

# **RFM Diversified Agricultural Fund**

ARSN 099 573 627

**Financial Statements**

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

**RFM Diversified Agricultural Fund**

**DIRECTORY**

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

Responsible Entity: Rural Funds Management Limited  
ABN 65 077 492 838  
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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

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# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Directors of the Responsible Entity's Report

31 December 2009

The directors of Rural Funds Management Limited ("RFM"), Responsible Entity of RFM Diversified Agricultural Fund ("DAF" or the "Trust"), present their report on the trust and its controlled entities 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 consolidated profit/(loss) of the Group after providing for income tax amounted to a loss of \$2,939,314 (2008: profit \$726,717). This includes a \$1,429,913 impairment for DAF Flower Holding Trust assets comprising \$629,913 tubers and \$800,000 specialised plant and equipment.

As disclosed in the June 2009 annual report, Great Southern Limited (GSL) and most of its subsidiaries collapsed in May 2009. Administrators were appointed to Great Southern Almond Holding (GSAH) and receivers appointed to GSL and Great Southern Managers Australia. Both entities are now in liquidation. RFM is a subsidiary of GSL however remains solvent and is close to being sold to its management team.

The collapse of GSL has had a material effect on the DAF, which is controlled by GSL through a 68.5% holding, and some of the DAF's investee funds namely RBK and the UPVF. The DAF's financial position has been uncertain while the receivers have explored ways to divest this investment, either through windup or redemption of units or sale of units to another party. Further, both RBK and the UPVF leased the majority of their assets to GSL subsidiaries and their distributions to investors ceased due to the uncertainty of the GSL circumstances.

The investments held as at balance date by the DAF as parent entity, together with their % of total investments are:

Investment	31 Dec 09 %	Disclosure in Consolidated Accounts
RFM Australian Cotton Fund ARSN 099 573 690 (ACF)	4.77	Available-for-sale financial assets
RFM Ultra Premium Vineyard Fund ARSN 900 573 485 (UPVF)	6.20	Equity accounted
RFM Chicken Income Fund ARSN 105 754 461 (CIF)	11.52	Available-for-sale financial assets
RFM RiverBank ARSN 112 951 578 (RBK)	72.23	Consolidated
Agricultural Income Trust ARSN 093 804 276 (AIT)	1.53	Available-for-sale financial assets
DAF Sugar Holding Trust	3.75	Consolidated
Total	100.00	

# RFM Diversified Agricultural Fund

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Directors of the Responsible Entity's Report

31 December 2009

## Review of Results and Operations (continued)

### Operating Results (continued)

There were no material investments or divestments during the period.

The RBK investment is a controlling interest representing 78.5% of the issued units of RBK. The table below illustrates the material influence that this interest has on the DAF's consolidated financial position:

	RBK component of consolidated accounts	Consolidated accounts	RBK as a % of consolidated accounts
Total assets	65,598,617	80,929,140	81.06%
Total liabilities	24,900,154	26,593,195	93.63%
<b>Net assets</b>	<b>40,698,463</b>	<b>54,335,945</b>	<b>74.90%</b>

Given the significant influence of RBK on the financial affairs of the DAF, the following extract is given from RBK's half year accounts:

*"RBK's main revenue source is the leasing of almond orchards. RBK has a freehold interest in its Yilgah property which has 1,005 hectares of developed almond orchard and a leasehold interest in the Moorool property that has 811 hectares of developed almond orchard. The Yilgah property was purchased from Lachlan Farming Limited ABN 75 052 230 028 ("LFL") in May 2008 and the Moorool property is held by way of a leasehold arrangement with LFL. RBK leases the Moorool land and water, and has an \$11,928,800 investment in leasehold improvements including the almond trees. Both properties have juvenile orchards that are at least three years from commercial production. The table below summarises the areas planted to almond orchards and identifies the lessee:*

<b>Lessee</b>	<b>Total Ha's</b>	<b>Moorool Ha's</b>	<b>Yilgah Ha's</b>	<b>Managed Investment Scheme</b>
Rural Funds Management Limited	266	266	N/A	RFM Almond Project 2006
Great Southern Almond Holdings Pty Ltd (sub lease to Great Southern Managers Australia Ltd)	287	287	N/A	2007 Almond Income Project
Great Southern Almond Holdings Pty Ltd (sub lease to Great Southern Managers Australia Ltd)	789	252	537	2008 Almond Income Project
Great Southern Almond Holdings Pty Ltd (sub lease to Great Southern Managers Australia Ltd)	474	6	468	No Project
<b>Totals</b>	<b>1816</b>	<b>811</b>	<b>1005</b>	

*As disclosed in the June 2009 annual report, Great Southern Limited (GSL) and most of its subsidiaries collapsed in May 2009. Administrators were appointed to Great Southern Almond Holdings (GSAH) and receivers appointed to Great Southern Managers Australia Ltd. Both entities are now in liquidation. RFM remains solvent and is close to being sold to its management team.*

*RBK's revenue was 42% lower than the previous period due to the default of GSAH. The receivers occupied the leased area to 30 September 2009 and these accounts include an accrual for rent receivable amounting to \$1,672,326 in this period.*

# RFM Diversified Agricultural Fund

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Directors of the Responsible Entity's Report

31 December 2009

## Review of Results and Operations (continued)

### Operating Results (continued)

*In relation to the rent receivable, the amount is recoverable directly from the receivers or from the benefits accruing under a contract letter dated 22 January 2010 between the Diversified Agricultural Fund (DAF), RBK and RFM. This contract offsets the rent payable by the receivers for their support of the RBK and the DAF redemption transactions, and the change of responsible entity of the GSL almond projects from Great Southern Managers Australia Ltd (GSMAL) to RFM. These transactions unlock significant benefits to RBK including debt and equity funding, and tenants for its almond orchards including the almond projects. Further under the terms of the contract RFM makes a direct payment to RBK of \$700,000. There remains residual uncertainty as to whether the redemption transactions will occur and whether the almond schemes are wound up. In the event that the transactions are not successfully completed then the rental is fully due and payable by the receivers.*

*In relation to the decrease in biological assets, this decrease is a direct consequence of the GSAH default. Since the collapse of the GSL, RBK has been maintaining the orchards at its own expense to protect this significant investment. The maintenance costs in the first instance were capitalised but this expenditure was ultimately not recognised in the valuation of the orchards and has contributed to a decrease in the value of biological assets as reported.*

*The almond orchards and water assets have been valued at the independent values dated 30 June 2009.*

*RBK is effectively controlled by GSL through GSL's 68.5% controlling interest in the Diversified Agribusiness Fund (DAF) and in turn the DAF's 78.5% holding in RBK."*

### Distributions

There have been no distributions paid or declared during the half year ended 31 December 2009 (2008: \$982,890).

### Fees paid to and interest held by the responsible entity and associates

Management fees and costs of the Responsible Entity have been offset by a net rebate to maintain the ICR for the financial half year at 1.794% of DAF's net assets, per the DAF Product Disclosure Statement ("PDS").

### 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
Great Southern Limited	34,760,884
RFM (management repurchase facility)	1,427,345
RFM	100

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

# RFM Diversified Agricultural Fund

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Directors of the Responsible Entity's Report

31 December 2009

## Units on issue

50,715,675 Units of DAF were on issue at 31 December 2009 (2008: 28,493,846). During the half year 9,685 (2008: 1,361,913) units were issued by the Trust and nil (2008: nil) were redeemed.

## Trust assets

At 31 December 2009, DAF held assets to a total value of \$80,929,140 (2007: \$92,635,554).

## After balance date events

Subsequent to balance date the following events have occurred:

- GSL has exchanged contracts in January with the RFM management team for the sale of RFM.
- GSL, RFM, RBK and the DAF have entered into an agreement setting out the terms of DAF
- Notice of meetings have been sent to investors to approve the redemption process for the redemption of the RBK units held by the DAF. Subject to this approval, a redemption process will be undertaken.
- RFM has become the responsible entity of the Great Southern 2007 and 2008 Almond Income
- RBK has entered into a heads of agreement with Select Harvests Limited for the lease of the

All of the above agreements are subject to satisfying certain conditions precedent.

Additionally, updated property valuations for RBK have been received in March 2010 showing an uplift on the carrying values as disclosed in this financial report.

## Likely developments and expected results

As extracted from RBK's half yearly accounts:

*"The collapse of GSL had created considerable uncertainty for RBK with the default of its major counterpart GSAH. RFM has explored a number of options to protect investor's value, secure future revenue streams and remove GSL's controlling interest both from the DAF and RBK. These options included raising new equity, asset sales, new tenants to replace GSAH or a combination of all.*

*RFM believes it is close to successfully achieving these objectives as outlined below. Under a PDS dated October 2009 and a Supplementary PDS dated February 2010, RFM is expected to raise \$10m in equity and meet the minimum subscription and conditions precedent set out in the offer documents. The proceeds of this equity raising, combined with bank debt will be applied to remove GSL's control of the DAF group through a sequence of unit redemptions, and to purchase the Moorall property from LFL.*

# RFM Diversified Agricultural Fund

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Directors of the Responsible Entity's Report

31 December 2009

## Likely developments and expected results (continued)

*The total almond area of 1,816 hectares is now expected to be fully tenanted by tax effective almond schemes and a publicly listed company. As of 3 March 2010, RFM has successfully become the responsible entity of the GSL 2007 Almond Income Project and the 2008 Almond Income Project. It is expected that around 30% of the growers in these schemes will participate going forward, giving approximately 300 hectares leased to these two projects. The RFM Almond Project 2006 continues to operate and leases 266 hectares of almond area. All scheme area will be located on the Moorool property. The balance of the area on Moorool and all of the Yilgah property is expected to be occupied by Select Harvests Limited; a heads of agreement has been executed for each property and leases will be executed during March 2010. All orchard maintenance costs will be met by the tenants under the terms of the agreements.*

*An application has been submitted to the National Australia Bank requesting an increase in the total facility from \$13,500,000 up to \$29,000,000 for this financial year, within a 37% loan to security ratio. Given the progress made in securing tenants for the properties and the removal of GSL, RFM is confident that the application will be approved; which is expected in March 2010. RBK currently has a \$13,500,000 borrowing facility with its banker which was drawn to \$9,800,000 at the time of the GSL receivership. Due to the receivership, the bank has prevented further drawings on the facility, limiting the facility to \$9,800,000."*

In addition to the RBK equity offer, the DAF has undertaken a concurrent offer pursuant to a PDS dated November 2009 and a Supplementary PDS dated February 2010. The proceeds from this offer will be invested in RBK via the RBK offer, effectively pooling all equity proceeds at the RBK level. RBK will then use these funds to redeem most of its units held by the DAF, and in turn DAF will fully redeem its units held by GSL. The DAF's investment in RBK following this sequence of transactions is expected to be approximately \$7,162,000 (assuming \$1,500,000 is raised under the DAF offer), 35% of the DAF's investments and 21% of RBK's issued units (assuming \$8,000,000 is raised under the RBK offer).

Although RFM is confident that financial stability will be restored to RBK and therefore the DAF, and the influence of GSL removed, there remain residual execution risks. In the unlikely event that RFM's plans are not completed, RBK and the DAF are likely to be wound up because the GSL receivers are likely to use their majority to realise their investments. In this event RBK and DAF will be exposed to significant asset valuation risk, with assets likely to be realised below the going concern values carried in this financial report.

## 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.

# RFM Diversified Agricultural Fund

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Directors of the Responsible Entity's Report

31 December 2009

## Indemnification of Responsible Entity and Custodian

In accordance with the constitution of DAF, 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.

DAF has not otherwise, during or since the end of 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 DAF, Boyce Assurance Services, and can be found on page 23 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 Diversified Agricultural Fund

ARSN 099 573 627

## Independent Audit Report to the members of RFM Diversified Agricultural Fund

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

We have reviewed the accompanying half-year financial report of RFM Diversified Agricultural Fund and controlled entities, which comprises the condensed balance sheet as at 31 December 2009, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the trust's and controlled entities financial position as at 31 December 2009 and their 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 Diversified Agricultural 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 consolidated 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 Diversified Agricultural Fund on the date of this auditor's review report.

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# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Independent Audit Report to the members of RFM Diversified Agricultural 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 consolidated financial report of RFM Diversified Agricultural Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the trust's and controlled entities financial position as at 31 December 2009 and of their 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 the carrying value of the Investment Accounted for using the Equity Method, the carrying value of Available for Sale Financial Assets and the carrying value of the net assets of a subsidiary

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Notes 3 (a) and 3 (b), there is significant uncertainty relating to the recoverability of the carrying value of the Investment Accounted for using the Equity Method, the carrying value of Available for Sale Financial Assets and the carrying value of the net assets of a subsidiary. The financial report of the consolidated entity does not include any adjustment to the carrying value of the Investment Accounted for using the Equity Method, the carrying value of Available for Sale Financial Assets and the carrying value of the net assets of a subsidiary that might be necessary should the matters described in notes 3 (a) and 3 (b) arise.



Katherine M Kelly  
Director  
Boyce Assurance Services Pty Ltd

Cooma

15 March 2010

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# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Directors of the Responsible Entity's Declaration

In accordance with a resolution of the Directors of the Responsible Entity of RFM Diversified Agricultural Fund

In the opinion of the Directors:

- (a) The financial statements and notes of the Trust and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust's and Consolidated Entity's financial position as at 31
  - (ii) complying with Australian Standards, Corporations Regulations 2001 and the Trust's
- (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

# RFM Diversified Agricultural Fund

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## Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2009

	31 December 2009 \$	31 December 2008 \$
Revenue	2,642,300	4,518,368
Management fees net of rebates	485,673	569,436
Other income	57,709	-
Increase/(decrease) in value of biological assets	(1,954,750)	3,671,218
Direct farming expenses	(145,864)	(437,902)
Employee benefits expense	(145,247)	(226,960)
Share of profit/(loss) of associate	(288,538)	5,487
Depreciation, amortisation and impairments	(1,424,342)	(1,150,718)
Property expenses	(676,752)	(660,368)
Professional services	(476,501)	(918,250)
Repairs and maintenance	(8,883)	(17,749)
Other expenses	(515,249)	(324,909)
Finance costs	(750,436)	(1,292,007)
Unrealised loss on interest rate swap	(128,924)	(1,944,463)
<b>Net profit/(loss) before income tax</b>	<b>(3,329,804)</b>	1,791,183
Income tax (expense)/benefit	390,490	(1,064,466)
<b>Net profit/(loss) after income tax</b>	<b>(2,939,314)</b>	726,717
<b>Finance costs</b>		
Distribution to unitholders	-	(587,857)
<b>Net profit/(loss) for the period</b>	<b>(2,939,314)</b>	138,860
<b>Other comprehensive income</b>		
Revaluation increment/(decrement)	(112,645)	1,263,050
Income tax relating to components of other comprehensive income	16,898	(190,394)
Other comprehensive income for the period, net of tax	(95,747)	1,072,656
<b>Total comprehensive income/(loss) for the period, representing net change attributable to unitholders</b>	<b>(3,035,061)</b>	1,211,516
Profit attributable to:		
Members of the parent entity	(2,685,915)	(182,057)
Minority interest	(253,399)	320,917
	<b>(2,939,314)</b>	138,860
Total comprehensive income attributable to:		
Members of the parent entity	(2,781,662)	890,599
Non-controlling interest	(253,399)	320,917
	<b>(3,035,061)</b>	1,211,516

The accompanying notes form part of these financial statements.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Consolidated 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	10,311,812	6,555,367
Trade and other receivables	4 3,539,377	1,264,072
Financial assets	52,195	25,258
Biological assets	65,225	175,835
Other current assets	171,871	174,788
<b>Total current assets</b>	<b>14,140,480</b>	<b>8,195,320</b>
<b>Non-current assets</b>		
Derivative financial assets	5 -	1,454,862
Investments accounted for using the equity method	2,738,874	3,026,933
Financial assets	7,871,841	8,097,674
Property, plant and equipment	22,645,726	23,827,337
Deferred tax asset	112,192	-
Intangible assets	23,749,990	24,035,500
Biological assets	9,670,037	10,363,952
<b>Total non-current assets</b>	<b>66,788,660</b>	<b>70,806,258</b>
<b>TOTAL ASSETS</b>	<b>80,929,140</b>	<b>79,001,578</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	6 8,054,530	1,336,376
Interest bearing liabilities	3,805,650	4,325,887
Current tax liabilities	765,387	677,045
Provisions	22,750	-
Derivative financial liabilities	5 6,548	-
<b>Total current liabilities</b>	<b>12,654,865</b>	<b>6,339,308</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	13,938,330	14,050,822
Deferred tax liabilities	-	694,552
<b>Total non-current liabilities</b>	<b>13,938,330</b>	<b>14,745,374</b>
<b>TOTAL LIABILITIES (excluding net assets attributable to unit holders)</b>	<b>26,593,195</b>	<b>21,084,682</b>
Net assets attributable to unit holders	54,335,945	57,916,896
<b>TOTAL LIABILITIES</b>	<b>80,929,140</b>	<b>79,001,578</b>

The accompanying notes form part of these financial statements.

# RFM Diversified Agricultural Fund

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## Consolidated 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 Profits	Member of the Parent	Minority Equity Interests	Net Assets Attributable to Unitholders
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	48,142,069	5,506,751	(4,262,341)	49,386,479	8,530,417	57,916,896
Revaluation increment/(decrement)	-	(51,096)	-	(51,096)	(61,549)	(112,645)
Income tax applicable	-	7,666	-	7,666	9,232	16,898
<b>Total income and expense for the period recognised directly in equity</b>	-	(43,430)	-	(43,430)	(52,317)	(95,747)
Profit/(loss) before tax attributable to unitholders	-	-	(2,968,907)	(2,968,907)	(360,895)	(3,329,802)
Income tax applicable	-	-	282,996	282,996	107,494	390,490
<b>Total income and expense for the period</b>	-	(43,430)	(2,685,911)	(2,729,341)	(305,718)	(3,035,059)
<b>Transfers to and from reserves</b>						
- minority interests	-	660,748	36,153	696,901	(696,901)	-
<b>Equity transactions</b>						
Units issued during the period	16,937	-	-	16,937	-	16,937
Issue costs	(504,275)	-	-	(504,275)	(58,554)	(562,829)
	(487,338)	617,318	(2,649,758)	(2,519,778)	(1,061,173)	(3,580,951)
<b>Balance at 31 December 2009</b>	<b>47,654,731</b>	<b>6,124,069</b>	<b>(6,912,099)</b>	<b>46,866,701</b>	<b>7,469,244</b>	<b>54,335,945</b>

The accompanying notes form part of these financial statements.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the Half Year Ended 31 December 2009

31 December

2008

	Issued Units	Asset Revaluation Reserve	Retained Profits	Member of the Parent	Minority Equity Interests	Net Assets Attributable to Unitholders
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2008	25,049,639	3,878,199	(364,988)	28,562,850	9,103,068	37,665,918
Revaluation increment/(decrement)	-	860,057	-	860,057	402,993	1,263,050
Income tax applicable	-	(130,103)	-	(130,103)	(60,291)	(190,394)
<b>Total income and expense for the period recognised directly in equity</b>	-	729,954	-	729,954	342,702	1,072,656
Transfer of minority interest retained earnings on change of holding	-	-	61,043	61,043	(61,043)	-
Profit /(loss) before tax attributable to unitholders	-	-	1,082,411	1,082,411	708,772	1,791,183
Income tax applicable	-	-	(843,674)	(843,674)	(220,792)	(1,064,466)
<b>Total income and expense for the period</b>	-	729,954	299,780	1,029,734	769,639	1,799,373
<b>Transfers to and from reserves</b>						
<b>Equity transactions</b>						
Units issued during the period	1,428,846	-	-	1,428,846	23,801	1,452,647
Distributions to unitholders	(562,095)	-	(420,794)	(982,889)	(334,353)	(1,317,242)
<b>Balance at 31 December 2008</b>	<b>25,916,390</b>	<b>4,608,153</b>	<b>(486,002)</b>	<b>30,038,541</b>	<b>9,562,155</b>	<b>39,600,696</b>

The accompanying notes form part of these financial statements.

# RFM Diversified Agricultural Fund

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## Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2009

	31 December 2009	31 December 2008
	\$	\$
<b>Cash flows from operating activities:</b>		
Receipts from customers	2,032,298	9,979,010
Payments to suppliers and employees	(2,287,219)	(2,561,273)
Interest received	82,103	334,718
Manager fees paid	-	(21,505)
Finance costs	(743,280)	(696,487)
Income tax paid	(69,802)	(224,706)
<b>Net cash flows from (used in) operating activities</b>	<b>(985,900)</b>	<b>6,809,757</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property, plant and equipment	-	61,828
Purchase of Investments	-	(3,700,000)
Distributions received - return of capital	367,578	165,224
Purchase of property, plant and equipment	(220,833)	(5,524,184)
Purchase of biological assets	(790,457)	(489,293)
Purchase of intangibles	-	(2,412,940)
Loans to related parties - payments made	(26,937)	-
<b>Net cash flows from (used in) investing activities</b>	<b>(670,649)</b>	<b>(11,899,365)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from unit issue	16,937	1,452,647
Costs in relation to unit issue	(804,041)	-
Proceeds from subscriptions held in trust	5,500,356	-
Proceeds from borrowings	-	18,349,182
Repayment of borrowings	(632,728)	(902,128)
Proceeds from financial hedge contracts	1,332,470	-
Distribution paid	-	(1,287,045)
<b>Net cash flows from (used in) financing activities</b>	<b>5,412,994</b>	<b>17,612,656</b>
<b>Net increase in cash held</b>	<b>3,756,445</b>	<b>12,523,048</b>
Cash and cash equivalents at beginning of financial period	6,555,367	4,675,383
<b>Cash and cash equivalents at end of financial period</b>	<b>10,311,812</b>	<b>17,198,431</b>

The accompanying notes form part of these financial statements.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 1 Summary of Significant Accounting Policies

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

#### (b) Statement of compliance

The financial report of DAF 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.

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.

# RFM Diversified Agricultural Fund

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## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

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

#### Biological assets valuation

The valuation of tuber stock has been determined by a director's valuation as opposed to an external valuation. A judgement has been made to write off the tuber stock as the recoverable amount may only slightly exceed the cost of lifting and sale.

#### RiverBank valuation

An independent property valuation was obtained from Riverina Property Services in June 2009 and increments and decrements recognised in the accounts are based on the revaluation accordingly. For those valuations on an encumbered basis, the valuations made assumptions on current market rentals for the various classes of assets and the discount rates for associated risk on encumbered asset cash flows.

Valuations were sourced on both an encumbered and unencumbered basis given the current uncertainty of the lessor of the majority of RBK's assets. To be conservative, a judgement was made to use the lowest valuation for each class of asset. The directors have determined that this valuation and approach is still relevant at 31 December 2009.

#### Taxation status of the fund

As a result of the conversion of the convertible notes on 15 May 2009 there is now some doubt over the ability of the RFM Diversified Agricultural Fund to retain its tax classification of a Division 6C public trading trust (this classification enables the fund to be taxed like a company as opposed to an investment or flow through trust). This uncertainty has arisen due to the fact that this conversion has resulted in the top 20 investors holding more than a 75% interest in the fund, thereby breaching the technical conditions to be classified as a public trading trust.

Although there has been a technical breach of this classification, the Commissioner of Taxation has the ability to exercise his discretion to enable an entity to continue to be treated as a public trading trust taking the facts of the situation into account. In this case the only reason that the fund is not automatically considered to be a public trading trust for the 2009 and 2010 income years is because of the conversion of the notes that was triggered when the holder suffered an insolvency event (noting that this conversion was not intended and it is expected that this holding will be reduced over the next few months making it a temporary breach of the public trading trust rules).

As a consequence, it is fully anticipated that the Commissioner will grant his discretion in this case to enable the fund to retain its status as a public trading trust for the 2009 and 2010 income years, although this process has not been finalised at the date of producing the financial statements and cannot be guaranteed.

Because it is considered highly probable that this discretion will be exercised, the accounts have been drafted on the basis of the fund retaining its status as a public trading trust for the 2009 income year.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 3 Going Concern

#### (a) Inherent uncertainty regarding the carrying value and classification of a subsidiary's net assets

As disclosed in the June 2009 annual report, Great Southern Limited (GSL) and most of its subsidiaries collapsed in May 2009 and administrators were appointed to Great Southern Almond Holding (GSAH) and receivers appointed to Great Southern Managers Australia.

GSL has a controlling interest in the DAF of 68.5% and the DAF has a controlling interest of 78.5% in RBK. RBK represents 72.23% of the DAF's total investments and is therefore economically dependent on RBK.

The collapse of GSL has created considerable uncertainty for RBK and therefore the DAF with the default of RBK's major counterpart GSAH. RFM is implementing a number of transactions to protect investor's value, secure future revenue streams and remove GSL's controlling interest both from the DAF and RBK. These transactions included raising new equity, securing new tenants to replace GSAH and extending RBK's borrowing facility. RFM believes it is close to successfully completing these transactions and therefore the directors believe that the going concern basis is appropriate.

Under concurrent DAF and RBK offers equity of \$10m is expected to be issued, and meet the minimum subscription and conditions precedent set out in the offer documents. The proceeds of this equity raising, combined with bank debt will be applied to remove GSL's control of the DAF group through a sequence of unit redemptions, and to purchase the currently leased Moorah property from LFL.

The total RBK almond area of 1,816 hectares is now expected to be fully tenanted by tax effective almond schemes and a publicly listed company. RFM has successfully become the responsible entity of the GSL 2007 Almond Income Project and the 2008 Almond Income Project. It is expected that around 30% of the growers in these schemes will participate going forward, giving approximately 300 hectares leased to these two projects. The RFM Almond Project 2006 continues to operate and leases 266 hectares of almond area. All scheme area will be located on the Moorah property. The balance of the area on Moorah and all of the Yilgah property is expected to be occupied by Select Harvests; a heads of agreement has been executed for each property and leases will be executed during March. All orchard maintenance costs will be met by the tenants under the terms of the agreements.

An application has been submitted to the National Australia Bank requesting an increase in the total facility from \$13,500,000 up to \$29,000,000 for this financial year, within a 37% loan to security ratio. Given the progress made in securing tenants for the properties and the removal of GSL, RFM is confident that the application will be approved; which is expected in March 2010. RBK currently has a \$13,500,000 borrowing facility with its banker which was drawn to \$9,800,000 at the time of the GSL receivership. Due to the receivership, the bank has prevented further drawings on the facility, limiting the facility to \$9,800,000.

RFM itself is economically dependent on the DAF and RBK, and therefore is subject to the same uncertainty. The successful completion of the transactions described above will remove this uncertainty.

Although RFM is confident that financial stability will be restored to RBK through completion of the described transactions and the influence of GSL removed; there remains residual execution risks to the transactions. In the unlikely event that RFM's plans are not completed, RBK is likely to be wound up because it will have insufficient funds to continue operating and the GSL receivers will use their majority to realise their investment. In this event RBK will be exposed to significant cash flow, asset valuation and hence going concern risk.

If RBK is unable to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial report of RBK does not include any adjustment relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 3 Going Concern (continued)

#### **(b) Inherent uncertainty regarding the carrying value and classification of the investments accounted for using the equity method and the carrying value of available for sale financial assets**

The balance sheet of the consolidated entity at 31 December 2009 includes the following investments in equity associates and available for sale financial assets:

#### **Equity associate:**

RFM Ultra Premium Vineyard Fund	\$2,738,874
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#### **Available for sale financial assets:**

RFM Australian Cotton Fund	\$2,108,468
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Agricultural Income Trust Fund 1	\$674,174
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The audit reports on the financial reports of these entities for the year ended 31 December 2009 referred to the following inherent uncertainties:

#### **RFM Ultra Premium Vineyard Fund (“UPVF”)**

#### **Inherent Uncertainty Regarding Continuation as a Going Concern**

The UPVF is currently trading within the terms of its loan facility provided by Rabobank. This facility is drawn to its maximum and has an amortisation requirement of \$300,000 in June 2010.

The UPVF's loan to valuation ratio is a relatively high at 62%, and although this is not currently a bank facility covenant, it is an impediment on the fund securing alternative sources of funding.

The fund is forecast to generate an operating profit of \$132,131 for the year ending 30 June 2010 assuming a yield of 5.72 tonnes per hectare and an average price for grape production of \$1,538 per tonne. Based on these assumptions, and with the benefit of a \$950,000 loan facility negotiated with the RFM Diversified Agricultural Fund, the UPVF is expected to continue trading and meet the debt amortisation requirements; and will not require additional funding from any source. On this basis, the directors of RFM have determined that the UPVF is a going concern and will be able to pay its debts as and when they fall due.

Should the operating results be more adverse than forecast, the fund may require further funding or be required to sell assets or to undertake an equity raising. This will result in considerable uncertainty relating to cash flow, asset values, unit prices and therefore, going concern.

If UPVF is unable to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial report of UPVF does not include any adjustment relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.

# **RFM Diversified Agricultural Fund**

ARSN 099 573 627

## **Notes to the Financial Statements**

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

### **3 Going Concern (continued)**

#### **RFM Australian Cotton Fund (“ACF”)**

##### **Inherent Uncertainty Regarding Carrying Value of Investment in Equity Accounted Associate, Lachlan Farming Limited**

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.

#### **Agricultural Income Trust Fund 1 (“AIT”)**

##### **Inherent Uncertainty Regarding Continuation as a 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.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## 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.

### Conclusion

If matters referred to as inherent uncertainties in the above entities arise, there would be significant uncertainty as to the recoverability of the carrying value of DAF's investment in its equity associate and certain available for sale financial assets. The financial report of DAF does not include any adjustment relating to the recoverability of the carrying value of DAF's investment in its equity associate and certain available for sale financial assets that might be necessary should the matters described above occur.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 4 Trade and other receivables

	31 December 2009	30 June 2009
	\$	\$
Trade receivables	3,492,129	1,315,771
Provision for impairment of receivables	(180,810)	(180,810)
<b>Trade receivables, net of provision</b>	<b>3,311,319</b>	<b>1,134,961</b>
Other receivables	228,058	129,111
<b>Total current trade and other receivables</b>	<b>3,539,377</b>	<b>1,264,072</b>

Within the RBK trade receivables is an amount of \$1,672,326 the recoverability of which is considered at Note 7 Commitments.

### 5 Derivative financial instruments

	31 December 2009	30 June 2009
	\$	\$
Derivative financial assets	-	1,454,862
Derivative financial liabilities	6,548	-

During the period RBK terminated interest rate swaps with an aggregate face value of \$18,000,000, providing \$1,332,470 cash inflow. RBK currently holds interest rate swaps to the face value of \$5,000,000, representing 29% of borrowings at balance date. RBK is currently updating its banking facilities and the level of interest rate cover will be reviewed when the revised banking facilities are in place.

### 6 Trade and other payables

	31 December 2009	30 June 2009
	\$	\$
Trade payables	947,210	663,695
Subscriptions held in trust	5,500,356	-
Sundry payables and accrued expenses	1,606,964	672,681
<b>Total current trade and other payables</b>	<b>8,054,530</b>	<b>1,336,376</b>

Subscriptions held in trust relate to subscriptions received as part of the equity raising exercise for DAF and RBK. The increase in sundry payables and accrued expenses relate to the orchard maintenance expense incurred by RBK in the wake of the collapse of GSL.

# RFM Diversified Agricultural Fund

ARSN 099 573 627

## Notes to the Financial Statements

For the Half Year Ended 31 December 2009

### 7 Commitments

In a contract letter dated 22 January 2010 between the DAF, RBK and RFM; RBK has contracted to offset the \$1,672,326 rent payable by the receivers for their support of the RBK and the DAF redemption transactions, and the change of responsible entity of the GSL almond projects from GSMAL to RFM. These transactions unlock significant benefits to RBK including the removal of GSL's indirect controlling interest, debt and equity funding, the securing of tenants for its almond orchards including the almond projects. Further under the terms of the contract RFM makes a direct payment to RBK of \$700,000. There remains residual uncertainty as to whether the redemption transactions occur and whether the almond schemes are wound up. In the event that the transactions are not successfully completed then the rental is fully due and payable by the receivers.

RBK has a commitment to RFM to establish irrigation systems for the Great Southern 2007 and 2008 Almond Income Projects and to provide irrigation infrastructure that supplies specified amounts of water that increases to 15 megalitres per hectare by the third year of almond tree maturity. This is required to be in place by 1 July 2010. RBK also has a commitment to replace capital items in order to fulfil the abovementioned requirements.

### 8 Contingent liabilities

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

### 9 Subsequent events and economic dependency

Subsequent to balance date the following events have occurred:

- GSL has exchanged contracts in January with the RFM management team for the sale of RFM.
- GSL, RFM, RBK and the DAF have entered into an agreement setting out the terms of DAF
- Notice of meetings have been sent to investors to approve the redemption process for the redemption of the RBK units held by the DAF. Subject to this approval, a redemption process will be undertaken.
- RFM has become the responsible entity of the Great Southern 2007 and 2008 Almond Income
- RBK has entered into a heads of agreement with Select Harvests Limited for the lease of the

All of the above agreements are subject to satisfying certain conditions precedent.

Additionally, updated property valuations for RBK have been received in March 2010 showing an uplift on the carrying values as disclosed in this financial report.

Further details regarding subsequent events and economic dependency are included in Note 3 Going Concern.

# RFM Diversified Agricultural Fund

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## 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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