



# 47<sup>th</sup> Annual Report

for the year ended 31 December 2012

*Leaders in the field*



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# AGENDA

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Cotton Seed Distributors Limited will be held on Tuesday 21 May 2013 at 11.00am at the Narrabri RSL Club.

1. Present and Apologies
2. To confirm the minutes of the Annual General Meeting held on 15th May 2012
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 the financial statements of the Company for the year ended 31st December 2012 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. James Kahl and John Stewart offer themselves for re-election. Jim Cush offers himself for election.
8. To set Directors' remuneration
  - The current "pool" for Non-executive Director fees has not been increased since 2010. The Board of Directors are recommending that the "pool" be increased from \$350,000 per annum to \$500,000 per annum.
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



**David Coleman**

*Company Secretary*

Dated at Wee Waa, 16 April 2013

# CHAIRMAN'S REPORT

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It has been another 'normal' season of near extremes, with a dry spring and early summer with erratic temperatures in NSW and some flooding and hot weather in QLD. That, from southern NSW to central QLD, growers rely on two varieties to deliver what is looking like another good result is an absolute credit to our breeding and variety development teams. The planted area for the industry was approximately 442,000 hectares, down from 592,000 hectares in the 2011/12 season. While total irrigated area this year increased slightly, the dryland cotton area reduced from 150,000 hectares to 28,000 hectares. The record dryland planting seen over the last two years did not eventuate due to the lack of planting opportunity. CSD's seed sales were about 6,200mt. With the Company's costs well controlled and largely fixed, the resulting surplus was just over \$52M (2011: \$65M surplus). CSD has a commitment to supply seed to meet the needs of our growers. In preparation for the season, CSD made an early commitment to ensure adequate seed availability for a potentially large planting area. This comes at a significant cost but is a service to the industry which is core to our operations.

The surpluses in recent years in CSD's operations is firstly a result of large volumes of sales given the fixed nature of most of our costs. Secondly they are a result of the industry's migration to traited varieties. This transfer of grower costs in insect and weed control, from payments for chemicals, to investments in research and development of varieties, traits and improvements in cotton growers' productivity will have a large and long impact on our cotton industry. The Board commenced 2012 with a two day strategic planning review to continue the best use of our resources, given our fundamental role as the provider of the best cotton varieties, traits, and research around that activity. Our role remains focussed on the development and the extension of this research to the industry as we fully recognise that our income not only comes from cotton growers but needs to be applied for the benefit of Australian cotton growers. In a further two day strategic planning session recently, we have largely pulled together the various advice being sought including the Australian Tax Office considerations of CSD's circumstances. All of this is being incorporated into the current strategic planning activities of CSD. Some of the options being considered include:

- by way of a substantial rebate, allocated funds to growers to facilitate further productivity investment in their farms,
- discounting the 2013 planting seed price (as we did in 2012) and,
- committing further funds to research and development in both existing projects around variety and trait delivery and new projects which should deliver productivity gains to the Australian cotton growers.

Industry data shows that Australian cotton continues to deliver productivity gains of about 1 bale/ha per decade, conservatively worth an additional \$45/ha per year. Detailed CSIRO analysis shows that half to three quarters of this gain is achieved by breeding improved varieties and the balance by growers improving their crop management. This is a spectacular performance by both Australian agricultural standards and by world cotton industries standards. To allow for a portion of CSD funds, in years of surplus, to be directed in support of the second contribution to the Australian cotton industries productivity gains is clearly a consideration in the planning.

We have seen a considerable turnover in the Directors of CSD in the past year. Commencing with John Grellman's retirement and the appointment of Joanne Grainger to that position in March last year, we went to the AGM where Phil Thompson was not re-elected and Matt Norrie was elected to the Board. At that time Phil Thompson was central to the engagement of advisors with respect to investment planning, confirmation of CSD's tax status and structural planning. He was therefore appointed to the Board to allow timely completion of these activities. In September 2012 Harvey Gaynor with his advancement to the leadership of Auscott Ltd stepped down from the Board. This allowed CSD to progress our succession planning for reinforcing skills in the audit and financial planning area of the Board with the appointment of Juanita Hamparsum to fill the vacancy. Now, with the projects Phil was leading delivering their results, his appointment to the CSD Board will conclude as at the 2013 AGM. Both Harvey and Phil joined the Board in 2003 and have given CSD nearly ten years of consistently positive service in their own areas of expertise. Harvey was Vice Chairman and serving on the Management Committee of Cotton Breeding Australia, while Phil was Chairman of the Board Audit Committee and our lead of financial scrutiny. On behalf of the whole Company I thank both Harvey and Phil for their contribution to the current and future success of CSD. The three 'new' Directors are now contributing well so that the CSD Board once again has a strong skill set to guide the Company. I thank all the eleven Board members of the 2012 year for their enthusiastic efforts and extra time given, as in what was at times a challenging year.

Peter Graham and the CSD team have managed another big season successfully. A job very well done and thank you all for it.



James Kahl  
*Chairman*

Dated at Wee Waa, 16 April 2013

# MANAGING DIRECTOR'S REPORT

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The 2012 season started with abundant water supplies for most regions however with cotton prices circa \$400/bale at planting time the industry did experience a reduction in the area planted to cotton compared to 2011. Even with a reduction in the area planted to cotton the CSD Group produced a surplus of \$52m (2011: \$65M surplus). Continued cost control, growth in the uptake of technology and a clear focus on our goals has again assisted greatly in creating this result. In August 2012 CSD along with Cotton Australia and the Cotton Research and Development Corporation announced the formation of a cotton industry collaboration to better manage the extension of research to the Australian cotton grower. CSD has committed a total of \$9.3m (\$5m in cash and \$4.3m in-kind) over 5 years to support a team of strategically located Regional Development Officers (RDO's) who will assist the industry to deliver industry developed research to cotton growers.

## **Cotton Seed Distributors (CSD) Ltd**

Strong demand for CSD cotton varieties in 2012, particularly Sicot 74BRF provided considerable operational challenges for the company as well as establishment issues for some growers. We are pleased to report that CSD supplied in excess of 6,200MT of planting seed, however we were positioned to supply significantly more seed especially if the prices rallied or the dryland industry received a planting rain. 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 our dedicated staff at CSD.

During 2012 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. During the year CSD and CSIRO undertook the first 5 year review of the joint collaboration and mutually agreed to extend the relationship on behalf of industry out to 30 June 2022. CSD continued its contribution as a partner in the Cotton, Catchments & Communities Cooperative Research Centre until it was wound up on 30 June 2012, provided sponsorship support for the Cotton Industry Awards by supporting the CSD Researcher of the Year Award, continued supporting and participating in the biennial Australian Cotton Conference as a foundation sponsor 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" 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®, Genuity® Bollgard III®, Roundup Ready Flex® technologies and Bayer CropScience's Liberty Link® technology. During the year a redevelopment was undertaken on the farming land at "Shenstone", significant earthworks were undertaken on "Westella" and an additional 233 mega litres of ground water licence was purchased ensuring CSD has the capacity to bring new varieties to market in a timely and cost effective manner.

The market continues to adopt new elite varieties very rapidly and hence the variety life cycle at CSD continues to shorten. For example out of the 17 commercial varieties offered by CSD in 2012, four varieties accounted for more than 90% of our sales. This fact makes product planning, seed production and inventory management critical to CSD's business especially given the long-term nature of cotton breeding, variety development and field testing.

CSD has seen the rapid increase in the adoption of Sicot 74BRF which occupied two thirds of our sales in 2012. This family of germplasm is delivering a very good package of traits demanded by growers such as improved yield potential, consistent fibre quality and better tolerance to diseases such as fusarium wilt. However to maximize the benefits offered by the Sicot 74 family does require close attention to crop management and in particular crop establishment practices. I would like to compliment the CSD Extension and Development team who over the last 3 years have proactively worked with industry to address many of these challenges.

In 2012, CSD continued to introduce new varieties, which included Sicot 730 (a new conventional variety) and Siokra V-18BL (a new Bollgard II variety stacked with Liberty Link technology). We also continued to advance new elite Roundup Ready Flex material and expect to have limited supply of such material in 2013.

The company also established a regulated Genuity Bollgard III seed production nursery in the spring of 2012. This is an important milestone and critical to meet seed production timelines for the planned introduction of this technology over the next few years.

## **Cotton Seed International (CSI) Pty Ltd**

CSI has continued to contribute in meeting the diversification and strategic aims of the CSD Group. The joint efforts with our partner Bayer CropScience has allowed the company to operate in and breed for markets in North, Central and South America as well as Europe with minimal risk but at the same time protect the intellectual property inherent in the CSIRO cotton germplasm. CSI reported a surplus of \$366k (2011: \$455k surplus) for the year.

CSI has executed new agreements with Bayer CropScience that will consolidate the gains made since 1997 and protect the interests of both parties in the future. This will ensure Bayer CropScience maintains access to the CSIRO germplasm supplied under the initial agreement and CSI will continue to receive ongoing royalties.

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

At the 2012 AGM I announced that CSDG (a wholly owned subsidiary of CSD) was in the process of selling the Westbrook Processing site including the plant and equipment. This transaction was settled in early June. CSDG reported a loss of \$747k (2011: \$1.63M loss) for the year and an accumulated loss of \$14.7m since the commencement of the Westbrook project. The strategy for CSDG is refocused to mirror the cotton strategy in other crops that have a potential fit in our member's farming systems and during the year the Board of CSDG reviewed strategic options for its' involvement in the grains industry at a germplasm/technology level. As a result of this review, the company is currently working to validate whether there are viable options for CSDG to explore or not. In the meantime CSDG with the assistance of CSD has continued to develop seed businesses and opportunities for involvement in seed production of higher value crops, which in the longer term will provide both diversification and benefits to CSD and its members.

### **Concluding remarks**

2012 was another good year for the CSD Group. 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. The divestment of the Westbrook processing plant has greatly assisted in ensuring all entities within the group will be profitable in 2013.

Under the 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 Harvey Gaynor who dedicated 10 years of service to CSD.

Finally, I thank my fellow Board members for their support during 2012 and look forward to the challenges 2013 will provide especially as we now have good water in Queensland and in the MacIntyre and Gwydir Valleys along with some improvement in cotton price.



**Peter T Graham**

*Managing Director*

Dated at Wee Waa, 16 April 2013



# COTTON BREEDING AUSTRALIA REPORT

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Early in 2012, CSD and CSIRO met for the scheduled review of the Cotton Breeding Australia joint venture, and moved to extend the collaboration for five years to June 2022, which will then be fifteen years from its establishment in 2007. With that decision came the approval of funding for the Core Breeding Program for the same five years. This will ensure the continuity of the Breeding Program and underpin the ongoing development of elite varieties containing market leading technologies to maintain the Australian cotton industry as the leading producer of quality cotton. The continuation of three projects directly supporting the core breeding activity - Core Biotechnology, Quality Assurance and the Darling Downs Fusarium Nursery projects were also approved.

## **Cotton Breeding Australia - Management in 2012**

The activities of Cotton Breeding Australia are governed by a Management Committee made up of three representatives from CSIRO (Jeremy Burdon/ John Manners, Mark Peoples and Lionel Henderson) and CSD (James Kahl (Chair), Harvey Gaynor/ John Stewart and Peter Graham). With Dr. Jeremy Burdon stepping down as Chief of Plant Industry at the end of 2012, Dr. John Manners has been appointed as Chief from January 2013. John will be rejoining the Cotton Breeding Australia Management Committee of which he was a member between 2007 and 2010. We are pleased to be able to retain Jeremy in 2013 as an advisor to the Management Committee. Jeremy's efforts through the foundation and ongoing management of the Cotton Breeding Australia collaboration were pivotal to the successful creation of the joint venture and its early development.

During 2012 Harvey Gaynor stood down as a Director of CSD and consequently as a member of the Cotton Breeding Australia Management Committee. Harvey's contribution to Cotton Breeding Australia over four years is reflected in its current success. We were fortunate to have in our ranks of the CSD Board the biotechnology experience that John Stewart brings to CSD and now delivers to Cotton Breeding Australia since his appointment to fill Harvey's departure.

The Scientific Committee which gives guidance to the Management Committee is comprised of three CSD representatives (Bob Ford, Steve Ainsworth and Phil Steel) and three CSIRO representatives (Greg Constable, Frank Gubler and Greg Rebetzke) as well as two grower representatives nominated by Cotton Australia (Lyndon Mulligan and Damien Erbacher) and a CRDC representative (Bruce Pyke) to give wider industry input. Both committees meet quarterly to review research, breeding progress and the development and release of new varieties and traits.

## **Breeding**

In 2012, Cotton Breeding Australia released two new varieties through CSD. Sicot 730 is a conventional variety adding to grower choice and the baseline of the breeding population. V18BL offers additional choice for alternate herbicide tolerance traits. The focus for breeding has turned to the delivery of Genuity®

Bollgard III® varieties, the first of which were planted to first year seed increase in 2012.

The sales of Pima seed have been non-existent in recent years, so that this component of the Breeding Program is being shelved until commercial support reappears. The continuing delivery of upland varieties with longer, finer, stronger fibre is impacting on the need for Pima.

## **Conventional Varieties**

While over 90% of seed used are varieties containing traits, the Breeding Program has conventional cotton central to its variety development. It is also recognised that there continues to be a need for non-Bollgard and non-traited varieties which are competitive with the best. Resources are focussed on this pipeline of improved varieties.

## **Research and Funding**

Again in 2012, both CSD and CSIRO committed a minimum of \$2M each to research. CSD continued to co-fund the CSIRO Breeding Program and supply funds for Capital purchases. The existing research projects focussed on fibre quality, heat and water stress and pest and disease resistance are continuing due to good progress being made. In 2012, two new projects have commenced. The first, to improve fibre quality by the regulation of fibre secondary cell wall production and the second, to develop rapid screening methods for water use efficiency in breeding will extend over four years with an investment of \$3M. These two projects will compliment some of the existing projects in these areas.

## **Capital Expenditure**

In 2012, a farm vehicle, a 3PL boom spray, a four row picker, two guidance systems, a seed grader and treater and a machinery shed to protect equipment were amongst the items supplied to the program. The laboratories acquired a pot filling machine, four PCR machines, a cotton scope/fibre fineness testing machine and other instruments. All of these items either assist efficiency in the field or speed up the screening and selection of germplasm.

Better breeding and research outcomes for the Australian cotton industry are the single focus of Cotton Breeding Australia. The outcomes delivered each year are the results of the efforts of our breeding and commercial teams. The focal guidance of the Scientific and Management Committees has been a credit to them.



**James Kahl**

*Chairman, Cotton Breeding Australia Management Committee*

Dated at Wee Waa, 16 April 2013



# DIRECTORS' 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 2012 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 30 September 2012
Philip Thompson	24 February 2003 to 15 May 2012, 1 July 2012 to present
Peter T Graham	6 September 1990 to present
Paul McVeigh	21 May 2002 to present
Robert Tuck	4 May 2009 to present
Tom Keene	18 May 2010 to present
John Stewart	18 May 2010 to present
Joanne Grainger	1 March 2012 to present
Matthew Norrie	15 May 2012 to present
Juanita Hamparsum	1 November 2012 to present

## 2. OBJECTIVES

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

The strategy for achieving the above goals is to:-

1. Own, develop, test and license germplasm
2. Develop, licence and commercialise traits - based on merit.
3. Be first to market to meet growers needs
4. Apply world's best practice in all operational processes

The group made progress in its key objective this year by:-

1. Continuing to improve the capacity and efficiency of its laboratory, production and early seed generation facilities
2. Strengthening the relationship with the company's germplasm and trait partners
3. Improving the company's risk mitigation framework and corporate governance processes.

The group measures its performance by whether the customer take up of its products is at a level commensurate with the seasonal conditions and by the strength of its relationships with its germplasm and trait partners.

## 3. DIRECTORS DETAILS

**James Kahl** - BEc, UNE. Member AICD.

- Managing Director of Merced Farming Pty Ltd, aged 62.

Joined the Board in 2003 in a non executive capacity. James 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. James is Chairman of Cotton Breeding Australia Management and Commercial Committees and a Director of the International Joint Venture company - BCSI.

**Peter Graham** - BRurSc, UNE. Fellow AICD.

- Managing Director, aged 56.

Joined the Board in 1990. Peter has over 33 years' of experience in the Australian and international cotton industry. He is Managing Director of all wholly owned subsidiaries: Cotton Seed International Pty Ltd, CSD Holdings Pty Ltd, CSD Grains Pty Ltd and a Director of BCSI. He is a member of the Cotton Breeding Australia Management and Commercial Committees and Chairman of the Australian Cotton Industry Council (ACIC).

**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 50.

Joined the Board in 2003 in a non-executive capacity. Phil has 25 years' experience in the agricultural finance, accounting and advisory sector. He is a Director of CSD Holdings Pty Ltd and a member of the Board Audit Committee.

**Paul McVeigh** - Member AICD.

- Cotton, grain and cattle producer in the Darling Downs Queensland, aged 57.

Joined the Board in 2002 in a non-executive capacity. Paul has 40 years' experience in agriculture and is a graduate of the Australian Rural Leadership program. He is a Director of CSD Holdings Pty Ltd and CSD Grains Pty Ltd as well as a member of the Board Audit Committee.

**Robert Tuck**

- Cotton producer in the Macquarie Valley, New South Wales, aged 47.

Joined the Board in 2009 in a non-executive capacity. Rob has 25 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 a member of the Board Farming Committee.

# DIRECTORS' REPORT

## 3. DIRECTORS DETAILS (CONTINUED)

**Tom Keene** - BEc, UNE. Fellow AICD.

▪ *Non-executive Director of Midway Limited and Non-executive Director of Australian Agricultural Company Limited, aged 65.*

Joined the Board in 2010 in a non-executive capacity. Tom 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 Chairman of CSD Board Audit Committee, Chairman of CSD Grains Pty Limited and a Director of CSD Holdings Pty Limited.

**John Stewart** - BRurSc, UNE. Member AICD.

▪ *Non-executive Director, aged 52.*

Joined the Board in 2010 in a non executive capacity. John was Chief Executive Officer of Prime Ag Australia Limited 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.

▪ *Non-executive Director, aged 58.*

Joined the Board in 2011 in a non executive capacity. Joanne 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.

**Matthew Norrie** - Dip Cotton Production and Business Management, Emerald Ag College.

▪ *Non-executive Director, aged 30.*

Joined the Board in 2012 in a non-executive capacity. A cotton, grain and cattle producer in the Namoi Valley, Matt has over 10 years farming experience and holds several positions within the cotton industry. A graduate of the Cotton Future Leaders Course. A Director of CSD Holdings Pty Ltd and a member of the Board Farming Committee.

**Juanita Hamparsum** - B.Bus, UTS. CA. AICDG. Fellow, Peter Cullen Trust.

▪ *Non-executive Director, aged 41.*

Joined the CSD Board in 2012 in a non-executive capacity. A cotton and grains producer on the Liverpool Plains, NSW and a Chartered Accountant. Juanita has 16 years' experience in agriculture, accounting and finance. She has been involved in policy development and advocacy for water and natural resource management. Currently Juanita is Chairman of the Cotton Innovation Network, Board Member and Chair of Risk and Audit Committee - Namoi Catchment Management Authority. 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	8	8
Peter Graham	11	11
Philip Thompson	9	9
Paul McVeigh	11	11
Robert Tuck	11	10
Tom Keene	11	10
John Stewart	11	10
Joanne Grainger	10	9
Matthew Norrie	8	8
Juanita Hamparsum	2	2

## 5. AUDITORS INDEPENDENCE DECLARATION

The lead auditors independence declaration for the year ended 31 December 2012 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 2012 the collective liability was \$119,800 (2011: \$115,800).

Signed in accordance with a resolution of the Directors:



**James Kahl**

*Chairman*

*Dated at Wee Waa 16th April 2013*

# 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 2012, 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, 16th April 2013

### Sydney Office

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# 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 2012, 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 2012 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*

*AM*

## Andrew Hoffmann

*Partner*

Dated at Sydney, 16th April 2013

## Sydney Office

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# DIRECTORS' DECLARATION

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In the directors' opinion:

1. The financial statements and notes, as set out on pages 14 to 39, 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 2012 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 16th April 2013*

## as at 31 December 2012

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

# STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2012

		CONSOLIDATED	
	NOTES	2012 (\$)	2011 (\$)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	151,617,116	92,075,571
Trade and other receivables	10	17,233,931	23,194,975
Inventories	11	5,885,776	5,004,921
Other current asset	12	293,705	338,699
<b>Total current assets</b>		<b>175,030,528</b>	<b>120,614,166</b>
<b>Non-current assets</b>			
Financial assets	13	596	596
Property, plant and equipment	14	17,468,803	21,394,450
Intangibles	15	2,994,000	3,061,500
<b>Total non-current assets</b>		<b>20,463,399</b>	<b>24,456,546</b>
<b>Total Assets</b>		<b>195,493,927</b>	<b>145,070,712</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	10,477,547	11,907,660
Short-term provisions	17	488,269	455,229
<b>Total current liabilities</b>		<b>10,965,816</b>	<b>12,362,889</b>
<b>Non-current liabilities</b>			
Other long-term provisions	17	114,808	232,499
<b>Total non-current liabilities</b>		<b>114,808</b>	<b>232,499</b>
<b>Total Liabilities</b>		<b>11,080,624</b>	<b>12,595,388</b>
<b>Net Assets</b>		<b>184,413,303</b>	<b>132,475,324</b>
<b>EQUITY</b>			
Reserves	18	969,090	1,049,250
Retained surpluses		183,444,213	131,426,074
<b>Total equity</b>		<b>184,413,303</b>	<b>132,475,324</b>

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



# STATEMENT OF CHANGES IN EQUITY

as at 31 December 2012

	CONSOLIDATED			
	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	(149,272)		(9,162,219)	(9,311,491)
<b>Restated total equity at the beginning of the financial year</b>	<b>63,355,189</b>	<b>3,069,723</b>	<b>599,338</b>	<b>67,024,250</b>
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
<b>Balance at 31 December 2011</b>	<b>131,426,074</b>	<b>0</b>	<b>1,049,250</b>	<b>132,475,324</b>
Balance at 1 January 2012	131,426,074	0	1,049,250	132,475,324
Disposals			(80,160)	(80,160)
Total comprehensive income for the year	52,018,139	-	-	52,018,139
<b>Balance at 31 December 2012</b>	<b>183,444,213</b>	<b>0</b>	<b>969,090</b>	<b>184,413,303</b>

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

# STATEMENT OF CASH FLOWS

for the period ended 31 December 2012

		CONSOLIDATED	
	NOTES	2012 (\$)	2011 (\$)
<b>Cash from operating activities</b>			
Receipts from customers		102,328,214	109,403,136
Payments to suppliers & employees		(50,639,851)	(52,705,604)
Interest received		5,618,363	2,681,969
<b>Net cash flows from operating activities</b>	<b>19</b>	<b>57,306,726</b>	<b>59,379,501</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		5,152,740	103,000
Acquisition of property, plant and equipment		(2,917,921)	(3,886,978)
<b>Net cash flows from investing activities</b>		<b>2,234,819</b>	<b>(3,783,978)</b>
<b>Net change in cash &amp; cash equivalents</b>		<b>59,541,545</b>	<b>55,595,523</b>
Cash and cash equivalents at the beginning of the reporting period		92,075,571	36,480,048
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>9</b>	<b>151,617,116</b>	<b>92,075,571</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 2012

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## 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 16th April 2013. 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 23 contingent liabilities and contingent assets

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

The accounting policies adopted are consistent with those of the previous financial year.

### **(c) Principles of consolidation**

A list of controlled entities is contained in Note 22 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

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

### **(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 re-translated 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 re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognised in profit or loss, except for differences arising on the re-translation 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 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 de-recognised 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 de-recognised 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 de-recognised, 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 re-measured 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

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

### (e) Financial instruments (continued)

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.

### (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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

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

### **(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.

### **(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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

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

### **(j) Employee Benefits (continued)**

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

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.

### **(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 and seed access fees*

Revenue from royalties and seed access fees is recognised when the entity is entitled to the receivable and the amount can be reasonably estimated. If a royalty and/or seed access fee 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.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

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

### **(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.

### **(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 24 has been prepared on the same basis as the consolidated financial statements.

### **(r) Discontinued operations**

On 2 June 2012, the group sold the property, plant and equipment of its grain processing facility located in Toowoomba Queensland. The proceeds of the sale were slightly greater than the carrying value of the assets. The Group incurred trading losses from the grain processing facility's operation up until the sale.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
<b>Analysis of profit for the year from discontinued operations</b>	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Loss for the year from discontinued operations</b>		
Revenue from sale of goods	1,665,412	3,810,894
Cost of goods sold	(1,992,403)	(4,202,392)
<b>Gross profit</b>	<b>(326,991)</b>	<b>(391,498)</b>
Other income	600	604
Administrative expenses	(446,869)	(825,015)
Finance income	534	70
Impairment expenses	-	(414,613)
<b>Profit before income tax</b>	<b>(772,726)</b>	<b>(1,630,452)</b>
Income tax expense	-	-
	<b>(772,726)</b>	<b>(1,630,452)</b>
Gain on discontinuance	25,755	-
Income tax expense	-	-
	<b>25,755</b>	<b>0</b>
<b>Loss for the year from discontinued operations (attributable to owners of the company)</b>	<b>(746,971)</b>	<b>(1,630,452)</b>
<b>Cash flows from discontinued operations</b>		
Net cash inflows from operating activities	362,383	415,445
Net cash inflows from investing activities	2,322,025	(192,286)
Net cash outflows from financing activities	(2,774,676)	(305,374)
<b>Net cash inflows</b>	<b>(90,268)</b>	<b>(82,215)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 2: Leases and commitments	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>(i) Operating lease commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the financial statements and payable:		
- not later than 12 months	87,023	94,534
- between 12 months and 5 years	150,030	240,370
	<b>237,053</b>	<b>334,904</b>
The Group leases property, water and equipment under non-cancellable operating leases expiring within two to five years.		
<b>(ii) Seed increase contract commitments</b>		
Cotton seed purchases contracted but not provided for and payable:		
- not later than 12 months	4,914,412	4,846,090
	<b>4,914,412</b>	<b>4,846,090</b>
<b>(iii) Capital expenditure commitments</b>		
Plant & equipment purchases contracted for:		
- not later than 12 months	816,223	1,208,880
	<b>816,223</b>	<b>1,208,880</b>
<b>(iv) Cotton Breeding Australia commitments</b>		
<i>(a) Capital expenditure commitments</i>		
Plant and equipment purchases contracted for but not provided for and payable:		
- not later than 12 months	1,654,805	1,448,076
- between 12 months and 5 years	2,420,000	2,424,000
- greater than 5 years	3,007,500	3,723,000
	<b>7,082,305</b>	<b>7,595,076</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 2: Leases and commitments (continued)	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>(iv) Cotton Breeding Australia commitments (continued)</b>		
<i>(b) Research expenditure commitments</i>		
Future research commitments not provided for in the financial statements and payable:		
- not later than 12 months	3,286,446	3,541,270
- between 12 months and 5 years	13,566,060	13,641,248
- greater than 5 years	18,845,779	22,857,037
	<b>35,698,285</b>	<b>40,039,555</b>
<b>Total of Cotton Breeding Australia commitments</b>	<b>42,780,590</b>	<b>47,634,631</b>
<b>Total leases and commitments</b>	<b>48,748,278</b>	<b>54,024,505</b>

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 extended for a further 5 years until 30 June, 2022.

In addition to the above, the Group has entered into an agreement with Cotton Australia Pty Limited and the Cotton Research and Development Corporation to co-deliver Research and Development extension. The Group has committed to funding a team of regional development officers which will, subject to a successful initial review in 2013, cost in excess of \$5 million over the 5 year term.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 3: Revenue	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Note 3A: Sale of goods revenue</b>	<b>51,996,452</b>	<b>74,871,613</b>
<b>Note 3B: Other revenue</b>		
Royalty revenue and seed access fees	64,483,499	65,542,023
Less: Royalties paid to counterparties	(28,793,420)	(35,130,104)
Less: Station Costs	(1,628,963)	(1,755,417)
<b>Net royalty revenue</b>	<b>34,061,116</b>	<b>28,656,502</b>

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 2011 seed sales is included in seed access fee revenue in the 2012 financial year. The EPR in relation to 2012 seed sales will be included in seed access fee revenue in the 2013 financial year (refer to note 23 - Contingent Assets).

	<b>CONSOLIDATED</b>	
Note 4: Other income	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Net gain on the disposal of property, plant & equipment	75,130	72,359
Other income	345,755	9,134
Net foreign exchange gain	(114,323)	212,090
<b>Total other income</b>	<b>306,562</b>	<b>293,583</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 5: Net finance income	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Finance income</b>		
Interest - other parties	5,617,829	2,681,899
<b>Net finance income</b>	<b>5,617,829</b>	<b>2,681,899</b>

	<b>CONSOLIDATED</b>	
Note 6: Expenses	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Employee benefits expense	5,479,777	5,516,991
Depreciation - property, plant & equipment	1,575,321	1,675,191
Bad debts written off	-	-
Loss on foreign exchange differences	-	-
Total rental expense relating to operating leases	86,671	94,534

	<b>CONSOLIDATED</b>	
Note 7: Impairment	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Reversal of impairment of land & buildings (note 14)	-	(310,243)
	<b>0</b>	<b>(310,243)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 8: Income tax	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Note 8A: The prima facie tax on profit before income tax is reconciled to the income tax as follows:</b>		
Profit before income tax expense	52,765,110	66,631,614
Tax at the Australian tax rate of 30%	(15,829,533)	(19,989,484)
Add tax effect of:		
Less tax effect of:		
- the Company being exempt from income tax	(15,829,533)	(19,989,484)
Effect of deferred tax assets not brought to account		
	<b>0</b>	<b>0</b>
<b>Note 8B: Deferred tax assets not brought to account</b>		
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	2,632,902	2,393,190
Foreign withholding tax credits expiring within:		
- One year	213,296	29,232
- Between one and five years	431,169	644,465

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 (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 9: Cash and cash equivalents	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Cash on hand	2,091	2,230
Cash at bank	25,615,025	16,073,341
Short term deposits	78,000,000	54,000,000
Research reserve short term deposits	48,000,000	22,000,000
	<b>151,617,116</b>	<b>92,075,571</b>

The Group has adopted an Investment Policy to assist manage its credit risk.

## 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>151,617,116</b>	<b>92,075,571</b>
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	<b>CONSOLIDATED</b>	
Note 10: Trade and other receivables	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Current</b>		
Trade receivables	235,953	1,812,074
Provision for impairment of receivables	0	-
	<b>235,953</b>	<b>1,812,074</b>
Other debtors	16,997,978	20,492,493
Net GST receivable	0	890,409
<b>Total current trade and other receivables (gross)</b>	<b>17,233,931</b>	<b>23,194,975</b>

Included in other debtors is an estimate for royalties and seed access fees receivable. The estimate is a function of predictions on total cotton hectares planted, plough out rates and product mixes.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 11: Inventories	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Current</b>		
Raw materials & stores - at cost	2,038,347	2,117,404
Finished goods and work in progress - at net realisable value	3,847,429	2,887,517
	<b>5,885,776</b>	<b>5,004,921</b>

Write-downs of inventories to net realisable value recognised as an expense during the year ended 31 December 2012 amounted to \$1,778,077 (2011: \$462,800). The expense has been included in cost of goods sold in the Statement of Comprehensive Income.

	<b>CONSOLIDATED</b>	
Note 12: Other current assets	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Current</b>		
Prepayments	293,705	338,699
	<b>293,705</b>	<b>338,699</b>

	<b>CONSOLIDATED</b>	
Note 13: Financial assets	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Unlisted investments, at cost:		
- shares in other related parties	596	596
	<b>596</b>	<b>596</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 14: Property, plant and equipment	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Note 14A: Land and buildings</b>		
<b>Freehold land</b>		
At fair value	2,612,855	3,323,600
<b>Total freehold land</b>	<b>2,612,855</b>	<b>3,323,600</b>
<b>Buildings on freehold land</b>		
At cost	12,160,586	14,711,047
Less accumulated depreciation	(3,985,328)	(4,371,890)
<b>Total buildings on freehold land</b>	<b>8,175,258</b>	<b>10,339,157</b>
<b>Total land and buildings (non-current)</b>	<b>10,788,113</b>	<b>13,662,757</b>
<b>Note 14B: Plant and equipment</b>		
<b>Plant &amp; equipment:</b>		
At cost	12,734,110	19,918,695
Less accumulated depreciation	(6,428,109)	(12,277,482)
<b>Total plant &amp; equipment</b>	<b>6,306,001</b>	<b>7,641,213</b>
<b>Work in progress:</b>		
At cost	374,689	90,480
<b>Total work in progress</b>	<b>374,689</b>	<b>90,480</b>
<b>Total property, plant and equipment (non-current)</b>	<b>17,468,803</b>	<b>21,394,450</b>

## 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

## Note 14: Property, plant and equipment (continued)

### Note 14C: Movements in carrying amounts

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

	<b>CONSOLIDATED</b>				
	<b>LAND (\$)</b>	<b>BUILDINGS (\$)</b>	<b>PLANT &amp; EQUIPMENT (\$)</b>	<b>WORK IN PROGRESS (\$)</b>	<b>TOTAL (\$)</b>
<b>Prior year</b>					
Balance at 1 January 2011	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	449,912	-	-	-	449,912
Impairment	-	310,243	(414,613)	-	(104,370)
Reclassification to intangible assets	(3,061,500)	-	-	-	(3,061,500)
Transfers	(134,014)	134,014	398,205	(398,205)	0
<b>Carrying amount at 31 December 2011</b>	<b>3,323,600</b>	<b>10,339,157</b>	<b>7,641,213</b>	<b>90,480</b>	<b>21,394,450</b>
<b>Current year</b>					
Balance at 1 January 2012	3,323,600	10,339,157	7,641,213	90,480	21,394,450
Additions	25,458	46,085	1,234,341	1,612,038	2,917,922
Disposals	(736,203)	(1,913,543)	(2,380,231)	(34,541)	(5,064,518)
Depreciation expense	-	(299,495)	(1,479,556)	-	(1,779,051)
Transfers	-	3,054	1,290,234	(1,293,288)	0
<b>Carrying amount at 31 December 2012</b>	<b>2,612,855</b>	<b>8,175,258</b>	<b>6,306,001</b>	<b>374,689</b>	<b>17,468,803</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 15: Intangible assets	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Water licences at fair value</b>	<b>2,994,000</b>	<b>3,061,500</b>
Balance at beginning of year	3,061,500	-
Transfer from land	-	3,061,500
Disposals	(67,500)	-
Revaluation to fair value	-	-
<b>Total intangibles (non-current)</b>	<b>2,994,000</b>	<b>3,061,500</b>

	<b>CONSOLIDATED</b>	
Note 16: Trade and other payables	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Current</b>		
Unsecured liabilities	-	-
Trade payables	6,179,037	2,655,022
Other creditors and accruals	4,298,510	9,252,638
<b>Total supplier payables</b>	<b>10,477,547</b>	<b>11,907,660</b>

	<b>CONSOLIDATED</b>	
Note 17: Provisions	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>Employee entitlements</b>		
Current	488,269	455,229
Non-current	114,808	232,499
<b>Total employee provisions</b>	<b>603,077</b>	<b>687,728</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

## 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>CONSOLIDATED</b>	
Note 19: Cash flow reconciliation	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>(a) Reconciliation of operating result to net cash from operating activities:</b>		
Profit for the period	52,018,139	65,001,162
<b>Non-cash flows in profit:</b>		
Depreciation and amortisation	1,779,051	2,150,801
Impairment loss	0	104,370
Net gain on disposal of property, plant and equipment	(100,885)	(72,359)
<b>Changes in assets and liabilities</b>		
Change in trade and other receivables	5,961,046	(8,056,379)
Change in inventories	(880,855)	398,874
Change in other current assets	44,994	(44,632)
Change in trade payables & other payables	(1,430,113)	(147,065)
Change in provisions	(84,651)	44,730
<b>Net cash from operating activities</b>	<b>57,306,726</b>	<b>59,379,501</b>

### (b) Finance facilities

The Company has no bank loan facilities (2011: nil).

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 no bank guarantee facilities (2011: \$377,800).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 20: Related party transactions	<b>2012 (\$)</b>	<b>2011 (\$)</b>
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:		
<b>Key management personnel transactions</b>		
J Grellman (Sandhurst Pastoral Company Pty Ltd) - Area and seed premium	0	21,455

	<b>CONSOLIDATED</b>	
Note 21: Key management personnel remuneration	<b>2012 (\$)</b>	<b>2011 (\$)</b>
Senior executives	1,193,289	1,332,725
Non-executive directors	336,355	327,899
	<b>1,529,644</b>	<b>1,660,624</b>

The key management personnel remuneration includes the Board of Directors and the 5 most senior executives. Senior executive remuneration is benchmarked to 3rd party salary surveys.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

## Note 21: Key management personnel remuneration (continued)

NON-EXECUTIVE DIRECTOR REMUNERATION	YEARS	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	TOTAL (\$)
		CSD DIRECTOR FEES (\$)	SUBSIDIARY AND ADVISORY BOARD FEES (\$)	SUPERANNUATION (\$)	
James Kahl	2012	55,000	10,000	5,850	70,850
	2011	55,000	12,271	6,054	73,325
Harvey Gaynor	2012	22,500		2,025	24,525
	2011	30,000		2,700	32,700
Joanne Grainger	2012	25,000		2,250	27,250
	2011	0		0	0
John Grellman	2012	0		0	0
	2011	30,000		2,700	32,700
Juanita Hamparsum	2012	5,000		450	5,450
	2011	0		0	0
Tom Keene	2012	30,000	11,250	3,713	44,963
	2011	30,000	7,917	3,413	41,330
Paul McVeigh	2012	30,000	5,000	3,150	38,150
	2011	30,000	7,721	3,395	41,116
Matthew Norrie	2012	17,500		1,575	19,075
	2011	0		0	0
John Stewart	2012	30,000	6,500	3,285	39,785
	2011	30,000	2,917	2,963	35,880
Philip Thompson	2012	27,500	3,333	2,775	33,608
	2011	30,000	5,000	3,150	38,150
Robert Tuck	2012	30,000		2,700	32,700
	2011	30,000		2,700	32,700

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

Note 22: Controlled entities	COUNTRY OF INCORPORATION	PERCENTAGE OWNED 2012	PERCENTAGE OWNED 2011
<b>Parent and ultimate parent entity:</b>			
Cotton Seed Distributors Limited	Australia		
<b>Subsidiaries of parent entity:</b>			
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 23: 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 2013 in the range of \$nil to \$6 million. (2011: \$7,626,618).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 December 2012

	<b>CONSOLIDATED</b>	
Note 24: Parent entity financial information	<b>2012 (\$)</b>	<b>2011 (\$)</b>
<b>(a) Summary financial information</b>		
<b>Statement of financial position</b>		
Current assets	199,193,858	118,419,724
Total assets	220,080,131	141,006,304
Current liabilities	37,641,142	10,198,120
Total liabilities	37,755,953	10,413,353
<b>Net Assets</b>	<b>182,324,178</b>	<b>130,592,951</b>
<b>Equity</b>		
Reserves	969,090	969,090
Retained surpluses	181,355,088	129,623,861
<b>Total equity</b>	<b>182,324,178</b>	<b>130,592,951</b>
Profit for the year	51,731,223	64,305,334
Total comprehensive income	51,731,223	64,305,334
<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>	816,223	1,153,892

## Note 25: 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.



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