

Cotton Seed Distributors Limited

Report to members for the 12 months ending 31 March 2017



Contents

Agenda	04
Chairman's report	05
Managing Director's report	06
Cotton Breeding Australia report	09
Directors' report	10
Auditor's Independence declaration	13
Independent auditors' report	14
Directors' Declaration	16
Statement of profit or loss and other comprehensive income	17
Statement of financial position	18
Statement of changes in equity	19
Statement of cash flows	20
Notes to and forming part of the financial statements	21





Agenda

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cotton Seed Distributors Limited will be held on Tuesday 20 June, 2017 at 9:30am at the CSD's offices, "Shenstone" 2952 Culgoora Road, Wee Waa, NSW.

1. Present and Apologies.
2. To confirm the minutes of the Annual General Meeting held on 21st June 2016.
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 March 2017 and the reports of the directors and auditors thereon.
7. Election of Directors;
 - Two Director positions are available in accordance with the provisions of the Constitution and Juanita Hamparsum offers herself for re-election, Glen Price and Tony Quigley offer themselves for election.
8. To set Directors' remuneration;
 - The current "pool" for Non-Executive Director fees has not increased since 2012. The Board of Directors are recommending that the "pool" be increased from \$500,000 per annum to \$700,000 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 May 2017

Chairman's report

While this 2016/17 season has delivered a climatic horror story not seen for a couple of decades, it was completely impartial, similarly impacting all growing regions and all varieties and traits. In the midst of this, the growers transitioned to the new varieties containing BG3 technology, taking up 97% of their seed in these. CSD held a significant inventory of BG2 varieties to allow for a slower transition to BG3, which proved to be unnecessary, and which supported our decision not to continue a BG2 seed production program this year. As is usually the case, we growers will need a season or two to determine which of the suite of BG3 varieties best fit with our own management systems. Given the differing characteristics of the BG3 varieties, it may well be that we are moving away from the recent past varieties where commonly "one fits all". While this may well add a burden to CSD, as the sole supplier of cotton seed to the whole Australian cotton industry, we will welcome the opportunity to better deliver the best varieties and technologies supported by the extension of improved management techniques to our target; the growers bottom line.

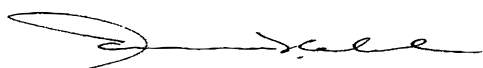
Certainly this drives the CSD Board's considered view of priorities for the use of our resources:

- We continue with our commitment to the Cotton Breeding Australia JV breeding program with CSIRO, now in its tenth year. Aside from the flow of improved varieties, it is rewarding to see some of the research project outcomes entering the pipeline to deliverable varieties.
- In conjunction with CSIRO, our investment in joint ventures of international germplasm exchange are delivering the opportunity to review other sources of germplasm in our Australian conditions as well as deliver a significant return for the use of our germplasm in other breeding programs.
- To back up these two priorities, CSD Farms has been funded into a fully functional commercial standard farm to help manage variety development along side regulated products.
- CSD, with both financial and leadership support to the CottonInfo team, has agreed with partners Cotton Australia and Cotton Research and Development Corp. to extend and improve the cotton industry research extension and development of farm management practices, as this project continues to demonstrate an improved return to growers.
- The CSD investment in seed inventory is to meet the demand that every season we will supply all the seed that is required with variety choices, even to supply lower use varieties that meet a requirement but not the cost of supply. After some smaller years, this strategy ends with a significant write off of inventory. We only invest in this strategy because our focus is not on shareholders, but only on the Australian cotton growers success and hence the industry's success.
- Much has recently been said of our redevelopment project, largely replacing our thirty year old facility at Wee Waa and to be operational for the 2018 season. This new facility's capacity will clearly support CSD's activities in expanding the cotton industry for the next thirty years. In context, it represents a very affordable investment, not before it's time.

All of the activities for CSD are being managed so as not to incur debts or to impact on growers' seed price.

Operationally, Peter and the executive team are well on top of running the annual business with staff in all departments who just keep on stepping up to the challenge of improving their contributions to the CSD performance. This last year has seen a very impressive effort, well recognized by the Board.

In December, Paul McVeigh resigned from the Board after having joined in May 2002. Paul was over that time involved in nearly every committee of the CSD Board and group of companies. The whole Board thanks Paul for his significant contributions to CSD over the past almost fifteen years. With the balance of skills, the Board of CSD continues to function well. The delivery of clear direction of priorities with great governance has made for positive outcomes and made my job a pleasure. Thanks to each of you for the support you bring to CSD.



James Kahl

Chairman

Dated at Wee Waa 16th May 2017

Managing Director's report

Despite challenging seasonal conditions, the 2016-17 season has marked the beginning of a dynamic growth phase in the Australian cotton industry with the continued expansion of cotton into new regions, the increasing interest and uptake of dryland cotton, and the rapid transition to varieties containing BG3F technology. Our clear focus on delivering quality cotton planting seed resulted in sales of 6,700 tonnes of seed in 2016-17 and a group surplus of \$41.8 million.

April 2016

Going into the winter period after the 2015-16 harvest, we saw limited stored water on farms and in irrigation dams. The potential dryland area was also quite modest. Although this outlook was not optimistic, CSD received and delinted enough seed to ensure we could meet a full water crop that included a large dryland plant.

Although the technology was not yet deregulated in Australia, CSD embarked on a seed production program heavily based on varieties containing Bollgard® 3. Full regulatory approval was received just before picking and subsequently we undertook a significant seed intake program ensuring CSD was the first company in the world to sell Bollgard 3 technology. High levels of moisture in seed cotton can heavily impact on seed quality. To assist with this, our Seed Increase team successfully implemented the use of a new vehicle mounted Vomax round module moisture monitoring system.

June 2016

The CottonInfo joint venture with the Cotton Research Development Corporation (CRDC) and Cotton Australia (CA), was established in 2012 under a six year term. The program was due for review in June 2016, where all parties agreed to extend the collaboration for another three years, to June 2021.

CSD's annual commitment to the joint venture is approximately \$1 million per year, which covers the employment of six Regional Extension Officers (REOs) strategically based throughout the major production areas in NSW and Queensland. CSD views this as a critical contribution to the future of the industry by providing surety and effectiveness of the extension of industry generated research.

July 2016

CSD's ability to support the Australian cotton industry is made possible by the activities of our distribution network who provide vital transactional, distribution and product support services directly with growers. In 2016, CSD introduced two new key agreements, being the

Grower Agreement and the Distribution Agency Agreement. While the intent of these agreements was to improve the direct relationship between CSD and the grower, some of the content of them and the way they were rolled out required amendment.

We immediately undertook a review of the agreement and sought feedback from individual growers. Based on this we have since redrafted the Grower Agreement for the 2017-18 planting season and will be communicating that well before the upcoming season. We have also worked closely with our distribution network and subsequently reviewed the terms of that agreement to address concerns raised by them.

The development and integration of water infrastructure of all three CSD Farms was completed in July, and now provides CSD with 624 hectares of irrigated land in one farm. We have also increased our security of ground and river water, as well as now having direct access to the Namoi River. This is a key world class asset for not only seed production, but research and demonstration activity. During 2016-17 there were numerous field days and grower demonstrations held on CSD Farms.

July also saw the Cotton Breeding Australia (CBA) collaboration with CSIRO celebrate nine years of formally working together. Since 2007, \$72.5 million has been collectively invested in plant breeding research. The current term of the collaboration is through to June 2024, when it is expected that over \$145 million will have been invested through the joint venture on behalf of the industry.

Of particular note coming from CBA is the progress of the native traits (non GM) program. A Cotton Bunchy Top trait in an elite line is currently under commercialisation on CSD Farms. Should it pass yield, fibre quality, disease and seed quality assurance requirements, it may be launched in either 2018-19 or 2019-20. Silverleaf whitefly and mite resistance is currently under development in lines at ACRI however they are still 8+ years away (2025) from commercialisation.

August 2016

As a proud foundation sponsor of the Australian Cotton Conference, CSD was pleased with reports that the 18th biennial conference was the most successful yet. For the second time, CSD partnered with CSIRO in a trade display to demonstrate the integration of research, breeding and commercialisation for the Australian cotton grower.

The 2016-17 cotton season was a testament of how quickly CSD responds to industry changes. In August 2016 seed orders held by CSD were approximately 2,000 tonnes. Our initial seed sales budget was

set at 3,000 tonnes, with a focus on dryland/semi watered cotton. We were beginning to reduce this down to 2,500 tonnes, when the rain started in late August. The rain continued right through September and as dams began to fill, seed sales quickly grew to over 6,700 tonnes.

Our suppliers, processing plant and lab were committed to meeting the challenge. We thank the growers and our distribution network for their patience and support as our team managed to do the seemingly impossible and met all seed orders. I'd like to recognise the efforts of all our team in making this possible. Seasons like this reinforce our decision to invest in a new plant which has the capability to respond to these kind of challenges.

October 2016

We welcomed 127 new growers to the industry, 76 lapsed growers returned to cotton and we saw expansion into regions like Horsham, Forbes and Inverell and even further afield. The ongoing challenge for the industry is to keep these growers and attract even more new growers next year.

Of the 6,700 tonnes of seed ordered this year nearly 90% was in three varieties and only 16 bags contained no technology. 97% of our varieties that contain insect control, contained Bollgard 3 technology this season. CSD also held significant volumes of varieties containing Bollgard® II technology.

Sicot 707B3F is a new variety which has proven popular this season in southern NSW. Initially marked for deletion from the CSIRO program due to its higher micronaire, CSD identified it as a variety which could be used to assist those growers in the south who struggle at times with lower micronaire. Once this season's results are collected we will have better information on its commercial performance.

This season saw only a limited area planted to the high fibre quality variety 754B3F. During the season we were approached by the Auscott Group requesting we inform these growers that they were offering a premium for fibre being produced from this variety.

CSD's varieties have been benchmarked as three times the world average and twice that of the United States' average. The impact of increased dryland plantings will change the overall yield averages. The competitiveness of cotton produced in other countries is improving, however, the real competitor to cotton are man-made fibres.

As part of the October activities, CSD implemented a large pure seed program. CSD was able to meet the significant demand for cotton planting seed this season by consuming the carry-over seed it keeps as for the following year. As a result, CSD has currently contracted a large area of seed increase to not only meet full water planting this year, but also 50% of next years' planting in line with company policy. Producing and carrying this volume of seed on behalf of the industry comes at a

significant cost however we believe that to keep supply seamless this is a cost we must bear.

November 2016

The start to this season was generally cool and wet. However, the amount of replant was low, at approximately 4.2 per cent of the planted area. We are attributing this to a couple of reasons - good cool germs of the seed, the efforts of the extension team both in the field and through the FastStart™ program with Syngenta supported by tools such as the CSD soil temperature monitoring network which operated at 32 locations across the industry.

CSD continues to focus on quality and the seedling vigour of our elite low density varieties. This work is undertaken in collaboration with CSIRO and uses our own laboratory as well as supported by the extensive field work undertaken on CSD Farms.

In November we also implemented an externally facilitated staff development and coaching program supported by strong succession and HR plans. A staff engagement survey was independently conducted by AON Hewitt which encouragingly indicated CSD was ranked in the top quartile of 650 Australian and New Zealand companies for engagement.

We have flattened our management structure and built a clear focus on team work and collaboration. CSD Extension has now been formed and this brings both the CSD Extension & Development (E&D) team and the CottonInfo REO team together as one management unit. This has been undertaken to ensure even greater integration and collaboration of the extension efforts undertaken by CSD.

During the year we said goodbye to six staff - Belinda Steigrad, John Marshall, Jack Murray, Steve Ainsworth, Alex North and Erin Lowder. We also welcomed six new team members into the company - Connor Duncan, Courtney Palmer, Chris Barry, Chris Teague, Ngaire Roughley and Janelle Montgomery. Alice Devlin left the CottonInfo REO team and joined the CSD E&D team.

December 2016 to March 2017

Over the past 2 years, CSD's site redevelopment team has worked to develop plans for a world class cotton planting seed processing plant supported by a new laboratory and office complex which will ensure the company is positioned to meet the demands of a progressive cotton industry for the foreseeable future.

After an exhaustive tendering process, CSD signed the infrastructure contract for \$41 million with Richard Crookes Constructions from Sydney on the 23rd of December 2016, with earth works commencing on the 3rd of January 2017. Practical completion of the infrastructure work is scheduled for around mid-January 2018 subject to weather.

Managing Director's report

Work on the plant and equipment tender is currently being finalised and fabrication and installation is scheduled to be completed by April 2018. The total investment in the site redevelopment is estimated to be approximately \$85 - \$90 million. Further work on the nursery and workshop facilities are scheduled to be finalised over the next two years.

This significant investment highlights the importance of CSD having a very strong liquid balance sheet.

We have maintained our good safety record again in 2016-17 with no Lost Time Injuries (LTI) as well as having full reporting of all incidents and near misses. We have prioritised the continued promotion of our safety conversations and continually assess safety priorities with the site redevelopment.

The collection of monies owed to CSD for seed sales and other activities has again been excellent with no bad debts. The finance team continued to improve the efficiency of CSD's finance function through an ongoing conversion to a paperless office.

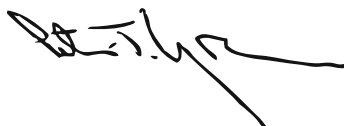
CSD operates under our bold 2020 Strategic Plan that commenced in 2014. The Board and Leadership team undertook a significant mid-term review of the plan in March 2017 and are pleased to report that we are on track to achieve much of what was committed in that plan. The review highlighted only a few items which needed revision to maintain relevance and focus for the business. The company's overall strategy is to remain the "leader in the field" by continuing to develop and deliver the world's best varieties, technologies, research, development and extension activities for the benefit of all Australian cotton growers.

While the 2016-17 season presented a variety of challenges, we are extremely pleased with the general performance of our varieties. This is a testament to the dedication of the entire CSD team as well as our colleagues at CSIRO. Without the support of our staff, industry partners, technology partners, and pure seed grower partners, CSD cotton varieties would not be the world leaders that they are today.

From primary breeding and selection through seed increase, production, processing, quality assurance and product support, CSD is proud to support the Australian cotton industry.

2017 marked a significant milestone for CSD, with the celebration of 50 years of proud service to the industry on the 5th of April, 2017. A gala dinner was held at 'Shenstone' with celebrations pausing at 9.30pm, the exact hour, on the exact day that CSD was formed in 1967, to reflect on this momentous occasion. Further local functions are planned to be held later this year.

Finally, I would like to publicly thank all CSD staff and my fellow board members for their support during the reporting period and look forward to the challenges that 2017-18 will bring.



Peter T. Graham

Managing Director

Dated at Wee Waa 16th May 2017

Cotton Breeding Australia report

2016 was a year of both great progress and challenge for the Cotton Breeding Australia (CBA) joint venture.

The full commercialisation of the Bollgard® 3 Roundup Ready Flex® trait platform in elite germplasm was a realisation of much hard work by both parties that started back in 2008.

In addition, CBA was pleased to work with industry in identifying a gap in the market in the more southern regions and filling it with Sicot 707B3F. This variety features good yield potential and is best suited to these southern, shorter season production regions. The important features of this variety are its establishment and slightly higher micronaire that may be an advantage in these regions. 2016/17 was the first full commercial year of production of Sicot 707B3F and early reports from the field are indicating it met the expectations of establishment, yield and maturity with classing results still to come.

Spray drift is an issue for the whole industry. This year our breeding program was heavily impacted due to widespread spray drift onto the non-transgenic small plot sites on ACRI, completely destroying thousands of early generation elite lines and CBA experimental transgenic lines. Extensive meetings have been held with all neighbouring farms and their spray contractors to raise awareness of the presence of non-herbicide tolerant crops on ACRI.

Both CSIRO and CSD remain committed to investing in your industry. As reported last year, actual and projected total investment by both CSIRO and CSD in CBA from 2007 to 2024 will be approximately \$141million.

CBA operations

The CSIRO breeding team continues to source and utilise a wide range of domestic, international and native *Gossypium* spp. material in the breeding program. These sources hold “native” characteristics that offer the possibility of significantly helping to meet the future challenges to production such as disease, fibre quality and importantly yield through both transgenic and non-transgenic methods.

Elite lines containing Monsanto’s Bollgard 3 stacked with the new XtendFlex™ herbicide technology continues to progress in the breeding program. The commercialisation timeframe of this technology is dependent on Monsanto’s trait development and the generation of varieties that are commercially acceptable.

Capital investment for the year included installing dust extraction systems on the trial gins at CSD’s Dalby facility, constructing new/upgrading existing large scale stem cutting equipment use for disease trials, installing an improved controlled environment seed store at ACRI,

modifying a picker to fit an automated picking system for individual plants and our commitment to sequence the cotton D genome.

Research activities

Since the CBA the research program became fully subscribed in 2014, all projects have continued to make sound progress.

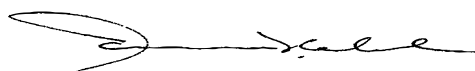
The portfolio of CBA research now covers:

- Developing a high-throughput screening methodologies to accelerate breeding (marker array technology).
- Identification of sources of disease tolerance in tetraploid and diploid cotton populations.
- Host Plant Resistance to mites, whiteflies and cotton bunchytop including but not restricted to the use of okra leaf cottons.
- Tools to improve the efficiency of breeding varieties with improved moisture and heat stress tolerance.
- Improvement in the understanding of the genetic control of cotton fibre development, structure and functionality.

CBA Management

The Scientific Committee who review the project proposals and monitor the project performance is currently made up of three representatives from CSIRO - Dr Danny Llewellyn, Dr Mark Peoples, Dr Warwick Stiller, three from CSD - Phil Steel, Hannah Hartnett, Philip Armytage, one from CRDC - Allan Williams, and two growers; Hamish McIntyre and Nigel Burnett.

The overall management of the joint venture is undertaken by the Management Committee and is made up of CSIRO members Dr John Manners, Dr Mark Peoples and Lionel Henderson and CSD members, Matt Norrie, Peter Graham and James Kahl.



James Kahl

Chairman

Cotton Breeding Australia - Management Committee

Dated at Wee Waa 16th May 2017

Directors' report

The directors present their report together with the financial report of Cotton Seed Distributors Limited and controlled entities ("the group") for the 12 months ended 31 March 2017 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
Peter T. Graham	6 September 1990 to present
Paul McVeigh	21 May 2002 to 31 December 2016
Robert Tuck	4 May 2009 to present
John Stewart	18 May 2010 to 21 June 2016
Joanne Grainger	1 March 2012 to present
Matthew Norrie	15 May 2012 to present
Juanita Hamparsum	1 November 2012 to present
Doug Rathbone	1 May 2015 to present
Nigel Corish	21 June 2016 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 industry.

The strategy for achieving the above goals is to:-

1. Own, develop, test and license germplasm
2. Develop, license and commercialise traits - based on merit.
3. Being first to market to meet growers needs
4. Applying 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 monitoring 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.

The group has adopted ASX Corporate Governance Council Principles and Recommendations ("ASX Governance Standards") as its benchmark for group corporate governance practices. The group's website has a comparison of the group's corporate governance practices to the ASX Governance Standards with commentary on the level of compliance.

3. Directors Details



James Kahl *B.Ec, UNE. Member AICD.*

- Managing Director of Merced Farming Pty Ltd, aged 66

Joined the Board in 2003 in a non executive capacity. James has over 42 years of experience in agricultural practices. He is Chair of Cotton Seed Distributors Limited, Cotton Seed International Pty Ltd and CSD Holdings Pty Limited. He is also a member and alternating Chair of Cotton Breeding Australia Management and Commercial Committees. He is Chair of the Nomination and Remuneration Committee.



Peter Graham *B.RurSc, UNE. Fellow AICD.*

- Managing Director, aged 60

Joined the Board in 1990. Peter has over 37 years of experience in the Australian and international cotton industry. He is Managing Director of all wholly owned subsidiaries: Cotton Seed International Pty Ltd and CSD Holdings Pty Ltd. He is a member of the Cotton Breeding Australia Management and Commercial Committees as well as a member of the Cotton Info Management Committee.



3. Robert Tuck *Graduate AICD.*

- Cotton producer in the Macquarie Valley, New South Wales, aged 51

Joined the Board in 2009 in a non-executive capacity. A cotton and grains producer in the Macquarie Valley, NSW. Rob has over 29 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 and Board Audit Committee.



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

- Non-executive Director, aged 62

Joined the Board in 2011 in a non executive capacity. Joanne has over 36 years experience in agriculture and has been involved in policy development and advocacy for the cotton industry at both federal and state levels. Mrs Grainger is a Director of CSD Holdings Pty Ltd and a member of the Board Audit Committee.



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

- Non-executive Director, aged 35

Joined the Board in 2012 in a non-executive capacity. A cotton, grain and cattle producer in the Namoi Valley, NSW. Matt has over 14 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 Chair of the Board Farming Committee.



6. Juanita Hamparsum *B.Bus, CA, GAICD.*

- Non-executive Director, aged 46

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 over 21 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 Chair of the Great Artesian Basin Co-ordinating Committee, Deputy Chair of the National Landcare Advisory Committee. A Director of CSD Holdings Pty Ltd and Chair of the Board Audit Committee.



7. Doug Rathbone *AM, Dip. (Chem Eng), B.Com.*

- Non-executive Director of Rathbone Wine Group Pty Limited, Agbitech Pty Limited and CANN Group Pty Limited, aged 71

Joined the Board in 2015 in a non-executive capacity. Doug has extensive experience in agriculture with broad knowledge across the whole sector from production to processing. He was Managing Director of Nufarm Limited from 1987 until his retirement in 2015.



8. Nigel Corish *B.AppSc.*

- Non-executive Director, aged 35

Joined the CSD Board in 2016 in a non-executive capacity. A cotton and grains producer in the MacIntyre Valley, QLD. Nigel has over 15 years farming experience and is a Director of New Leag Ag Pty Limited, a family owned and operated mixed farming business in Condamine, QLD. Nigel is Chair of the McIntyre Valley Cotton Growers' Association, Treasurer of Border Rivers Food and Fibre as well as being a General Committee member of Cotton Australia. His industry achievements include the 2012 Monsanto Cotton Grower of the Year award and a 2014 Nuffield Scholar. A Director of CSD Holdings Pty Limited and a member of the Board Farming Committee.

Directors' report

4. Meetings of Directors

During the financial year, seven meetings of directors of the company were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Board Audit Committee		Board Farming Committee		Nomination and Remuneration Committee	
	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended
James Kahl	7	7					1	1
Peter Graham	7	7						
Paul McVeigh	5	4			1	1		
Robert Tuck	7	7	3	3	2	2		
Doug Rathbone	7	7						
John Stewart	2	2					1	1
Joanne Grainger	7	7	3	2				
Matthew Norrie	7	7			2	2		
Juanita Hamparsum	7	7	3	3				
Nigel Corish	6	6			2	2		

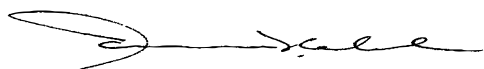
5. Auditors Independence Declaration

The lead auditors independence declaration for the 12 months ended 31 March 2017 has been received and can be found on page 13 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 each towards any outstanding obligations of the company. At 31 March 2017 the collective liability was \$101,000 (2016: \$127,000).

Signed in accordance with a resolution of the Directors:



James Kahl

Chairman

Dated at Wee Waa 16th May 2017

Auditor's Independence Declaration



Auditor's Independence Declaration under section 307C of the Corporations Act 2001

As lead audit partner for the audit of the financial statements of Cotton Seed Distributors Limited for the financial year ended 31 March 2017, 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 Sydney Partnership

A handwritten signature in black ink, appearing to read 'Lester Wills'.

Lester Wills

Partner

Dated at Sydney, 16th May 2017

Sydney Office
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Partnership (ABN 71 502 156 733) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

Independent Auditors' report



Report on the Audit of the Financial Report

We have audited the financial report of Cotton Seed Distributors Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) Giving a true and fair view of the Group's financial position as at 31 March 2017 and of its financial performance for the year then ended; and
- ii) Complying with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information comprises the information in Cotton Seed Distributors Limited's annual report for the year ended 31 March 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Sydney Office
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Partnership (ABN 71 502 156 733) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.

Nexia Sydney Partnership



Lester Willis

Partner

Dated at Sydney, 16th May 2017

Sydney Office
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Partnership (ABN 71 502 156 733) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

Directors' Declaration

In the directors' opinion:

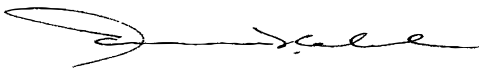
1. The financial statements and notes, as set out on pages 17 to 41, are in accordance with the Corporations Act 2001 and:

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

(b) give a true and fair view of the financial position as at 31 March 2017 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

Chairman

Dated at Wee Waa 16th May 2017

Statement of profit or loss and other comprehensive income

for the 12 months ended 31 March 2017

	Notes	Consolidated	
		2017 (\$)	2016 (\$)*
Revenue from sale of goods	3A	64,161,840	33,133,844
Cost of goods sold		(38,735,717)	(26,415,120)
Gross profit		25,426,123	6,718,724
Other revenues	3B	25,487,315	15,203,335
Other income	4	1,303,882	931,191
Product development and testing expenses		(8,310,568)	(7,557,831)
Administrative expenses		(6,089,892)	(5,101,379)
Surplus before finance income and tax		37,816,860	10,194,040
Net finance income	5	4,001,954	4,495,179
Surplus before income tax		41,818,814	14,689,219
Income tax expense	7A	-	-
Surplus for the period		41,818,814	14,689,219
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		41,818,814	14,689,219
Surplus attributable to members of the Company		41,818,814	14,689,219
Total comprehensive income attributable to members of the Company		41,818,814	14,689,219

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

* Restated - refer to note 1(q).

Statement of financial position

as at 31 March 2017

	Notes	Consolidated	
		2017 (\$)	2016 (\$)*
ASSETS			
Current assets			
Cash and cash equivalents	8	169,324,321	145,813,945
Trade and other receivables	9	45,506,371	23,350,036
Inventories	10	5,483,500	3,857,859
Biological assets	11	1,277,616	960,940
Held to maturity bonds	12	2,653,201	753,248
Other current asset	13	937,787	840,350
Total current assets		225,182,796	175,576,378
Non-current assets			
Held to maturity bonds	12	2,357,021	4,256,974
Property, plant and equipment	14	32,528,926	22,175,478
Intangibles	15	5,404,190	5,185,568
Total non-current assets		40,290,137	31,618,020
Total Assets		265,472,933	207,194,398
LIABILITIES			
Current liabilities			
Trade and other payables	16	33,117,982	16,678,334
Short-term provisions	17	494,062	491,546
Total current liabilities		33,612,044	17,169,880
Non-current liabilities			
Other long-term provisions	17	115,910	98,353
Total non-current liabilities		115,910	98,353
Total Liabilities		33,727,954	17,268,233
Net Assets		231,744,979	189,926,165
EQUITY			
Retained surpluses		231,744,979	189,926,165
Total equity		231,744,979	189,926,165

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

* Restated - refer to note 1(q).

Statement of changes in equity

for the 12 months ended 31 March 2017

		Consolidated
	Notes	Retained Earnings (\$)
Balance at 1 April 2015	1(q)	175,236,946
Total comprehensive income for the year	1(q)	14,689,219
Balance at 31 March 2016		189,926,165
Balance at 1 April 2016	1(q)	189,926,165
Total comprehensive income for the year		41,818,814
Balance at 31 March 2017		231,744,979

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

Statement of cash flows

for the 12 months ended 31 March 2017

	Notes	Consolidated	
		2017 (\$)	2016 (\$)
Cash from operating activities			
Receipts from customers		74,630,468	53,778,543
Payments to suppliers & employees		(46,163,127)	(37,657,326)
Interest received		4,001,954	5,130,515
Net cash flows from operating activities	18	32,469,295	21,251,732
Cash flows from investing activities			
Proceeds from sale of plant and equipment		253,535	145,397
Acquisition of investments		0	(14,155)
Acquisition of property, plant and equipment		(8,993,833)	(5,330,124)
Acquisition of intangible assets		(218,621)	(1,835,701)
Net cash flows from investing activities		(8,958,919)	(7,034,583)
Net change in cash & cash equivalents		23,510,376	14,217,149
Cash and cash equivalents at the beginning of the year		145,813,945	131,596,796
Cash and cash equivalents at the end of the year	8	169,324,321	145,813,945

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

Notes to and forming part of the financial statements

For the 12 months ended 31 March 2017

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 May 2017. 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 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 9 trade and other receivables;
- Note 10 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:

Biological assets - cotton crop

Cotton crops in progress are considered biological assets and are valued at their expected net market costs less costs of harvesting and ginning having regard to the stage of development of the crop. Upon harvesting and ginning the biological asset is transferred to inventories at fair value less point of sale costs. Point of sale costs include all costs that would be incurred to sell the assets excluding freight costs, post-ginning. The fair value of the asset is based on its present location and condition, post-ginning.

(c) Principles of consolidation

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

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.

(d) Financial instruments

(i) Non derivative financial instruments

Non derivative financial instruments comprise investments in equity,

Note 1: Statement of Significant Accounting Policies (continued)

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.

(e) Property, plant and equipment

Land, 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 Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Decreases in the carrying amount of an asset 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 Profit or Loss or Other 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:

Note 1: Statement of Significant Accounting Policies (continued)

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

Class of fixed assets	
Buildings	40 years
Plant and 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 Profit or Loss and Other Comprehensive Income as revenue.

(f) Intangible assets

Water licence rights

Water licences are shown at historical cost less impairment.

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.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:-

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the

intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the Statement of Profit or Loss and Other Comprehensive Income as revenue.

(g) Inventories

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

(h) Impairment

(i) Financial assets

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

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

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

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.

Note 1: Statement of Significant Accounting Policies (continued)

(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.

(i) **Employee Benefits**

(i) Short-term benefits

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

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

(ii) Long-term benefits

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

(j) **Revenue**

(i) Sale of goods

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

(ii) Royalty revenue 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.

(k) **Leases**

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

(l) **Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income

Note 1: Statement of Significant Accounting Policies (continued)

tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

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

(m) Provisions

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

(n) Borrowing Costs

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

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

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of

an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

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

(p) Parent entity financial information

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

(q) Prior period adjustments

Royalty and seed access fees

Each year the company makes estimates on the royalties and seed access fees receivable. The estimates are complex and are a function of predictions on total cotton hectares planted, plough out rates and product mixes. On receipt of the final payments for the prior year it was noted that the calculation methodology had been incorrectly applied resulting in a net understatement in the prior year net seed access fees and royalty revenue of \$2,217,929.

The comparative information has been amended to reflect the above adjustment. The impact was to increase trade receivables by \$4,435,857, increase trade and other payables by \$2,217,929 and increase net seed access fees and royalty revenue by \$2,217,929.

Cotton crop

The company has changed its accounting policy for the recognition of the current cotton crop in progress. The previous policy was to recognise crop revenue in the period the crop is sold. The revised policy is to estimate the fair value (less costs to sell) for the crop, with regard to the stage of development of the crop. The revised policy will result in the gain being recognised in the year the crop is grown.

The impact of the revised policy is to recognise biological assets (see note 1(b)(v)) of \$1,277,616 (2016: \$960,940), recognise a gain in the profit or loss of \$1,277,616 (2016: \$960,940) and recognise cost of goods sold of \$960,940 (2016: \$795,971). The net increase of the profit or loss is \$316,676 (2016: \$164,969).

The impact to the opening retained earnings for comparative period was to increase retained earnings by \$795,971.

Note 2: Leases and commitments	Consolidated	
	2017 (\$)	2016 (\$)
(i) Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements and payable:		
- not later than 12 months	117,312	117,312
- between 12 months and 5 years	322,608	439,920
	439,920	557,232
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	4,787,549	2,238,508
	4,787,549	2,238,508
(iii) Capital expenditure commitments		
Property, plant & equipment purchases contracted for:		
- not later than 12 months	64,863,571	217,500
(iv) Cotton Breeding Australia commitments		
<u>(a) Capital expenditure commitments</u>		
Plant and equipment purchases contracted for but not provided for and payable:		
- not later than 12 months	2,480,929	2,339,286
- between 12 months and 5 years	2,629,000	2,587,000
- greater than 5 years	1,582,875	2,277,250
	6,692,804	7,203,536

Note 2: Leases and commitments (continued)	Consolidated	
	2017 (\$)	2016 (\$)
(b) <u>Research expenditure commitments</u>		
Future research commitments not provided for in the financial statements and payable:		
- not later than 12 months	3,909,687	3,067,154
- between 12 months and 5 years	14,944,984	14,440,976
- greater than 5 years	9,000,454	12,572,601
	27,855,125	30,080,731
Total of Cotton Breeding Australia commitments	34,547,929	37,284,267
Total leases and commitments	104,638,969	40,297,507

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.

In addition to the above, the Group has an agreement with Cotton Australia Pty limited and the Cotton Research and Development Corporation to co-deliver research and development extension. The Group is funding a team of regional development officers which will cost in excess of \$5 million over the 5 year term.

Note 3: Revenue	Consolidated	
	2017 (\$)	2016 (\$)
Note 3A: Sale of goods revenue		
Revenue from sale of goods	64,161,840	33,133,844
Sale of goods revenue	64,161,840	33,133,844
Note 3B: Other revenue		
Royalty revenue and seed access fees	55,431,865	32,481,380
Less: Seed access fees	(29,944,550)	(17,278,045)
Net seed access fees and royalty revenue	25,487,315	15,203,335

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 2015-16 seed sales is included in seed access fee revenue in the 2016-17 financial year. The EPR in relation to 2016-17 seed sales will be included in seed access fee revenue in the 2017-18 financial year (refer to note 22 - Contingent Assets).

Note 4: Other income	Notes	Consolidated	
		2017 (\$)	2016 (\$)
Net gain on the disposal of property, plant and equipment		83,032	83,498
Other income		4,635	16,750
Gain from cotton crop	1(q), 11	1,277,616	960,940
Net foreign exchange gain/(loss)		(61,401)	(129,997)
Total other income		1,303,882	931,191

Note 5: Net finance income	Consolidated	
	2017 (\$)	2016 (\$)
Finance income		
Interest - other parties	4,001,954	4,495,179
Net finance income	4,001,954	4,495,179

Note 6: Expenses	Consolidated	
	2017 (\$)	2016 (\$)
Employee superannuation expense	372,077	478,674
Depreciation - property, plant and equipment	2,193,535	2,034,023
Bad debts written off	-	-
Loss on foreign exchange differences	-	-
Total rental expense relating to operating leases	117,312	103,870

Note 7: Income tax	Consolidated	
	2017 (\$)	2016 (\$)
Note 7A: The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax expense	41,818,814	14,689,219
Tax at the Australian tax rate of 30%	12,545,644	4,406,766
Add tax effect of:		
Less tax effect of:		
- the Company being exempt from income tax	(12,545,644)	(4,406,766)
Effect of deferred tax assets not brought to account		
	0	0
Note 7B: Deferred tax assets not brought to account		
Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.		
Tax losses	-	-

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.

Note 8: Cash and cash equivalents	Consolidated	
	2017 (\$)	2016 (\$)
Cash on hand	1,195	2,823
Cash at bank	49,311,844	45,773,712
Short term deposits	120,011,282	100,037,410
	169,324,321	145,813,945
The Group has an Investment Policy to assist manage its credit risk. The Group also has a Reserves Policy which determines the level of the research reserve short term deposits. The Reserves Policy is reviewed annually.		
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	169,324,321	145,813,945

Note 9: Trade and other receivables	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Trade receivables	1,944,046	1,031,053
Provision for impairment of receivables	-	-
	1,944,046	1,031,053
Other debtors	42,870,991	22,037,477
Net GST receivable	691,334	281,506
Total current trade and other receivables (gross)	45,506,371	23,350,036

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.

Note 10: Inventories	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Raw materials and stores - at cost	796,201	1,302,230
Finished goods and work in progress - at net realisable value	4,687,299	2,555,629
	5,483,500	3,857,859

Write-downs of inventories to net realisable value recognised as an expense during the period ended 31 March 2017 amounted to \$1,714,976 (2016: \$3,321,764). The expense has been included in cost of goods sold in the Statement of Profit or Loss and Other Comprehensive Income.

Note 11: Biological assets	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Cotton crop	1,277,616	960,940
Carrying amount at the beginning of the year	960,940	795,971
Gain/loss arising from changes in fair value less estimated point of sale costs	1,277,616	960,940
Decrease due to harvesting/picking	(960,940)	(795,971)
Carrying amount at the end of the year	1,277,616	960,940

Cotton lint and seed are measured at their fair value less estimated point of sale costs. The fair value is based on the market price of the estimated recoverable harvested crop, net of harvesting costs. The fair value includes management's estimate of the current stage of development and growth.

The fair value measurement of the biological assets is a level 3 measurement, as defined by AASB 13 - *Fair Value Measurements* hierarchy, as one or more of the significant inputs is not based on observable market data.

Note 12: Held to maturity bonds	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Held to maturity bonds	2,653,201	753,248
	2,653,201	753,248
Non- Current		
Held to maturity bonds	2,357,021	4,256,974
	2,357,021	4,256,974

Note 13: Other current assets	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Prepayments	937,787	840,350
	937,787	840,350

Note 14: Property, plant and equipment	Consolidated	
	2017 (\$)	2016 (\$)
Note 14A: Land and buildings		
Freehold land		
At cost	4,631,409	3,960,676
Total freehold land	4,631,409	3,960,676
Buildings on freehold land		
At cost	14,133,160	11,791,853
Less accumulated depreciation	(4,980,989)	(4,300,467)
Total buildings on freehold land	9,152,171	7,491,386
Total land and buildings (non-current)	13,783,580	11,452,062
Note 14B: Plant and equipment		
Plant and equipment		
At cost	18,686,830	17,912,826
Less accumulated depreciation	(9,929,454)	(9,929,453)
Total plant and equipment	8,757,376	7,983,373
Work in progress:		
At cost	9,987,970	2,740,043
Total work in progress	9,987,970	2,740,043
Total property, plant and equipment (non-current)	32,528,926	22,175,478

Note 14C: Movements in carrying amounts

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

Consolidated	Land (\$)	Buildings (\$)	Plant and equipment (\$)	Work in progress (\$)	Total (\$)
Prior year					
Balance at 1 April 2015	1,892,243	7,927,329	8,742,725	378,979	18,941,276
Additions	1,779,164	-	816,897	2,734,063	5,330,124
Disposals	-	-	(43,047)	(18,852)	(61,899)
Depreciation expense	-	(435,944)	(1,598,079)		(2,034,023)
Transfers	289,269	-	64,877	(354,146)	0
Carrying amount at 31 March 2016	3,960,676	7,491,385	7,983,373	2,740,044	22,175,478
Current year					
Balance at 1 April 2016	3,960,676	7,491,385	7,983,373	2,740,044	22,175,478
Additions	55,865	2,341,308	324,801	9,995,512	12,717,486
Disposals			(170,503)		(170,503)
Depreciation expense		(680,522)	(1,513,013)		(2,193,535)
Transfers	614,868		2,132,718	(2,747,586)	0
Carrying amount at 31 March 2017	4,631,409	9,152,171	8,757,376	9,987,970	32,528,926

Note 15: Intangible assets	Consolidated	
	2017 (\$)	2016 (\$)
Water licences		
Water licences at cost	5,404,190	5,185,568
Balance at beginning of year	5,185,568	3,349,867
Additions	218,622	1,835,701
Disposals	-	-
Total intangibles (non-current)	5,404,190	5,185,568
The Group periodically undertakes independent valuation of water assets to ensure no impairment.		

Note 16: Trade and other payables	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Trade payables	5,086,497	1,438,908
Other creditors and accruals	28,031,484	15,239,426
Total supplier payables	33,117,982	16,678,334

Note 17: Provisions	Consolidated	
	2017 (\$)	2016 (\$)
Employee entitlements		
Current	494,062	491,546
Non-current	115,910	98,353
Total employee provisions	609,972	589,899

Note 18: Cash flow reconciliation		Consolidated	
	Notes	2017 (\$)	2016 (\$)
(a) Reconciliation of operating result to net cash from operating activities			
Surplus for the period		41,818,814	14,689,219
Non-cash flows in profit			
Depreciation and amortisation	6 and 14	2,193,535	2,034,023
Change on fair value of biological assets		(316,676)	(164,968)
Net gain on disposal of property, plant and equipment	4	(83,032)	(83,498)
Changes in assets and liabilities			
Change in trade and other receivables		(22,156,335)	(672,218)
Change in inventories		(1,625,641)	2,521,320
Change in other current assets		(97,437)	(536,414)
Change in trade payables and other payables		12,715,995	3,411,306
Change in provisions		20,073	52,962
Net cash from operating activities		32,469,296	21,251,732
(b) Finance facilities			
The Group has no bank loan or guarantee facilities (2016: 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.

Note 19: Related party transactions

A number of Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over these companies.

A number of these companies transacted directly with the Group or via intermediary Agents during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related entities at an arm's length basis.

Further, grower Directors (James Kahl, Paul McVeigh, Robert Tuck, Joanne Grainger, Matthew Norrie, Juanita Hamparsum, and Nigel Corish) purchased cotton seed from the Group during the year through Agents. The terms and conditions of these transactions were the same as all other grower customers of the Group.

The aggregate value of transactions, excluding cotton seed sales, related to key management personnel and entities over which they have control or significant influence were as follows:

	Consolidated	
	2017 (\$)	2016 (\$)
Key management personnel transactions		
Matthew Norrie - Agricultural Products	-	11,349
Doug Rathbone - Site Re-development Consultancy	84,000	77,000
Doug Rathbone - Hampers	-	5,267
Doug Rathbone - Conference Dinner	5,012	-
Doug Rathbone - Agent Survey	78,477	-
Jorian Milyard - Moisture Meter Service	456	-
Josh Smith - Photography	-	2,250
Jamie-Lee Wilson - Seed Increase Premiums	31,923	-
	199,868	95,866

Note 20: Key management personnel remuneration	Consolidated	
	2017 (\$)	2016 (\$)
Key management personnel remuneration		
Senior executives	1,732,226	1,591,875
Non-executive directors	400,218	403,350
	2,132,444	1,995,225

The key management personnel remuneration includes the Board of Directors and senior executives. Senior executive remuneration is determined after reference to independent advice and benchmarking. A restructure of the management team took place from 1 October 2016, the senior executive remuneration disclosure reflects this restructure.

Note 20: Key management personnel remuneration (continued)

Senior Executives	
Annualised Remuneration (excluding bonuses)	Number of Senior Executives
\$125,000 to \$200,000	4
\$200,001 to \$525,000	3

Non-executive director	Period	CSD director fees (\$)	Subsidiary and advisory board fees (\$)	Superannuation (\$)	Total (\$)
James Kahl	2017	78,904	10,950	7,496	97,350
	2016	78,904	10,950	7,496	97,350
Joanne Grainger	2017	38,356	0	3,644	42,000
	2016	38,356	0	3,644	42,000
Nigel Corish	2017	31,963	0	3,036	34,999
	2016	0	0	0	0
Juanita Hamparsum	2017	38,356	5,936	4,208	48,500
	2016	38,356	5,936	4,208	48,500
Paul McVeigh	2017	30,017	0	2,852	32,869
	2016	38,356	0	3,644	42,000
Matthew Norrie	2017	38,356	5,936	4,208	48,500
	2016	38,356	5,936	4,208	48,500
John Stewart	2017	9,589	1,370	1,041	12,000
	2016	38,356	5,479	4,165	48,000
Doug Rathbone	2017	38,356	0	3,644	42,000
	2016	31,963	0	3,037	35,000
Robert Tuck	2017	38,356	0	3,644	42,000
	2016	38,356	0	3,644	42,000
Total	2017	342,253	24,192	33,773	400,218
	2016	341,003	28,301	34,046	403,350

The member approved current remuneration “pool” for Directors is \$500,000 per annum.

Note 21: Controlled entities	Country of incorporation	Percentage owned 2017	Percentage owned 2016
Parent and ultimate parent entity			
Cotton Seed Distributors Limited	Australia		
Subsidiaries of parent entity			
Cotton Seed International 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 2017-18 in the range of \$nil to \$11 million.

Note 23: Parent entity financial information	Consolidated	
	2017 (\$)	2016 (\$)
(a) Summary financial information		
<u>Statement of financial position</u>		
Current assets	219,437,067	171,010,298
Total assets	260,201,593	203,090,643
Current liabilities	33,593,378	17,149,824
Total liabilities	33,709,291	17,248,180
Net Assets	226,492,302	185,842,463
<u>Equity</u>		
Retained surpluses	226,492,302	185,842,463
Total equity	226,492,302	184,842,463
Surplus for the year	41,356,195	14,053,921
Total comprehensive income	41,356,195	14,053,921
(b) Guarantees entered into by the parent	-	-
(c) Contingent liabilities of the parent	-	-
(d) Contractual commitments (Note 2)	104,638,969	40,297,507

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



Wee Waa Office
"Shenstone", 2952 Culgoora Road
Wee Waa, NSW 2388
P: (02) 6795 0000
F: (02) 6795 1231

Dalby Office
Corner Edward and Napier Streets
Dalby, QLD 4405
P: (02) 4662 6050
F: (07) 4662 6060