

RFM Australian Cotton Fund

ARSN 099 573 690

Financial Statements

For the Half Year Ended 31 December 2009

RFM Australian Cotton Fund

For the Half Year Ended 31 December 2009

CORPORATE DIRECTORY

Directors

David A Bryant
Andrea J Lemmon
Stuart D Waight

Company Secretary

Stuart D Waight

Auditors

Boyce Assurance Services Pty Limited
36 Bombala Street
COOMA NSW 2630

Registered Office

Level Two, 2 King Street
DEAKIN ACT 2600

Responsible Entity

Rural Funds Management Limited
ABN 65 077 492 838
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RFM Australian Cotton Fund

Directors of the Responsible Entity's Report

31 December 2009

The Directors of Rural Funds Management Limited ("RFM"), Responsible Entity of RFM Australian Cotton Fund ("ACF" or the "Trust"), present their report on the trust for the financial half year ended 31 December 2009.

Directors

The names of the directors in office at any time during, or since the end of, the half year are:

Names

David Bryant

Stuart Waight

Andrea Lemmon

Review of Results and Operations

Operating Results

The net profit attributable to unitholders of ACF for the half year ended 31 December 2009 was \$224,324 (2008: profit \$190,863).

The ACF's sole investment is its 45.68% share of Lachlan Farming Limited's ("LFL") share capital and the share of LFL's profit included in the result was \$400,105. An extract of LFL's Director's Report for the year ended 31 December 2009 is presented below:

LFL's profit attributable to members for the half year ended 31 December 2009 was \$875,885 profit (2008: \$561,897). The current result does not include depreciation because assets are now classified as being held for sale and therefore not requiring depreciation in accordance with accounting standards. Further, expenditure was higher in the previous period when costs were incurred in pursuing the final sale of assets through the acquisition of LFL's shares by RFM RiverBank (RBK).

The remaining significant property asset at balance date is the Moorah property and this asset continues to be leased to RFM RiverBank. RBK had previously leased Moorah and its other property to a subsidiary of the collapsed Great Southern Limited (Receivers & Managers Appointed) (In Liquidation). RBK is now at an advanced stage of capital restructure and is expected to acquire the Moorah property in May 2010 for a total consideration of \$13,783,000 comprising cash of \$7,783,000 and LFL provided vendor finance of \$6,000,000. RBK previously acquired LFL's Yilgah property in May 2008, also with an element of vendor finance.

There is a receding risk that RBK will fail to recapitalise and in this unlikely event the Moorah sale will not proceed and there will be some risk to the recoverability of the vendor finance relating to the Yilgah property. Further there will be uncertainty as to the asset values ultimately achieved for the Moorah property.

The net assets at balance date are 88.11 cents per share and these are expected to increase gradually based on the income earned from the remaining assets through to total windup.

Following the sale of Moorah the major asset of LFL will be the vendor finance relating to this property and also the remaining vendor finance for the Yilgah property. Capital distributions to LFL shareholders will be in line with the sale of Moorah and the run off of the vendor finance.

RFM Australian Cotton Fund

Directors of the Responsible Entity's Report

31 December 2009

Review of Results and Operations (continued)

Distributions

There have been no distributions paid or declared during the half year ended 31 December 2009 (2008: Nil).

Interests in the Trust held by the Responsible Entity and its associates

At the date of this report the following interests were held by the Responsible Entity and its associates:

Responsible Entity/Associate	Units Held
RFM Diversified Agricultural Trust Fund	1,502,935
Rural Funds Management Ltd	100

No other interests are held by the Responsible Entity or any directors or associates other than those detailed above.

Fees paid to the responsible entity and associates

The following fees were paid to RFM and its associates out of Trust property during the financial half year:

- Management fee for the financial half year ended 31 December 2009 paid to RFM \$111,926 (2008: \$687). Management fees are calculated after rebating management fees paid by LFL. In the current financial year, no management fees are being charged to LFL.

Units on issue

8,885,052 Units of ACF were on issue at 31 December 2009 (2008: 8,879,998). During the half year 2,456 (2008: 2,688) units were issued by the trust. No units were redeemed in either half year.

Trust assets

At 31 December 2009 ACF held assets to a total value of \$12,692,237 (2008:\$11,630,234).

Likely developments and expected results

As extracted from LFL's half year report:

The sale of the Moorab property is expected in May 2010 and this will be followed by the commencement of capital distributions to shareholders. Income is expected on the remaining assets until their ultimate realisation and the windup of LFL.

A proposed capital distribution equivalent to 59.23 cents for each current share held will be payable in May 2010 amounting to \$18,700,000. This is likely to be achieved through a share buy back scheme.

Given the amounts and timetable set out above for LFL, the expected distributions to ACF investors are:

Proposed capital distribution payable in May 2010	\$8,000,000
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RFM Australian Cotton Fund

Directors of the Responsible Entity's Report

31 December 2009

Environmental regulation and performance

The operations of the Trust are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Trust.

Indemnification of Responsible Entity and Custodian

In accordance with the constitution of ACF, the trust indemnifies the directors, company secretary and all other officers of the Responsible Entity and custodian, when acting in those capacities, against costs and expenses in defending certain proceedings.

ACF has not otherwise, during or since the financial half year, indemnified or agreed to indemnify an officer of the trust or of any related body corporate against a liability incurred as such by an officer.

Auditors Independence Declaration

An independence declaration has been provided to the Directors by the auditor of the ACF, Boyce Assurance Services Pty Limited, and can be found on page 14 of the Financial Report.

Signed in accordance with a resolution of the Board of Directors:

Director:



David Bryant

Dated this 15th day of March 2010

RFM Australian Cotton Fund

Independent Audit Report to the members of RFM Australian Cotton Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of RFM Australian Cotton Fund, which comprises the condensed statement of financial position as at 31 December 2009, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the trust are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 Auditing Standards on Review Engagements ASRE 2140 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the trust's financial position as at 31 December 2009 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 RFM Australian Cotton Fund, ASRE 2410 requires that we comply with all 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of RFM Australian Cotton Fund on the date of this auditor's review report.

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RFM Australian Cotton Fund

Independent Audit Report to the members of RFM Australian Cotton Fund

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 RFM Australian Cotton Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the trust's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. Inherent Uncertainty Regarding Carrying Value of Investment in Equity Accounted Associate, Lachlan Farming Limited

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(d) there is uncertainty relating to the recoverable value of the equity accounted associate, Lachlan Farming Limited. The financial report of the Trust does not include any adjustment to the carrying value of the Investment Accounted for Using the Equity Method that might be necessary should the carrying value of Lachlan Farming Limited's assets require adjustment.



Katherine M Kelly
Director
Boyce Assurance Services Pty Limited

Cooma

15 March 2010

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RFM Australian Cotton Fund

Directors of the Responsible Entity's Declaration

In accordance with a resolution of the Directors of the Responsible Entity of RFM Australian Cotton Fund

In the opinion of the Directors

- (a) The financial statements and notes of the Trust are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Trust's financial position as at 31 December 2009 and of the performance for the half year ended on that date; and
 - (ii) complying with Accounting Standards, Corporations Regulations 2001 and the Trust's constitution; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the board



David Bryant
Director

Dated 15 March 2010

RFM Australian Cotton Fund

Statement of Comprehensive Income

For the Half Year Ended 31 December 2009

		31 December 2009	31 December 2008
	Note	\$	\$
Revenue		-	1,354
Share of profit of associate		400,105	256,675
Management fees		(111,926)	(687)
Professional services		(47,826)	(63,454)
Other expenses		(14,067)	(3,025)
Finance costs		(1,962)	-
Net profit before income tax		224,324	190,863
Income tax expense		-	-
Net profit after income tax		224,324	190,863
Other comprehensive income			
Income tax attributable to other comprehensive income	3	(111,287)	-
Other comprehensive income for the period, net of tax		(111,287)	-
Total comprehensive income for the period, representing changes in net assets attributable to unitholders		113,037	190,863

The accompanying notes form part of these financial statements

RFM Australian Cotton Fund

Statement of Financial Position

31 December 2009

	31 December 2009	30 June 2009
Note	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	14,674	5,794
Trade and other receivables	3,252	3,756
Other current assets	11,645	14,452
Total current assets	29,571	24,002
Non-current assets		
Investments accounted for using the equity method	3 12,595,718	12,307,033
Total non-current assets	12,595,718	12,307,033
TOTAL ASSETS	12,625,289	12,331,035
LIABILITIES		
Current liabilities		
Trade and other payables	175,770	24,764
Interest bearing liabilities	52,195	25,258
Total current liabilities	227,965	50,022
Total Liabilities (excluding net assets attributable to unitholders)	227,965	50,022
Net assets attributable to unitholders	12,397,324	12,281,013
TOTAL LIABILITIES	12,625,289	12,331,035

The accompanying notes form part of these financial statements

RFM Australian Cotton Fund

Statement of Changes in Net Assets Attributable to Unitholders

For the Half Year Ended 31 December 2009

31 December
2009

	Issued units	Asset Revaluation Reserve	Retained Earnings	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2009	7,752,429	3,511,646	1,016,938	12,281,013
Share of associate's income tax applicable to other comprehensive income	-	(111,420)	-	(111,420)
Share of associate's transfer prior year revaluation increments to asset realisation on sale of freehold property	-	(54,965)	54,965	-
Share of associate's income tax applicable	-	16,490	(16,490)	-
Total income and expense for the period directly recognised in equity	7,752,429	3,361,751	1,055,413	12,169,593
Net profit/(loss) attributable to unitholders	-	-	224,324	224,324
Total income and expense for the period	7,752,429	3,361,751	1,279,737	12,393,917
Equity transactions				
Units issued during the period	3,407	-	-	3,407
Total equity transactions	3,407	-	-	3,407
Balance at 31 December 2009	7,755,836	3,361,751	1,279,737	12,397,324

31 December
2008

	Issued units	Asset Revaluation Reserve	Retained Earnings	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2008	7,745,574	3,575,784	113,981	11,435,339
Net profit/(loss) attributable to unitholders	-	-	190,863	190,863
Total income and expense for the period	7,745,574	3,575,784	304,844	11,626,202
Equity transactions				
Units issued during the period	4,032	-	-	4,032
Total equity transactions	4,032	-	-	4,032
Balance as at 31 December 2008	7,749,606	3,575,784	304,844	11,630,234

The accompanying notes form part of these financial statements

RFM Australian Cotton Fund

Statement of Cash Flows

For the Half Year Ended 31 December 2009

	31 December 2009 \$	31 December 2008 \$
Cash from operating activities:		
Receipts from customers	504	-
Payments to suppliers and employees	(20,006)	(72,221)
Interest received	-	1,354
Interest paid	(1,962)	-
Net cash provided by (used in) operating activities	(21,464)	(70,867)
Cash flows from financing activities:		
Receipts from the issue of units	3,407	2,904
Proceeds from borrowings	26,937	-
Net cash provided by (used in) financing activities	30,344	2,904
Net increase (decrease) in cash held	8,880	(67,963)
Cash at beginning of financial period	5,794	93,835
Cash at end of financial period	14,674	25,872

The accompanying notes form part of these financial statements

RFM Australian Cotton Fund

Notes to the Financial Statements

For the Half Year Ended 31 December 2009

1 Summary of Significant Accounting Policies

The financial report of ACF for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 15 March 2010.

(a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2009 has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

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 Trust as the full financial report.

It is recommended that the half yearly financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by ACF during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

(b) Statement of Compliance

The financial report of ACF complies with Australian Accounting Standards applicable to interim reporting as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) applicable to interim reporting as issued by the International Accounting Standards Board.

(c) Change in Accounting Policy

The accounting policies and methods of computation are consistent with those of the most recent annual financial report.

Accounting standards and interpretations that are applicable to the next annual financial statements of the trust have been applied in this condensed financial report. These standards and interpretations have resulted in a change in the presentation of the financial statements, but have not resulted in changes to accounting policies.

RFM Australian Cotton Fund

Notes to the Financial Statements

For the Half Year Ended 31 December 2009

1 Summary of Significant Accounting Policies (continued)

(d) Recoverable value of equity accounted associate

The balance sheet at 31 December 2009 includes an equity accounted investment in the associate Lachlan Farming Limited ("LFL"), with a carrying value of \$12,595,718.

The independent auditor's report on LFL's 31 December 2009 half year financial report included an uncertainty regarding the carrying value of Lachlan Farming Limited's assets. This is due to LFL being economically dependent on RFM RiverBank as the lessee of the company's remaining property and it owing the company vendor finance loans (secured by second mortgages) of \$3,170,166. The independent auditor's review report on RFM RiverBank's 31 December 2009 half year financial report includes an emphasis of matter due to going concern implications that have flowed from Great Southern Limited's (GSL) appointment of administrators and receivers. As such, there exists an inherent uncertainty regarding the carrying value of the equity accounted investment in the associate, LFL, as at 31 December 2009.

The financial report of ACF does not include any adjustment relating to the recoverability of the carrying value of the equity accounted investment that might be necessary should the carrying value of LFL's assets require adjustment.

2 Significant accounting judgements, estimates and assumptions

The Trust considers there have been no significant judgements and estimates of a material nature made in the preparation of these financial statements.

3 Investments in associates (equity method)

(a) Lachlan Farming Limited

	31 December 2009	30 June 2009
	\$	\$
Opening balance	12,307,033	11,333,584
Share of revaluation surplus/(deficit)	(111,420)	(64,138)
Share of ordinary profit/(loss) after tax	400,105	1,037,587
Total	12,595,718	12,307,033

Associate's property valuation

The associate has been undertaking an asset realisation program and has one remaining significant property and water entitlements based on the Lower Lachlan Aquifer water source. This property and the majority of water entitlements are the subject of a Memorandum of Understanding for its sale to RFM RiverBank. The values adopted by the associate are in accordance with that Memorandum of Understanding. Approximately 75% of the value of the property is attributed to the water entitlements and while the associate has not obtained independent valuations, the contracted prices are known to be consistent with recent valuations obtained by RFM for other water from this source.

RFM Australian Cotton Fund

Notes to the Financial Statements

For the Half Year Ended 31 December 2009

3 Investments in associates (equity method) (continued)

(b) Details of associated company

Name	31 December	
	2009	30 June 2009
Lachlan Farming Limited		
Principal activities carried out are lease of farm land and receipt of interest income.		
Carrying value of investment	\$12,595,718	\$12,307,033
Percentage owned	45.68%	45.68%

(c) Summarised financial information of Lachlan Farming Limited

Current Assets	27,997,073	25,522,567
Non-current assets	-	1,585,083
Total Assets	27,997,073	27,107,650
Current Liabilities	179,634	165,811
Non-current Liabilities	243,625	-
Total Liabilities	423,259	165,811
Net Assets	27,573,814	26,941,839
Revenues	972,565	1,750,063
Profit/(loss) after income tax of associates	875,885	2,271,424
Income tax attributable to other comprehensive income	(243,625)	-

4 Contingent Liabilities

There are no known contingent liabilities of a material nature as at 31 December 2009.

5 Capital Commitments

There are no significant capital items that have been contracted or committed for as at 31 December 2009 or subsequent to this date.

6 Economic dependence

As extracted from LFL's half year report:

100% of Lachlan Farming Limited's lease revenue is from contracts associated with the Great Southern Group, predominantly RFM RiverBank (ARSN 112 951 578). These contracts have a term of 18 years. Additionally, the financial assets of the company include a vendor financed loan of \$3,170,166 to RFM RiverBank.

The company is therefore economically dependent upon the Great Southern Group and RFM RiverBank.

RFM Australian Cotton Fund

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Katherine M Kelly
Director
Boyce Assurance Services Pty Limited

Cooma

15 March 2010

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