

Chicken Income Fund

Financial Statements

For the Half Year Ended 31 December 2012

RFM Chicken Income Fund

ARSN 105 754 461

Contents

For the Half Year Ended 31 December 2012

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RFM Chicken Income Fund

ARSN 105 754 461

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 Michael Carroll Guy Paynter
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

Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2012

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 and its consolidated entity for the half year ended 31 December 2012.

Directors

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

David Bryant
Michael Carroll
Guy Paynter

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review and Results of Operations

Operating Results

The consolidated profit/(loss) before tax attributable to unitholders is \$(43,542) (2011: (\$1,199,253)). Excluding from these results the unrealised losses on financial instruments of \$(54,216) (2011: (\$1,752,580)), the underlying operating result before tax was a profit of \$10,674 (2011: \$553,327). The lower profitability is attributable to higher finance costs, depreciation (due to higher asset values), higher performance penalties than in the same period of the prior year and increased management fees. RFM management are actively monitoring the on farm conditions to mitigate any issues and reduce the incidence of performance penalties. CIF farms currently hold 13 of the top 15 positions in farm rankings in their pool.

An important achievement in the period was the change to contract management for the Lethbridge farms. This operating change in Lethbridge is expected to deliver better growing performance and reduced operating costs in the long run.

Net assets attributable to unitholders have been subject to revaluation in December 2012 by Opteon (Victoria) Pty Ltd. This has resulted in an increase of \$3,095,550 in property, plant and equipment in CIF.

Cash distributions during the half year amounted to \$3,172,252.88 or 5 cents per unit.

Going Concern

The Directors of RFM have determined that CIF is a going concern and will be able to pay its debts as and when they fall due.

The CIF has core borrowings of \$36m and a further \$5m facility specifically to fund the StockBank investment with its primary banker National Australia Bank Limited (NAB). The core borrowing of \$36m expires in June 2017 while the \$5m facility expires in December 2013. Further, NAB covenants stipulate that a \$4.5m amortisation of the core facility of \$36m should be made in December 2013.

RFM Chicken Income Fund

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Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2012

Review and Results of Operations (continued)

Going Concern (continued)

Subject to the outcome of the merger discussed under likely developments, RFM management intend to renegotiate revised terms with NAB extending dates and renewing borrowings for a further period.

CIF's property plant and equipment was revalued in December 2012 by Opteon (Victoria) Pty Ltd., and the net increase in value was \$3.1 million placing the debt servicing ratios of CIF in a reasonably favourable position for its negotiations.

The chicken industry continues to experience positive conditions being a growth industry with per capita consumption continuing to increase. The CIF maintains a strong net asset base and has long term contracts for growing chicken spanning 12-24 years with Bartter Enterprises Pty Ltd which is a wholly owned subsidiary of Baiada Poultry Pty Ltd. The Directors believe that these factors place the fund in a favourable position for these negotiations.

If a renegotiation of financing is unsuccessful, the CIF would manage its amortisation obligations through a sale of part or all of its interest in StockBank and a reduction in distributions.

Distributions

Distributions paid or declared for payment are as follows:

Distribution of 2.50 cents per unit paid in August 2012 (provided for at 30 June 2012)	\$1,584,920
Distribution of 2.50 cents per unit paid in November 2012	\$1,587,378

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 half year:

- Management fee for the half year paid to RFM \$625,813 (2011: \$523,491).
- Asset management fee for the half year paid and payable to RFM \$296,694 (2011: \$317,103)
- Expense incurred by RFM for the half year and reimbursed by the Trust in accordance with the Trust's constitution \$1,267,372 (2011: \$1,127,785).

Units on issue

63,590,765 units of CIF were on issue at 31 December 2012 (2011: 63,231,043). During the half year 193,934 (2011: 173,807) units were issued by the Trust and none (2011: nil) were redeemed.

Trust assets

At 31 December 2012 CIF held assets to a total value of \$113,308,340 (2011: \$108,643,891).

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Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2012

Review and Results of Operations (continued)

Significant Changes in State of Affairs

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

After balance day events

No matters or circumstances have arisen since the end of the half year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments and expected results

It is expected that an Explanatory Memorandum and vote documentation will be sent out to unitholders in April 2013 in relation to a proposal to merge CIF with the RFM RiverBank and RFM Australian Wine Fund. Under the proposal the new combined entity is expected to be listed on the Australian Stock Exchange. It is expected that the restructure will enable unitholders to unlock value in their investment by providing liquidity and the ability to exit the investment at a time chosen by investors. It is further expected that the restructure will lower the risk profile of the investment, increase diversification and provide the merged fund with greater access to capital markets. The unitholder vote is expected to be held in May 2013.

Environmental regulation and performance

The operations of the Group are subject to significant environmental regulation under the law of the Commonwealth and States or Territory. The Group 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 Responsible Entity or of any related body corporate against a liability incurred as such by an officer.

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Directors of the Responsible Entity's Report

For the Half Year Ended 31 December 2012

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 16 of the financial report.

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

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

David Bryant
Director

Dated: 5 March 2013

RFM Chicken Income Fund

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Independent Auditor's Review Report to the unitholders of RFM Chicken Income Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year consolidated financial report of RFM Chicken Income Fund, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, other explanatory notes, and the directors of the responsible entity's declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the responsible entity of the trust are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including 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 Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 2012 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 the ethical requirements relevant to the audit of the annual financial report.

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

Matters Relating to the Electronic Presentation of the Audited Financial Report

The review report relates to the financial report of the consolidated entity for the half-year ended 31 December 2012 included on the website of Rural Funds Management Limited. The directors of the responsible entity of the trust are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the half-year financial report identified above and it does not provide an opinion on any other information which may have been hyperlinked to or from the financial report.

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RFM Chicken Income Fund

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Independent Auditor's Review Report to the unitholders of RFM Chicken Income Fund

Matters Relating to the Electronic Presentation of the Audited Financial Report (continued)

If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on the responsible entity's website.

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 the Responsible Entity of RFM Chicken Income Fund, on the date of this auditor's report.

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 Chicken Income Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

Emphasis of Matter

Without qualification to the audit conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 3 Going Concern, there is a \$2.3 million working capital deficiency. This has primarily come about due to \$9.5 million of parent company debt being due for repayment or renegotiation within the next 12 months. Management are confident in their ability to manage this issue and have a variety of options available to ensure the Trust can pay its debts as and when they fall due. The financial report of the Trust does not include any adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessary should the Trust not be able to manage its working capital deficiency and continue as a going concern.



Katherine M Kelly
Director
Boyce Assurance Services Pty Limited
Cooma
Dated: 5 March 2013

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Directors of the Responsible Entity's Declaration

The directors of the responsible entity of the Trust declare that:

1. The financial statements and notes, as set out on pages 8 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the Trust and of the Consolidated Entity's financial position as at 31 December 2012 and of their performance for the half-year ended on that date.
2. In the directors' opinion, subject to the matters disclosed in Note 3, there are reasonable grounds to believe that the Trust and Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



David Bryant
Director

Dated: 5 March 2013

RFM Chicken Income Fund

ARSN 105 754 461

Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2012

		31 December 2012	31 December 2011
	Note	\$	\$
Revenue	4	16,168,227	13,195,076
Cost of cattle sold		(4,158,320)	(1,187,551)
Direct grower costs		(3,913,294)	(2,952,758)
Employee benefits expense		(1,214,227)	(2,405,943)
Depreciation and impairments		(2,818,931)	(2,682,676)
Repairs and maintenance		(326,411)	(374,135)
Management fees		(922,507)	(840,594)
Property rates and rental		(24,319)	(27,487)
Livestock costs		(267,511)	(1,335,305)
Increase in the value of biological assets		563,753	1,794,974
Other expenses		(1,460,535)	(1,050,936)
Finance costs		(1,615,251)	(1,579,338)
Unrealised loss on interest rate swaps		(54,216)	(1,752,580)
(Loss) before income tax		(43,542)	(1,199,253)
Income tax benefit		13,063	359,776
(Loss) after income tax		(30,479)	(839,477)
Distribution to unitholders		-	-
Loss for the period		(30,479)	(839,477)
Other comprehensive income:			
Net gain on revaluation of land and buildings		5,748,850	-
Income tax applicable		(1,724,656)	-
Other comprehensive income for the period, net of tax		4,024,194	-
Total comprehensive income for the period, representing changes in net assets attributable to unitholders		3,993,715	(839,477)

The accompanying notes form part of these financial statements.

RFM Chicken Income Fund

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Consolidated Statement of Financial Position

As At 31 December 2012

	31 December 2012 \$	30 June 2012 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	415,622	2,014,741
Trade and other receivables	4,744,467	4,465,461
Inventories	90,967	61,160
Current tax receivable	46,148	46,148
Biological assets	6,968,932	4,520,399
Other current assets	379,936	278,218
TOTAL CURRENT ASSETS	12,646,072	11,386,127
NON-CURRENT ASSETS		
Property, plant and equipment	99,613,268	96,510,517
Intangible assets	1,049,000	1,049,000
TOTAL NON-CURRENT ASSETS	100,662,268	97,559,517
TOTAL ASSETS	113,308,340	108,945,644
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	4,199,018	3,458,466
Interest bearing liabilities	10,542,741	8,167,933
Short-term provisions	171,479	1,674,964
TOTAL CURRENT LIABILITIES	14,913,238	13,301,363
NON-CURRENT LIABILITIES		
Interest bearing liabilities	31,517,272	33,060,296
Deferred tax liabilities	11,403,179	9,691,586
Long-term provisions	10,969	33,174
Derivative financial liabilities	3,120,225	3,066,010
TOTAL NON-CURRENT LIABILITIES	46,051,645	45,851,066
TOTAL LIABILITIES (excluding net assets attributable to unitholders)	60,964,883	59,152,429
Net assets attributable to unitholders	51,204,414	48,647,733
Non controlling Interest	1,139,043	1,145,482
TOTAL LIABILITIES	113,308,340	108,945,644

The accompanying notes form part of these financial statements.

RFM Chicken Income Fund

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Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the Half Year Ended 31 December 2012

31 December 2012

	Issued Units \$	Asset Revaluation Reserve \$	Retained earnings \$	Total \$	Non- controlling Interests \$	Total \$
Balance at 1 July 2012	24,153,575	27,049,045	(2,554,887)	48,647,733	1,145,482	49,793,215
Other Comprehensive Income	-	5,748,850	-	5,748,850	-	5,748,850
Income tax applicable	-	(1,724,656)	-	(1,724,656)	-	(1,724,656)
Total income and expenses for the period recognised directly in equity	-	4,024,194	-	4,024,194	-	4,024,194
Profit attributable to unitholders	-	-	(38,996)	(38,996)	(4,546)	(43,542)
Income tax applicable	-	-	11,681	11,681	1,382	13,063
Total income and expenses for the period	-	-	(27,315)	(27,315)	(3,164)	(30,479)
Equity transactions						
Additional non-controlling interest arising on issue of units	-	-	-	-	125,000	125,000
Change in non-controlling interest due to redemptions	-	-	-	-	(99,595)	(99,595)
Issue of units	147,180	-	-	147,180	-	147,180
Total equity transactions	147,180	-	-	147,180	25,405	172,585
Sub-total	147,180	4,024,194	(27,315)	4,144,059	22,241	4,166,300
Distribution to unitholders	(1,587,378)	-	-	(1,587,378)	(28,680)	(1,616,058)
Balance at 31 December 2012	22,713,377	31,073,239	(2,582,202)	51,204,414	1,139,043	52,343,457

The accompanying notes form part of these financial statements.

RFM Chicken Income Fund

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Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the Half Year Ended 31 December 2012

31 December 2011

	Issued Units	Asset Revaluation Reserve	Retained earnings	Total	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2011	30,198,980	24,812,191	(857,481)	54,153,690	-	54,153,690
Profit attributable to unitholders	-	-	(1,199,253)	(1,199,253)	-	(1,199,253)
Income tax applicable	-	-	359,776	359,776	-	359,776
Total income and expenses for the period	-	-	(839,477)	(839,477)	-	(839,477)
Equity transactions						
Issue of units	146,641	-	-	146,641	-	146,641
Total equity transactions	146,641	-	-	146,641	-	146,641
Sub-total	146,641	-	(839,477)	(692,836)	-	(692,836)
Distributions	(3,159,180)	-	-	(3,159,180)	-	(3,159,180)
Balance at 31 December 2011	27,186,441	24,812,191	(1,696,958)	50,301,674	-	50,301,674

The accompanying notes form part of these financial statements.

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Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2012

	31 December 2012 \$	31 December 2011 \$
CASH FROM OPERATING ACTIVITIES:		
Receipts from customers	15,875,929	13,277,831
Payments to suppliers and employees	(14,265,424)	(10,714,954)
Interest received	26,591	8,417
Finance costs	(1,583,522)	(1,535,177)
Income tax refunded	-	7,519
Net cash provided by / (used in) operating activities	53,574	1,043,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of plant and equipment	20,182	-
Purchase of property, plant and equipment	(204,755)	(1,067,083)
Net cash provided by / (used in) investing activities	(184,573)	(1,067,083)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of units	272,180	154,143
Redemption of units	(99,594)	-
Proceeds from borrowings	1,000,000	5,140,000
Repayment of borrowings	(37,175)	(3,270)
Distributions paid	(3,200,938)	(3,154,835)
Net cash provided by / (used in) financing activities	(2,065,527)	2,136,038
Net (decrease)/increase in cash and cash equivalents held	(2,196,526)	2,112,591
Cash and cash equivalents at beginning of the period	1,883,700	(671,865)
Cash and cash equivalents at end of the period	(312,826)	1,440,726

The accompanying notes form part of these financial statements.

RFM Chicken Income Fund

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Notes to the Financial Statements

For the Half Year Ended 31 December 2012

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

This general purpose consolidated financial report for the half year ended 31 December 2012 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 Group 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 2012 and any public announcements made by CIF during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The financial report covers RFM Chicken Income Fund ("CIF") and its controlled entity. CIF is a trust, established and domiciled in Australia. The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

(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) Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

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. 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.

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Notes to the Financial Statements

For the Half Year Ended 31 December 2012

2 Significant Accounting Judgements, Estimates and Assumptions (continued)

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

A judgement 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.

3 Going Concern

The Directors of RFM have determined that CIF is a going concern and will be able to pay its debts as they fall due.

The CIF has core borrowings of \$36m and further \$5m facility specifically to fund the StockBank investment with its primary banker National Australia Bank Limited (NAB). The core borrowings of \$36m expires in June 2017 while the \$5m facility expires in December 2013. Further, NAB covenants stipulate that a \$4.5m amortisation of the core facility of \$36m should be made in December 2013.

RFM management intended to renegotiate revised items with NAB extending dates and renewing borrowings for a further period.

CIF's property plant and equipment was revalued in December 2012 by Opteon (Victoria) Pty Ltd and the net increase in value was \$3.1m placing the debt servicing ratios of CIF in a reasonably favourable position for its negotiations.

The chicken industry continues to experience positive conditions being a growth industry with per capita consumption continuing to increase. The CIF maintains a strong net asset base and has long term contracts for growing chicken spanning 12-24 years with Bartter Enterprises Pty Ltd which is a wholly owned subsidiary of Baiada Poultry Pty Ltd. The Directors believe that these factors place the fund in a favourable position for these negotiations.

If a renegotiation of financing is unsuccessful, the CIF would manage its amortisation obligations through a sale of part or all of its interest in StockBank and a reduction in distributions.

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Notes to the Financial Statements

For the Half Year Ended 31 December 2012

4 Revenue

	31 December 2012	31 December 2011
	\$	\$
- Livestock sales	4,158,320	1,187,551
- Grower fees	11,829,918	11,923,144
- Interest received	26,592	8,417
- Other income	153,397	75,964
	16,168,227	13,195,076

5 Events After the End of the Reporting Period

No matters or circumstances have arisen since the end of the financial half year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

6 Likely Developments and Expected Results

It is expected that a product disclosure statement and vote documentation will be sent out to unitholders in April 2013 in relation to a proposal to merge CIF with the RFM RiverBank and RFM Australian Wine Fund. Under the proposal the new combined entity is expected to be listed on the Australian Stock Exchange. It is expected that the re-structure will enable unitholders to unlock value in their investment by providing liquidity and the ability to exit the investment at a time chosen by investors. It is further expected that the re-structure will lower the risk profile of the investment, increase diversification and provide the merged fund with greater access to capital markets. The unitholder vote is expected to be held in May 2013.

RFM Chicken Income Fund

ARSN 105 754 461

Auditors Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2012, there have been:

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



Katherine M Kelly
Director
Boyce Assurance Services Pty Limited

Cooma

Dated: 5 March 2013

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Responsible Entity

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