%	40.27%
<i>Difference</i>	<i>13.37%</i>	<i>13.95%</i>

Source: RFM management.

(k) Interest Cover

✓ **Advantage:** In comparing interest cover pre and post the Proposed Transaction, interest cover is higher for RBK and AWF in FY14, and higher for RBK in FY15.

✗ **Disadvantage:** Interest cover is lower for CIF in FY14, and lower for CIF and AWF in FY15.

The interest cover for Rural Funds Group is lower when compared to CIF on a stand-alone basis for FY14, and both CIF and AWF on a stand-alone basis for FY15. This is predominately due to CIF's and AWF's increasing profitability (on a stand-alone basis) and a partial decrease in interest bearing liabilities.

Table 64: Interest Cover Analysis

	Interest Cover FY14	Interest Cover FY15
RFM Chicken Income Fund		
Pre transaction	3.26x	4.20x
Post transaction	2.94x	3.01x
<i>Difference</i>	<i>(0.33x)</i>	<i>(1.18x)</i>
RFM RiverBank		
Pre transaction	2.17x	2.60x
Post transaction	2.94x	3.01x
<i>Difference</i>	<i>0.77x</i>	<i>0.42x</i>
RFM Australian Wine Fund		
Pre transaction	2.65x	3.78x
Post transaction	2.94x	3.01x
<i>Difference</i>	<i>0.29x</i>	<i>(0.76x)</i>

Source: RFM management.

(l) Dilution / increment of existing ownership

✗ **Disadvantage:** The Proposed Transaction will bring about an immediate dilution of unitholders' ownership of 5.48% for CIF unitholders and 7.47% for RBK unitholders, due to the re-allotment of units from the participating Funds.

✓ **Advantage:** AWF is not diluted and receives an increment of 6.98%, due primarily to RBK acquiring the AWF assets at higher than the NAV.

This is presented in the table below.

Table 65: Dilution Analysis under the Proposed Transaction

	NAV (per unit) Rural Funds Group	NAV (per unit) RFM Poultry	NAV Total
RFM Chicken Income Fund			
Pre transaction	\$0.84	-	\$0.84
Post transaction	\$0.69	\$0.11	\$0.80
Increment / (dilution)	(\$0.15)	\$0.11	(\$0.05) (5.48%)
RFM RiverBank			
Pre transaction	\$1.49	-	\$1.49
Post transaction	\$1.38	-	\$1.38
Increment / (dilution)	(\$0.11)	-	(\$0.11) (7.47%)
RFM Australian Wine Fund			
Pre transaction	\$0.43	-	\$0.43
Post transaction	\$0.46	-	\$0.46
Increment / (dilution)	\$0.03	-	\$0.03 6.98%

Source: RFM management.

Note: Post transaction figures are based on the merger ratios.

(m) Security pricing volatility

× Disadvantage: Under the proposed Transaction, security pricing may be more volatile.

Under the Proposed Transaction, the consideration to be received will be listed securities in the Rural Funds Group, the price of which will be fluctuate based upon the Group's absolute performance and also market variables. Due to the nature of the listed security market, volatility in the price of a listed security is likely to be higher than the unlisted unit pricing methodology that has been previously utilised by the Funds. We note however, that the Rural Funds Group portfolio includes long term rental income streams diversified across multiple agricultural sectors, which may potentially assist in reducing some of this volatility.

(n) Transaction costs

× Disadvantage: Under the proposed Transaction, one-off transaction costs of approximately \$3.2 million will be incurred.

There are costs estimated at \$3.2 million in total associated with executing the Proposed Transaction. These include:

- advisory fees;
- costs for the preparation of the Notice of Meeting and the Explanatory Memorandum;
- professional fees and costs associated with the dispatch of documents; and
- stamp duty.

These transaction costs will effectively reduce NAV per unit post-implementation of the Proposed Transaction.

(o) Deferred tax assets

× **Disadvantage:** Under the proposed Transaction, deferred tax assets of \$1.9 million will be lost.

The Proposed Transaction will result in a change of ownership in RBK (otherwise known as the Rural Funds Group under the Proposed Transaction), as RBK will be the entity that issues units to CIF and AWF unitholders in exchange for their underlying units. Due to this, existing income tax losses totalling \$1.9 million held by RBK will no longer be accessible following the Proposed Transaction.

(p) Taxation implications

× **Disadvantage:** The Proposed Transaction may result in adverse personal taxation consequences for some unitholders.

Whilst, the taxation implications to unitholders are dependent upon their individual taxation circumstances, there is the possibility of capital gains tax. Unitholders should evaluate the potential tax consequences in assessing whether to approve the Proposed Transaction.

At the fund level, we note that \$700,000 of stamp duty (refer section 12.2 (n)) will be payable by Rural Funds Group. The final amount is subject to a determination in each relevant State jurisdiction where assets are held by the Funds.

(q) Other considerations

- **Change in investment characteristics:** Participating in the Proposed Transaction will expose unitholders to a diversified real property asset portfolio. Unitholders currently have exposure to certain agricultural sector specific assets, which may have been specifically chosen based on the property and asset characteristic of that Fund. In this instance, the Proposed Transaction may have the unintended consequence of changing a unitholders current exposure to those specific assets.
- **Possible options available to unitholders:** As a result of the downturn in both the global equity and credit markets, RFM management believe that raising debt or equity has become increasingly difficult in the current environment with no guarantee that it could be sourced on favourable terms. Whilst RFM management have considered the Proposed Transaction in relation to other alternatives, including the reduction of distributions under the current structure and asset sales, these options are yet to be progressed as a potential alternative. Furthermore, RFM notes that the majority of unitholders currently are not seeking to exit their investment and, as a result, RFM management have not considered the option of a full sale process for the three RFM funds.

12.3. Conclusion

In our opinion, the Proposed Transaction is not fair but reasonable to the unitholders of CIF, RBK and AWF as the potential advantages outweigh the disadvantages under the Proposed Transaction.

13. Qualifications, Declarations and Consents

13.1. Qualifications

Crowe Horwath provides corporate finance services including the preparation of company and business valuations and the provision of independent advice and expert reports concerning mergers and acquisitions, takeovers and capital reconstructions. The Principal responsible for preparing this Report on behalf of Crowe Horwath is Mr Harley Mitchell B.Com, CA. Harley has significant experience in relevant corporate advisory matters and is a Representative in accordance with Australian Financial Services Licence No. 239170 held by Crowe Horwath under the Corporations Act.

13.2. Disclaimers

It is not intended that this Report be used or relied upon for any purpose other than as an expression of Crowe Horwath's opinion as to whether the Proposed Transaction is fair and reasonable to the Funds' unitholders. Crowe Horwath expressly disclaims any liability to any person or party who relies or purports to rely on the Report for any other. This Report has been prepared by Crowe Horwath with care and diligence, statements and opinions given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Crowe Horwath or any of its officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve Crowe Horwath from liability arising from an opinion expressed recklessly or in bad faith.

13.3. Declarations

This Report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (**APESB**). Crowe Horwath does not have at the date of this Report, nor has had any shareholding in or other relationship with the Funds or RFM that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction. Crowe Horwath had no part in the formulation of the Proposed Transaction. Crowe Horwath's only role has been the preparation of this Independent Expert's Report. Crowe Horwath considers itself independent in terms of Regulatory Guide 112.

RFM has agreed that, to the extent permitted by law, it will indemnify Crowe Horwath employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this Report. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct. RFM has also agreed to indemnify Crowe Horwath and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Crowe Horwath or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct in which case Crowe Horwath shall bear such costs. Advance drafts of this Report were provided to RFM and its advisers. Certain changes were made to this Report as a result of the circulation of the draft Report. There was no alteration to the methodology, valuation or conclusions as a result of issuing the drafts.

13.4. Consents

Crowe Horwath consents to the issuing of this Report in the form and context in which it is to be included in the Proposed Transaction documentation to be sent to the Funds' unitholders. Neither the whole nor any part of this Report nor any reference thereto may be included in any other document without the prior written consent of Crowe Horwath as to the form and context in which it appears.

Appendix A – RFM Management Fees

	CIF (current fee arrangement)	RBK (current fee arrangement)	AWF (current fee arrangement)	Rural Funds Group (proposed fee arrangement)	RFM Poultry (proposed fee arrangement)
Contribution Fee	up to 3% of the amount invested.	up to 3% of the amount invested.	up to 3% of the amount invested.	nil	nil
Fund Management Fee	1.25% p per annum of the value of gross assets.	1.00% per annum of the value of gross assets.	0.80% per annum of the value of gross assets.	0.60% per annum of the value of gross assets.	1.25% per annum of the value of gross assets.
Asset Management Fee	Where property is operated, 5% of the amount of annual operating expenses. Where property is leased, 5% p.a. of the annual rent.	Where property is operated, 5% of the amount of annual operating expenses. Where property is leased, 5% p.a. of the annual rent.	Where property is operated, 5% of the amount of annual operating expenses.	Where property is operated, 5% of the amount of annual operating expenses. Where property is leased, 5% p.a. of the annual rent.	n/a
Performance Fee	n/a	15% of the returns in excess of a return on equity of 15% p.a. on the amount invested.	n/a	nil	nil
Acquisition Fee	n/a	2% of the total purchase price of an asset.	n/a	1% of the total purchase price of an asset.	nil

Source: RFM management.

Note: RFM have retained the ability to raise fees in the future, however RFM are forecasting lower fees for FY14 and FY15.

Appendix B – Valuation Methodologies

Method	Description	When method used	Rationale
Discounted Cash Flow	The Discounted Cash Flow (DCF) method derives the value of a business on a controlling basis based on the future cash flows of the business discounted back to a present value at an appropriate discount rate (cost of capital). The discount rate used will reflect the time value of money and the risks associated with the cash flows. The DCF method requires: ▪ forecasting cash flows over a sufficiently long period (at least 5 years and usually 10 years) ▪ assessing an appropriate discount rate (typically derived using judgement and aids such as the Capital Asset Pricing Model (CAPM)), and ▪ estimation of the terminal value (value of the business into perpetuity) at the end of the period (typically derived using the capitalisation of earnings method).	▪ Reasonably accurate forecast cash flows (minimum. 5 years). ▪ Earnings or cash flows expected to fluctuate from year to year. ▪ Business is in start-up or turn around phase. ▪ Specific projects that have a finite or infinite life, for example, mining projects.	▪ This method was not used as forecast cash flows of at least 5 years were not available.
Capitalisation of Earnings	The Capitalisation of Earnings (CE) method is the most commonly used valuation method. It involves the application of a capitalisation multiple to an estimate of the Future Maintainable Earnings (FME) of the business. The FME must be maintainable by the business and must not include one-off gains or losses. The capitalisation multiple will reflect the risk, time value of money and future growth prospects of the business. The appropriate capitalisation multiple is determined with reference to the observed multiples of entities whose businesses are comparable to that of the business being considered and/or comparable transactions.	▪ The business has a history of profits with a reasonably consistent trend and that trend is expected to continue. ▪ The business has an indefinite life. ▪ Cash flow forecasts are not available.	▪ This method was not used as Rural Funds Group's underlying assets are properties with the earnings of the business derived from the properties. These properties have been valued by property specialist valuers and included in the net assets of the group. Accordingly an asset based approach was used.
Capitalisation of Dividends	This method involves the capitalisation of forecast future maintainable dividends. The maintainable level of dividends is estimated by assessing the expected level of future maintainable earnings and the dividend policy of the entity. The appropriate capitalisation rate reflects the investor's required rate of return.	▪ Valuation is for a minority interest. ▪ Stable business. ▪ High payout ratios.	▪ Distributions were considered and compared in our reasonableness assessment however the asset based approach was our primary method.
Yield Based	This method is primarily used for property assets and involves capitalising forecast distributions by an estimated future maintainable yield. The yield or rate is determined based on analysis of comparable entities.	▪ Commercial or investment properties including retail, industrial and commercial.	▪ Implied yields were reviewed as a cross check to our primary approach.

Method	Description	When method used	Rationale
Market Based	This method values a company based on the traded prices of its equity on a public market/exchange. The approach can adopt the prevailing spot rate of the company's securities at valuation date or the Volume Weighted Average Price (VWAP) over a set trading period i.e. the preceding 30, 60 or 90 trading days to the valuation date.	- Company's equity is listed on public market/exchange i.e. ASX. - Securities in the company are actively traded on the market/exchange.	Rural Funds Group and RFM Poultry are not listed therefore this method was not selected.
Asset Based	Asset based valuations involve separating the business into components that can be readily sold, such as individual business units or items of plant and equipment, and ascribing a value to each component based on the amount that could be obtained if sold. The asset value can be determined on the basis of: - orderly realisation - liquidation - going concern	- The business has been incurring losses for a number of consecutive financial years. - The specific assets being considered are surplus to the business operations of the business.	This was used as the primary valuation methodology as CIF, RBK, AWF, Rural Funds Group and RFM Poultry are managed funds with property related assets. These properties have been valued by property specialist valuers and included in the net assets of the group. Accordingly an asset based approach was used.

Source: Crowe Horwath analysis.

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Appendix D – Glossary

Term	Meaning
'000s	Thousands
ABARES	Department of Agriculture, Fisheries and Forestry
ABS	Australian Bureau of Statistics
ACN	Australian Company Number
AFSL	Australian Financial Services Licence
AIT	Agricultural Income Trust Fund 1 ARSN 093 804 276
APESB	Accounting Professional & Ethical Standards Board
ARSN	Australian Registered Scheme Number
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AWF	RFM Australian Wine Fund ARSN 099 573 485
Baiada	Baiada Poultry Pty Ltd ACN 002 925 948
Barnden	Barnden Property Pty Ltd ACN 127 273 465
Barter	Barter Enterprises Pty Ltd, a wholly owned subsidiary of Baiada
CIF	RFM Chicken Income Fund ARSN 105 754 461
Colliers	Colliers International Consultancy and Valuation Pty Ltd ABN 88 076 848 112
Corporations Act	Corporations Act 2001 (Cth)
Crowe Horwath	Crowe Horwath Corporate Finance (Aust) Ltd ABN 95 001 508 363 AFSL No. 239170
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
Expert's Report	Report
Funds	CIF, RBK and AWF
FY	Financial year ending/ended 30 June
Gaetjens	Gaetjens Pickett Valuers ABN 90 791 710 106
GFC	The global financial crisis which commenced in late 2007
ha	Hectare
Indirect Cost Ratio	Indirect cost ratio, calculated as follows: $\frac{\text{management fees}}{\text{average NAV attributable for the year}}$
Interest Cover	Interest cover, calculated as follows: $\frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{interest expense}}$
LVR	Loan to value ratio, calculated as follows: $\frac{\text{total interest bearing liabilities}}{\text{total assets}}$
ML	Mega litre
n/a	Not applicable
NAV	Net asset value
NPAT	Net profit after taxation
NPBT	Net profit before taxation
NSW	New South Wales

Term	Meaning
NSX	National Stock Exchange of Australia
NTA	Net tangible assets
NTA per unit	Net tangible assets per unit, calculated as follows: $\frac{\text{Net assets} - \text{intangible assets} \pm \text{any other adjustments}}{\text{Number of units on issue}}$
Opteon	Opteon (Victoria) Pty Ltd ACN 140 547 600
pa	Per annum
Proposed Transaction	Proposed merger of CIF, RBK and AWF to form Rural Funds Group
RBK	RFM RiverBank ARSN 112 951 578
Regulatory Guide 111	Regulatory Guide 112 'Independence of Experts' issued by ASIC March 2011
Regulatory Guide 112	Regulatory Guide 112 'Content of Expert's Reports' issued by ASIC March 2011
Report	Crowe Horwath's Independent Expert's Report in relation to the proposed merger of CIF, RBK and AWF
RFM	Rural Funds Management Ltd ACN 077 492 838 AFSL 226701
RFM Poultry	Under the Proposed Transaction, the newly created managed fund to which CIF's chicken growing operations will be transferred
Riverina	Riverina Property Services Pty Ltd ACN 103 749 819
Rural Funds Group	Formerly RBK
Section	Refers to a section in the Report
StockBank	RFM StockBank ARSN 153 436 803
UPVF	RFM Ultra Premium Vineyard Fund, the former AWF
US	United States
WA	Western Australia

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