

# **RFM Chicken Income Fund**

ARSN 105 754 461

## **Financial Statements**

For the Half Year Ended 31 December 2009

# RFM Chicken Income Fund

ARSN 105 754 461

For the Half Year Ended 31 December 2009

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:	Australian Executor Trustees Limited ABN 84 007 869 794 Level 22 207 Kent Street SYDNEY NSW 2000
Auditors:	Boyce Assurance Services Pty Limited 36 Bombala Street COOMA NSW 2630

# RFM Chicken Income Fund

ARSN 105 754 461

For the Half Year Ended 31 December 2009

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# RFM Chicken Income Fund

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## Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2009

The directors of Rural Funds Management Limited ("RFM"), Responsible Entity of RFM Chicken Income Fund ("CIF" 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 operating profit attributable to unitholders after providing for income tax amounted to \$31,141 (2008: loss \$3,981,760). A significant non-cash expense for the period was \$3,890,260 (2008: \$3,582,632). The key feature of the previous period's result was the \$5,205,190 unrealised loss on interest rate hedges.

The reporting period reflects the full capacity of the chicken sheds, with all shed development complete by January 2009.

Litigation against the shed supplier for rectification work and loss of income due to shed collapses on Farm 67 in 2007 is still progressing. A receivable of \$4,103,846 is carried on the balance sheet in relation to this claim. As previously reported, RFM has received independent engineers' reports and legal advice from counsel that CIF has good causes of action for damages against the shed supplier and still considers the chances of success to be high and continues to pursue the CIF's rights through court proceedings. The receivable is guaranteed by RFM and the repayment, if required, is secured through an adjustment to the management agreement including a reduction to the management fees paid to RFM until the debt is satisfied in full.

An asset valuation of the Lethbridge farms was completed during the period by an independent valuer, The Market Line Group Pty Ltd. A valuation increment of \$2,130,396 is included in the accounts. The majority of this increment relates effectively to the unwinding of the depreciation charged through the year, however generally poultry asset values have held up well during the global financial crisis. The increment net of depreciation represents a \$550,000 uplift on the previous valuation (December 2008).

The CIF continues to be 100% contracted with Bartter Enterprises for the provision of chicken growing services. During the period Bartter Enterprises was acquired by Baiada Limited and these contracts were unaffected. Baiada are meeting payment commitments within terms.

The CIF's primary financier is the National Australia Bank. Its current borrowings are \$37,278,540, giving a loan to valuation ratio (LVR) of 42.10%.

Distributions made during the period amounted to \$3,751,768 (2009: \$3,647,998). The unit price decreased during the period from 94.44 cents to 92.48 cents. This is the result of the distributions being in excess of after tax earnings including asset revaluations. This has occurred because the fund's free cash flow exceeds its earnings, largely due to deferred taxation provisions and depreciation. In regards to taxation, accounting standards require the fund to provide deferred tax on asset revaluations. This tax however will not be realised on a cash basis unless the sheds are actually sold. It is likely that this liability will not be cash settled and will be unwound over time as the sheds depreciate and the tax provision released. In the unlikely event the sheds were sold then any tax liabilities would be funded by the sale proceeds.

# RFM Chicken Income Fund

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Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2009

## Operating Results (continued)

RFM's policy is to distribute cash when available to maximise investor returns. Note that all distributions in the period were tax deferred.

## Distributions

Distributions paid or declared for payment are as follows:

Distribution of 3.00 cents per unit paid in August 2009 (provided for at 30 June 2009)	\$ 1,872,321
Distribution of 3.00 cents per unit paid in November 2009	\$ 1,874,667
Distribution of 3.00 cents per unit paid in February 2010 (provided for at 31 December 2009)	\$ 1,877,102

## 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 \$637,441 (2008: \$703,487)
- Farm management fee for the financial half year paid to RFM \$89,435 (2008: \$79,532)

## 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	6,126,318
Rural Funds Management Ltd	100

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

## Units on issue

62,570,063 units of CIF were on issue at 31 December 2009 (2008: 62,238,890). During the half year 159,373 (2008: 3,980,956) units were issued by the Trust and nil (2008: nil) were redeemed.

## Trust assets

At 31 December 2009, CIF held assets to a total value of \$100,461,236 (2008: \$99,355,215).

## Significant Changes in State of Affairs

No significant changes in the trust's state of affairs occurred during the financial half year.

# RFM Chicken Income Fund

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## Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2009

### After balance date events

No other matters or circumstances have arisen since the end of the period 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.

### Likely developments and expected results

It is expected that the CIF will recommence the payment of income tax instalments during 2010 and that distributions will be reduced accordingly. To the extent that income tax is paid, franking will be available.

The CIF's financier, the National Australia Bank, requires the CIF to reduce its borrowing to a loan to valuation ratio of 40% by June 2010 and 35% by June 2011. RFM is currently assessing options for the fund and it is possible that debt will be replaced with equity.

### Environmental regulation and performance

The operations of the Trust are subject to significant environmental regulation under the law of the Commonwealth and States or Territory. The Trust is compliant with the environmental regulations.

### Indemnification of Responsible Entity and Custodian

In accordance with the constitution of CIF, 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.

CIF 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 CIF, 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:



David Bryant

Dated this 15th day of March 2010

# RFM Chicken Income Fund

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## Independent Audit Report to the members of RFM Chicken Income Fund

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

We have reviewed the accompanying half-year financial report of RFM Chicken Income 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 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 RFM Chicken Income 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 Chicken Income Fund on the date of this auditor's review report.

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# RFM Chicken Income Fund

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## Independent Audit Report to the members of RFM Chicken Income 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 Chicken Income 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.



Katherine M Kelly  
Director  
Boyce Assurance Services Pty Limited

Cooma

15 March 2010

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# RFM Chicken Income Fund

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## Directors of the Responsible Entity's Declaration

In accordance with a resolution of the Directors of the Responsible Entity of RFM Chicken Income 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
  - (ii) complying with Australian 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 Chicken Income Fund

## Statement of Comprehensive Income

For the Half Year Ended 31 December 2009

	31 December 2009 \$	31 December 2008 \$
Revenue	10,926,187	9,959,515
Other income	-	146,573
Direct grower costs	(1,847,175)	(1,733,768)
Employee benefits expense	(2,080,120)	(2,327,696)
Depreciation, amortisation and impairments	(3,890,260)	(3,582,632)
Repairs and maintenance	(470,487)	(448,025)
Management fees	(726,876)	(703,487)
Property rates and rental	(29,783)	(23,365)
Other expenses	(567,022)	(170,292)
Finance costs	(1,260,011)	(6,484,972)
<b>Net profit/(loss) before income tax</b>	<b>54,453</b>	<b>(5,368,149)</b>
Income tax (expense)/benefit	(23,312)	1,386,389
<b>Net profit/(loss) after income tax</b>	<b>31,141</b>	<b>(3,981,760)</b>
<b>Other comprehensive income</b>		
Net gain on revaluation of land and buildings	2,043,515	925,227
Income tax relating to components of other comprehensive income	(613,055)	(290,807)
Other comprehensive income for the period, net of tax	1,430,460	634,420
<b>Total comprehensive income for the period, representing change in net assets attributable to unitholders</b>	<b>1,461,601</b>	<b>(3,347,340)</b>

The accompanying notes form part of these financial statements.

# RFM Chicken Income Fund

## Statement of Financial Position

For the Half Year Ended 31 December 2009

	31 December 2009	30 June 2009
Note	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	993,082	433,877
Trade and other receivables	7,489,326	4,598,428
Inventories	63,676	67,220
Other current assets	304,096	280,167
<b>Total current assets</b>	<b>8,850,180</b>	<b>5,379,692</b>
<b>Non-current assets</b>		
Trade and other receivables	-	3,986,039
Derivative financial assets	358,073	-
Property, plant and equipment	89,357,108	91,013,019
Intangible assets	1,895,875	1,895,875
<b>Total non-current assets</b>	<b>91,611,056</b>	<b>96,894,933</b>
<b>TOTAL ASSETS</b>	<b>100,461,236</b>	<b>102,274,625</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	1,627,608	1,844,369
Interest bearing liabilities	3 245,600	140,502
Short-term provisions	2,058,647	2,043,706
<b>Total current liabilities</b>	<b>3,931,855</b>	<b>4,028,577</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	3 37,428,540	37,578,540
Deferred tax liabilities	7,082,872	6,450,174
Long-term provisions	107,018	104,352
Derivative financial liabilities	-	65,436
<b>Total non-current liabilities</b>	<b>44,618,430</b>	<b>44,198,502</b>
<b>TOTAL LIABILITIES (excluding net assets attributable to unitholders)</b>	<b>48,550,285</b>	<b>48,227,079</b>
Net assets attributable to unitholders	51,910,951	54,047,546
<b>TOTAL LIABILITIES</b>	<b>100,461,236</b>	<b>102,274,625</b>

The accompanying notes form part of these financial statements.

# RFM Chicken Income 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/ (Accumulated losses)	Total equity
	\$	\$	\$	\$
Balance at 1 July 2009	40,860,952	16,507,543	(3,320,950)	54,047,545
Other comprehensive income	-	2,043,515	-	2,043,515
Income tax relating to other comprehensive income	-	(613,055)	-	(613,055)
<b>Total income and expense for the period recognised directly in equity</b>	-	1,430,460	-	1,430,460
Profit/(loss) attributable to unitholders	-	-	54,453	54,453
Income tax applicable	-	-	(23,312)	(23,312)
<b>Total income and expense for the period</b>	-	1,430,460	31,141	1,461,601
<b>Equity transactions</b>				
Issue of units	153,573	-	-	153,573
	153,573	-	-	153,573
<b>Sub-total</b>	153,573	1,430,460	31,141	1,615,174
Distribution/Return of Capital	(3,751,768)	-	-	(3,751,768)
<b>Balance at 30 June 2010</b>	<b>37,262,757</b>	<b>17,938,003</b>	<b>(3,289,809)</b>	<b>51,910,951</b>

31 December  
2008

	Issued Units	Asset revaluation reserve	Retained earnings/ (Accumulated losses)	Total equity
	\$	\$	\$	\$
Balance at 1 July 2008	44,211,831	11,592,265	(1,775,054)	54,029,042
Other comprehensive income	-	925,227	-	925,227
Income tax relating to other comprehensive income	-	(290,807)	-	(290,807)
<b>Total income and expense for the period recognised directly in equity</b>	-	634,420	-	634,420
Profit/(loss) attributable to unitholders	-	-	(5,368,149)	(5,368,149)
Income tax applicable	-	-	1,386,389	1,386,389
<b>Total income and expense for the period</b>	-	634,420	(3,981,760)	(3,347,340)
<b>Equity transactions</b>				
Issue of units	3,886,216	-	-	3,886,216
Issue costs	(5,584)	-	-	(5,584)
Income tax applicable	(46)	-	-	(46)
	3,880,586	-	-	3,880,586
<b>Sub-total</b>	48,092,417	12,226,685	(5,756,814)	54,562,288
Distribution/Return of Capital	(3,647,998)	-	-	(3,647,998)
<b>Balance at 30 June 2009</b>	<b>44,444,419</b>	<b>12,226,685</b>	<b>(5,756,814)</b>	<b>50,914,290</b>

The accompanying notes form part of these financial statements.

# RFM Chicken Income Fund

## Statement of Changes in Net Assets Attributable to Unitholders

For the Half Year Ended 31 December 2009

	31 December 2009 \$	31 December 2008 \$
<b>Cash from operating activities:</b>		
Receipts from customers	12,598,940	8,566,308
Payments to suppliers and employees	(6,935,895)	(7,091,281)
Interest received	7,601	146,573
Finance costs	(1,260,011)	(1,314,354)
<b>Net cash provided by (used in) operating activities</b>	<b>4,410,635</b>	<b>307,246</b>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of property, plant and equipment	430,000	-
Acquisition of property, plant and equipment	(638,333)	(3,957,603)
<b>Net cash provided by (used in) investing activities</b>	<b>(208,333)</b>	<b>(3,957,603)</b>
<b>Cash flows from financing activities:</b>		
Receipts from issue of units	153,573	3,886,216
Costs in relation to unit issue	-	(5,657)
Proceeds from borrowings	-	3,000,000
Repayment of borrowings	(44,902)	(41,705)
Distributions paid	(3,751,768)	(2,894,888)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,643,097)</b>	<b>3,943,966</b>
<b>Net increase (decreases) in cash held</b>	<b>559,205</b>	<b>293,609</b>
Cash at beginning of financial period	433,877	549,260
<b>Cash at end of financial period</b>	<b>993,082</b>	<b>842,869</b>

The accompanying notes form part of these financial statements.

# **RFM Chicken Income Fund**

ARSN 105 754 461

## **Notes to the Financial Statements**

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

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

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

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

The financial report of CIF 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.

#### **(d) Going Concern**

The directors of the Responsible Entity have prepared the financial report of the trust on a going concern basis.

# RFM Chicken Income Fund

ARSN 105 754 461

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 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 the carrying values of assets and liabilities that are not readily apparent from other sources.

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.

#### Determination of useful lives and depreciation rates for chicken broiler sheds

A judgment is made on the useful lives and therefore the depreciation rates applied to the chicken broiler sheds and associated plant and equipment. Consideration is given to the scale of the maintenance program applying to the buildings and the plant and any expected changes for technical obsolescence.

#### Lease agreements

CIF has entered into long term growing contracts which require the provision of sheds. CIF has assessed whether it maintains all the significant risks and rewards of ownership in determining:

- i) whether the agreements represent leases;
- ii) if the agreements represent leases, the classification of the leases as operating or finance.

CIF has determined that it continues to maintain all the significant risks and rewards of ownership.

### 3 Interest bearing liabilities

The CIF's financier, the National Australia Bank, requires the CIF to reduce its borrowing to a loan to valuation ratio of 40% by June 2010 and 35% by June 2011. RFM is currently assessing options for the fund and it is possible that debt will be replaced with equity.

# **RFM Chicken Income Fund**

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## **Notes to the Financial Statements**

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

### **4 Economic Dependency**

100% of Chicken Income Fund's revenue from chicken growing activities is derived from growing contracts with Bartter Enterprises Pty Limited ABN 22 000 451 374, now acquired by Baiada Holdings Pty Ltd ABN 19 003 013 321 on 29 July 2009. These contracts have a term in the range of 14 years to 28 years. CIF is therefore economically dependent upon Baiada Holdings Pty Ltd ABN 19 003 013 321.

### **5 Contingent Liabilities**

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

### **6 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.

# RFM Chicken Income Fund

ARSN 105 754 461

## 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

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