



# 45th Annual Report

Cotton Seed Distributors Limited

ABN 84 000 568 730

*for the year ended 31 December 2010*





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Bollgard® and Roundup Ready Flex® are registered trademarks of Monsanto Technologies LLC, used under licence by Monsanto Australia Ltd.

Liberty Link® is a registered trademark of Bayer.

Sicot, Siokra, Sicala, Sipima are the product of a research program conducted by CSIRO. Supported by CRDC until 2006.

# Agenda



## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cotton Seed Distributors Ltd. will be held on Tuesday, 17th May 2011 at 10am.

1. Present and Apologies
2. To confirm the Minutes of the Annual General Meeting held on 18th May 2010
3. To receive the Chairman's Report
4. To receive the Managing Director's Report
5. To receive the Cotton Breeding Australia Report
6. To receive, consider and adopt the financial statements of the company for the year ended 31st December, 2010 and the reports of the directors and auditors thereon
7. Election of Directors:  
Two Director positions are available in accordance with the provisions of the Constitution and Harvey Gaynor and Paul McVeigh offer themselves for re-election
8. To set Directors' remuneration
9. General Business: To transact any business which may be lawfully brought forward

A member is entitled to appoint a proxy to vote for and on behalf of the member at the meeting, in accordance with Part 6 of the Constitution. A proxy holder must be a member of the Company. Instruments of proxy must comply with the requirements in the Constitution, and must be received by the Company at least 24 hours before the time for holding the meeting.

*By Order of the Board.*



**Phil Thompson**

Company Secretary

*Dated at Wee Waa 6th April 2011*



# Chairman's Report

As with farming generally, every year throws up a challenge at Cotton Seed Distributors Limited (CSD). Up to mid 2010 we were planning for another drought impacted year with plantings not much different to 2009. So, in June and July when he turned the tap on without warning, the sudden order to deliver seed to a record planting area was a tall one. On more than one occasion it was suggested that CSD would run out of seed. Not only did CSD staff deliver on all orders in a timely manner, but did so without compromise to the primary objective of delivering the highest quality planting seed in the best varieties and traits to Australian cotton growers. With that achieved, the record surplus for CSD was a bonus, in part brought about by a continuation of the cost containment culture developed over the last few poor years and carried into a stronger sales year. To Peter, the Management team and all staff, congratulations on a huge job well done.

At CSD Grains Pty Limited (CSDG), while there was no need for further impairment of the business and its plant, a write down of surplus inventory on its disposal impacted on the overall result. In building higher value markets for our members rotational crops, steady progress is being made through developing partnerships with established operations delivering into both processed food product markets and counter seasonal supply to export human consumption whole grain markets. The integration of the grading plant into CSDG's management is improving the total performance of the Westbrook operations. The objective of creating a seed business in selected grain industries to complement the cotton seed business at CSD continues to evolve.

As Peter will report, the Cotton Seed International Pty Limited (CSI) international business with Bayer CropScience increased its market share both in North and South America. The growing royalty income from the international business, combined with the turnaround in Australian seed sales now allows funds for a longer term review of the underwriting of the CSD commitment to Cotton Breeding Australia (CBA) investments in breeding and research. These results and the security they may provide for our industry's future are very timely given the outlook of only a couple of years ago.

2010 saw a consolidation at Board level with fewer changes. I was re-elected while John Stewart was newly elected to the Board. John has been delivering on the skills and experience he has gained in his time spent in the biotechnology industries and supports the Board in monitoring worldwide activity and opportunities in that field. Harvey Gaynor and I continued as Chairman and Vice Chairman of CSD. The Finance and Audit Committee is led by Phil Thompson. The Board of CSI remains as two Directors being Peter Graham and I as Chairman. The CSDG subsidiary has a Board of four, being Paul McVeigh as Chairman, Tom Keene, Peter Graham and myself.

There were significant developments in CSD's activities over the course of 2010. In constantly developing our future for five to fifteen years ahead, we are now in a position to review our business plan and will do so in 2011. I am confident in the Board's skills and experience to deliver outcomes to the benefit of Australian cotton growers in all aspects of the business, and I thank all our Directors for their contribution to CSD in 2010.

**James Kahl**

Chairman

*Dated at Wee Waa 6th April 2011*



# Managing Director's Report

## Summary

2010 was a year characterised by a return to more normal seasonal conditions across most Australian cotton growing regions. The coupling of more abundant water supplies for irrigation and favourable bale prices saw a dramatic increase in cotton area with a significant increase in plantings from new and returning cotton growers. The area planted to cotton in Australia increased from 180,000 green ha's in 2009 to just over 520,000 green ha's in 2010. This was a record planting for the Australian cotton industry and set the foundation for a record surplus of \$A24.36m for the CSD Group.

## Cotton Seed Distributors (CSD) Ltd

Strong demand for CSD cotton varieties in 2010 provided considerable operational challenges for the company. I am pleased to report that CSD supplied in excess of 6,000MT of planting seed which set a new record for domestic seed sales by the company. Achieving this result would not have been possible without the commitment of our seed increase grower partners, our partners in the ginning industry, our numerous supplier partners and the dedicated operations team at "Shenstone".

During 2010 CSD maintained its strong financial commitment to the Cotton Breeding Australia joint venture with CSIRO, contributing over \$4.19m of members funds. CSD is also a partner in the Cotton, Catchment & Communities Cooperative Research Centre, provided sponsorship support for the CSD Researcher of the Year Award and remained a Foundation sponsor of the highly successful 15th Australian Cotton Conference held at the Gold Coast in August. CSD also made significant contributions towards many other industry or community related events and organisations.

The seed production and research farms, "Little Mollee" and "Shenstone" remain very important assets for both the cotton and soybean planting seed businesses. The key functions provided by these assets include the advanced screening and seed multiplication of new material coming from CSIRO as well as facilitating an accelerated seed increase of germplasm transformed with Monsanto's Bollgard II®, Roundup Ready Flex® technologies and with Bayer CropScience's Liberty Link® technology.

In 2010 CSD saw a further increase in the sales of varieties incorporating the Bollgard II® technology. Varieties which incorporate this technology equated to about 91% of our sales. The use of herbicide tolerant technology continues to play an

important role in the industry. There has been a strong uptake of Roundup Ready Flex® technology which has become the major herbicide tolerant trait planted by growers. Varieties containing the Roundup Ready Flex® technology equated to about 98% of our planting seed sales.

We were pleased to be able to commercialise three new varieties in 2010 which included Sicot 74BRF, Sicala 340BRF and Siokra 24BRF all of which have a broad market fit. Siokra 24BRF complements our dryland portfolio, whilst Sicala 340BRF is a variety with an exceptional fibre quality package. Sicot 74BRF is a high yielding companion variety to Sicot 71BRF and is best suited to the western, central and northern valleys.

Conventional cotton varieties are still very important to CSD and the industry and we remain committed to making these varieties available. Sicot 71 and Sicot 75 are the industry leading conventional varieties. We note that new conventional material is in the variety development pipeline with a commercial debut likely within the next couple of years. The use of Liberty Link® technology has continued to generate grower interest with Sicot 70BL being the main commercial variety. Further potential varieties from this technology class are currently in development.

It is a credit to the CSIRO Plant Breeding Team who develop these new varieties allowing growers to meet and exceed the challenges of the continually moving yield and fibre quality targets.

CSD proactively and prudently managed its diverse cotton planting seed inventory to ensure that growers were able to access cotton varieties 'in full and on time' to capitalise on the improved market conditions. The annual Early Order program was well supported by growers and remains an important process to ensure that CSD is able to efficiently supply growers planting seed requirements.

## Cotton Seed International (CSI) Pty Ltd

CSI contributed positively to the overall performance of the CSD Group. The strong global market share developed by our partner Bayer CropScience in the cotton seed and trait business has grown in sales value and revenue. The germplasm licensed to Bayer CropScience has a very good fit in many territories, notably Texas where today it accounts for over 50% of the varieties planted in that state. We expect further growth in revenue as Bayer CropScience migrates to their own in-house technologies.

### **CSD Grains (CSDG) Pty Ltd**

CSDG is a wholly owned subsidiary of CSD and was formed to mirror the cotton strategy in other crops that have a potential fit in our member's farming systems. The initial crop that CSDG invested in was soybeans.

The investment in a processing plant at Westbrook just outside Toowoomba was a strategic decision to move further downstream into the value chain of the food ingredient industry and also into the whole bean market for soybeans grown by its members. This strategy and investment has proven to be very challenging. As previously advised CSDG acquired a grain grading plant from a third party tenant at Westbrook in late 2009. This acquisition was contemplated as part of the CSDG strategic plan.

Brendan Ellis was appointed General Manager of CSDG in August 2010. Immediately following this appointment the Board of CSDG undertook a strategic review of the company. The review resulted in the immediate implementation of a new strategic plan endorsed and supported by the Board of CSD.

The new plan clearly recognises the importance of strategic partnerships with established businesses in the food technology and ingredient milling industry, along with grading and grain exporting as the most beneficial path to take. The plan clearly focussed CSDG on testing the existing resources, systems and capabilities prior to embarking on ambitious plans with significant volume targets or significant capital expenditure to realise the opportunities. As a result of this review the soybean planting seed business now resides under the management and control of CSD. These changes have provided an improved focus at CSDG allowing CSDG management to concentrate solely on making the milling and grading business profitable. At the same time CSDG with the assistance of CSD will continue to develop seed businesses and processing opportunities for higher value crops, which in the longer term will provide both diversification and benefits to CSD and its members.

CSDG produced a loss of \$3.14m for the 2010 reporting year, however with the realistic targets in the new strategic plan we believe there will be substantial improvement in 2011 and return to profitability in 2012.

### **CSD Holdings (CSDH) Pty Ltd**

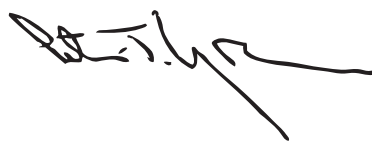
CSDH is a wholly owned subsidiary of CSD. Its assets are the land and buildings at Westbrook and the Dalby office and warehouse. Due to the performance of CSDG, rent for the Westbrook site was not charged in 2010.

### **Concluding remarks**

In the largest domestic seed sale year CSD has experienced, I place on record my sincere thanks to all our staff who have worked diligently not only to bring future products through the pipeline but also to produce high quality planting seed for our industry in a timely manner and work right across the group of companies in many capacities. The implementation of the amended CSDG strategic plan is being closely monitored by Board and Management and we expect to see a turn-around in performance in 2011.

Under the strong and dedicated leadership of our Chairman, James Kahl, the Board of CSD and subsidiary companies continue to embrace the ever-changing business environment.

Finally, I thank my fellow Board members for their support during 2010 and look forward to the challenges 2011 will provide.



**Peter T Graham**

Managing Director

*Dated at Wee Waa 6th April 2011*





# Cotton Breeding Australia Report

## 1. Outline of CBA

CBA was established in July 2007, to formalise the collaboration between CSD and CSIRO, to deliver additional breeding and research outcomes for the Australian cotton industry. The collaboration is based on CSD and CSIRO contributing \$2m each per annum to research, with CSD also co-funding the current CSIRO breeding program, and additional capital expenditure to enhance the research efforts.

## 2. CBA representatives for 2010

The activities of CBA are governed by a Management Committee, made up of 3 representatives each from CSIRO (J. Burdon, L. Henderson and G. Bonnett) and CSD (J. Kahl, H. Gaynor and P. Graham). The Management Committee is guided in the scientific area by a Scientific Committee, which is comprised of CSD (P. Steel, S. Ainsworth and R. Eveleigh) and CSIRO representatives (F. Gubler, G. Constable and G. Rebetzke), as well as grower representation nominated by Cotton Australia (L. Mulligan and D. Erbacher) and a Cotton Research and Development Corporation (CRDC) representative (B. Pyke) to give industry input. Both committees meet quarterly to review research and breeding progress, as well as to manage the commercialisation and release of new varieties and traits.

## 3. Project Areas and Outcomes

In 2010 the highlights for CBA have been:

### (a) Breeding

Sicot 74BRF was a new variety release for 2010/11. It is a full season variety with adaptation to longer season areas where it provides a higher yielding option to Sicot 71BRF and with excellent fibre quality and disease resistance. Other specialist varieties released were Siokra 24BRF and Sicala 340BRF. A strong focus on new variety discovery continues and these will be delivered as new conventional and transgenic varieties in the future.

CSD and CSIRO are focused on protecting intellectual property (IP) developed through CBA and during the year successfully patented the variety Sicala 350B.

### (b) Research

The research program has 10 active projects, covering priority areas of fibre quality, heat and water stress, and pest and disease resistance. Good progress is being made in all areas. The research is aimed at providing either breeding technologies such as molecular markers, or traits that can be delivered by the breeding program, to further enhance CSIRO/CSD varieties into the future.

### (c) Capital Expenditure

To help CSIRO meet the research and breeding outcomes, CSD has provided capital to purchase a number of key pieces of equipment during 2010, including a small gin and pre cleaner located in Dalby, a machinery shed located at CSIRO "Myall Vale" and a fluorometer to assist with measurements to screen cotton breeding lines for heat tolerance.

(d) CBA held a very successful Science Symposium at the 2010 biennial cotton conference in August. Scientists were able to share with industry the progress of research undertaken in this collaboration.

CBA is clearly operating with a single focus on better breeding and research outcomes for the Australian Cotton Industry.

The continuing delivery of demonstrable outcomes is a credit to those working both in the CBA committees and the scientific, breeding and commercial teams behind those committees.

### James Kahl

Chair CBA Management Committee - 2010  
Chair Cotton Seed Distributors Ltd



# Director's Report

*The directors present their report together with the financial report of Cotton Seed Distributors Limited and controlled entities ("the group") for the year ended 31 December 2010 and the Auditors' Report thereon.*

## 1. Directors

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

	PERIOD AS DIRECTOR
James Kahl	14 April 2003 to present
Harvey Gaynor	14 April 2003 to present
Philip Thompson	24 February 2003 to present
John P Grellman	11 September 1974 to present
Peter T Graham	6 September 1990 to present
John W Blood	15 May 2001 to 18 May 2010
Paul McVeigh	21 May 2002 to present
Robert Tuck	4 May 2009 to present
Tom Keene	22 March 2010 to present
John Stewart	18 May 2010 to present

## 2. Objectives

The short and long term objective of the group is to be the premier producer of commercial planting seed offering value and quality by incorporating leading germplasm and desirable traits bred to satisfy the industry.

The strategy for achieving the above goal is to partner with other organisations that complement the group's skill set. For example, the group has a joint venture with CSIRO Plant Industry to develop premier germplasm for Australia and the rest of the world.

The group made progress in its key objective this year by strengthening the relationship with the partners in the commercial planting seed business.

The group measures its performance by measuring the strength of its relationships with its partners and the products it offers being purchased by customers at a rate commensurate with the seasonal conditions.

## 3. Directors Details

### James Kahl - B.Ec, UNE. Member AICD

*Managing Director of Merced Farming Pty Ltd, aged 59*

Joined the Board in 2003 in a non executive capacity. Mr Kahl has 40 years of experience in agricultural practices. He is Chairman of Cotton Seed Distributors Limited, Cotton Seed International Pty Ltd, CSD Holdings Pty Limited and Vice Chairman of CSD Grains Pty Limited. He is also a member and alternating Chairman of Cotton Breeding Australia Management and Commercial Committees and a Director of the International Joint Venture company – BCSI.

### Harvey Gaynor - B.Sc.Agr (Syd). Member AICD

*General Manager of Auscott Pty Ltd (farming, processing and marketing business) based in the Gwydir Valley, aged 46*

Joined the Board in 2003 in a non executive capacity. Mr Gaynor is a graduate of the Australian Rural Leadership program. He is Vice Chairman of Cotton Seed Distributors Limited, a Director of CSD Holdings Pty Ltd, member of the Cotton Breeding Australia Management and Commercial Committees.

### Philip Thompson - FCA. Fellow AICD

*Chartered Accountant and Managing Director of his own agricultural advisory company specialising in capital raising for equity partnerships and corporate advisory, aged 48*

Joined the Board in 2003 in a non-executive capacity. Mr Thompson has been Joint Company Secretary since 2003. He has 25 years experience in the agricultural finance, accounting and advisory sector. He is a Director of CSD Holdings Pty Ltd and is Chairman of the Finance & Audit Committee.

### John Grellman - WDA (Hon)

*Non executive Director, aged 76*

Joined the Board in 1974 in a non-executive capacity. Mr Grellman has 40 years experience in cotton production. He is a Director of CSD Holdings Pty Ltd.

### Peter Graham - B.Rur.Sc, UNE. Fellow AICD

*Managing Director, aged 54*

Joined the Board in 1990. Mr Graham has 30 years of experience in the cotton industry and completed the AICD 'Mastering the Boardroom' advanced course in 2006. He is Managing Director of

# Director's Report (continued)

all wholly owned subsidiaries: Cotton Seed International Pty Ltd, CSD Grains Pty Ltd and CSD Holdings Pty Ltd and a Director of BCSI. He is a member of the Cotton Breeding Australia Management and Commercial Committees and is a member of the Finance and Audit Committee

## **Paul McVeigh - Member AICD**

*Cotton, grain & cattle producer in the Darling Downs Queensland, aged 55*

Joined the Board in 2002 in a non-executive capacity. Mr McVeigh has 37 years experience in agriculture and is a graduate of the Australian Rural Leadership program. He is Chairman of CSD Grains Pty Ltd, a Director of CSD Holdings Pty Ltd and is a member of the Finance & Audit Committee.

## **Robert Tuck**

*Cotton producer in the Macquarie Valley, New South Wales, aged 44*

Joined the Board in 2009 in a non-executive capacity. Mr Tuck has 20 years experience in agriculture and has worked extensively with the industry and community holding various leadership roles. He is a Director of CSD Holdings Pty Ltd.

## **Tom Keene - B.Ec, UNE. Fellow AICD**

*Chairman of Grain Trade Australia Limited, Non-executive Director of Midway Limited and Member of the Rabo Bank Advisory Board, aged 62*

Joined the Board in 2010 in a non-executive capacity. Mr Keene has extensive experience in the grain industry with broad knowledge across the whole sector from production to processing. He was Managing Director of Graincorp Limited from 1993 until his retirement in 2008. Awarded the NAB Agribusiness Leader of the year in 2007. He is a Director of CSD Grains Pty Limited and CSD Holdings Pty Limited.

## **John Stewart - B.Rur.Sc, UNE. Member AICD**

*CEO of PrimeAg Australia, a public company producing cotton and grains on more than 30,000ha of irrigated and dryland country, aged 51*

Joined the Board in 2010 in a non executive capacity. Prior to joining Prime Ag, Mr Stewart worked in the seed and agricultural biotechnology sector for more than ten years in Europe, the USA and New Zealand. He is a Director of CSD Holdings Pty Ltd.

## **4. Meetings of Directors**

During the financial year, eleven meetings of directors of the company were held. Attendances by each director during the year

were as follows:

### **DIRECTORS' MEETINGS**

	<i>Eligible to attend</i>	<i>Number attended</i>
James Kahl	11	11
Harvey Gaynor	11	10
Philip Thompson	11	9
John Grellman	11	11
Peter Graham	11	11
John Blood	3	3
Paul McVeigh	11	9
Robert Tuck	11	10
Tom Keene	9	9
John Stewart	8	7

## **5. Auditors Independence Declaration**

The lead auditors independence declaration for the year ended 31 December 2010 has been received and can be found on page 11 of the financial report.

## **6. Members Liability**

The group is incorporated under the Corporations Act 2001 and is a company limited by guarantee. If the company is wound up, the constitution states that each member is required to contribute a maximum of \$200.00 each towards any outstanding obligations of the company. At 31 December 2010 the collective liability was \$114,800 (2009: \$115,200).

Signed in accordance with a resolution of the Directors:



## **James Kahl**

Director

*Dated at Wee Waa 6th April 2011*

# Auditors' independence declaration

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

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cotton Seed Distributors Limited.

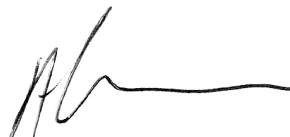
As lead audit partner for the audit of the financial statements of Cotton Seed Distributors Limited for the financial year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

*Nexia Court & Co*

**Nexia Court & Co.**  
Chartered Accountants



**Andrew Hoffmann**  
Partner

*Dated at Sydney 6th April 2011*



# Independent auditors' report

## Report on the Financial Report

We have audited the accompanying financial report of Cotton Seed Distributors Limited ('the Company'), which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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 an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

## Auditor's Opinion

In our opinion the financial report of Cotton Seed Distributors Limited is 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 2010 and of its performance for the year ended on that date; and
- b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

*Nexia Court & Co*

## Nexia Court & Co.

Chartered Accountants

*Andrew Hoffmann*

## Andrew Hoffmann

Partner

*Dated at Sydney 6th April 2011*



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# Directors' Declaration

In the directors' opinion:

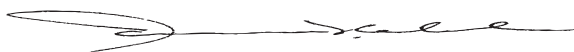
1. The financial statements and notes, as set out on pages 14 to 33, are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position as at 31 December 2010 and of the performance for the year ended on that date of the consolidated Group.

2. In the directors' opinion, there are reasonable grounds to believe that the consolidated Group 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 directors.



**James Kahl**

Director

*Dated at Wee Waa 6th April 2011*

# Statement of comprehensive income

for the year ended 31 December 2010

CONSOLIDATED			
	Notes	2010 \$	2009 \$
Revenue from sale of goods	2A	56,051,630	27,032,612
Cost of goods sold		(31,609,886)	(21,755,737)
<b>Gross profit</b>		<b>24,441,744</b>	<b>5,276,875</b>
Other revenues	2B	7,102,268	6,838,395
Other income	3	2,847,150	1,084,540
Product development and testing expenses		(6,617,858)	(6,387,854)
Administrative expenses		(3,850,100)	(4,056,775)
Other expenses		(212,128)	(69,041)
		<b>(730,668)</b>	<b>(2,590,735)</b>
Finance income	4	646,854	174,489
Finance expense	4	-	(1,062)
<b>Net finance income</b>		<b>646,854</b>	<b>173,427</b>
<b>Profit before impairment and income tax</b>		<b>24,357,930</b>	<b>2,859,567</b>
Impairment loss	6	-	(5,352,685)
<b>Profit/ (loss) before income tax</b>		<b>24,357,930</b>	<b>(2,493,118)</b>
Income tax expense	7A	-	-
<b>Profit/ (loss) for the year</b>		<b>24,357,930</b>	<b>(2,493,118)</b>
Other comprehensive income for the period, net of income tax		-	-
<b>Total comprehensive income for the period</b>		<b>24,357,930</b>	<b>(2,493,118)</b>
<b>Profit/ (loss) attributable to owners of the Company</b>		<b>24,357,930</b>	<b>(2,493,118)</b>
<b>Total comprehensive income attributable to owners of the Company</b>		<b>24,357,930</b>	<b>(2,493,118)</b>

\* The above statement should be read in conjunction with the accompanying notes

# Statement of financial position

as at 31 December 2010

		CONSOLIDATED	
	Notes	2010 \$	2009 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	36,480,048	7,450,919
Derivative financial instruments	9	-	4,344
Trade and other receivables	10	15,138,597	10,738,718
Inventories	11	5,403,795	10,176,982
Other current asset	12	294,067	378,959
<b>Total current assets</b>		<b>57,316,507</b>	<b>28,749,922</b>
<b>Non-current assets</b>			
Financial assets	13	596	596
Property, plant and equipment	14	31,716,362	32,299,361
<b>Total non-current assets</b>		<b>31,716,958</b>	<b>32,299,957</b>
<b>Total Assets</b>		<b>89,033,465</b>	<b>61,049,879</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	12,054,726	8,470,033
Short-term provisions	16	434,391	404,426
<b>Total current liabilities</b>		<b>12,489,117</b>	<b>8,874,459</b>
<b>Non-current liabilities</b>			
Other long-term provisions	16	208,607	197,609
<b>Total non-current liabilities</b>		<b>208,607</b>	<b>197,609</b>
<b>Total Liabilities</b>		<b>12,697,724</b>	<b>9,072,068</b>
<b>Net Assets</b>		<b>76,335,741</b>	<b>51,977,811</b>
<b>Equity</b>			
Reserves	17	12,831,280	12,831,280
Retained surpluses		63,504,461	39,146,531
<b>Total equity</b>		<b>76,335,741</b>	<b>51,977,811</b>

\* The above statement should be read in conjunction with the accompanying notes



# Statement of changes in equity

as at 31 December 2010

<b>CONSOLIDATED</b>	<b>Retained Earnings \$</b>	<b>Capital Profits Reserve \$</b>	<b>Asset Revaluation Reserve \$</b>	<b>Total \$</b>
Balance at 1 January 2010	39,146,531	3,069,723	9,761,557	51,977,811
Total comprehensive income for the year	24,357,930	-	-	24,357,930
<b>Balance at 31 December 2010</b>	<b>63,504,461</b>	<b>3,069,723</b>	<b>9,761,557</b>	<b>76,335,741</b>
Balance at 1 January 2009	41,639,649	3,069,723	9,761,557	54,470,929
Total comprehensive income for the year	(2,493,118)	-	-	(2,493,118)
<b>Balance at 31 December 2009</b>	<b>39,146,531</b>	<b>3,069,723</b>	<b>9,761,557</b>	<b>51,977,811</b>

*\* The above statement should be read in conjunction with the accompanying notes*

# Statement of cash flows

*for the period ended 31 December 2010*

		<b>CONSOLIDATED</b>	
	<b>Notes</b>	<b>2010 \$</b>	<b>2009 \$</b>
<b>Cash from operating activities</b>			
Receipts from customers		68,301,986	37,099,683
Payments to suppliers & employees		(38,314,595)	(36,902,859)
Interest received		646,854	174,489
Interest paid		-	(1,062)
<b>Net cash flows from operating activities</b>	<b>18</b>	<b>30,634,245</b>	<b>370,251</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant & equipment		272,746	98,488
Acquisition of property, plant and equipment		(1,877,862)	(3,156,041)
<b>Net cash flows from investing activities</b>		<b>(1,605,116)</b>	<b>(3,057,553)</b>
<b>Cash flows from financing activities</b>			
Loans - related parties		-	-
<b>Net cash flows from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net change in cash &amp; cash equivalents</b>		<b>29,029,129</b>	<b>(2,687,302)</b>
Cash and cash equivalents at the beginning of the reporting period		7,450,919	10,138,221
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>18</b>	<b>36,480,048</b>	<b>7,450,919</b>

*\* The above statement should be read in conjunction with the accompanying notes*

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## Note 1: Statement of Significant Accounting Policies

### (a) Reporting entity

The financial report covers the consolidated group of Cotton Seed Distributors Limited and controlled entities ("The Group").

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (b) Basis of Preparation

#### (i) Statement of compliance

The Group early adopted AASB1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements for the financial year beginning 1 January 2010 to prepare Tier 2 general purpose financial statements.

The consolidated financial report of the Group are Tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements (AASB - RDRs) (including interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 6th April 2011.

#### (ii) Basis of measurement

The financial 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.

#### (iii) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

#### (iv) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 impairment;
- Note 10 trade and other receivables;
- Note 11 inventories;
- Note 13 financial assets;
- Note 14 property, plant and equipment;
- Note 16 employee provisions

#### (v) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2010 that is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- AASB 1053 Application of Tiers of Australian Accounting Standards effective 1 January 2010.

The adoption of AASB1053 and AASB2010-2 allows the Group to remove a number of disclosures.

### (c) Principles of consolidation

A list of controlled entities is contained in Note 20 to the financial statements. All controlled entities have a December financial year end.

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Group.

A controlled entity is an entity that Cotton Seed Distributors Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

### (d) Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## Note 1: Statement of Significant Accounting Policies (continued)

items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the Statement of Comprehensive Income, except for differences arising on the retranslation of available-for-sale equity instruments.

### (e) Financial instruments

#### *(i) Non derivative financial instruments*

Non derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the Statement of Comprehensive Income, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

#### Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein,

other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the Statement of Comprehensive Income

#### Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### *(ii) Derivative financial instruments*

The Group uses derivative financial instruments (including forward currency contracts and forward commodity contracts) to hedge its risks associated with foreign currency and commodity prices. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of commodity contracts are also determined using a discounted cash flow valuation technique using cash flow estimates based on observable and unobservable forward prices for the commodity. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the Statement of Comprehensive Income for the year.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (The Group does not currently have any fair value hedges).
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction (The Group currently does not have any cash flow hedges).

The Group does not meet the criteria for hedge accounting.

# Notes to and forming part of the financial statements

## for the period ended 31 December 2010

### Note 1: Statement of Significant Accounting Policies (continued)

#### (iii) Share capital

##### Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

#### (f) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to reserves in members' funds. To the extent that the increase reverses a decrease previously recognised in the Statement of Comprehensive Income, the increase is first recognised in the Statement of Comprehensive Income. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Statement of Comprehensive Income.

#### Depreciation

Land is not depreciated. Depreciation on other assets is calculated using either the straight line or diminishing value methods to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

The estimated useful lives used for each class of depreciable assets are:

#### Class of fixed assets

<b>Buildings</b>	40 years
<b>Plant &amp; equipment</b>	3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Net gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income as revenue.

#### (g) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (h) Impairment

##### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## Note 1: Statement of Significant Accounting Policies (continued)

All impairment losses are recognised in the Statement of Comprehensive Income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the Statement of Comprehensive Income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the Statement of Comprehensive Income.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

### *(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined,

net of depreciation or amortisation, if no impairment loss had been recognised.

### **(i) Employee Benefits**

#### *(i) Short-term benefits*

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related oncosts, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *(ii) Long-term benefits*

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

### **(j) Revenue**

#### *(i) Sale of goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

#### *(ii) Royalty revenue*

Revenue from royalties is recognised when the entity is entitled to the receivable and the amount can be reasonably estimated. If a royalty cannot be reasonably estimated, it is recognised at time of receipt.

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## Note 1: Statement of Significant Accounting Policies (continued)

### *(iii) Interest revenue*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

### *(iv) Dividend revenue*

Dividend revenue is recognised when the right to receive a dividend has been established.

### *(v) Other revenue*

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

### **(k) Leases**

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### **(l) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

### **(m) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### **(n) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

### **(o) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### **(p) Parent entity financial information**

The financial information for the parent entity, Cotton Seed Distributors Limited, disclosed in Note 23 has been prepared on the same basis as the consolidated financial statements.



# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

	<b>CONSOLIDATED</b>	
	<b>2010 \$</b>	<b>2009 \$</b>
<b>Note 2: Revenue</b>		
<b>Note 2A: Sale of goods revenue</b>	56,051,630	27,032,612
<b>Note 2B: Other revenue</b>		
Royalty revenue	32,080,920	20,780,856
Less: Seed access fees	(22,659,561)	(12,277,558)
Less: Station Costs	(2,319,091)	(1,664,903)
<b>Net royalty revenue</b>	<b>7,102,268</b>	<b>6,838,395</b>
<b>Note 3: Other income</b>		
Net gain on the disposal of property, plant & equipment	229,540	89,919
Rent income	-	81,810
Other income including rebates	2,617,610	912,811
Net foreign exchange gain	-	-
<b>Total other income</b>	<b>2,847,150</b>	<b>1,084,540</b>
<b>Note 4: Net finance income</b>		
<b>Finance expense</b>		
Interest - external parties	-	(1,062)
<b>Finance income</b>		
Interest - other parties	646,854	174,489
Interest - related parties	-	-
Trust distribution - related parties	-	-
<b>Net finance income</b>	<b>646,854</b>	<b>173,427</b>
<b>Note 5: Expenses</b>		
Employee benefits expense	6,228,717	5,644,006
Depreciation - property, plant & equipment	2,417,654	2,209,040
Bad debts written off	-	-
Loss on foreign exchange differences	212,128	69,041

# Notes to and forming part of the financial statements

for the period ended 31 December 2010

## CONSOLIDATED

	2010 \$	2009 \$
<b>Note 6: Impairment</b>		
Impairment of inventory	-	2,107,452
Impairment of land & buildings	-	990,599
Impairment of plant & equipment	-	2,254,634
Impairment of investments	-	-
Impairment of loans	-	-
	<b>0</b>	<b>5,352,685</b>

## Note 7: Income tax

### Note 7A: The prima facie tax on profit before income tax is reconciled to the income tax as follows:

Profit/ (loss) before income tax expense	24,357,930	(2,493,118)
Tax at the Australian tax rate of 30%	(7,307,379)	(727,507)
Add tax effect of:		
Less tax effect of:		
• the Company being exempt from income tax	(7,307,379)	(727,507)
Effect of deferred tax assets not brought to account		
	<b>0</b>	<b>0</b>

### Note 7B: Deferred tax assets not brought to account

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Tax losses	2,801,423	1,322,015
Foreign withholding tax credits expiring within:		
- One year	122,057	313,013
- Between one and five years	912,252	1,324,110

The potential deferred tax asset will only be obtained if:

- 1) the relevant company derives future assessable income of a nature and amount sufficient to enable the benefit to be realised;
- 2) the company continues to comply with the conditions for deductibility imposed by the law; and
- 3) no changes in tax legislation adversely affect the company in realising the benefit.

# Notes to and forming part of the financial statements

for the period ended 31 December 2010

## CONSOLIDATED

2010 \$

2009 \$

### Note 8: Cash and cash equivalents

Cash on hand	2,940	3,561
Cash at bank	9,477,108	5,446,317
Deposits on Call	27,000,000	2,001,041
	<b>36,480,048</b>	<b>7,450,919</b>

### Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

<b>Total cash and cash equivalents</b>	<b>36,480,048</b>	<b>7,450,919</b>
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### Note 9: Derivative financial instruments

#### Current

Put options - cash flow hedges	-	4,344
	<b>0</b>	<b>4,344</b>

#### (a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign currency rates and commodity price movements.

##### (i) Forward currency contracts - cash flow hedges

The Group sells product, receives royalties and has commitments overseas. In order to protect against exchange rate movements, the Group has entered into forward currency contracts from time to time to sell US dollars. These contracts are hedging highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made.

As at 31 December 2010, the Group had no forward currency contracts outstanding.

##### (ii) Put options - cash flow hedges

The Group purchase commodities for resale from time to time. In order to protect against falling commodity prices the Group has entered into put options under which it has a right to sell commodities at the price of the put option. As at 31 December 2010, the Group had no put options outstanding.

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

	<b>CONSOLIDATED</b>	
	<b>2010 \$</b>	<b>2009 \$</b>
<b>Note 10: Trade and other receivables</b>		
<b>Current</b>		
Trade receivables	2,332,358	2,030,222
Provision for impairment of receivables	(19,457)	0
	<b>2,312,901</b>	<b>2,030,222</b>
Other debtors	11,888,225	8,487,767
Net GST receivable	937,471	220,729
<b>Amounts receivable from wholly owned subsidiaries</b>		
• Cotton Seed International Pty Limited	-	-
• CSD Grains Pty Limited	-	-
• CSD Property Trust	-	-
<b>Total current trade and other receivables (gross)</b>	<b>15,138,597</b>	<b>10,738,718</b>
<b>Non-Current</b>		
<b>Amounts receivable from wholly owned subsidiaries</b>		
• CSD Grains Pty Limited	-	-
Less : Provision for impairment	-	-
	<b>0</b>	<b>0</b>
• CSD Property Trust	-	-
<b>Total non-current trade and other receivables (gross)</b>	<b>0</b>	<b>0</b>
<b>Note 11: Inventories</b>		
<b>Current</b>		
Raw materials & stores - at cost	3,125,168	5,775,160
Finished goods and work in progress - at net realisable value	2,278,627	4,401,822
	<b>5,403,795</b>	<b>10,176,982</b>

# Notes to and forming part of the financial statements

for the period ended 31 December 2010

	CONSOLIDATED	
	2010 \$	2009 \$
Note 12: Other current assets		
<b>Current</b>		
Prepayments	294,067	378,959
	<b>294,067</b>	<b>378,959</b>
Note 13: Financial assets		
<b>Unlisted investments, at cost:</b>		
• share & units in controlled entities	-	-
• less accumulated impairment	-	-
	0	0
• shares in other related parties	596	596
	<b>596</b>	<b>596</b>
Note 14: Property, plant and equipment		
<b>Note 14A: Land and buildings</b>		
<b>Freehold land</b>		
At directors' valuation	3,919,464	3,919,464
<b>Total freehold land</b>	<b>3,919,464</b>	<b>3,919,464</b>
<b>Buildings on freehold land</b>		
At directors' valuation	21,123,248	21,043,240
Less accumulated depreciation	(3,371,418)	(2,880,450)
<b>Total buildings on freehold land</b>	<b>17,751,830</b>	<b>18,162,790</b>
<b>Total land and buildings (non-current)</b>	<b>21,671,294</b>	<b>22,082,254</b>
<b>Note 14B: Plant and equipment</b>		
<b>Plant &amp; equipment:</b>		
At directors' valuation	27,604,674	26,476,339
Less accumulated depreciation	(17,957,811)	(16,590,492)
<b>Total plant &amp; equipment</b>	<b>9,646,863</b>	<b>9,885,847</b>

# Notes to and forming part of the financial statements

for the period ended 31 December 2010

## CONSOLIDATED

2010 \$

2009 \$

Note 14: Property, plant and equipment (continued)

**Note 14B: Plant and equipment (continued)**

**Work in progress:**

At cost	398,205	331,260
<b>Total work in progress</b>	<b>398,205</b>	<b>331,260</b>
<b>Total property, plant and equipment (non-current)</b>	<b>31,716,362</b>	<b>32,299,361</b>

Freehold land, buildings, and plant & equipment are carried at Director's valuation. The value reflected in the financial statements is at fair value, based on an independent valuation carried out as at 31st December 2007, 14 April 2009 and recent additions.

**Note 14C: Movements in carrying amounts**

**Table A: Reconciliation of the opening and closing balances of property, plant and equipment (2010)**

CONSOLIDATED	Land \$	Buildings \$	Plant & equipment \$	Work in progress \$	Total \$
<b>Current year</b>					
Balance at the beginning of year	3,919,464	18,162,790	9,885,847	331,260	32,299,361
Additions	-	80,008	1,357,341	398,205	1,877,862
Disposals	-	-	(899)	-	(43,207)
Transfers	-	-	331,260	(331,260)	0
Depreciation expense	-	(490,968)	(1,926,686)	-	(2,417,654)
<b>Carrying amount at the end of year</b>	<b>3,919,464</b>	<b>17,751,830</b>	<b>9,646,863</b>	<b>398,205</b>	<b>31,716,362</b>
<b>Prior year</b>					
Balance at the beginning of year	3,915,038	19,317,834	11,063,967	309,323	34,606,162
Additions	4,426	340,359	1,781,254	1,030,002	3,156,041
Disposals	-	-	(8,569)	-	(8,569)
Transfers	-	-	1,008,065	(1,008,065)	0
Impairment loss (Note 6)	-	(990,599)	(2,254,634)	-	(3,245,233)
Depreciation expense	-	(504,804)	(1,704,236)	-	(2,209,040)
<b>Carrying amount at the end of year</b>	<b>3,919,464</b>	<b>18,162,790</b>	<b>9,885,847</b>	<b>331,260</b>	<b>32,299,361</b>

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

	<b>CONSOLIDATED</b>	
	<b>2010 \$</b>	<b>2009 \$</b>
Note 15: Trade and other payables		
<b>Current</b>		
Unsecured liabilities	-	-
Trade payables	354,944	1,074,624
Other creditors and accruals	11,699,782	7,395,409
<b>Total supplier payables</b>	<b>12,054,726</b>	<b>8,470,033</b>
Amounts payable to wholly owned subsidiaries		
- Cotton Seed international Pty Limited	-	-
	<b>12,054,726</b>	<b>8,470,033</b>

## Note 16: Provisions

Employee entitlements		
Current	434,391	404,426
Non-current	208,607	197,609
<b>Total employee provisions</b>	<b>642,998</b>	<b>602,035</b>

## Note 17: Reserves

### (a) Asset revaluation reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of noncurrent assets measured at fair value in accordance with AASB 116.

### (b) Capital reserve

The capital reserve includes prior net revaluation increments and decrements arising from the revaluation of noncurrent assets, that have been subsequently disposed and those recognised under previous Australian Accounting Standards.



# Notes to and forming part of the financial statements

for the period ended 31 December 2010

## CONSOLIDATED

2010 \$

2009 \$

### Note 18: Cash flow reconciliation

#### (a) Reconciliation of cash and cash equivalents as per Statement of Financial Position to Statement of Cash Flows

Report cash and cash equivalents as per:

Statement of cash flows	36,480,048	7,450,919
Statement of financial position	36,480,048	7,450,919
<b>Difference</b>	<b>0</b>	<b>0</b>
<b>Reconciliation of operating result to net cash from operating activities:</b>		
Profit/ (Loss) for the period	24,357,930	(2,493,118)
<b>Non-cash flows in profit:</b>		
Depreciation and amortisation	2,417,654	2,209,040
Impairment loss	-	5,352,685
Net gain on disposal of property, plant and equipment	(229,540)	(89,919)
<b>Changes in assets and liabilities</b>		
Change in trade and other receivables	(4,399,879)	(1,265,224)
Change in derivative instruments	4,344	(4,344)
Change in inventories	4,773,187	(2,713,837)
Change in other current assets	84,892	(77,577)
Change in trade payables & other payables	3,584,693	(653,712)
Change in provisions	40,964	106,257
<b>Net cash from/(used by) operating activities</b>	<b>30,634,245</b>	<b>370,251</b>

#### (b) Finance facilities

The Company has a bank overdraft facility amounting to \$3,000,000 (2009: \$10,000,000). The Overdraft facility expired on 31 December 2010.

The Group has executed, in favour of their bankers, interlocking guarantees (unlimited as to amount) supported by first ranking equitable mortgages, as fixed and floating charges over the whole of their assets and undertakings to secure all advances, bank overdraft accommodation and bank loan facilities which may be granted from time to time to companies within the Group.

The Group has taken up bank guarantees of \$377,800 (2009: \$750,000). \$261,800 is a guarantee in favour of Ergon Energy. This guarantee reduces by \$37,400 per annum to securitise an agreement to remain Ergon Energy customers for at least 10 years. \$116,000 is a guarantee in favour of the Toowoomba Regional Council to securitise an agreement to seal site vehicle movement routes.

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## CONSOLIDATED

2010 \$

2009 \$

### Note 19: Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transaction with related parties:

#### (a) Key management personnel remuneration

Total compensation	1,597,970	1,416,310
	<b>1,597,970</b>	<b>1,416,310</b>

#### (b) Key management personnel transactions

B. Ellis - purchase motor vehicle	32,000	-
J. Grellman (Sandhurst Pastoral Company Pty Ltd) - Area and seed premium	14,677	28,061
J. Kahl (Merced Farming) - Soy beans and storage	-	254,217
P. McVeigh (Loch Eaton Enterprises) - Soy beans	-	227,235
S. Ainsworth - Fuzzy cotton seed	-	1,171

Note 20: Controlled entities	Country of incorporation	Percentage owned 2010	Percentage owned 2009
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#### Parent and ultimate parent entity:

Cotton Seed Distributors Limited	Australia
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#### Subsidiaries of parent entity:

Cotton Seed International Pty Limited	Australia	100%	100%
CSD Grains Pty Limited	Australia	100%	100%
CSD Holdings Pty Limited	Australia	100%	100%
CSD Property Trust	Australia	100%	100%

# Notes to and forming part of the financial statements

for the period ended 31 December 2010

## CONSOLIDATED

2010 \$

2009 \$

### Note 21: Leases and commitments

#### (a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements and payable:

• not later than 12 months	74,099	49,020
• between 12 months and 5 years	235,529	15,693

<b>309,628</b>	<b>64,713</b>
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The Group leases property and equipment under non-cancellable operating leases expiring within two to five years.

#### (b) Capital expenditure commitments

Plant and equipment purchases contracted for but not provided for and payable:

• not later than 12 months	955,278	510,512
• between 12 months and 5 years	2,298,000	2,223,693
• greater than 5 years	921,750	1,550,680

<b>4,175,028</b>	<b>4,284,885</b>
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#### (c) Research expenditure commitments

Future research commitments not provided for in the financial statements and payable:

• not later than 12 months	3,500,956	3,474,688
• between 12 months and 5 years	13,689,875	12,765,507
• greater than 5 year	5,386,250	8,448,468

<b>22,577,081</b>	<b>24,688,663</b>
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<b>Total of capital and research expenditure commitments</b>	<b>26,752,109</b>	<b>28,973,548</b>
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The Group has established a long term agreement with the CSIRO to establish a suitable framework to provide long term funding for the breeding by CSIRO of new and improved cotton varieties for Australia and other markets as well as developing technologies which can be incorporated into the Breeding program and/or management practices associated with new varieties for the benefit of the Australian cotton industry ensuring a long term pipeline of quality varieties for exploitation by CSD. As a result of this expenditure, the Group has a 50% ownership in current and future elite lines and varieties.

# Notes to and forming part of the financial statements

*for the period ended 31 December 2010*

## CONSOLIDATED

2010 \$

2009 \$

### Note 22: Contingent liabilities and contingent assets

The Group is entitled to a contingent asset in the form of an end point royalty which will be payable in 2011 estimated in the range of \$3 million to \$9 million.

### Note 23: Parent entity financial information

#### (a) Summary financial information

##### Statement of financial position

Current assets	50,075,455	17,732,449
Total assets	84,986,034	57,377,309
Current liabilities	9,566,562	6,065,831
Total liabilities	9,756,676	6,247,520
<b>Net Assets</b>	<b>75,229,358</b>	<b>51,129,789</b>
<b>Equity</b>		
Reserves	12,831,280	12,831,280
Retained surpluses	62,398,078	38,298,509
<b>Total equity</b>	<b>75,229,358</b>	<b>51,129,789</b>
Profit for the year	24,099,569	(4,109,372)
Total comprehensive income	24,099,569	(4,109,372)
<b>(b) Guarantees entered into by the parent</b>	116,000	-
<b>(c) Contingent liabilities of the parent</b>	-	-
<b>(d) Contractual commitments for the acquisition of property, plant and equipment</b>	514,297	-

### Note 24: Events subsequent to balance date

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

[illegible]





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