



Leaders in the field

46TH ANNUAL REPORT

COTTON SEED DISTRIBUTORS LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2011

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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 reasearch program conducted by CSIRO.

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, 15th May 2012 at 10am.

1. Present and Apologies
 2. To confirm the Minutes of the Annual General Meeting held on 17th May 2011
 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, 2011 and the reports of the directors and auditors thereon
 7. To consider and, if thought fit, pass the following resolution:
That the constitution of the Company be amended by making the amendments shown in the markup copy of the Constitution which has been posted on the Company's website <http://www.csd.net.au/asset/send/2507/inline/original/>
 8. To set Directors' remuneration
The Board of Directors has recommended that the current "pool" for Non-executive Director fees remains unchanged
 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, 5th April 2012

CHAIRMAN'S REPORT

Given the continuing drought breaking rains and reasonable prices, the industry planted a record area to cotton in 2011 delivering to CSD more than 8,000mt of cotton seed sales and a surplus of \$65M. It is remarkable how quickly this industry can change. Recent years have seen the cotton breeding program secured for the long term for the cotton industry by the creation of Cotton Breeding Australia.

We have watched the ACGRA merge into Cotton Australia. Now, without continuing government funding support, the CRC is drawing to a close. Our industry structure continues to evolve. CSD continues to consider the best use of our resources, given our fundamental role as the provider of the best cotton varieties, traits and treatments and the scope of our activities around that research. Our role is focussed on the development and the extension of this research to the industry.

Our priorities require a long term view with the feast or famine nature of CSD's business. In the last ten years CSD has incurred its only two reported deficits, reported two years of minimal surpluses and now two years of our largest surpluses. Clearly, with a large portion of our costs being fixed in nature, our financial performance is directly related to the volume of seed sales. How we invest in the business during the upturns must see CSD through the downturns. CSD's history of investments (perhaps with the exception of a flour mill) has proven to be more than prudent. Our investments into varieties, traits, global exploitation of these, inventory management, extension and development, Cottech, Cotton Breeding Australia and operating assets of plant, land and water have all served our industry well. With the recent results, CSD has now secured the resources necessary to support our commitment to Cotton Breeding Australia through to at least 2022. We are investigating opportunities to fast track research in biotech either through breeding varieties with inherent traits and/or through add on genetic traits. Over the last decade our capital expenditure both on seed production equipment and trial and development farming has been held to a minimum and can now be upgraded.

With Bollgard® III release on the horizon, we have taken the opportunity to become more involved with the trait protection activity. With CSIRO and Monsanto, we are pursuing a combined view of what is necessary to protect these traits from resistance and therefore expose growers to only the very necessary operations of supplied refuge and pupae destruction.

We are implementing a clear strategy to deal with the Westbrook facility. There is a refocus onto the original intent of CSD Grains. This is to invest in the research, development and delivery of varieties and biotech in crops used in rotation within the cotton industry. There is an opportunity to invest in diversified cropping in preparation for the next downturn in cotton production.

Given the demonstrable impact of large volume seed sales, we are considering the cost of seed, treatments and delivery to our growers in those years and expect to make some adjustments to better support the industry's growers where we can. All of the company's activities are considered within the parameters of CSD's tax free status, our corporate structure and the changing legislation relating to them.

Through Cotton Seed International the ongoing marketing of our varieties in global territories has optimised our ability to manage and protect ours and CSIRO's intellectual property. This is now deriving strong income streams in the America's and Europe. Material derived from CSIRO germplasm some years ago is now, through our BCSI breeding JV, starting to impact on those markets and contribute more significantly to our financial results.

Peter Graham and the CSD team have done an outstanding job of managing the inventory for a second consecutive year. In both years they delivered treated cotton seed to the industry with much larger volumes than the previous year. I thank the Senior Management team for their assistance in the heavy demands of planning and negotiating CSD's future ten to twenty years ahead as we must do to ensure our industry's seed and trait supply.

Your CSD Board remains a good balance of skilful, enthusiastic contributors. CSD benefits from their generosity of time and input. I thank them for their support. In particular I thank John Grellman for his stability in leadership. As Chairman for twelve years and in support of myself as Chairman in recent years, John demonstrated leadership which regularly proved to have been in the right direction. John retired from the Board in December 2011 and leaves CSD and the industry better for his time and efforts spent.



James Kahl

Chairman

Dated at Wee Waa, 5th April 2012

MANAGING DIRECTOR'S REPORT

Dear Member,

Summary:

2011 was a year characterised by more normal seasonal conditions across most Australian cotton growing regions. The coupling of abundant water supplies for irrigation and favourable bale prices saw a further increase in cotton area from new and returning cotton growers. The interest in cotton as an alternative crop in the area to the South of the Macquarie Valley, along with the commitment from CSD to service this new and expanding region resulted in a major increase in seed sales. The area planted to cotton in Australia increased from 520,000 green ha's in 2010 to just over 594,000 green ha's in 2011. This was another record planting for the Australian Cotton Industry and set the foundation for a record surplus of \$65m for the CSD Group. Cost control and a clear focus on our goals assisted greatly in creating this result, which will now allow CSD via the "research reserve" to meet its full commitment (up to \$50m) to "Cotton Breeding Australia" for the next 10 years along with other investments that will underpin the success of our industry.

Cotton Seed Distributors (CSD) Ltd:

Strong demand for CSD cotton varieties in 2011 provided considerable operational challenges for the company. Over the recent years replanting of cotton has not been a significant portion of our sales, however in 2011, 10% of the area was replanted mainly due to poor establishment conditions at planting time. We are pleased to report that CSD supplied in excess of 8000MT of planting seed which sets 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 particularly the dedicated operations and logistics team at "Shenstone".

During 2011 CSD maintained its strong financial commitment to the "Cotton Breeding Australia" joint venture with CSIRO, contributing over \$4.25m of member's funds to the cotton breeding program. CSD continued its' contribution as a partner in the Cotton, Catchments & Communities Cooperative Research Centre, provided sponsorship support for the Cotton Industry Awards by supporting the CSD Researcher of the Year Award as well as making significant contributions towards many other industry and community related events and organisations.

The seed production and research farms, "Little Mollee", "Westella" (adjacent to "Little Mollee" which was purchased during the year) and "Shenstone" remain very important assets for our early generation cotton planting seed operations. The key functions provided by these assets include the advanced screening and seed multiplication of new germplasm developed by the CSIRO Cotton Breeding Team 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.

Our variety portfolio continues to evolve and reflects changing market needs. Therefore, it would be no surprise to growers that the adoption of biotechnology traits by the cotton industry intensified with 99% of planting seed supplied by CSD incorporating at least one biotech trait. Varieties such as Sicut 71BRF, Sicut 74BRF and Sicut 71RRF represent a very large proportion of our cotton planting seed sales in 2011. That said, we also ensured a broad range of important alternate companion varieties were available to meet the specific needs of our customers. Sicut 75BRF which has improved disease tolerance to fusarium, was advanced during 2011 and we expect to be able to supply larger volumes of this variety in 2012.

Conventional cotton varieties are important to CSD and we are currently advancing a new conventional variety which is scheduled for release in 2012. The use of Liberty Link® technology has continued to generate grower interest with Sicut 70BL being the main commercial variety at the moment but we expect to commercialise two complimentary Bollgard II / Liberty Link varieties in 2012.

It is a credit to the CSIRO Plant Breeding Team who continue to 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 manages its cotton planting seed inventory to ensure that growers are able to capitalize on planting opportunities by supplying cotton planting seed in line with its commitment to "supply in full and on time". The annual Early Order program was very well supported and remains a very 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 technologies.

CSD Grains (CSDG) Pty Ltd:

CSDG is a wholly owned subsidiary of CSD. As reported last year the company undertook a strategic review in mid 2010 resulting in the immediate implementation of a new Strategic Plan. The new plan clearly recognised 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 soybean planting seed business resides under the management and control of CSD. The milling and grading business which remained in CSDG has made significant headway during 2011 but still lacks the critical mass required to be profitable. The partners we are working with are all developing new business opportunities which take time especially in a mature market. The 2011 financial result for CSDG is below budget but within an amended forecast accepted by the Board mid way through the year.

The strategy for CSDG is still to mirror the cotton strategy in other crops that have a potential fit in our member's farming systems. 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.

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 2011.

Concluding remarks:

In the largest domestic seed sales 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 to work across the group of companies in many capacities. The implementation of the amended CSDG strategic plan in 2010 has resulted in 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. I would like to place on record my sincere thanks to John Grellman who dedicated 37 years of sterling service to CSD. His friendship, vision and guidance will not be forgotten.

Finally, I thank my fellow Board members for their support during 2011 and look forward to the challenges 2012 will provide especially as we now have full water in all irrigated cotton growing areas and the growing recognition that cotton is an excellent complementary crop in the dryland cropping system.

**Peter T Graham***Managing Director*

Dated at Wee Waa, 5 April 2012

COTTON BREEDING AUSTRALIA REPORT

1. OUTLINE OF COTTON BREEDING AUSTRALIA:

Cotton Breeding Australia was established in July 2007, to formalise the collaboration between CSD and CSIRO and 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. COTTON BREEDING AUSTRALIA REPRESENTATIVES FOR 2011:

The activities of Cotton Breeding Australia are governed by a Management Committee, made up of three representatives each from CSIRO (J Burdon, L Henderson and M Peoples) 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 B Ford) 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 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 2011 the highlights for Cotton Breeding Australia have been:

(a) Breeding

The CSIRO Breeding and Biotechnology Team was awarded the prestigious CSIRO Chairman's Medal in 2011, which acknowledged the impact that the release of Sicot 71BRF had made to the Australian cotton industry.

The breeding team is working with the biotechnology team to utilise markers for Cotton Bunchy Top in the selection process for new varieties. The development of new Genuity™ Bollgard III®/ Roundup Ready Flex® varieties is proceeding with the first multisite replicated field selection trials sown in 2011.

(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. One key area expanded in 2011 is the investigation of critical factors in fibre development, with the target of producing novel fibres to differentiate Australian production.

(c) Capital Expenditure

In 2011 a new cone seeder and GPS system was commissioned for sowing the large suite of cotton breeding trials across the cotton belt. This new system will be in place for the 2012 sowing. As well a small gin and precleaner was purchased for Dalby and a freezer and tissue analyser for Canberra. A large range of new equipment and instruments are planned for purchase in 2012 including a Gas Chromatography - Mass Spectrometer (GC-MS) for state-of-the-art analysis of cell wall carbohydrates essential in establishing the new cell wall science capabilities in Canberra, a Cottonscope fibre fineness and maturity testing instrument for the Core Breeding project to enhance screening for fibre quality and a number of smaller instruments for the Core Biotech project to replace aging equipment needed for high throughput screening of transgenic breeding lines.

Cotton Breeding Australia 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 Cotton Breeding Australia committees and the scientific, breeding and commercial teams behind those committees.



Jeremy Burdon

Chair CBA Management Committee - 2011

Chief, CSIRO Plant Industry

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 2011 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 31 December 2011
Peter T Graham	6 September 1990 to present
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
Joanne Grainger	1 March 2012 to present

2. OBJECTIVES

The short and long term objectives 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. 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 61

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 and CSD Holdings 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). Fellow AICD

Chief Operating Officer of Auscott Ltd (farming, processing and marketing business) based in the Gwydir Valley, aged 47

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 49

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 77

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 55

Joined the Board in 1990. Mr Graham has 32 years of experience in the cotton industry and completed the AICD 'Mastering the Boardroom' advanced course in 2006. He is Managing Director of 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.

DIRECTOR'S REPORT

3. DIRECTORS DETAILS (CONTINUED)

Paul McVeigh - Member AICD

Cotton, grain and cattle producer in the Darling Downs Queensland, aged 56

Joined the Board in 2002 in a non-executive capacity. Mr McVeigh has 40 years experience in agriculture and is a graduate of the Australian Rural Leadership program. He is a director of CSD Grains Pty Ltd, 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 46

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 and is a member of the Finance and Audit Committee.

Tom Keene - B.Ec, UNE. Fellow AICD

Chairman of Grain Trade Australia Limited, Non-executive Director of Midway Limited and Non-executive Director of Australian Agricultural Company Limited, aged 64

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 Chairman of CSD Grains Pty Limited and a director of CSD Holdings Pty Limited.

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

Non-executive Director, aged 52

Joined the Board in 2010 in a non executive capacity. Mr Stewart was Chief Executive Officer of Prime Ag Australia until 2011 and has 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 and CSD Grains Pty Ltd.

Joanne Grainger - B.A. Dip Ed, UNE, Adv Dip Ag. Tocal College, Graduate AICD

Cotton producer in the Border Rivers region at NSW, QLD and President of Queensland Farmers Federation, aged 57

Joined the Board in 2011 in a non-executive capacity. Mrs Grainger has 30 years experience in agriculture and has been involved in policy development and advocacy for the cotton industry at both federal and state levels. A Director of the Primary Industries Education Foundation. Mrs Grainger 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

	Eligible to attend	Number attended
James Kahl	11	11
Harvey Gaynor	11	11
Philip Thompson	11	11
John Grellman	11	10
Peter Graham	11	11
Paul McVeigh	11	10
Robert Tuck	11	10
Tom Keene	11	10
John Stewart	11	10

5. AUDITORS INDEPENDENCE DECLARATION

The lead auditors independence declaration for the year ended 31 December 2011 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 2011 the collective liability was 115,800 (2010: \$115,200).

Signed in accordance with a resolution of the Directors:



James Kahl

Director

Dated at Wee Waa, 5th April 2012

INDEPENDENT AUDITORS' 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 2011, 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.
Chartered Accountants



Andrew Hoffmann
Partner
Dated at Sydney, 5th April 2012

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 2011, 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 2011 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.

Chartered Accountants



Andrew Hoffmann

Partner

Dated at Sydney, 5th April 2012

DIRECTORS' DECLARATION

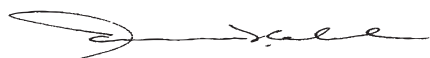
In the directors' opinion:

1. The financial statements and notes, as set out on pages 14 to 37, are in accordance with the Corporations Act 2001 and:

(a) comply with Australian Accounting Standards Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position as at 31 December 2011 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 Company 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, 5th April 2012

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

		CONSOLIDATED	
	NOTES	2011 (\$)	2010 (\$)
Revenue from sale of goods	3A	78,682,507	56,051,630
Cost of goods sold		(34,535,518)	(28,791,622)
Gross profit		44,146,989	27,260,008
Other revenues	3B	28,656,502	7,102,268
Other income	4	294,187	255,636
Product development and testing expenses		(6,373,305)	(6,617,858)
Administrative expenses		(4,300,810)	(3,850,100)
Other expenses		0	(212,128)
		18,276,574	(3,322,182)
Finance income	5	2,681,969	646,854
Finance expense	5	-	-
Net finance income		2,681,969	646,854
Profit before impairment and income tax		65,105,532	24,584,680
Impairment loss	7	(104,370)	-
Profit before income tax		65,001,162	24,584,680
Income tax expense	8A	-	-
Profit for the year		65,001,162	24,584,680
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		65,001,162	24,584,680
Profit attributable to owners of the Company		65,001,162	24,584,680
Total comprehensive income attributable to owners of the Company		65,001,162	24,584,680

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

STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

		CONSOLIDATED	
	NOTES	2011 (\$)	2010 (\$)
ASSETS			
Current assets			
Cash and cash equivalents	9	92,075,571	36,480,048
Trade and other receivables	10	23,194,975	15,138,597
Inventories	11	5,004,921	5,403,795
Other current asset	12	338,699	294,067
Total current assets		120,614,167	57,316,507
Non-current assets			
Financial assets	13	596	596
Property, plant and equipment	14	21,394,450	22,404,871
Intangibles	15	3,061,500	0
Total non-current assets		24,456,546	22,405,467
Total Assets		145,070,712	79,721,974
LIABILITIES			
Current liabilities			
Trade and other payables	16	11,907,661	12,054,726
Short-term provisions	17	455,229	434,391
Total current liabilities		12,362,889	12,489,117
Non-current liabilities			
Other long-term provisions	17	232,499	208,607
Total non-current liabilities		232,499	208,607
Total Liabilities		12,595,388	12,697,724
Net Assets		132,475,324	67,024,250
EQUITY			
Reserves	18	1,049,250	3,669,061
Retained surpluses		131,426,074	63,355,189
Total equity		132,475,324	67,024,250

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

STATEMENT OF CHANGES IN EQUITY

as at 31 December 2011

CONSOLIDATED					
	NOTES	RETAINED EARNINGS	CAPITAL PROFITS RESERVE	ASSET REVALUATION RESERVE	TOTAL
Balance at 1 January 2011		63,504,461	3,069,723	9,761,557	76,335,741
Adjustment on change of accounting policy	1 (b) (v)	(149,272)		(9,162,219)	(9,311,491)
Restated total equity at the beginning of the financial year		63,355,189	3,069,723	599,338	67,024,250
Transfers		3,069,723	(3,069,723)		0
Land and intangible revaluations				449,912	449,912
Total comprehensive income for the year		65,001,162	-	-	65,001,162
Balance at 31 December 2011		131,426,074	0	1,049,250	132,475,324
Balance at 1 January 2010		39,146,531	3,069,723	9,761,557	51,977,811
Adjustment on change of accounting policy	1 (b) (v)	(376,022)		(9,162,219)	(9,538,241)
Restated total equity at the beginning of the financial year		38,770,509	3,069,723	599,338	42,439,570
Total comprehensive income for the year		24,584,680	-	-	24,584,680
Balance at 31 December 2010		63,355,189	3,069,723	599,338	67,024,250

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

STATEMENT OF CASH FLOWS

for the period ended 31 December 2011

		CONSOLIDATED	
	NOTES	2011 (\$)	2010 (\$)
Cash from operating activities			
Receipts from customers		109,403,136	68,301,986
Payments to suppliers & employees		(52,705,604)	(38,314,595)
Interest received		2,681,969	646,854
Net cash flows from operating activities	19	59,379,501	30,634,245
Cash flows from investing activities			
Proceeds from sale of plant & equipment		102,999	272,746
Acquisition of property, plant and equipment		(3,886,978)	(1,877,862)
Net cash flows from investing activities		(3,783,979)	(1,605,116)
Net change in cash & cash equivalents		55,595,522	29,029,129
Cash and cash equivalents at the beginning of the reporting period		36,480,048	7,450,919
Cash and cash equivalents at the end of the reporting period	9	92,075,571	36,480,048

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 2011

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 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 authorised for issue by the Board of Directors on 19th March 2012. The directors have the power to amend and reissue the financial report.

(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 7 impairment;
- Note 10 trade and other receivables;
- Note 11 inventories;
- Note 14 property, plant and equipment;
- Note 22 contingent liabilities and contingent assets

(v) New Accounting Standards and Interpretations

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

Voluntary change in accounting policy

The financial report has been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to property, plant and equipment as well as intangible assets.

The new accounting policy is to carry buildings and plant & equipment at historical cost less depreciation and impairment. Land and water licences continue to be carried at fair value. Refer to Note 1(f) and 1(g) for full details of the new accounting policy.

The previous accounting policy was to carry land (including water licences), buildings, plant & equipment at fair value.

It has been judged that the change in the accounting policy will result in the financial report providing more reliable information given the highly specialised nature of the Group's assets and the associated difficulty in obtaining accurate estimates of fair value.

The impact of the change in accounting policy on the Financial statements is set out below.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

(v) New Accounting Standards and Interpretations (continued)

	PREVIOUSLY DISCLOSED 31/12/2009	ADJUSTMENT	REVISED 31/12/2009
Statement of financial position			
Buildings	18,162,790	(7,989,065)	10,173,725
Plant & equipment	9,885,847	(1,549,176)	8,336,671
	28,048,637	(9,538,241)	18,510,396
Reserves	12,831,280	(9,162,219)	3,669,061
Retained surpluses	39,146,531	(376,022)	38,770,509
	51,977,811	(9,538,241)	42,439,570

	PREVIOUSLY DISCLOSED 31/12/2010	ADJUSTMENT	REVISED 31/12/2010
Statement of financial position			
Buildings	17,751,831	(7,877,658)	9,874,173
Plant & equipment	9,646,864	(1,433,835)	8,213,029
	27,398,695	(9,311,493)	18,087,202
Reserves	12,831,280	(9,162,219)	3,669,061
Retained surpluses	63,504,462	(149,273)	63,355,189
	76,335,742	(9,311,492)	67,024,250
Statement of comprehensive income			
Depreciation expense	2,417,654	(226,750)	2,190,904

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

	PREVIOUSLY POLICY 31/12/2011	ADJUSTMENT	REVISED 31/12/2011
Statement of financial position			
Buildings	18,104,821	(7,765,664)	10,339,157
Plant & equipment	8,703,836	(1,062,623)	7,641,213
	26,808,657	(8,828,287)	17,980,370
Reserves	10,211,469	(9,162,219)	1,049,250
Retained surpluses	131,092,142	333,932	131,426,074
	141,303,611	(8,828,287)	132,475,324
Statement of comprehensive income			
Depreciation expense	2,589,716	(438,916)	2,150,800
Net (gain)/ loss on the disposal of property, plant & equipment	(28,068)	(44,291)	(72,359)

(c) Principles of consolidation

A list of controlled entities is contained in Note 21 to the financial statements. All controlled entities

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 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 profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

(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 profit or loss, 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 profit or loss.

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 profit or loss 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 does not currently have any cash flow hedges attributable to future inventory purchases).

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 2011

Note 1: Statement of Significant Accounting Policies (continued)

(e) Financial instruments (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 is shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers. All other property, plant and equipment is stated at historical cost less depreciation and impairment. 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 are credited to reserves in members' funds. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. 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

Buildings	40 Years
Plant & equipment	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) Intangible assets

Water licence rights

Water licences are shown at fair value based on periodic valuations with reference to the active market.

Water licences have an indefinite useful life and are thus not subject to amortisation but are tested for impairment by comparing their recoverable amount with their carrying amount. Water licences are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

(h) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

(i) 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.

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

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 profit or loss. 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 profit or loss. 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.

(j) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

(k) 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.

(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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 1: Statement of Significant Accounting Policies (continued)

(p) 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.

(q) 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.

Note 2: Leases and commitments	CONSOLIDATED	
	2011 (\$)	2010 (\$)
(i) Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements and payable:		
- not later than 12 months	94,534	74,099
- between 12 months and 5 years	240,370	235,529
	334,904	309,628
The Group leases property, water and equipment under non-cancellable operating leases expiring within two to five years.		
(ii) Seed increase contract commitments		
Cotton seed purchases contracted but not provided for and payable:		
- not later than 12 months	4,846,090	4,750,729
	4,846,090	4,750,729
(iii) Capital expenditure commitments		
Plant & equipment purchases contracted for:		
- not later than 12 months	1,208,880	514,297

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 2: Leases and commitments	2011 (\$)	2010 (\$)
(iv) Cotton Breeding Australia commitments		
<i>(a) Capital expenditure commitments</i>		
Plant and equipment purchases contracted for but not provided for and payable:		
- not later than 12 months	1,448,076	955,278
- between 12 months and 5 years	2,424,000	2,298,000
- greater than 5 years	3,723,000	921,750
	7,595,076	4,175,028
<i>(b) Research expenditure commitments</i>		
Future research commitments not provided for in the financial statements and payable:		
- not later than 12 months	3,541,270	3,500,956
- between 12 months and 5 years	13,641,248	13,689,875
- greater than 5 years	22,857,037	5,386,250
	40,039,555	22,577,081
Total of Cotton Breeding Australia commitments	47,634,631	26,752,109

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.

During the year, the Cotton Breeding Australia agreement was reviewed. Both CSIRO and the Group committed to extending the agreement for a further 5 years until 2022.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 3: Revenue	2011 (\$)	2010 (\$)
Note 3A: Sale of goods revenue	78,682,507	56,051,630
Sales of goods revenue increase in 2011 is a function of larger sales volume and a differing product mix.		
Note 3B: Other revenue		
Royalty revenue	65,542,023	32,080,920
Less: Seed access fees	(35,130,104)	(22,659,561)
Less: Station Costs	(1,755,417)	(2,319,091)
Net royalty revenue	28,656,502	7,102,268

The group is entitled to an End Point Royalty (EPR). The amount of the EPR is dependent on a number of significant assumptions and cannot be estimated reliably at year end. Revenue can only be recognised when the amount can be reliably estimated. The EPR in relation to 2010 seed sales is included in Royalty revenue in the 2011 financial year. The EPR in relation to 2011 seed sales will be included in Royalty revenue in the 2012 financial year (refer to note 22 - Contingent Assets).

	CONSOLIDATED	
Note 4: Other income	2011 (\$)	2010 (\$)
Net gain on the disposal of property, plant & equipment	72,359	229,540
Other income	9,534	26,096
Net foreign exchange gain	212,294	-
Total other income	294,187	255,636

	CONSOLIDATED	
Note 5: Net finance income	2011 (\$)	2010 (\$)
Finance income		
Interest - other parties	2,681,969	646,854
Net finance income	2,681,969	646,854

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 6: Expenses	2011 (\$)	2010 (\$)
Employee benefits expense	6,261,571	6,228,717
Depreciation - property, plant & equipment	2,150,800	2,417,654
Bad debts written off	-	-
Loss on foreign exchange differences	-	212,128
Total rental expense relating to operating leases	94,534	74,099

	CONSOLIDATED	
Note 7: Impairment	2011 (\$)	2010 (\$)
Reversal of impairment of land & buildings (note 14)	(310,243)	-
Impairment of plant & equipment (note 14)	414,613	-
	104,370	0

Impairment increases and decreases relate to assets used by CSD Grains Pty Limited. The impairment adjustments have been based on independent valuations and market based information.

	CONSOLIDATED	
Note 8: Income tax	2011 (\$)	2010 (\$)
Note 8A: The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax expense	65,001,162	24,584,680
Tax at the Australian tax rate of 30%	(19,500,348)	(7,375,404)
Add tax effect of:		
Less tax effect of:		
- the Company being exempt from income tax	(19,500,348)	(7,375,404)
Effect of deferred tax assets not brought to account		
	0	0

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

CONSOLIDATED		
Note 8: Income tax (continued)	2011 (\$)	2010 (\$)
Note 8B: 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	2,393,190	2,801,423
Foreign withholding tax credits expiring within:		
- One year	29,232	122,057
- Between one and five years	644,465	912,252

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.

CONSOLIDATED		
Note 9: Cash and cash equivalents	2011 (\$)	2010 (\$)
Cash on hand	2,230	2,940
Cash at bank	16,073,341	9,477,108
Short term deposits	76,000,000	27,000,000
	92,075,571	36,480,048
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:		
Total cash and cash equivalents	92,075,571	36,480,048

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 10: Trade and other receivables	2011 (\$)	2010 (\$)
Current		
Trade receivables	1,812,074	2,332,358
Provision for impairment of receivables	0	(19,457)
	1,812,074	2,312,901
Other debtors	20,492,493	11,888,225
Net GST receivable	890,409	937,471
Total current trade and other receivables (gross)	23,194,975	15,138,597

	CONSOLIDATED	
Note 11: Inventories	2011 (\$)	2010 (\$)
Raw materials & stores - at cost	2,117,404	3,125,168
Finished goods and work in progress - at net realisable value	2,887,517	2,278,627
	5,004,921	5,403,795

Write-downs of inventories to net realisable value recognised as an expense during the year ended 31 December 2011 amounted to \$462,800 (2010: nil). The expenses has been included in cost of goods sold in the Statement of Comprehensive Income.

	CONSOLIDATED	
Note 12: Other current assets	2011 (\$)	2010 (\$)
Current		
Prepayments	338,699	294,067
	338,699	294,067

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 13: Financial assets	2011 (\$)	2010 (\$)
Unlisted investments, at cost:		
- shares in other related parties	596	596
	596	596

	CONSOLIDATED	
Note 14: Property, plant and equipment	2011 (\$)	2010 (\$)
Note 14A: Land and buildings		
Freehold land		
At fair value	3,323,600	3,919,464
Total freehold land	3,323,600	3,919,464
Buildings on freehold land		
At cost	14,711,047	16,464,867
Less accumulated depreciation	(4,371,890)	(6,590,694)
Total buildings on freehold land	10,339,157	9,874,173
Total land and buildings (non-current)	13,662,757	13,793,637
Note 14B: Plant and equipment		
Plant & equipment:		
At cost	19,918,695	22,459,962
Less accumulated depreciation	(12,277,482)	(14,246,933)
Total plant & equipment	7,641,213	8,213,029

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 14: Property, plant and equipment (continued)	2011 (\$)	2010 (\$)
Note 14B: Plant and equipment (continued)		
Work in progress:		
At cost	90,480	398,205
Total work in progress	90,480	398,205
Total property, plant and equipment (non-current)	21,394,450	22,404,871

Valuations of land and water licences

An independent valuation of the group's land and water licences was performed to determine the fair value. The valuation was performed by a Certified Practising Valuer with reference to recent market transactions on arm's length terms and was effective from 31 August 2011. The Group reclassified water licences from land to intangible assets as per Note 15.

As per note 1 (b) (v), the group ceased to measure buildings and plant & equipment at fair value given the highly specialised nature of the assets and the difficulty in obtaining accurate estimates of fair value. A building valuation was undertaken on an impaired building asset during the year. The valuations were assessed by the addition of the value of the land and improvements with indirect reference to sales in the area. The building valuation resulted in a reversal of a previous impairment loss of \$310K on buildings.

Note 14C: Movements in carrying amounts

Table A: Reconciliation of the opening and closing balances of property, plant and equipment

CONSOLIDATED	NOTES	LAND (\$)	BUILDINGS (\$)	PLANT & EQUIPMENT (\$)	WORK IN PROGRESS (\$)	TOTAL (\$)
Current year						
Balance at the beginning of year	1(b)(v)	3,919,464	9,874,173	8,213,029	398,205	22,404,871
Additions		2,149,738	680,942	965,818	90,480	3,886,978
Disposals		-	-	(30,640)	-	(30,640)
Depreciation expense		-	(660,215)	(1,490,586)	-	(2,150,801)
Revaluations	14	449,912				449,912
Impairment			310,243	(414,613)		(104,370)
Reclassification to intangible assets	15	(3,061,500)	-			(3,061,500)
Transfers		(134,014)	134,014	398,205	(398,205)	0
Carrying amount at the end of year		3,323,600	10,339,157	7,641,213	90,480	21,394,450

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

Note 14C: Movements in carrying amounts (continued)

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

CONSOLIDATED	NOTES	LAND (\$)	BUILDINGS (\$)	PLANT & EQUIPMENT (\$)	WORK IN PROGRESS (\$)	TOTAL (\$)
Prior year						
Balance at the beginning of year	1(b)(v)	3,919,464	10,173,725	8,336,671	331,260	22,761,120
Additions		-	80,008	1,357,341	398,205	1,835,554
Disposals		-	-	(899)	-	(899)
Transfers			-	331,260	(331,260)	0
Depreciation expense		-	(379,560)	(1,811,344)	-	(2,190,904)
Carrying amount at the end of year		3,919,464	9,874,173	8,213,029	398,205	22,404,871

		CONSOLIDATED	
Note 15: Intangible assets	NOTES	2011 (\$)	2010 (\$)
Water licences			
Water licences at fair value	14	3,061,500	0
Balance at beginning of year		-	-
Transfer from land		3,061,500	-
Revaluation to fair value		-	0
Total intangibles (non-current)		3,061,500	

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

CONSOLIDATED		
Note 16: Trade and other payables	2011 (\$)	2010 (\$)
Current		
Unsecured liabilities	-	-
Trade payables	2,655,022	354,944
Other creditors and accruals	9,252,638	11,699,782
Total supplier payables	11,907,661	12,054,726

CONSOLIDATED		
Note 17: Provisions	2011 (\$)	2010 (\$)
Employee entitlements		
Current	455,229	434,391
Non-current	232,499	208,607
Total employee provisions	687,728	642,998

Note 18: 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 and ASAB138.

(b) Capital reserve

The capital reserve included prior net revaluation increments and decrements arising from the revaluation of noncurrent assets, that had been subsequently disposed and those recognised under previous Australian Accounting Standards. The balance of the reserve was transferred to retained surpluses in the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 19: Cash flow reconciliation	2011 (\$)	2010 (\$)
(a) Reconciliation of operating result to net cash from operating activities:		
Profit/ (Loss) for the period	65,001,162	24,584,680
Non-cash flows in profit:		
Depreciation and amortisation	2,150,801	2,190,904
Impairment loss	104,370	-
Net gain on disposal of property, plant and equipment	(72,359)	(229,540)
Changes in assets and liabilities		
Change in trade and other receivables	(8,056,379)	(4,399,879)
Change in derivative instruments	-	4,344
Change in inventories	398,874	4,773,187
Change in other current assets	(44,632)	84,892
Change in trade payables & other payables	(147,065)	3,584,693
Change in provisions	44,730	40,964
Net cash from/(used by) operating activities	59,379,501	30,634,245

(b) Finance facilities

The Company has no bank loan facilities (2010: \$3,000,000).

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 (2010: \$377,800). \$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 2011

Note 20: 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:

	CONSOLIDATED	
	2011 (\$)	2010 (\$)
(a) Key management personnel remuneration		
Total compensation	1,660,824	1,597,790
	1,660,824	1,597,790
The key management personnel remuneration includes the Board of Directors and the 5 most senior executives.		
(b) Key management personnel transactions		
B. Ellis - purchase motor vehicle	0	32,000
J Grellman (Sandhurst Pastoral Company Pty Ltd) - Area and seed premium	21,455	14,677

Note 21: Controlled entities	COUNTRY OF INCORPORATION	PERCENTAGE OWNED 2011	PERCENTAGE OWNED 2010
Parent and ultimate parent entity:			
Cotton Seed Distributors Limited	Australia		
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%

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 2012 in the range of \$nil to \$13 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2011

	CONSOLIDATED	
Note 23: Parent entity financial information	2011 (\$)	2010 (\$)
a) Summary financial information		
Statement of financial position		
Current assets	118,419,724	50,075,455
Total assets	141,006,304	75,447,792
Current liabilities	10,198,120	9,566,562
Total liabilities	10,413,353	9,756,676
Net Assets	130,592,951	65,691,116
Equity		
Reserves	969,090	3,669,061
Retained surpluses	129,623,861	62,022,055
Total equity	130,592,951	65,691,116
Profit for the year	64,305,334	24,326,319
Total comprehensive income	64,305,334	24,326,319
(b) Guarantees entered into by the parent	116,000	116,000
(c) Contingent liabilities of the parent	-	-
(d) Contractual commitments for the acquisition of property, plant and equipment	1,153,892	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.

NOTES

