

2007 Macgrove Project

Financial Statements

For the Half Year Ended 31 December 2019

2007 Macgrove Project

ARSN 119 560 235

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2007 Macgrove Project

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Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226 701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup
Company Secretary	Emma Spear
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 19, 60 Castlereagh Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay, Barangaroo GPO Box 2650 SYDNEY NSW 2001
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000

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Directors' Report

31 December 2019

The Directors of Rural Funds Management Limited (RFM), the Responsible Entity of 2007 Macgrove Project (M07 or the Project) present their report on the Project for the half year ended 31 December 2019.

Directors

The following persons held office as Directors of the Responsible Entity during the half year and up to the date of this report:

Guy Paynter	Non-Executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-Executive Director
Julian Widdup	Non-Executive Director

Principal activities and significant changes in nature of activities

The principal activity of the Project during the half year was the commercial growing, harvesting, and marketing of macadamia nuts to be sold for processing and consumption in Australia and internationally.

M07 was established in 2007 to provide Growers with an opportunity to invest and participate in the business of growing and selling macadamias for the duration of the license period, being from 2007 to 2028.

On 24 February 2016, RFM was appointed Responsible Entity of the Project, with Maccmanagement Pty Limited (renamed to RFM Macadamias Pty Limited) continuing as the operational manager. Growers are entitled to receive net cash flows arising under the Project, being cash received from macadamias nuts sales less the Project costs. When the Project costs exceed cash receipts, the Growers are required to fund the shortfall. When the cash receipts exceed costs, the surplus is distributed to Growers.

As the Project manages the cash flows associated with the above and does not operate a business, M07 does not have net assets. The respective rights and obligations under the management agreement rest with the Growers.

Each Macgrove operated represents an area of 0.4041 hectares. As at 31 December 2019, the Project had 117 Growers (30 June 2019: 117 Growers) with a total of 579 Macgroves (30 June 2019: 579 Macgroves) representing 234 hectares (30 June 2019: 234 hectares). The operating results discussed in the financial statements include the results attributable to the Growers in the Project.

Operating results

The cash surplus attributable to Growers for the half year ended 31 December 2019 amounted to \$1,377,703 (31 December 2018: \$1,824,445).

Macadamia nuts are harvested and delivered for processing during the period February to September each year. This results in the production year being split across two financial years. The following is a table of the production of macadamia Nut in Shell (NIS) for the 2018 and 2019 production years:

	Half year ended 31 December 2019	Year ended 30 June 2019	Year ended 30 June 2018	Total	Total per Macgrove
Production Year	NIS Kilograms	NIS Kilograms	NIS Kilograms	NIS Kilograms	NIS Kilograms
2018	-	51,958	759,592	811,550	1,402
2019	150,162	591,459	-	741,621	1,281

The 2019 production year harvest commenced in February 2019. The total production in the 2019 production year did not exceed the 2018 production year due to a larger than expected yield for the 2018 harvest, and hot and dry weather conditions affecting the 2019 harvest.

In relation to the harvest for 2019 production year, a total of 741,621kg of NIS (2018: 811,550kg), at 10% moisture content, was delivered to two processors, Macadamia Processing Co Limited (MPC) and Pacific Gold Macadamias Pty Ltd (PGM). The average price paid for the 2019 harvest was \$5.95/kg (2018: \$5.55/kg).

The harvest for the 2020 production year will be delivered to Marquis Macadamias Limited (previously MPC and PGM).

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Directors' Report

31 December 2019

Financial position

At 31 December 2019, the Project held assets with a total value of \$8,429,486 (30 June 2019: \$3,227,646) on behalf of Growers.

Distributions and performance

A net distribution of \$765,973 being \$1,323 per Macgrove was declared and paid to Growers during the half year ended 31 December 2019 (31 December 2018: \$682,809 being \$1,179 per Macgrove).

This distribution deducted a partial prepayment of the FY20 operating expenses of \$318,450 being \$550 per Macgrove (31 December 2018: \$989,997 being \$1,709 per Macgrove), which will be returned to the Growers as part of the distribution expected to be paid in October 2020.

The details of this distribution are shown below:

	Sub-total	GST	Total
	\$	\$	\$
Income			
Harvest proceeds received by 30 June 2019	6,810.57	GST Free	6,810.57
Interest received	17.80	GST Free	17.80
Other income	14.26	1.43	15.69
Expenses			
Operating expenses	(4,120.49)	(407.32)	(4,527.81)
Rental	(1,303.29)	(130.33)	(1,433.62)
Farm management fees	(346.47)	(34.65)	(381.12)
Responsible Entity costs	(307.66)	(30.77)	(338.43)
FY19 operating result	764.72	(601.64)	163.08
Credit for prepaid operating expenses (FY19)	1,554.40	155.44	1,709.84
Partial prepaid operating expenses (FY20)	(500.00)	(50.00)	(550.00)
Total distribution per Macgrove	1,819.12	(496.20)	1,322.92

Interests in the Project

At the date of this report no associates or Directors of the Responsible Entity hold a direct interest in the Project.

	2019	2018
Number of Macgroves in the Project	579	579
Number of Macgroves in the Project held by the Responsible Entity	79	79

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Project during the half year.

Matters subsequent to the end of the half year

No matter or circumstance has arisen since the end of the half year that has significantly affected or could significantly affect the operations of the Project, the results of those operations, or the state of affairs of the Project in future financial years.

Likely developments and expected results of operations

Maximising Grower returns by developing crop yield potential and improving efficiency in operations is the main focus for the Project.

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Directors' Report

31 December 2019

Environmental regulation

The operations of the Project are not subject to any or significant environmental regulations under Commonwealth, State, or Territory law.

There have been no known breaches of any other environmental requirements applicable to the Project.

Indemnity of Responsible Entity and Custodian

In accordance with the Constitution, 2007 Macgrove Project indemnifies the Directors, Company Secretary and all other officers of the Responsible Entity and Custodian when acting in those capacities, against costs and expenses incurred in defending certain proceedings.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2019 has been received and is included on page 5 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.

A handwritten signature in black ink, appearing to read 'David Bryant', is written over a faint, illegible stamp or watermark.

David Bryant
Director

13 March 2020



Auditor's Independence Declaration

As lead auditor for the review of 2007 Macgrove Project for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Rod Dring', written over a faint circular stamp.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
13 March 2020

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Statement of Comprehensive Income

For the half year ended 31 December 2019

	Note	31 December 2019 \$	31 December 2018 \$
Revenue	4	930,831	305,491
Freight subsidy		4,505	3,957
Interest received		2,176	6,833
Other income		2,082	5,132
Industry levy		(13,363)	(4,429)
Bank fees		(10)	(10)
Agribusiness operations		(1,396,573)	(1,298,821)
Farm management fees		(137,573)	(128,100)
Responsible Entity expense reimbursement		(104,118)	(103,869)
Property lease expenses		(17,888)	(610,629)
Depreciation leased assets		(465,561)	-
Lease interest		(182,211)	-
Cash surplus attributable to Growers		1,377,703	1,824,445
Net profit for the half year		-	-
Other comprehensive income:			
Other comprehensive income		-	-
Total comprehensive income attributable to Growers		-	-

The accompanying notes form part of these financial statements.

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Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 \$	30 June 2019 \$
ASSETS			
Current assets			
Cash and cash equivalents		980,042	1,163,964
Trade and other receivables	5	-	2,063,682
Prepayments		295,745	-
Total current assets		1,275,787	3,227,646
Non-current assets			
Right of use assets		7,153,699	-
Total non-current assets		7,153,699	-
Total assets		8,429,486	3,227,646
LIABILITIES			
Current liabilities			
Trade payables	6	214,566	92,949
Other payables	7	991,023	3,134,697
Lease liabilities	8	1,119,187	-
Total current liabilities		2,324,776	3,227,646
Non-current liabilities			
Lease liabilities	8	6,104,710	-
Total non-current liabilities		6,104,710	-
Total liabilities (excluding net assets attributable to Growers)		8,429,486	3,227,646
Net assets attributable to Growers		-	-
Total liabilities		8,429,486	3,227,646

The accompanying notes form part of these financial statements.

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Statement of Changes in Net Assets Attributable to Growers

For the half year ended 31 December 2019

	31 December 2019
	\$
Balance at 1 July 2019	-
Net profit for the year	-
Total comprehensive income	-
Change in net assets attributable to Growers	-
Balance at 31 December 2019	-

	31 December 2018
	\$
Balance at 1 July 2018	-
Net profit for the year	-
Total comprehensive income	-
Change in net assets attributable to Growers	-
Balance at 31 December 2018	-

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Statement of Cash Flows

For the half year ended 31 December 2019

		For the half year ended 31 December 2019	For the half year ended 31 December 2018
	Note	\$	\$
Cash flows from operating activities			
Receipts from customers		2,981,150	2,276,668
Freight subsidy		4,505	-
Other income		2,082	-
Payments to suppliers		(2,407,864)	(2,400,261)
Interest received		2,176	6,833
Net cash inflow/(outflow) from operating activities		582,049	(116,760)
Cash flows from financing activities			
Contributions from Growers	7	318,450	989,997
Distributions paid	7	(1,084,421)	(1,672,806)
Net cash outflow from financing activities		(765,971)	(682,809)
Net increase in cash and cash equivalents held		(183,922)	(799,569)
Cash and cash equivalents at the beginning of the period		1,163,964	1,759,180
Cash and cash equivalents at the end of the period		980,042	959,611

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

31 December 2019

1 General information

These financial statements cover the 2007 Macgrove Project (M07 or the Project) as an individual entity. The Project is a registered managed investment scheme constituted in 2007. The Responsible Entity of the Project, Rural Funds Management Limited (RFM), is incorporated and domiciled in Australia. The registered office of the Responsible Entity is Level 2, 2 King Street, Deakin, ACT 2600.

The financial statements were authorised for issue by the Directors of the Responsible Entity on 13 March 2020. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The Project does not operate a business in its own right. The Project acts as a conduit for the receipt of income from the sale of macadamias produce, and the distribution of the same to Grower investors. It also acts as a conduit for the receipt of monies from Growers and where applicable the distribution of those monies in accordance with the Project's constituent documents. Growers are responsible for all operating costs, license, and management fees, including an interest component to fund the operation. Any profits made under the Project are profits made by the Growers.

As the Project manages the cash flows associated with the above and does not operate a business, the Project does not have net assets.

Obligations of the Responsible Entity

The Responsible Entity, RFM, has obligations to operate the Project and perform functions conferred on it by the relevant Project constitution.

Other obligations to members of the Project

In addition to its responsibilities as the Responsible Entity, RFM has entered into individual contractual arrangements with members of the Project under which RFM is obliged to incur various expenses and provide various services. The members either have paid or will make payments to RFM to perform these obligations. The costs incurred by RFM in discharging its contractual obligations with members are specific financial obligations of RFM and are reimbursable to RFM from the members. They can be recoverable from the member's proceeds of sale and are not financial obligations of the Project.

Notwithstanding this, members of the Project should understand that in addition to RFM meeting its obligations to the Project under the Managed Investment Scheme constitutions, RFM also needs to meet its contractual obligations to members for services pursuant to the individual agreements entered into with individual members of the Project. These obligations include incurring maintenance expenditure for the duration of the Project.

2 Summary of significant accounting policies

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management as Responsible Entity of the Project. The accounting policies adopted for the half year ended 31 December 2019 are consistent with those of the financial year ended 30 June 2019 except for the adoption of AASB 16 Leases from 1 July 2019. The financial statements are based on historical cost.

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Project's Constitution. The report has been prepared on a going concern basis.

The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This general purpose financial report for the half year ended 31 December 2019 has been prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

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Notes to the Financial Statements

31 December 2019

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Project as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by the Project during the period in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

Growers are entitled to receive net cash flows arising under the Project, being cash received from macadamia nuts sales less the Project costs. When the Project costs exceed cash receipts, the Growers are required to fund the shortfall. When the cash receipts exceed costs, the surplus is distributed to Growers. The Statement of Comprehensive Income matches the harvest proceeds of nuts delivered during the period, and the costs incurred during the period, offset by the net cash flows relating to the Growers' future distributions.

New accounting standards and interpretations

AASB 16 Leases

(i) Practical expedients applied

In applying AASB 16 for the first time, the Project has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Project has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Project relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

The Project has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Project recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.87%.

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Notes to the Financial Statements

31 December 2019

2 Summary of significant accounting policies (continued)

New accounting standards and interpretations (continued)

AASB 16 Leases (continued)

(ii) Measurement of lease liabilities

	1 July 2019 \$
Operating lease commitments disclosed as at 30 June 2019	9,070,591
Discounted using the lessee's incremental borrowing rate at 30 June 2019	7,652,327
(Less): short-term leases recognised on a straight-line basis as expense	(2,043)
(Less): low-value leases recognised on a straight-line basis as expense	(31,024)
Lease liability recognised as at 1 July 2019	7,619,260
Of which are:	
Current lease liabilities	801,620
Non-current lease liabilities	6,817,640
Total	7,619,260

(iii) Measurement of right-of-use assets

The associated right-of-use assets for all the leases were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by \$7,619,260
- lease liabilities – increase by \$7,619,260

The net impact on retained earnings on 1 July 2019 was nil.

3 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements, estimates and assumptions in relation to assets, liabilities, contingent liabilities, revenue, and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Management has identified the following critical accounting policies for which significant judgements, estimates or assumptions are made.

Revenue recognition

The Responsible Entity has determined to recognise revenue from the sale of the crop at the Notional Consignment Value (NCV) advised by the purchasers, Macadamia Processing Co Limited (MPC) and Pacific Gold Macadamias Pty Limited (Pacific Gold). The NCV varies between the purchasers. The NCV may be adjusted for variations in moisture content, kernel recovery and other Nut in Shell (NIS) specifications. Additionally, the terms and conditions of the NIS purchase agreements states that payments will be based upon a Notional Price only and all prices are therefore subject to change at the discretion of the processors' Board of Directors.

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3 Significant accounting judgements, estimates and assumptions (continued)

Revenue recognition (continued)

Based on historical experience of the notional price not being materially altered during a season, the Responsible Entity has determined to adopt the advised NCV for reporting proceeds and levies from the sale of the crop. Any changes in the NCV will be adjusted in the subsequent reporting period when actuals are determined by receipt.

4 Revenue

	For the half year ended 31 December 2019 \$	For the half year ended 31 December 2018 \$
Harvest proceeds - sale of macadamias	930,831	305,491
Total	930,831	305,491

5 Trade and other receivables

	31 December 2019 \$	30 June 2019 \$
Trade receivables	-	2,063,682
Total	-	2,063,682

6 Trade payables

	31 December 2019 \$	30 June 2019 \$
Trade payables	86,587	-
Accruals	127,979	92,949
Total	214,566	92,949

7 Other payables

	31 December 2019 \$	30 June 2019 \$
Provision for distribution	\$	\$
Opening balance	3,134,697	3,648,412
Contribution from Growers	318,450	989,997
Distributions paid	(1,084,421)	(1,672,806)
Cash surplus attributable to Growers	(1,377,703)	169,094
Total	991,023	3,134,697

8 Lease liabilities

	31 December 2019 \$	30 June 2019 \$
Recognised on 1 July 2019	7,619,260	-
Payments made during the half year	(395,363)	-
Total	7,223,897	-

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Notes to the Financial Statements

31 December 2019

9 Related party transactions

Responsible Entity (Rural Funds Management Limited) and related entities

Transactions between the Project and the Responsible Entity and its associated entities are shown below:

	For the half year ended 31 December 2019	For the half year ended 31 December 2018
	\$	\$
Farm management fee paid to RFM Macadamias	137,573	128,100
Expenses reimbursed to RFM Macadamias	1,396,573	1,298,821
Expenses reimbursed to Responsible Entity	104,118	103,869
Rental expenses paid to Rural Funds Trust	388,070	419,218
Rental expense paid to RF Active	207,391	191,411
Total amount paid to RFM and related entities	2,233,725	2,141,419

Creditors

	31 December 2019	30 June 2019
	\$	\$
Rural Funds Trust	86,587	-
Total	86,587	-

Lease liabilities

	31 December 2019	30 June 2019
	\$	\$
Rural Funds Trust	5,823,297	-
RF Active	1,400,600	-
Total	7,223,897	-

11 After balance date events

No matter or circumstance have arisen since the end of the half year which significantly affected or may significantly affect the operation of the Project, the result of those operations or the state of affairs of the Project in future financial years.

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Directors' Declaration

31 December 2019

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of 2007 Macgrove Project set out on pages 6 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the Project's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
- 2 There are reasonable grounds to believe that the Project will be able to pay its debts as and when they become due and payable.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of the Directors of Rural Funds Management Limited.



David Bryant
Director

13 March 2020



Independent auditor's review report to the Growers of 2007 Macgrove Project

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of 2007 Macgrove Project (the Registered Scheme) which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in net assets attributable to Growers and statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 2007 Macgrove Project, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of 2007 Macgrove Project is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A stylized, cursive signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A stylized, cursive signature of Rod Dring.

Rod Dring
Partner

Sydney
13 March 2020

Responsible Entity

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