

# **Agricultural Income Trust Fund 1**

ARSN 093 804 276

## **Financial Statements**

For the Half Year Ended 31 December 2009

## **Agricultural Income Trust Fund 1**

### **DIRECTORY**

Registered Office: Level 2, 2 King Street  
DEAKIN ACT 2600

Responsible Entity: Rural Funds Management Limited  
ABN 65 077 492 838  
Level 2, 2 King Street  
DEAKIN ACT 2600  
Telephone: 02 6203 9700  
Facsimile: 02 6281 5077

Directors: David Bryant  
Stuart Waight  
Andrea Lemmon

Company Secretary: Stuart Waight

Custodian: BNY Trust Australia Pty Limited  
ABN 49 050 294 052  
Level 35, AAP Centre  
259 George Street  
SYDNEY NSW 2000

Auditors: Boyce Assurance Services Pty Limited  
36 Bombala Street  
COOMA NSW 2630

## CONTENTS

	<u>Page</u>
<b>Financial Statements</b>	
Directors of the Responsible Entity's Report	1
Independent Review Report	5
Directors of the Responsible Entity's Declaration	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Net Assets Attributable to Unitholders	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
Auditor's Independence Declaration	17

## Agricultural Income Trust Fund 1

ARSN 093 804 276

### Directors of the Responsible Entity's Report

31 December 2009

The Directors of Rural Funds Management Limited ("RFM"), Responsible Entity of Agricultural Income Trust Fund 1 ("AIT" or the "Trust"), present their report on the Trust for the financial half year ended 31 December 2009.

#### Directors

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

##### Names

David Bryant

Andrea Lemmon

Stuart Waight

#### Review of Results and Operations

##### Operating Results

The loss attributable to unitholders of AIT after providing for income tax amounted to \$1,905,302 (2008:loss \$1,979,079). The 2009 result includes an asset impairment of \$1,341,762 disclosed within the decrement in vine values, following the revaluation of assets by an independent valuer.

The operating result for the full year to June 2010, excluding the asset impairment, is forecast to be a loss of \$235,837. This is based on the following key revenue assumptions:

Item	2010	2009
	Forecast	Actual
Area planted	349.13	349.13
Yield – tonnes per hectare	9.16	6.15
Price per tonne	\$1,057	\$1,241
Revenue per hectare	\$9,676	\$7,633
Total revenue	\$3,378,010	\$2,665,016

A higher yield is forecasted in the current period due to improved weather conditions during the current growing season. The forecast price per tonne has decreased compared to the actual 2009 prices due to slightly lower quality expectations. The prices achieved by the AIT however are still above the area average and reflect the excellent quality results achieved in 2009 and the expected result from the 2010 harvest. As mentioned in the 2009 Annual Report the Geier Vineyard contributed 17% of the production allocated to the iconic Penfold's Grange and other ultra quality wines.

The vineyards are 100% contracted to wineries.

To assist in ongoing working capital requirements, the AIT has negotiated a \$500,000 loan with the Diversified Agricultural Fund.

The adverse trading conditions were reflected in vineyard valuations and the December 2009 valuation by Gaetjens Pickett Valuers resulted in a decrement of \$1,760,233. This is in addition to the \$2,532,271 decrement booked from the June 2009 valuation giving a total decrement of \$4,292,504 or a 24.6% of asset values since May 2009.

## Agricultural Income Trust Fund 1

ARSN 093 804 276

### Directors of the Responsible Entity's Report

31 December 2009

#### Review of Results and Operations (continued)

#### Operating Results (continued)

A summary of asset values is:

Vineyard	Location	December 2009	June 2009	December 2009	June 2009
		\$	\$	\$ Hectare	\$ Hectare
Geier Vineyard	Barossa	12.90m	14.00m	50,000	55,000
Hahn Vineyard	Barossa	2.50m	2.95m	47,500	55,000
Mundy Vineyard	Adelaide Hills	1.75m	1.90m	65,000	67,500
Murphy Vineyard	Adelaide Hills	1.85m	2.00m	60,000	67,500
<b>Total/Average</b>		<b>19.00m</b>	<b>20.85m</b>	<b>51,589</b>	<b>59,775</b>

The valuation decrements have led to a breach of banking covenants with BankSA. The bank facility includes a Loan to Valuation Ratio (LVR) covenant of 45% compared to the actual 56.3%. The bank has not enforced their rights under the facility terms and have agreed to extend the facility to 31 December 2010 provided there are no material adverse events in the intervening period. As a result of this development, the bank debt has been classified as a current liability and causes a significant working capital deficit.

These accounts have been prepared on a going concern basis on the assumption that the fund will be recapitalised through an equity raising, which is likely to include a rights issue by 31 December 2010; this plan is consistent with the bank's request to rectify the covenant breach by this time. RFM is preparing detailed plans for a capital raising and will communicate with investors and advisers in due course.

RFM continues to monitor the payment performance of one major winery representing 18% of the AIT's area. This winery was not in a position to meet standard payment terms for the 2009 harvest and negotiated temporary revised payment terms effectively for installment payments over the 12 months from harvest. To date this winery has materially paid within these temporary terms. There also remains a small amount outstanding relating to the 2008 harvest. No special terms have been negotiated with this winery in respect of the 2010 harvest.

The yield history of the AIT from 2004 to 2010 is set out below:

Vineyard	Planted	Area Hectares	Tonnes/ha						
			2004 Actuals	2005 Actuals	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Forecast
Geier	2000	85.21	5.61	10.03	9.18	6.68	7.81	4.80	9.21
	2001	127.33	3.16	5.34	8.27	4.66	7.46	4.70	8.95
	2002	30.77		4.63	7.38	6.90	8.38	5.40	9.71
Adelaide Hills	2000	40.02	10.70	9.33	9.27	10.43	12.51	13.30	8.14
	2001	15.15	4.10	7.81	7.73	11.80	7.07	4.00	7.25
Hahn	Mature	19.32	10.99	14.59	8.82	2.84	7.00	6.60	8.80
	2000	21.94	9.99	16.43	20.71	1.66	5.63	11.90	11.00
	2001	9.07	1.32	7.01	8.21	2.85	11.53	7.70	9.50
Weighted Average		348.81	5.15	8.17	9.19	6.05	8.16	6.16	9.16

## **Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

### **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:

<b>Responsible Entity/Associate</b>	<b>Units Held</b>
RFM Diversified Agricultural Fund	1,250,091
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 and interest held by 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 paid to RFM \$172,281 (2008: \$219,242)

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

#### **Units on issue**

21,177,547 Units of AIT were on issue at 31 December 2009 (2008: 21,177,547). During the half year nil (2008: nil) units were issued by the Trust and nil (2008: nil) were redeemed.

#### **Trust assets**

At 31 December 2009 AIT held assets to a total value of \$21,816,814 (2008: \$27,809,935).

#### **Likely developments and expected results**

The 2010 forecast indicates an operating loss of \$235,837, excluding asset valuation decrements, assuming a yield 9.16 tonnes per hectare and \$1,057 per tonne. RFM intends to undertake an equity raising prior to 31 December 2010.

#### **Significant changes in the state of affairs**

There were no significant changes to the state of affairs of the Trust during the half year.

## **Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

### **Directors of the Responsible Entity's Report**

**31 December 2009**

#### **After balance date events**

The AIT has been in breach of its loan to valuation ratio (LVR) banking covenant with Bank SA since June 2009. The loan covenant was 45% compared to the current LVR of 56%. Bank SA did not enforce its rights under the facility and have since increased the LVR covenant to 60% until 31 December 2010 subject to certain conditions and provided that there are no material adverse events in the intervening period: an independent valuation in June 2010, monthly reports on the progress of the equity raising from 31 July 2010, and the LVR covenant reducing to 45% by 31 December 2010. The bank will require the valuation to be completed at 30 June 2010 on a uncontracted basis where the wineries have not supplied consent agreements.

There have been no other matters or circumstances which have arisen since the end of the financial half year which significantly affected or may significantly affect the operations of the trust, the results of those operations or the state of affairs of the trust in future financial years.

#### **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 AIT, 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.

AIT 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.

#### **Auditor's Independence Declaration**

An independence declaration has been provided to the Directors by the auditor of AIT, Boyce Assurance Services Pty Limited, and can be found on page 17 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

## **Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

### **Independent Audit Report to the members of Agricultural Income Trust Fund 1**

#### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Agricultural Income Trust Fund 1, 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 net assets attributable to unitholders 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 Agricultural Income Trust Fund 1, 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 Agricultural Income Trust Fund 1 on the date of this auditor's review report.

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [infocooma@boyceca.com](mailto:infocooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga



## Agricultural Income Trust Fund 1

ARSN 093 804 276

### Independent Audit Report to the members of Agricultural Income Trust Fund 1

#### **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 Agricultural Income Trust Fund 1 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 Continuation as a Going Concern**

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 3 Going Concern including the breach of Bank Covenants and consequently a significant working capital deficiency, there is material uncertainty whether the Trust will be able to continue as a going concern, and therefore whether it will pay its debts as and when they fall due, and realise its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial report. The financial report of the Trust does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.



Katherine M Kelly  
Director  
Boyce Assurance Services Pty Limited

Cooma

15 March 2010

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [infocooma@boyceca.com](mailto:infocooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga



**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**Directors of the Responsible Entity's Declaration**

In accordance with a resolution of the Directors of the Responsible Entity of Agricultural Income Trust Fund 1:

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 and of 31 December 2009 the performance for the half year ended on that date; and
  - (ii) complying with Australian Standards, Corporations Regulations 2001 and the Trust's constitution; and
- (b) subject to the matters disclosed at Note 3, 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

Dated 15 March 2010

**Agricultural Income Trust Fund 1 ARSN 093 804 276**

**Statement of Comprehensive Income**

**For the Half Year Ended 31 December 2009**

		<b>31 December</b>	<b>31 December</b>
		<b>2009</b>	<b>2008</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Revenue	4	(83,678)	27,488
Other income		1,758	8,984
Employee benefits expense		(141,275)	(167,014)
Increment/(decrement) in vine and grape values		(1,047,464)	(234,697)
Depreciation, amortisation and impairments		(152,678)	(148,182)
Finance costs		(237,395)	(555,789)
Management fees		(172,281)	(219,242)
Property rates and rental		(28,667)	(31,386)
Repairs and maintenance		(13,619)	(34,066)
(Provision for)/reversal of doubtful debts		144,931	(429,736)
Accounting, audit and legal		(110,533)	(128,195)
Other expenses		(64,401)	(69,271)
<b>Net loss before income tax</b>		<b>(1,905,302)</b>	<b>(1,981,106)</b>
Income tax (expense)/benefit		-	2,027
<b>Net loss after income tax</b>		<b>(1,905,302)</b>	<b>(1,979,079)</b>
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the period, representing change in net assets attributable to unitholders</b>		<b>(1,905,302)</b>	<b>(1,979,079)</b>

The accompanying notes form part of these financial statements.

**Agricultural Income Trust Fund 1**

ARSN 093 804 276

**Statement of Financial Position**

31 December 2009

	31 December 2009	30 June 2009
Note	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	186,223	759,937
Trade and other receivables	329,660	1,287,168
Inventories	14,098	10,731
Derivative financial assets	156,089	87,273
Biological assets	5 1,461,821	242,105
Other current assets	194,396	185,265
<b>Total current assets</b>	<b>2,342,287</b>	<b>2,572,479</b>
<b>Non-current assets</b>		
Available for sale financial assets	1,466,265	1,466,265
Property, plant and equipment	11,598,398	11,751,077
Biological assets	5 6,409,864	8,141,189
<b>Total non-current assets</b>	<b>19,474,527</b>	<b>21,358,531</b>
<b>TOTAL ASSETS</b>	<b>21,816,814</b>	<b>23,931,010</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	231,428	445,297
Interest bearing liabilities	6 10,377,095	10,234,324
Short-term provisions	58,578	-
<b>Total current liabilities</b>	<b>10,667,101</b>	<b>10,679,621</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	6 46,975	243,350
<b>Total non-current liabilities</b>	<b>46,975</b>	<b>243,350</b>
<b>TOTAL LIABILITIES (excluding net assets attributable to unit holders)</b>	<b>10,714,076</b>	<b>10,922,971</b>
<b>Net assets attributable to unit holders</b>	<b>11,102,738</b>	<b>13,008,039</b>
<b>TOTAL LIABILITIES</b>	<b>21,816,814</b>	<b>23,931,010</b>

The accompanying notes form part of these financial statements.

**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**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	Accumulated Losses	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2009	15,921,344	2,252,429	(5,165,733)	13,008,040
Profit/(Loss) before tax attributable to unitholders	-	-	(1,905,302)	(1,905,302)
<b>Total income and expense for the period</b>	-	-	(1,905,302)	(1,905,302)
<b>Balance at 31 December 2009</b>	<b>15,921,344</b>	<b>2,252,429</b>	<b>(7,071,035)</b>	<b>11,102,738</b>

**31 December  
2008**

	Issued Units	Asset Revaluation Reserve	Accumulated Losses	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2008	15,921,344	4,594,607	(1,049,744)	19,466,207
Revaluation increment/(decrement)	-	13,511	-	13,511
Income tax applicable	-	(2,027)	-	(2,027)
<b>Total income and expense for the period recognised directly in equity</b>	-	11,484	-	11,484
Profit/(loss) before tax attributable to unitholders	-	-	(1,981,106)	(1,981,106)
Income tax applicable	-	-	2,027	2,027
<b>Total income and expense for the period</b>	-	11,484	(1,979,079)	(1,967,595)
<b>Balance at 31 December 2008</b>	<b>15,921,344</b>	<b>4,606,091</b>	<b>(3,028,823)</b>	<b>17,498,612</b>

The accompanying notes form part of these financial statements.

**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**Statement of Cash Flows**

**For the Half Year Ended 31 December 2009**

	<b>31 December</b>	<b>31 December</b>
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Cash from operating activities:</b>		
Receipts from customers	<b>1,078,628</b>	1,411,385
Payments to suppliers and employees	<b>(1,122,006)</b>	(901,170)
Interest received	<b>1,759</b>	8,985
Finance costs	<b>(306,211)</b>	(382,761)
Manager fees paid	<b>(172,281)</b>	(219,242)
<b>Net cash provided by (used in) operating activities</b>	<b>(520,111)</b>	(82,803)
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	-	(146,420)
Acquisition of biological assets	-	(45,539)
<b>Net cash provided by (used in) investing activities</b>	-	(191,959)
<b>Cash flows from financing activities:</b>		
Repayment of borrowings	<b>(53,603)</b>	(714,018)
<b>Net cash provided by (used in) financing activities</b>	<b>(53,603)</b>	(714,018)
<b>Net increase (decreases) in cash held</b>	<b>(573,714)</b>	(988,780)
Cash at beginning of financial period	<b>759,937</b>	1,045,166
<b>Cash at end of financial period</b>	<b>186,223</b>	56,386

The accompanying notes form part of these financial statements.

## **Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

### **Notes to the Financial Statements**

**For the Half Year Ended 31 December 2009**

#### **1 Summary of Significant Accounting Policies**

The financial report of AIT 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 AIT during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

##### **(b) Statement of Compliance**

The financial report of AIT 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) Changes 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.

#### **2 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 and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of 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.

## **Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

### **Notes to the Financial Statements**

**For the Half Year Ended 31 December 2009**

#### **2 Significant accounting judgements, estimates and assumptions (continued)**

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

##### **Valuations**

Valuations of the vineyard properties have been provided by an independent valuer, Gaetjens Pickett Valuers. The valuation is provided on a "value-in-use" assumption as compared to sales of similar assets in the market. A discounted cash flow of the future economic benefits generated by each property is calculated in order to verify the valuation. The valuer then uses judgement to allocate the value over land, water assets and the vineyard including the vines and the infrastructure.

A judgement is made on how to allocate vineyard revaluation increments or decrements to either the biological assets or property plant and equipment. Information is provided by external valuation regarding the vineyard value per hectare which covers the vines and vineyard infrastructure. Vineyard infrastructure, being mainly the trellis, irrigation and shedding, is judged to be valued at its written down value and therefore the remainder of the valuation is allocated to the biological assets, being the vines.

##### **Valuation of Barossa infrastructure Limited (BIL) shares**

The shares in BIL have been valued using the number of megalitres of water that the Trust is entitled to under the BIL scheme as supported by an external valuation on an in use basis, as noted above. This basis has been used due to a lack of evidence of trading of BIL shares.

##### **Allowance for Doubtful Debts**

A provision has been made against an outstanding receivable as at 31 December 2009 relating to the 2008 and 2009 harvest revenue. An amount of \$56,394 has been classified as doubtful and an allowance for that amount made against trade debtors accordingly.

#### **3 Going concern**

The Directors have prepared the Financial Statements on a going concern basis, notwithstanding that the AIT has been in breach of one of Bank SA's lending covenants. As a result of this breach, the bank debt has been classified as a current liability and causes a significant working capital deficiency. Notwithstanding this, the going concern basis is considered appropriate given the temporary relief negotiated with the bank, a loan facility negotiated with the RFM Diversified Agribusiness Fund (DAF), the relatively favourable operating results of the vineyards and the plans that RFM has in relation to an equity raising to be undertaken before 31 December 2010.

The AIT has been in breach of its loan to valuation ratio (LVR) banking covenant with Bank SA since June 2009. The loan covenant was 45% compared to the current LVR of 56%. Bank SA did not enforce its rights under the facility and have since increased the LVR covenant to 60% until 31 December 2010 subject to certain conditions and provided that there are no material adverse events in the intervening period: an independent valuation in June 2010, monthly reports on the progress of the equity raising from 31 July 2010, and the LVR covenant reducing to 45% by 31 December 2010. The bank will require the valuation to be completed at 30 June 2010 on a uncontracted basis where the wineries have not supplied consent agreements.

## Agricultural Income Trust Fund 1

ARSN 093 804 276

### Notes to the Financial Statements

For the Half Year Ended 31 December 2009

#### 3 Going concern (continued)

The fund is at the limit of its financial capacity. A loan facility has been negotiated with the DAF for \$500,000 repayable by June 2012. The DAF has the right to a second mortgage at its discretion.

Although the AIT is incurring operating losses in difficult industry conditions, RFM has confidence in the AIT business going forward as set out below:

- The grape quality is well above the industry average with 17% of the 2009 Penfold's Grange production being sourced from the Geier Vineyard and the grape production contributed to other iconic wines.
- Vineyard production is fully contracted to major wineries including Fosters, Orlando and Grant Burge. The quality results have greatly assisted with the AIT's ability to secure contracts.
- The relatively small operating loss in difficult conditions is a reflection of the low operating costs of the vineyards.
- There has been stable management at farm and fund level.

RFM intends to undertake an equity raising to recapitalise the AIT by 31 December 2010 and reduce the gearing or LVR to a maximum 45%. Equity raising is a core business activity of RFM and it has previously raised \$6m for the AIT in December 2005. Any equity raising is likely to be at a significant discount to net assets given the current marginal trading conditions and may be partly underwritten by the DAF which current holds 5.9% of the AIT's issued units.

Should RFM not succeed in its plans to recapitalise the AIT or the operating results are below expectations or asset values continue to decline; the fund will be exposed to considerable going concern uncertainty. If AIT is unable to continue as a going concern, it may not be able to pay its debts as and when they become due and payable and may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements. This report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.

#### 4 Revenue

	31 December 2009	31 December 2008
	\$	\$
- Harvest proceeds	(84,879)	21,165
- rental revenue	1,201	6,323
<b>Total Revenue</b>	<b>(83,678)</b>	<b>27,488</b>

The credit balance in the current period relates to a quality price adjustment which occurred only in October 2009 in regard to the 2009 harvest.

**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**Notes to the Financial Statements**

**For the Half Year Ended 31 December 2009**

**5 Biological Assets**

**Analysis of biological assets**

	<b>31 December 2009</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Current - Grapes	<b>1,461,821</b>	242,105
Non-current - Vines	<b>6,409,864</b>	8,141,189
	<b>7,871,685</b>	8,383,294

The fair value less estimated point of sales costs of grape vines is determined by independent valuation by Gaetjens Pickett Valuers at balance date. The value of the grape biological asset represents cost of growing the grapes adjusted to reflect the stage of growth and estimated net selling prices.

**6 Interest bearing liabilities**

	<b>31 December 2009</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Secured liabilities		
Bills of exchange	<b>10,125,000</b>	10,125,000
Hire purchase and finance lease	<b>252,095</b>	109,324
	<b>10,377,095</b>	10,234,324
<b>NON-CURRENT</b>		
Secured liabilities		
Hire purchase and finance lease	<b>46,975</b>	243,350
	<b>46,975</b>	243,350
<b>Total current and non-current secured liabilities</b>		
Hire purchase and finance lease obligations	<b>299,070</b>	352,674
Bills of exchange	<b>10,125,000</b>	10,125,000
	<b>10,424,070</b>	10,477,674

Details on the banking facilities are included in Note 3 Going Concern.

**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**Notes to the Financial Statements**

**For the Half Year Ended 31 December 2009**

**7 Contingent Liabilities**

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

**8 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.

**9 Subsequent Events**

Details regarding subsequent events are included in Note 3 Going Concern.

**10 Economic dependency**

AIT has grape growing agreements with a number of recognised wineries. 30% of the Trust's grape revenue comes from contracts with Orlando [ABN 81 000 032 842], 25% from Southcorp [ABN 80 077 722 643], 18% Grant Burge and 13% Yalumba. Therefore the fund may be economically dependent on Orlando and Southcorp, depending on market circumstances.

**Agricultural Income Trust Fund 1**

**ARSN 093 804 276**

**Auditor's Independence Declaration**

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

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [infocooma@boyceca.com](mailto:infocooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga

