Australian Agricultural Company Limited

Annual Report 2006

About AAco

Australian Agricultural Company Limited (AAco) is the world's leading beef producer with more than 550,000 cattle on 27 properties covering almost 8 million hectares in Queensland and the Northern Territory.

Established in 1824 by royal decree, AAco is the oldest agricultural company in Australia. The Company re-listed on the Australia Stock Exchange in 2001.

One of AAco's key competitive advantages is its production system, which delivers certainty of supply of high quality traceable beef to its customers in Australia and around the world.

Contents

Annual General Meeting

The Annual General Meeting of the Company will be held at 10.00am on Thursday 24 May 2007 at Meeting Room 1, Mezzanine Level, Brisbane Convention & Exhibition Centre, Cnr Merivale & Glenelg Streets, South Bank, Brisbane, Queensland.

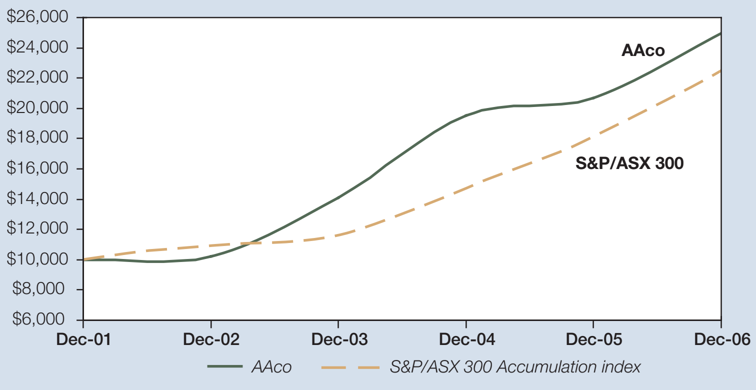
AAco's northern properties, where most of the Company's breeding cattle are located, had strong rainfall in 2006 ensuring our herd performed well.

2006 in Summary

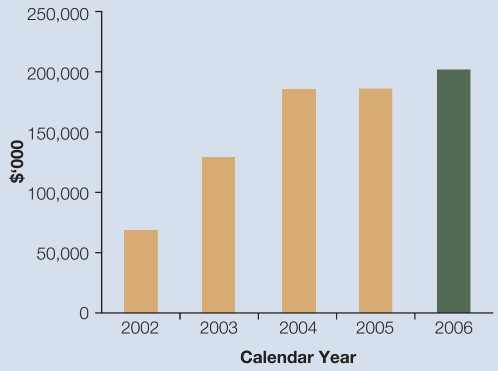
Despite difficult seasonal conditions in 2006, AAco:

- Increased beef production by 9%
- Improved calving rates from 67% to 71%
- Grew the herd by 11%
- Undertook strategic property transactions that underpinned efficiency gains for the future
- Made the strategic acquisition of the Westholme Wagyu stud herd, in keeping with our focus on creating higher margin products and markets
- Increased wholesale meat business sales by 95% to $78m
- Managed drought mitigation plans and geographic diversity which reduced the majority of risks to the herd and to production.

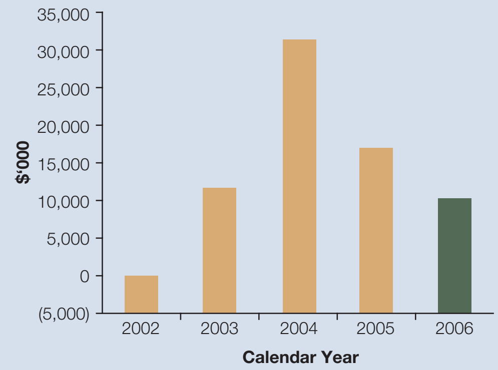
Total Shareholder Return on $10,000 investment over the last five years



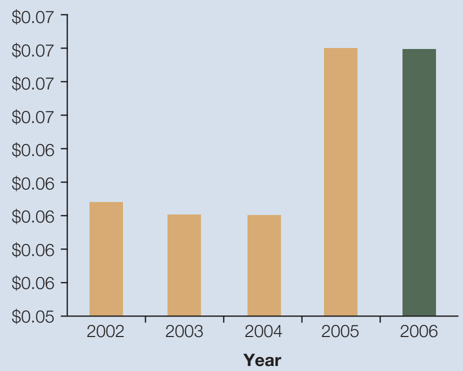
Operating Revenue



Net Profit After Tax



Dividend Paid Per Share

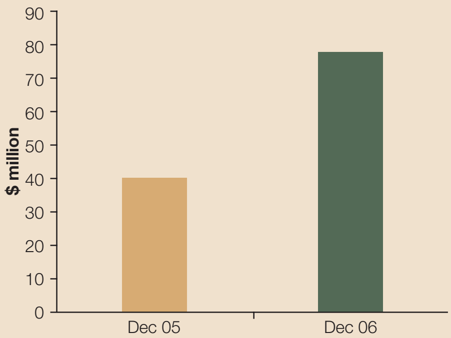


2006 Report Card

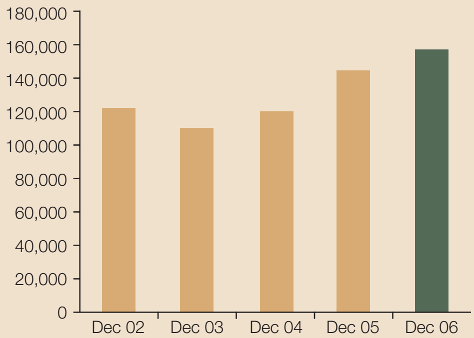
Delivering on Our Goals

Goal	Target	Outcome	Details
Increase beef production	Double herd size by 2015 8.6% increase p.a.	11% increase in herd size to 556,000 cattle	Increase balanced between retained heifers and new acquisitions
Increase beef production	Increase total kilograms of beef production by 8.6% p.a.	Beef production up 9% to 73 million kg from 67 million kg	R&D into better calving and genetics yielded strong results
Increase beef production	Achieve 70% calving rates	71% calving rate achieved	Continuing effort to produce better genetics mean further improvement is expected

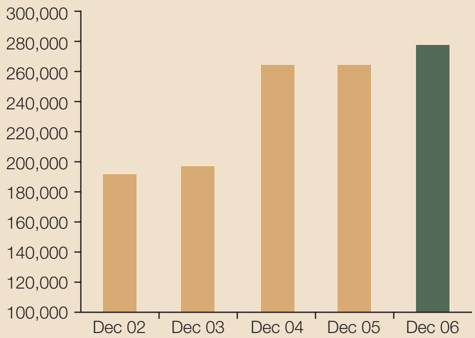
Wholesale Beef Sales



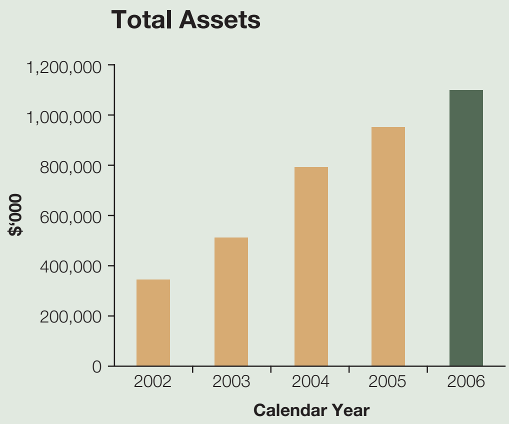
Natural Increase (No. of Head)

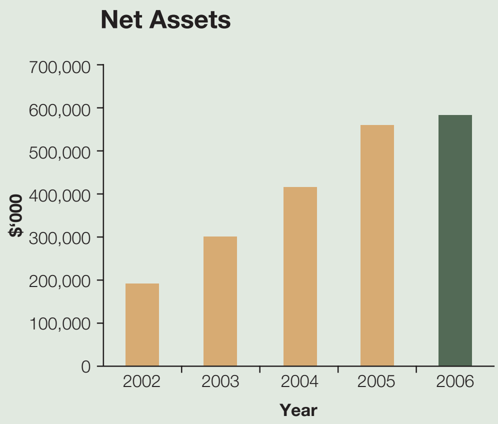


Number of Breeding Cattle on Hand



Goal	Target	Outcome	Details
Efficient increase of carrying capacity	Increase carrying capacity of existing properties by 20,000 head	More than 20,000 extra head retained to stock improved properties	Northern breeding properties have seen strong capacity improvements
Efficient increase of carrying capacity	Annual increase through acquisitions not to exceed 8%	Bought Anthony Lagoon and Eva Downs. Sold Wrotham Park. Net gain: 3.6% increase in land area 4.4% increase in cattle capacity	Acquisitions represent more efficient properties with additional capacity of 25,000 cattle
Achieve better penetration of high value markets	Improve Wagyu production capability	Acquired Westholme Wagyu stud herd	5,000 first-cross breeders assigned to initial Wagyu production
Achieve better penetration of high value markets	Expand branded sales into Asia	*1824* sales launched in Japan in June 2006	Supply chain control through Chefs Partner allowed better *1824* throughput
Achieve better penetration of high value markets	Increase branded beef sales by 50%	Branded beef sales increased by 95%	Fully acquired Chefs Partner in April 2006. Moved to new premises allowing greater capacity expansion





Chairman's Report

In trying conditions, AAco's performance in 2006 reflected the Company's goal of creating higher performance from our existing assets, be they land, brands, cattle or people.

Despite a difficult market with fluctuating cattle prices, AAco is now trading at a premium to its net tangible assets, a feat achieved through intense focus on both the manner and efficiency with which those assets are utilised.

Productivity

The nature of AAco's business means that genetic innovation and research takes time to yield results. In 2006, the intensive work undertaken over several years developing our breeding program produced objective confirmation of its success. AAco's two primary composite breeds, the Barkly Composite and Gulf Composite have demonstrated higher fertility and growth rates and are delivering a consistently high eating quality of meat.

This breeding program is an ongoing journey, and the Company will continue refining its composite breeds in order to achieve the highest quality and quantity yield, and to produce beef that matches the requirements of our key markets, both in Australia and internationally.

The Company was also able to exert significant control over costs on our properties as well as overheads in 2006, further ensuring that all expenditure was targeted at delivering production returns.

Land

In 2006, high property prices meant that growth through land purchases was generally an expensive path. Instead, AAco was able to increase production and efficiency through a more aggressive use of the assets on our existing properties.

Significant internal capital expenditure on these existing assets allowed AAco to increase carrying capacity, using our own cash flow, breeding stock and land.

This is a powerful form of investment, as the work undertaken to increase the carrying capacity of the land is a value driver to production, in addition to increasing the value of the property portfolio.

This potential for capital growth means that AAco's property portfolio gives the Company some of the characteristics of pure property investment whilst maintaining operating profits to service internal growth and dividends.

The portfolio that AAco has built also represents a natural form of self-insurance, whenever some part of the system is under duress, the diversity of the portfolio allows the Company to protect its production capacity from these climatic variations.

There were some important acquisitions and disposals in 2006. The purchase of Anthony Lagoon and Eva Downs Stations allowed greater synergies to be achieved through higher utilisation of existing facilities at the neighbouring Brunette Downs, and the cost was significantly offset through the sale of Wrotham Park, which was some distance from AAco's well-established 'path to market'.

Chefs Partner

The move to full ownership of Chefs Partner was an important step in ensuring the strength of the 'AAco system', which concentrates on the Company's ability to derive maximum value from every kilogram of beef produced. In effect, Chefs Partner acts as a point of entry for AAco's range of products, ensuring that we are in contact with markets for every product we create, from animal skins to sirloins. This system allows AAco to maximise its margins and add value to beef production, rather than simply sell a commodity.

This direct contact with our customers also gives AAco the ability to tailor products to meet customers' needs. From the breeding program to feed and growth rates, it is possible to refine any element of the process to create a range of unique products that are designed to meet customers' specifications. By controlling the entire production process, the Company can offer customers continuity of supply of quality beef, which is produced in a humane and environmentally responsible way.

Chefs Partner and through it our control of the final processing phase of production allows AAco's Wagyu and *1824* brands to continue to achieve total quality control and consequently greater market penetration, not just in Australia but internationally, especially in the key markets of Japan and South Korea. The diversity of this customer base allows the Company to better insulate itself from fluctuations in individual markets.

Wagyu

As part of the Company's goal to distinguish its products from generic beef as a commodity, the purchase of the Westholme Wagyu genetics was a vital step for future growth. This unique collection of genetics offers the opportunity to continue developing and enhancing the range of cattle that produces beef of a quality and flavour that sets it apart from other products. This differentiation has been identified as a driver for brand penetration over coming years.

Finalisation of the AMP Litigation

The Company has finalised its legal action with AMP over AMP's sale of the Stanbroke Pastoral Company.

AAco believes the settlement of this litigation vindicates the Company's actions in pursuing damages from AMP following what the Company believed was a flawed tender process for the sale of Stanbroke in 2003.

The Company's decision to pay a special 2 cent dividend is in recognition of the support that has been provided by our shareholders to the Company to take this legal action on their behalf.

Our People

Finally, I would like to take this opportunity to pay tribute to the efforts of our staff and their families. AAco is very much a family company, but not in the traditional sense. The remote locations in which our properties are located mean that not just our staff, but their partners and children live at their workplace. The improvements we have seen in the production and quality of the Company's beef products, and the carrying capacity and value of the land on which our cattle are bred and raised is a testament to the ingenuity and dedication of the AAco family.

Thank you.

Nick Burton Taylor AM
Non-Executive Chairman

Estimated Breeding Value (EBV) resulting from genetic improvement over the last 7 years on "1824" cattle

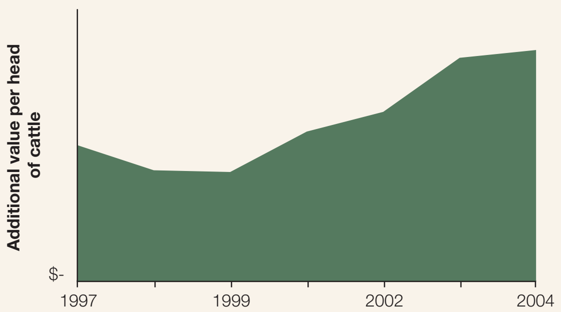


*Chart shows additional value of cattle sired by bulls

AAco's two primary composite breeds have demonstrated better fertility and and growth rates and are delivering a consistently high eating quality of meat.

Board of Directors

Top left to right: Chris Roberts, Hon Tim Fischer AC, Charles Bright, Les Wozniczka
Seated left to right: Nick Burton Taylor AM, Don Mackay
Directors' profiles appear on pages 17 and 18.

Senior Management Team

Left to right:
Stephen Toms, Chief Financial Officer
Pat Dempsey, General Manager Beef
Tim Gallagher, General Manager Station Operations
David Connolly, General Manager Livestock Operations
Andrew Jones, General Manager Land

Front:
Don Mackay, Managing Director/CEO

Inset photo:
Bruce Bennett, Company Secretary/Legal Counsel

CEO's Report

AAco performed well in 2006, recording strong revenue and growth. This performance was achieved through the Company's adherence to a long-term strategy that focuses our effort on building the four key assets of our business – land, cattle, brands and people.

The fact that we have been able to achieve the goals we set for ourselves and to perform well in conditions that have been very trying for the agricultural sector in Australia is a testament to both the direction we have set, and the dedication and ability of our staff.

Financial Performance

Revenue

Revenue in 2006 was $200.3 million, an increase of 9% on the previous year. Net cattle revenue fell to $114.5 million from $135.7 million in 2005 as a result of the significant revaluation in trading cattle inventory, as required by Accounting Standard AASB 1041 'Agriculture'.

AAco's other major source of revenue is its branded beef business, which saw an 86% increase to $74.2 million in 2006. However, net profit after tax fell from $16.8 million in 2005 to $10.1 million in 2006.

Cattle Prices

The drought conditions in South-Eastern Australia meant 2006 was a year of volatile cattle prices. In the June quarter, AAco's margins were affected by a combination of relatively flat prices for grain fed cattle which comprise the bulk of AAco's sales, and a late surge in the price of grass-fed store cattle following unseasonal June rains which led many graziers to retain more cattle.

Prior to these late June rains, Southern Queensland had experienced severe drought conditions which affected AAco's properties at South Galway and Wylarah. As a result, Management redirected a number of cattle to more northerly stations where feed was more readily available.

As drought conditions in Southern Australia continued in the second half of the year store cattle prices fell sharply as large numbers of drought affected producers in Southern Australia were forced to sell animals.

The increased sales had a significant effect on the Eastern Young Cattle Index (EYCI) seen at right, which is weighted towards southern markets. For AAco's cattle in Northern Australia, the figures for the Queensland Cattle Market Index (QCMI) and Roma store cattle prices provide a better indicator of market conditions for trading cattle.

Although AAco's land holdings were not subjected to the conditions that drove the EYCI, the general oversupply of cattle in southern markets saw price falls that caused negative revaluations of the herd at the end of the first, third and fourth quarters of 2006. Total devaluation of the herd for the year was $17.3 million.

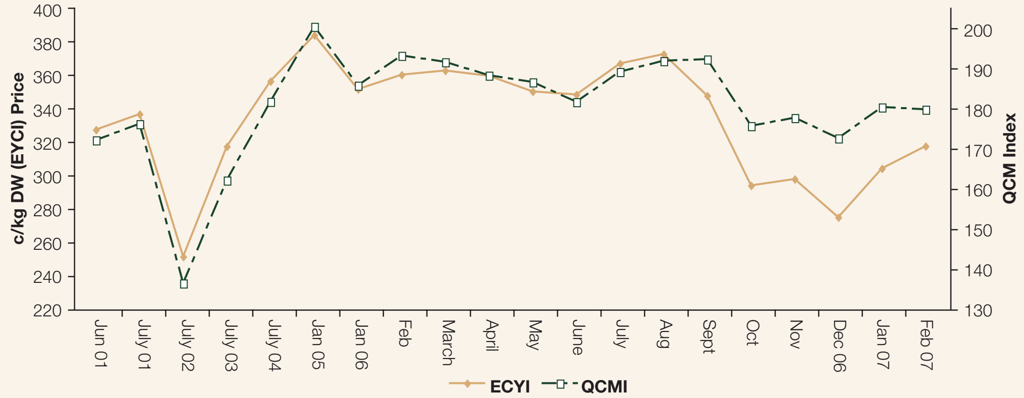
Overall AAco sold 199,002 head of cattle in 2006 (185,313 head in 2005) at an average price of $935 per head compared to $909 in 2005. The Company's herd finished the year in excellent condition and is well placed for a productive 2007.

Expenses

Operating overheads for the year rose by two percent to $103.36 million. This increase was modest given Chefs Partner's costs were included after it had been fully acquired by AAco, and a herd size that increased by 10%.

These additional costs were partly offset by a significant reduction in business development costs (down 46%), one off reductions to administration costs (down 24%) and lower cattle expenses due to a reduction in feed supplement costs (down 6%). There were small rises in costs associated with higher fuel and feed prices, and increases to breeding and production capacity.

Eastern States Young Cattle Price Indicator "EYCI" (LHS) and the Queensland Cattle Market Index "QCMI" (RHS) Monthly: June 2001 – February 2007



EBIT

Earnings before Interest and Tax (EBIT) were down 43% to $22 million. This fall was principally due to the significant revaluation of the Company's herd.

Borrowing Costs

Borrowing costs for 2006 rose to $20.5 million from $17.2 million in 2005. This increase was due to higher borrowing to fund the Eva Downs and Anthony Lagoon acquisitions, as well as other investments including the Westholme Wagyu herd and the balance of the Chefs Partner business.

Dividend

A dividend of 7 cents per share unfranked was paid in October 2006. AAco's policy is to pay dividends in October as this aligns with cash flows. Further guidance on the next dividend will be made at the Company's Annual General Meeting in May 2007, when a better knowledge of seasonal and market conditions will be available.

Balance Sheet

Total assets grew by 15% to break the $1 billion dollar mark for the first time, at $1.1 billion. This was despite the $17.4 million writedown in herd value. That writedown was offset by an increase in the quantity of breeding stock being retained, and an uplift in the value of freehold and leasehold land assets which increased in value by $41.3 million.

NTA

Net Tangible Assets (NTA) per share rose to $2.28 from $2.20 in 2005 reflecting the continuing growth in value of high class northern land assets.

Cash Flow

Operating cash flow for 2006 was negative, with an outflow of $12 million. This forecast outflow was a result of the Company's decision to retain an additional 20,000 head of breeding cattle. These cattle are being used to stock properties where their carrying capacity has increased through recent development work, and will meet our objective of producing more high value cattle from our existing land base.

Track Record

Since 2003, as demonstrated in the graph on page 1, total shareholder return (share price changes plus dividends) has consistently outstripped the performance of the broader S&P/ASX 300 index, of which AAco is a constituent.

Earnings per share (EPS) have grown at a cumulative compound rate of 80% for the three years 2003-2006. EPS for 2006 was 4 cents, down from 7 cents in 2005.

Operating Performance

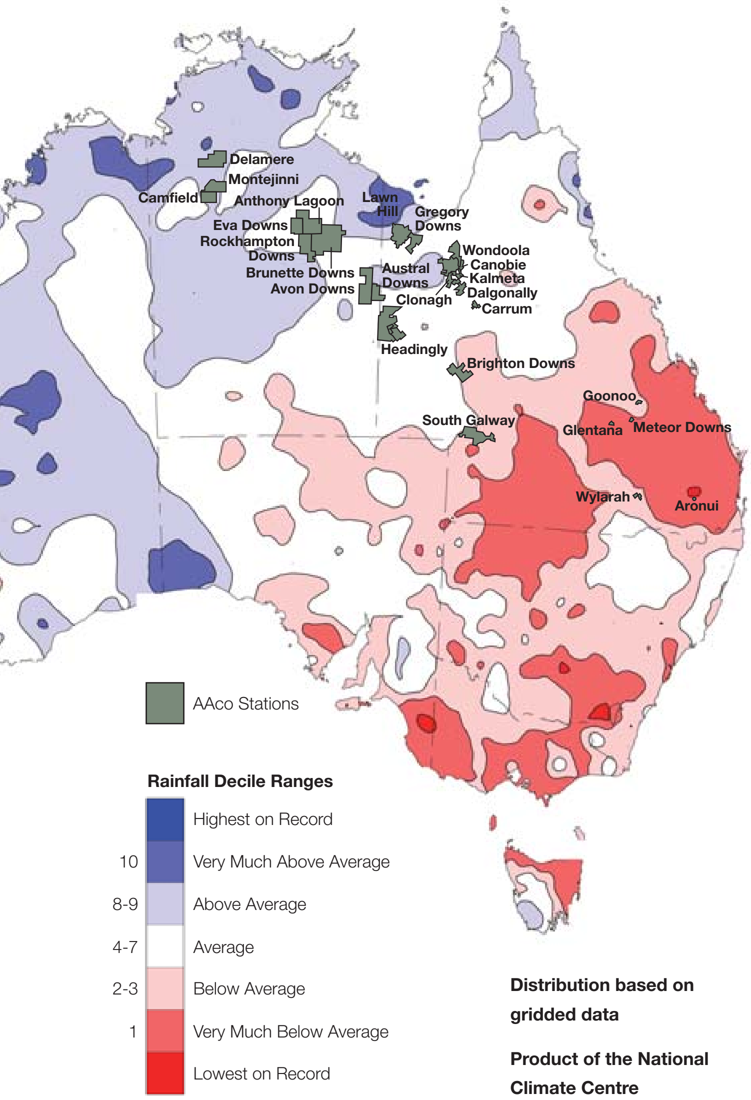
Seasonal Conditions

2006 will be remembered as a year of severe drought conditions across much of Australia. While AAco was undoubtedly affected by the drop in cattle prices as southern producers were left with little option but to de-stock, the Company's strategic focus on Northern Australia meant it was insulated from much of these drought conditions.

Indeed AAco's northern properties, where most of the Company's breeding cattle are located, had strong rainfall early in 2006 ensuring our herd performed well.

Australian Rainfall Deciles

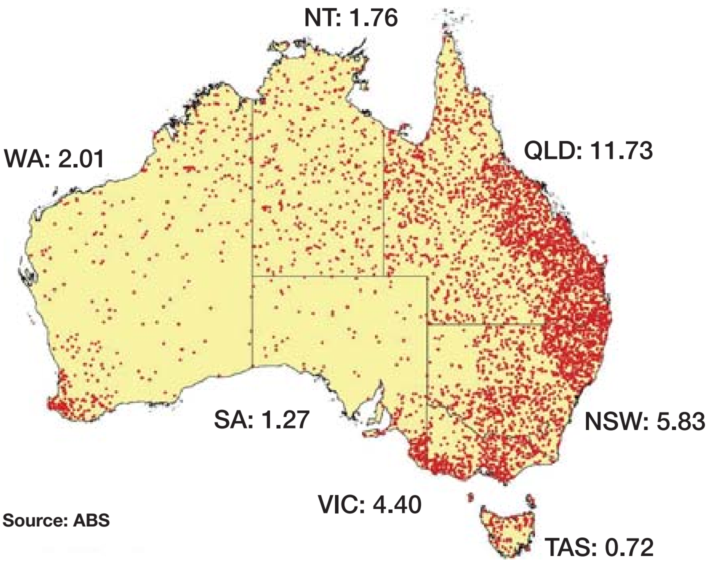
1 March 2004 to 28 February 2007



Source: Australian Bureau of Meteorology

Australian Cattle Distribution

As at June 2005 (million head)



Source: ABS

The Company has undertaken considerable development of its properties to allow more efficient cattle grazing.

Land

AAco owns more than 1% of Australia's land mass, and as a broad debate about land and water use continues to wage across Australia, it is vital that AAco is an active participant in establishing appropriate land use options in our areas of operation.

AAco believes it has the opportunity to participate in the development of high value agriculture in Northern Australia. Well considered and innovative development could see land use in Northern Australia change significantly, reducing the water demands that currently affect parts of South-Eastern Australia and utilising existing resources.

However, in order for this to occur there needs to be regulatory change, particularly in the currently restrictive environment that governs pastoral leases. AAco is engaged in the ongoing debate to promote the case for a more robust, varied and productive agricultural region being developed in Northern Australia.

2006 saw several key acquisitions and disposals in line with AAco's stated strategic objective of building a portfolio that increases earnings for shareholders and reduces the Company's exposure to seasonal factors. The sale of Wrotham Park Station in the lower part of Cape York, the acquisition of Eva Downs and Anthony Lagoon Stations, both of which border AAco's existing Brunette Downs property on the Barkly Tablelands in the Northern Territory, are evidence of this strategy.

Additionally, these new Barkly Tablelands properties are more suited to higher value and more productive composite breeds. By contrast, the tropical climate of the Lower Cape meant that Wrotham Park was more suited to pure Brahman cattle and was located further from our key growing stations.

As can be seen at left, a substantial part of AAco's land holdings is concentrated in the more reliable although more seasonal rainfall band. By comparison, much of Australia's beef cattle are bred and raised in areas which suffered from very poor rainfall in the past year and have been subject to declining rainfall over the past 50 years.

As part of AAco's efforts to produce more high quality beef from every hectare of land we own, the Company has undertaken considerable development of its properties, building more infrastructure such as bores and fences to allow more efficient grazing by cattle.

We have also commenced a project to assess the benefits of cell grazing. This practice involves dividing an existing paddock into smaller segments, which are then grazed in turn by the cattle in this paddock. This practice ensures cattle feed as efficiently as possible, and allows one part of a paddock to recover while another is grazed. Cell grazing can improve the carrying capacity of land considerably, and is another example of our efforts to extract the maximum sustainable output from our existing land base.

Our diversity of breeds enables the Company to market a variety of its own products.

Cattle

AAco's central objective from its cattle strategy is to increase production of higher value beef from our land.

One of the key drivers for this goal in 2006 was the acquisition of the Westholme Wagyu stud. That purchase allowed AAco to commence building a strong production base for Wagyu beef, and by the end of 2006 some 5,000 cows were part of a Wagyu breeding program.

The acquisition of the Westholme Wagyu stud means that AAco's herd now has three distinct components – Brahman-based composite breeds, Santa Gertrudis-based composite breeds and purebred and crossbred Wagyus. This diversity of breeds enables the Company to market a variety of its own products and provide beef to suit a host of domestic and international markets.

While the market for Wagyu beef is primarily for export, there is a growing domestic demand that reflects the sophistication of beef consumption in Australia.

Overall, herd growth was strong in 2006, with an 11% increase to 556,478 ahead of the Company's stated target of 8.6% p.a. growth. Total production rose by 9% during the year, while calving rates increased from 67% to 71%. Given the drought conditions that affected so much of Australia through the year, this is a significant achievement and reflects the work the Company has undertaken in research and breeding.

Brands

The most important step in 2006 towards the Company's goal of increasing the amount of branded beef sold as a proportion of total sales was the full acquisition of Chefs Partner from the previous 45% stake. Along with the acquisition, AAco leased a new portion-controlled packaging facility for Chefs Partner's operations at Morningside in Brisbane with the capacity for a five-fold increase in production over time.

This facility will assist the Company to achieve its long-term goal of marketing 40% of our total breef production through our branded beef operations. Currently, part of the excess capacity at the Morningside plant is being leased to one of the Company's major customers in Australia.

In October, the *1824* brand was introduced in Japan, the first step in a process of opening up Asian markets to AAco's branded products.

At the same time, processing capacity for branded beef was increased from 250 to 550 head of cattle per week. This also contributed to the 95% increase in branded sales to $78 million.

In order to maintain these ambitious targets for branded beef production, we are continuing to identify opportunities in export markets – including the more traditional export destinations such as Japan, Korea and USA, as well as other markets such as Hong Kong, Shanghai, Dubai and Singapore.

The hard work that AAco and the Australian beef industry have put into developing stringent paddock-to-plate traceability standards mean that high-quality Australian beef has a significant opportunity to maintain its substantial market share in markets such as Japan and Korea over imports from the US.

AAco is also working to establish stronger markets for Wagyu beef, both domestically and overseas. The high quality breeding program we have introduced following the purchase of the Westholme Wagyu herd means the company can produce a consistently high quality product that can match the strong demand among increasingly sophisticated beef consumers.

Our branded beef marketing program allows AAco to share in the margin throughout the chain to deliver higher returns with minimal additional capital requirement.

People

Like many employers in rural and regional Australia, AAco is facing increasing competition in securing and retaining employees as a result of the continued resources boom. The competition for employees tends not to be so great in AAco's core business areas, however, the employment market for support roles such as transport, mechanics and catering is tight, and AAco will continue to develop policies and programs that distinguish it as an employer of choice in rural Australia.

AAco's staff development programs have seen significant work undertaken to upgrade facilities for staff across a range of properties. In expectation of a growing proportion of female employees in our workforce, AAco has put in place a range of programs that deal with a changing workforce in remote workplaces, in particular accommodation.

This growing recognition among women of the employment opportunities offered by the rural sector is a trend that is likely to continue, and AAco is working to ensure we continue to recruit, train and retain the highest quality workforce as well as provide a fulfilling and safe work environment.

In order to allow that workforce to produce higher quality beef without employing greater numbers of people, AAco is investing in infrastructure that progressively increases the amount of beef that can be produced more safely and efficiently from the same amount of land.

AAco will continue to develop policies and programs that distinguish it as an employer of choice in rural Australia.

Environment

2006 was a year where issues like climate change and water use came under public scrutiny as never before. For AAco, issues such as these are an integral part of our strategic plan for the future of the Company.

AAco has long recognised the importance of water as a resource, and that is one of the key reasons we chose to focus on northern agricultural assets. While a majority of Australia's high value agriculture is focused on the Murray-Darling basin, a number of AAco's properties lie in catchments of the large northern river systems, which receive a high proportion of Australia's runoff but with only a tiny fraction of it used for high-end agricultural production. As Australia's water resources become a more precious and economically valued commodity, AAco's strong foothold in areas of reliable rainfall, high runoff and strong soils should become an increasingly valuable asset.

AAco is also firmly committed to identifying biological, rather than chemical solutions wherever possible to address environmental concerns on our properties. At Carrum Station, for example, we have introduced a goat herd as a means of controlling an invasive weed called Prickly Acacia. Through this initiative we have been able to identify a solution that is better for the environment and better for the business.

Awards

In 2006, AAco won a number of awards, but four in particular deserve to be highlighted because they are recognition of the strategic approach that the Company has adopted and executed.

For the third year in succession, AAco's *1824* branded beef won the Rabobank Red Meat Innovation Award for the best branded beef, a welcome acknowledgement of the Company's commitment to producing a high quality product that is recognised in Australia and around the world.

At the National Australia Bank's Agribusiness Awards for Excellence 2006, the Company won two awards: the Australian Greenhouse Office Environment and Energy Management Award, for our sustainable farming practices and environmental management processes, and the Ernst & Young Risk Management Award for the development of AAco's risk management and compliance framework.

Finally, AAco placed in the top three in the Australasian Investor Relations Association's Award for Best Investor Relations outside the S&P/ASX 200.

These awards typify our commitment to operating a company that maintains the highest standards for its investors, its customers, and the broader community.

Conclusion

In conclusion, I would like to thank all our staff for their commitment to the Company. I also thank the Board for their guidance and our shareholders for their support during the year.

The management and staff look forward to managing the challenges and capturing value from the opportunities for the Company in the years ahead.

Don Mackay
Chief Executive Officer

Financial Statements

Contents

Directors' Report

The directors submit their report for the year ended 31 December 2006.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. All of the directors were in office for the entire period.

Nick Burton Taylor AM B.Ec(Syd), ASIA, FCA, FAICD Non-Executive Chairman

Appointed to the Board in April 2001 and appointed Chairman in August 2003. Presently he is Chairman of the Remuneration and Nomination Committee and the Research and Development Committee (formerly the Breed Development Committee) and is a member of the Audit Committee.

Principal of Hillgrove Pastoral Company and Kenny's Creek Angus, a producer of beef, wool and grain. Currently Chairman of AirServices Australia and a Director of Hamilton James & Bruce Group Limited. Member of the Rabobank Advisory Board. Chairman of Country Education Foundation of Australia. Former chairman and director of a number of Australian corporates including Sydney Airport Corporation Limited, Australian Topmaking Services Limited, Hazelton Airlines Limited, Federal Airports Corporation, Bankstown Airport Corporation, Meat Research Corporation, Heggies Bulk Transport Limited, Graincorp Limited and Rural Press Limited. Founder and previous Managing Director of Hays Personnel Services (Aust) Pty Limited.

A past president of the Institute of Chartered Accountants.

Don Mackay MAICD Managing Director/Chief Executive Officer

Appointed Chief Executive Officer and reappointed Managing Director in January 2004. Member of the Research and Development Committee (formerly the Breed Development Committee) and all other Board committees by invitation. Also a member of the AAco Foundation.

Appointed Managing Director in September 1999 after being employed by Elders Limited for over 25 years. On flotation of the company in August 2001, was appointed Executive Director of Operations. Has held many key positions with Elders, including National Manager Livestock Development and State General Manager, NSW. Comprehensive background in cattle production, marketing and management. Previously inaugural Chairman of National Saleyard Quality Assurance Limited and former President of the Australian Council of Livestock Agents. Awarded the Centenary Medal in 2002. Qualifications in management from University of New South Wales and the Australian Graduate School of Management. Director of the International Stockmen's Education Foundation. Member of the Australian Institute of Company Directors.

Charles Bright, BA MA (Oxon) Non-Executive Director

Appointed to the Board in November 2003. Member of the Audit Committee, the Health, Safety and Environmental Committee and became a member of the Research and Development Committee (formerly the Breed Development Committee) in October 2005.

A member of the Board of Futuris Corporation Limited (FCL) since May 2002 and is an FCL nominee on the AAco Board. 33 years in investment banking in Australia, London and New York. Chairman of Potter Warburg Securities from 1989 to 1995. Between 1995 and 1997 assisted in the establishment of the Investment Banking operations of ABN AMRO in Australia and from 1997 to 2000 was head of Corporate Finance for HSBC in Australia. Currently Chairman of the Supervisory Board of Bremer Woll-Kammerei AG and is a director of Integrated Tree Cropping Limited, Tassal Group Limited and Webster Limited.

Hon Tim Fischer, AC Non-Executive Director

Appointed to the Board in October 2001. Chairman of the Health, Safety and Environmental Committee and Chairman of the AAco Foundation.

Leader of the Federal National Party from 1990 to 1999 and from 1996 to 1999 was Minister for Trade and Deputy Prime Minister. Whilst in Parliament was a member of many policy committees including Transport Safety, Transport Infrastructure, Energy and Resources, Veterans Affairs and Communications. Prior to being elected to the Parliament, was an army officer and NSW State Parliamentarian. Currently Chairman of Tourism Australia and is on the Board of APT Freightlink and Ausmore Singapore.

Chris Roberts, B.Comm Non-Executive Director

Appointed to the Board in June 2001. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee.

Chairman of Amcor Limited. Deputy Chairman of The Centre for Independent Studies. Director of Control Risks Group Holdings Ltd. Previously, Chairman and Managing Director of Arnotts Limited, Chairman of Email Limited, Director of Telstra Corporation Limited, MLC Life Limited and Managing Director of Orlando Wyndham Wines.

Directors' Report (continued)

DIRECTORS (continued)

Les Wozniczka, MBA, BSc (Hon) Non-Executive Director

Appointed to the Board in October 2004. Member of the Audit Committee and the Remuneration and Nomination Committee.

Chief Executive Officer and Executive Director of Futuris Corporation Limited (FCL). Prior to joining FCL, managed private investment interests and held senior management positions within the corporate service and investment banking sectors including the position of Director, Corporate at Potter Warburg.

A Director of Integrated Tree Cropping Limited and Forest Enterprises Australia.

Peter Zachert, B.Bus, M.Com. M.Geoscience, FCA, FAIM Non-Executive Director

Appointed as Alternate Director for Les Wozniczka in November 2004.

Appointed as Chief Financial Officer and Finance Director of Futuris Corporation Limited (FCL) in January 2003.

Prior to joining FCL, held a number of senior financial management roles including Chief Financial Officer for Delta Gold Limited, Chief Financial Officer and Director of Cyprus Australia Coal Company and Controller and Director for Exxon Coal and Minerals Australia Limited.

Broad finance skills and experience in the financial management of organisations engaged in the production and sale of commodities in Australia and internationally, taxation, treasury and financial structuring in mergers and acquisitions.

COMPANY SECRETARY

Bruce Bennett BCom, LLB, F Fin, Grad.Dip.AppCorpGov

Appointed Company Secretary and General Counsel of AAco on 22 November 2006. Before joining AAco, was special counsel in a leading law firm. Specialised in company and property law, mergers and acquisitions and other commercial contracts. Over 15 years experience in legal practice, having practised in both Queensland and New South Wales. Recently attained the Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia.

Interests in the Shares and Options of the Company and Related Bodies Corporate

As at the date of this report, the interests of the directors in the shares and options of Australian Agricultural Company Limited were:

	Ordinary Shares	Options over Ordinary Shares
N. Burton Taylor	7,253,061	Nil
D.J. Mackay	30,542	2,886,000
C.E. Bright	60,000	Nil
T.A. Fischer	51,443	Nil
C.I. Roberts	482,248	Nil
L. Wozniczka	Nil	Nil
P. Zachert	Nil	Nil

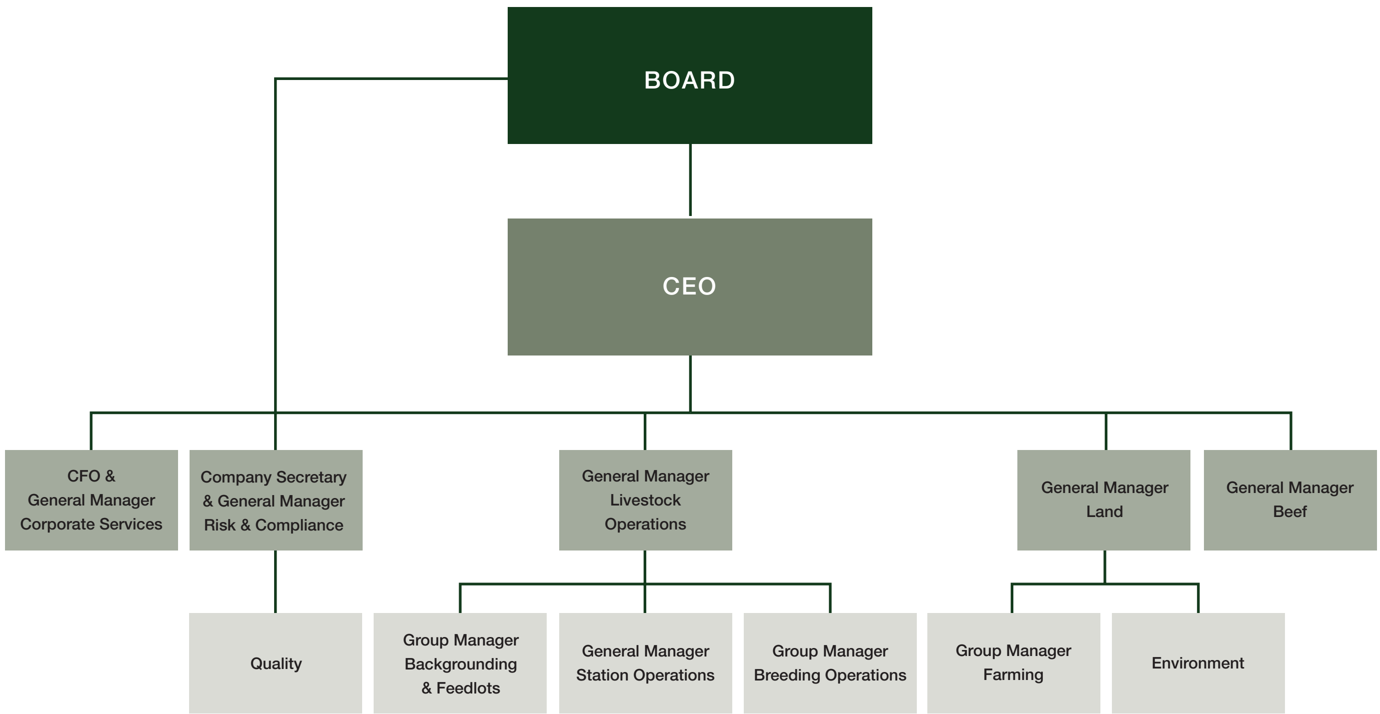
DIVIDENDS AND EARNINGS PER SHARE

Earnings Per Share	Cents
Basic earning per share	4.1
Diluted earnings per share	4.0

Dividends	Cents	$'000
Final dividend recommended:		
• on ordinary shares	0.0	0
Dividend paid in the year:		
• on ordinary shares	7.0	17,446

CORPORATE INFORMATION

Corporate Structure



Nature of Operations and Principal Activities

The principal activities during the year of entities within the Consolidated Entity were:

- Operation of grazing and farming properties
- Cattle breeding, growing, feedlotting and trading
- Value add businesses relating to wholesale meat marketing

Employees

The Consolidated Entity employed 471 employees as at 31 December 2006 (2005: 427 employees).

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Group Overview

In 1824, by an Act of British Parliament, the Australian Agricultural Company (AAco) was formed with a grant of one million acres and the stated aim of cultivating and improving the wastelands of the colony of New South Wales.

Today AAco is a cattle producer with a significant position in the Australian food industry. AAco is the largest beef cattle producer in Australia and runs a herd in excess of 561,000 head of cattle.

AAco operates an integrated cattle production system across 22 cattle stations (plus 2 feedlots and 3 farms) located throughout Queensland and the Northern Territory covering approximately 8.2 million hectares. AAco has been recognised as an efficient, quality cattle producer and one of Australia's most environmentally responsible cattle operations.

AAco produces beef cattle that are processed for a range of uses from prime cuts typically sold in restaurants or supermarkets to manufacturing beef, which is typically used for hamburgers. An increasing percentage of AAco's production is for high quality beef for restaurants and domestic supermarkets.

Through its cattle production system, AAco can supply a consistent quality and volume of product throughout the year. AAco's strategy is to expand on this capability to capture the opportunities in the domestic and global beef markets presented by changing consumption trends and global beef supply limitations. AAco plans to capture these opportunities through a strategy of herd growth, brand building and extracting market premiums for its systems-based approach to production.

Cattle

Cattle represent 37% of the gross assets of the business and are the primary source of income and cash generation for the company. This year the company experienced very volatile cattle prices in certain markets. In the June quarter the cattle industry in southern Queensland was suffering from severe drought conditions. AAco had two stations impacted by this drought thereby requiring management to redirect cattle to stations where feed was available. Unseasonal rains in late June encouraged graziers to start retaining cattle thus forcing a rise in store/grass fed cattle prices. During this period grain fed cattle prices remained quite flat. As a consequence AAco margins were under pressure from the squeeze between higher store cattle prices and the static price of finished cattle.

In the latter half of the year store cattle prices fell sharply as large numbers of drought affected producers in southern Australia were forced to sell animals. AAco was not subject to these conditions although these price falls negatively affected end of year valuations of inventory.

AAco's cattle herd finished the year in excellent condition and is well placed for a productive 2007.

Overall AAco sold 199,002 head of cattle in 2006 (185,313 head in 2005) at an average price of $935 per head compared to $909 in 2005.

Land

Interests in land and buildings represent 54% of the gross assets of the company. During the year the company acquired Eva Downs and Anthony Lagoon Stations. The company also divested Wrotham Park Station in the lower Cape York area to focus its operations in the Northern Territory and lower gulf areas of Queensland.

The directors undertook a valuation of the property portfolio and based on independent advice revalued the properties by $41.3 million. This represents a 9% increase in property values.

Wholesale Beef

2006 saw significant growth for the company's branded beef business with sales revenue increasing from $39.9 million to $77.8 million, an increase of 95%.

AAco's 1824 and Wagyu businesses performed well with increasing demand for the product in Australia, Asia and the USA. The purchase of Westholme Wagyu stud during the period has provided the company with high quality Wagyu genetics to increase our breeding programmes of pure Wagyu and Wagyu grass animals to service this strong demand.

Investment Activities

The acquisition of the remaining 55% of Chefs Partner during the year and the subsequent move to a larger leased processing facility allowed for the current and future development of our wholesale and branded beef operations.

OPERATING AND FINANCIAL REVIEW (continued)

Performance Indicators

Management and the Board monitor the group's overall performance, from the implementation of the company's Strategic Plan through to the performance of the company against the Operating Plan and financial budgets.

Formal quarterly reviews are presented to the Board by management which report on economic drivers in the business as well as the effect of seasonal and industry conditions.

Dynamics of the Business

AAco remains focused on increasing value for shareholders.

Over the past 12 months the company continued its consistent strategy in four key areas, being:

LAND – investing in its robust and diverse portfolio of properties

CATTLE – developing its unique cattle production system

BRANDS – growing its brands and wholesale beef business

PEOPLE – looking after the welfare of staff, the community and the environment

OPERATING RESULTS FOR THE YEAR

Cattle and Farming Operations

During 2006 the company produced 73 million kilograms of beef, an increase of 9% over the prior 12 months.

Wholesale Beef

Wholesale beef continued its expansion into new markets and increased revenue by $38 million over the prior year. Wagyu beef expanded into Korea, Japan and the USA whilst 1824 branded beef expanded domestically into an additional nine Coles stores during the year.

Summarised operating results are as follows:

	2006	
	Revenues	**Results**
	$M	**$M**
Cattle and Farming Operations	116.6	19.5
Wholesale Beef	77.8	2.7

Shareholder Returns

AAco derives its growth from its two main asset holdings, cattle and land. Cattle provide earnings/cash and land, in addition to providing feed to cattle, provides capital growth. Underlying capital growth in land is not booked through the profit and loss account but rather is passed directly into equity in the balance sheet.

As the company was listed part way through the calendar year ended 31 December 2001, the historical results have commenced with the base year ended 31 December 2002.

The figures in the following table are not all sourced from audited accounts as they reflect a combination of audited and reviewed accounts due to the change in balance date from June 30 to December 31 (which was effected at 31 December 2004). In addition, the accounts prior to 2005 were in accordance with Australian Accounting Standards. Accounts prepared from 31 December 2005 are in accordance with the Australian equivalent to International Financial Reporting Standards (AIFRS). Accordingly the figures should only be used as a guide to trends in business performance. It is the directors' opinion that the AIFRS adjustments do not reduce the comparative value significantly in the table. The following information is not audited.

Directors' Report (continued)

OPERATING RESULTS FOR THE YEAR (continued)

Shareholder Returns (continued)

	2002	2003	2004	2005	2006	Average
ASSET BASED RETURNS						
Increase in Land Values (Net of notional tax at 30%) represented in movements in the Asset revaluation reserves as a percentage of Property Plant and Equipment	0%	32%	21%	14%	5%	15%
EBITDA Return on average herd value post valuation	1%	14%	21%	13%	8%	11%
Combined Return on Gross Assets after notional tax at 30%	-1%	17%	14%	11%	4%	9%
PROFIT BASED RETURNS						
Return on Sales (EBITDA)/Revenue	4%	24%	34%	25%	16%	21%
3 year compound Total Shareholder return (TSR)	n/a	n/a	25%	28%	21%	25%
3 year compound growth in S&P 300 Accumulation index	n/a	n/a	14%	18%	25%	19%
PER SHARE STATISTICS						
EPS	-2 cents	5 cents	16 cents	7 cents	4 cents	6 cents
Dividend paid during the year / share	6 cents	6 cents	6 cents	7 cents	7 cents	
NTA per share	0.98	1.49	2.02	2.20	2.34	
NTA per share growth compounded over 3 years	n/a	n/a	24%	31%	16%	

Notes:

- All figures rounded to the nearest whole number.
- The Dividend Reinvestment Plan was suspended by the Board in 2004.

REVIEW OF FINANCIAL CONDITION

Capital Structure

During the year the company acquired additional properties and businesses which were fully debt funded. As a result the debt leverage of the company (Debt / (Debt + Equity)) has increased from 31% in 2005 to 39% for 2006. The company aims to operate at a leverage ratio of between 30% and 40%.

Treasury Policy

Interest Rate Risk: Hedging of interest rate risk is undertaken whenever possible through the use of interest rate swaps. The company's policy is to maintain a minimum 50% hedge position. At 31 December 2006 the interest rate hedges accounted for 52% of interest commitments. The company does not apply hedge accounting.

Foreign Currency: The company undertakes forward sales in foreign currency (usually $US) of its wholesale beef business which represents approximately 29% of the company's total sales revenue. All forward sales are hedged with Foreign Exchange contracts to coincide with the expected receipt of foreign funds spread over the year. The company does not apply hedge accounting.

Cash from Operations

Operating Cash flow was significantly lower than the prior 12 month period at $12 million outflow (2005 $15 million inflow). This came about from the planned retention of approximately 20,000 cattle used to stock additional capacity for recently completed property developments that increased carrying capacity.

Liquidity and Funding

The group has an overall banking facility of $381 million of which $367 million was drawn down at 31 December 2006.

Directors believe facilities are adequate to deal with working capital demand and medium scale investment opportunities that may arise during the year.

REVIEW OF FINANCIAL CONDITION (continued)

Risk Management and Compliance

The Board has ultimate responsibility for the oversight of risk management and compliance across the company and uses best practice risk management to support and enhance all aspects of its operations. Specific responsibility for the risk management and compliance process has been delegated to the Board Audit Committee.

Risk is an integral part of AAco's decision making process and all risks and opportunities are adequately and appropriately assessed to ensure that unreasonable risk exposures are minimised. The company's Risk and Compliance Framework ensures that all risks are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The Managing Director/Chief Executive Officer is accountable to the Board for the development and management of AAco's Risk Management Plan and is supported by the Company Secretary/General Manager Risk & Compliance in terms of adopting appropriate risk management processes including regular and transparent reporting to the Board. Each General Manager is responsible for the management of risk within his or her respective area.

The key risks identified in AAco's Risk Management Plan are addressed through AAco's Risk and Compliance Framework (including the company's quality management systems) thereby reducing risk exposure to key stakeholders.

AAco's Risk and Compliance Framework is based on the following process:

- Board approval of a Strategic Plan, which encompasses the company's vision and strategic goals, designed to meet the needs of stakeholders;
- As part of AAco's annual strategic planning process, a Risk Management Plan is developed and submitted to the AAco Board for approval (via the Board Audit Committee). The Risk Management Plan is reviewed and tested regularly in line with changes to the company's strategy;
- An Operating Plan is developed each year based on the Strategic Plan and underpinned by the Annual Budget. The objective of the Operating Plan is to translate AAco's long-term strategy into key operational objectives for the following twelve month period;
- Key Performance Indicators for the Managing Director/Chief Executive Officer and other key executives are developed based upon the company's operational objectives; and
- Performance against the Operating Plan is reported to the Board on a quarterly basis. This report provides the Board with assurance that AAco's strategy is being executed as per the company's Strategic Plan and allows the Board to assess management's performance against objectives on a regular basis. A quarterly Risk and Compliance Report informs the Board of any regulatory, legal or compliance related issues and highlights any changes in AAco's risk profile and/or risk treatment plans.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Gross Assets increased to $1.1 billion from $945 million, an increase of $144 million (15%). The main drivers for this were:

- Purchase of additional properties and businesses of $136 million less disposals of $54 million (net $82 million); and
- Land and leasehold revaluations of $41 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

This report omits information on likely developments and expected future results, the supply of which in the opinion of the directors, would prejudice the interests of the Consolidated Entity.

Directors' Report (continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE

Regulated areas of operation are as follows:

- The operations of Goonoo Feedlot and Aronui Feedlot are regulated by licence issued under the *Environmental Protection Act 1994* and administered by the Queensland Department of Primary Industries and Fisheries (DPI & F). Each feedlot is required to report to the National Pollution Inventory each year with respect to water, air and soil quality. The DPI & F conducts audits of compliance with licence requirements at regular intervals. AAco has recorded no breaches of licence requirements.
- The pumping of water from the Comet River for irrigation and feedlot use at Goonoo Station is subject to licensing under the *Integrated Planning Act 1997* and the *Water Act 2000*. Regulations specify minimum water flows and heights in the river to allow sufficient environmental flows. Gregory Farm has a licence to extract water from the Gregory River for irrigation purposes. Wylarah has a licence to harvest water from the Balonne River for irrigation purposes.
- Stock watering facilities, which utilise bores, require licensing in Queensland, and registration in the Northern Territory.
- Vegetation Clearing Permits are sought under the *Vegetation Management Act 1999* (Queensland) for any clearing required for the installation of infrastructure such as fence lines and water development. AAco is not undertaking any broad scale land clearing.

The Board believes that the company has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements for licence conditions as they apply to the companies.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 6,213,333 unissued ordinary shares under options (6,278,333 at reporting date). Refer to note 32 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

Shares Issued as a Result of the Exercise of Options

During the financial year, employees (for the purposes of the share option plan) and directors have exercised options to acquire 396,666 fully paid ordinary shares in AAco at a weighted average exercise price of $1.37. Since the end of the financial year, a further 65,000 options have been exercised at $1.39.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Under the company's Constitution, each of the company's directors, the company secretary and every other person who is an officer is indemnified for any liability to the full extent permitted by law.

The company's Constitution also provides for the company to indemnify each of the company's directors, the company secretary and every other person who is an officer to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

Each director has entered into a Deed of Indemnity and Access which provides for indemnity against liability as a director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the director to access company documents and records, subject to confidentiality undertakings.

The company maintains a director's and officer's insurance policy to insure the company's directors, company secretary and those of its subsidiaries. The company has paid or has agreed to pay the premium for the policy.

The terms of the insurance contract prohibits the company from disclosing the level of premium paid and the nature of the liabilities insured.

Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of the company.

REMUNERATION PHILOSOPHY

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director/Chief Executive Officer and the senior management team.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is reasonable and acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 October 2003 when shareholders approved an aggregate remuneration of $600,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. With the exception of the Chairman, an additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more committees.

Non-executive directors are encouraged to hold shares in the company. Any shares purchased by the directors are purchased on market.

The remuneration of non-executive directors for the period ending 31 December 2006 is detailed on page 32 of this report.

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION

The Board is responsible for determining the remuneration of the Managing Director/Chief Executive Officer on the advice of the Remuneration and Nomination Committee which obtains independent remuneration advice as necessary.

The Chairman oversees the Managing Director/Chief Executive Officer’s recommendations for remuneration of senior executives with the assistance of the Remuneration and Nomination Committee (in relation to equity incentives and executive contracts) and independent remuneration advice (where necessary).

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (continued)

Objectives

The Board's objectives are to:

- ensure that senior executives are appropriately rewarded having regard to their role and responsibilities within the company;
- ensure an appropriate balance between fixed and "at risk" remuneration and, in relation to the "at risk" component, an appropriate balance between short-term and longer-term incentives;
- link reward with the company's financial performance and strategic positioning and to reward superior performance; and
- align the interests of senior executives with those of shareholders.

Structure

Remuneration is determined as part of an annual performance review, having regard to market factors, relevant comparative data, a performance evaluation process and independent remuneration advice (where necessary).

Remuneration is structured in the following components:

- Fixed Remuneration
- Variable or "at risk" Remuneration comprising:
  - Shorter Term Incentives
  - Longer Term Incentives

The company encourages its senior executives to own the company's securities to further align their interests with the interests of other shareholders.

Fixed Remuneration

This component comprises cash and other benefits and entitlements and is set so as to provide a base level of remuneration which is both appropriate to the role and responsibilities and reflects current market conditions.

Fixed remuneration is reviewed annually as part of a review that takes into account the individual's performance, the overall performance of the company in the case of the senior executives and the relevant business unit's performance in the case of business unit executives and current comparative remuneration data.

Senior executives are given the opportunity to receive a portion of their fixed remuneration in forms other than cash (such as motor vehicles) under a framework that ensures the company does not incur excessive cost.

Variable Remuneration – Shorter Term Incentive (STI)

This component comprises cash and/or shares in the company (issued under the company's Employee Share Plan) and reflects the individual's performance in achieving various objectives over the prior 12 months.

The aim of the shorter term incentive is to link the achievement of the company's annual and/or immediate financial and broader operational targets with the remuneration received by the senior executives responsible for achieving those targets.

In the case of the senior executive group their shorter term incentive is linked to the overall performance of the company and, in the case of business unit executives, the relevant business unit's performance with a linkage to the consolidated corporate performance.

The total potential shorter term incentive is set at a level that provides the senior executive with real incentive to achieve the targets while not imposing an unreasonable cost on the company.

The actual shorter term incentive payment made to a senior executive depends upon the extent to which targets prescribed for a financial year are met. The targets comprise both quantitative and qualitative indicators and take into account factors such as the maturity of the business, competitive pressure and business cycle. The indicators include contribution to earnings and net profit after tax, market share maintenance/growth, success of new business activities, turnaround of under-performing assets, customer relationships, risk management, leadership and staff morale and safety.

The Board assesses the performance of the Managing Director/Chief Executive Officer against his targets and determines his actual shorter term incentive payment based upon the recommendation of the Remuneration and Nomination Committee.

The Managing Director/Chief Executive Officer assesses the performance of other senior executives against their targets and determines the actual shorter term incentive payments with oversight by the Board through the Chairman and the Remuneration and Nomination Committee.

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (continued)

Structure (continued)

Variable Pay – Long term incentive (LTI)

This component currently comprises options over shares in the company and either reflects the individual's performance in achieving various objectives over the prior 12 months or, in the case of the Managing Director/Chief Executive Officer, contain performance hurdles for future performance.

The aim of the longer term incentive is to reward senior executives in a manner which aligns this component of remuneration with the creation of shareholder wealth.

The Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer's longer term incentive comprises options entitlements, which are determined by the Board with the assistance of the Remuneration and Nomination Committee and independent expert remuneration advice (where appropriate), and approved by shareholders.

The option entitlements are subject to the achievement of earnings per share growth performance hurdles over a rolling three-year period. This performance hurdle aims to encourage pursuit of sustainable continuous improvement with the objective of achieving superior performance for the benefit of shareholders.

The performance hurdle defines a minimum performance requirement that must be achieved if the Managing Director/Chief Executive Officer is to receive any benefit under the long term incentive scheme.

Existing LTI for the Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer has previously been issued 1,386,000 options.

Shareholders in General Meeting in 2005, approved the issue of three annual tranches of 500,000 options (each to subscribe for one fully paid ordinary share in the capital of the company) to the Managing Director/Chief Executive Officer at a fixed exercise price, pursuant to the AAco Executive Option Plan Rules established on 28 June 2001 and on the terms and conditions set out below:

- The fixed exercise price is AAco's 30 day trading average prior to the date of the Remuneration and Nomination Committee's resolution of 25 November 2004 ($1.39);
- Each tranche of options will be subject to the Exercise Condition that the earnings per share for Australian Agricultural Company Limited will increase by a minimum of 5% per annum compound over the three year periods ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively;
- Earnings per share will be adjusted appropriately for capital changes including issues, consolidations and restructures;
- The Vesting Date will be the date on which each Exercise Condition has been met;
- The Exercise Period for each tranche is from the date of vesting to 31 March 2010, 31 March 2011 and 31 March 2012 respectively;
- Where employment is terminated in other than Special Circumstances, eligibility for vesting of share rights in respect of incomplete measurement periods will be forfeited;
- In Special Circumstances (death, total permanent disablement, retirement, retrenchment, company initiated terminations for other than cause and others determined by the Board from time to time) the Board will make a determination in relation to grants for which the three year measurement period has not finished at the date of termination, as to the extent, if any, to which the options will vest having regard to performance to date and the portion of the measurement period completed at the date of termination; and
- In the event of a takeover or change in control of AAco:
  - 50% of unvested options made within the last three years would vest, as soon as the Board forms the opinion that the takeover or change in control will occur, and
  - all or part of the other 50% of the unvested share right grants made within the last three years may be vested by the Board as determined in its absolute discretion.

Directors' Report (continued)

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (continued)

Structure (continued)

Existing LTI for the Managing Director/Chief Executive Officer (continued)

The EPS compound growth performance for the three years ended 31 December 2005 and for the three years ended 31 December 2006 has been met and therefore the vesting status of each of the three tranches is shown in the following table:

Tranche	Number of Options	Date on which Option was vested
First Tranche	500,000	1 January 2006
Second Tranche	500,000	1 January 2007
Third Tranche	500,000	Options have not yet vested
Total	**1,500,000**	

Other Executives

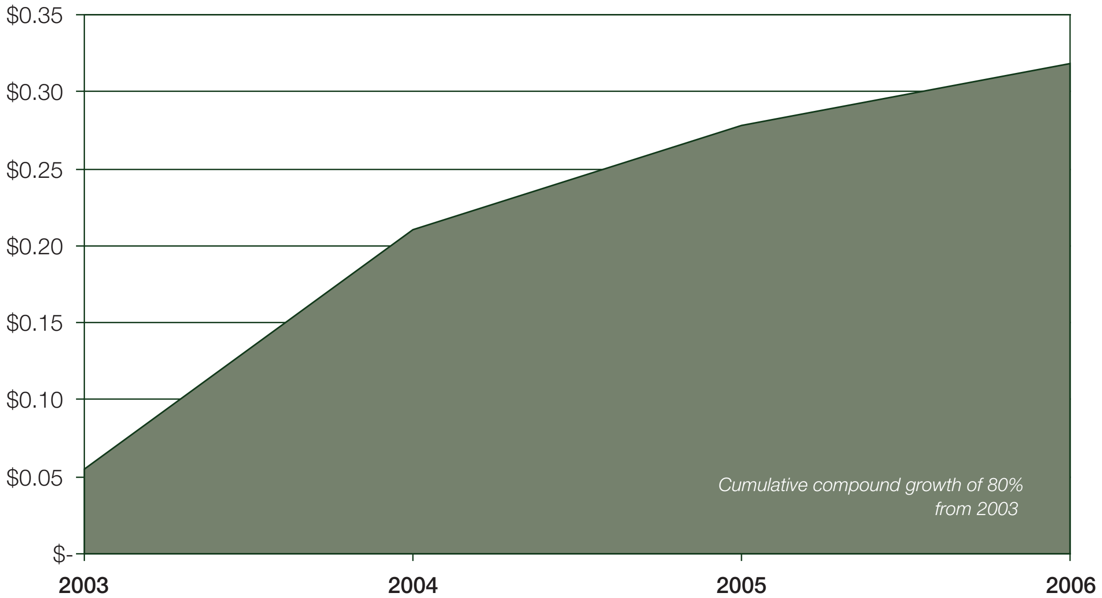
Direct Reports to the Managing Director/Chief Executive Officer

The longer term incentive of the Managing Director/Chief Executive Officer's direct reports is determined by the Managing Director/Chief Executive Officer with oversight and approval by the Board through the Remuneration and Nomination Committee. Entitlement to the incentive and its quantum and form is dependent upon an assessment of the individual's contribution over the prior financial year to factors that position the company for longer term success and increasing shareholder wealth such as the development of new business activities, strategic positioning, and execution of key transactions.

COMPANY PERFORMANCE

The graph below shows the cumulative earnings per share for the past three years. The cumulative compound growth rate in EPS was 80% for the three years ended 31 December 2006.

Cumulative Earnings per share – last three years



For the purposes of calculating compound growth the base period was taken as the average of 2002 and 2003 as the base year was negative.

Earnings per share (EPS) on an annual calendar year basis are noted in the table below:

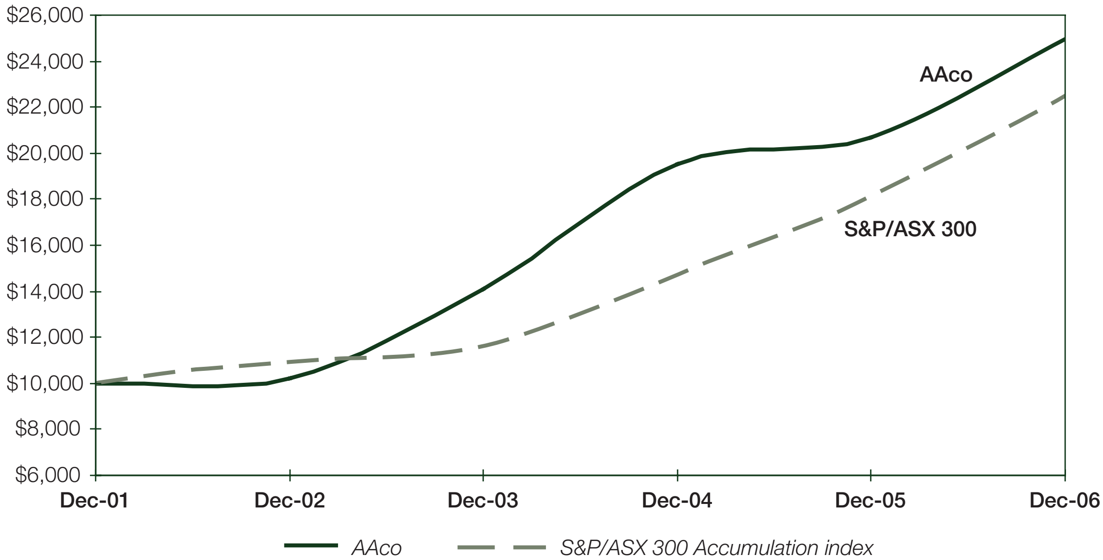
Per Share Statistics	2002	2003	2004	2005	2006
EPS (to the nearest cent)	-2 cents	5 cents	16 cents	7 cents	4 cents

COMPANY PERFORMANCE (continued)

As a guide to Total Shareholder Return the graph below demonstrates the shareholder wealth created over the past five years.

Total shareholder return for the company is defined as share price growth plus dividends assuming the dividends are reinvested into the company's ordinary shares

Total Shareholder Return on a $10,000 investment over the last five years



EMPLOYMENT CONTRACTS

AAco Group employees are employed by the subsidiary company, A.A. Company Pty Ltd.

The Managing Director/Chief Executive Officer, Don Mackay, is employed under an executive service agreement. The agreement has no fixed term and provides that:

- Mr Mackay may terminate his employment by giving 12 months written notice. No STI's or LTI's will apply to any financial year during which employment ceases and LTI options that have not vested will be forfeited;
- The company may terminate Mr Mackay's employment by 12 months written notice or provide payment in lieu of the notice period based on Mr Mackay's fixed component plus a variable component in recognition that termination during a financial year affects the ability to earn a performance incentive during that year. LTI options that have not vested will be forfeited upon termination; and
- The company may summarily terminate Mr Mackay's employment if serious misconduct has occurred.

The executive service agreement for other senior managers generally reflects that of Mr Mackay's with the exception that notice periods by the employee and the company are three months.

EMPLOYEE BENEFITS

(a) Executive Option Plan

The Consolidated Entity has one Executive Option Plan (EOP) for the granting of non-transferable options to the Managing Director/ Chief Executive Officer, senior executives and middle management with more than twelve months' service at the grant date.

Managing Director/Chief Executive Officer – Executive Options

On 11 March 2005, 1,500,000 options were granted in three equal tranches with a fair value of $0.39 each. Options issued will vest when the following conditions have been met:

The earnings per share of the Consolidated Entity have increased by a minimum of 5% per annum compound for each of the three years ending 31 December 2005, 2006 and 2007 respectively. The exercise price of these options is fixed at $1.39 being the 30 day trading average prior to 25 November 2004. Any vested options that are unexercised, for each tranche, on 31 March 2010, 31 March 2011 and 31 March 2012 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

No options were granted to the Managing Director/Chief Executive Officer during the year ended 31 December 2006.

Directors' Report (continued)

EMPLOYEE BENEFITS (continued)

Senior Executive – Executive Options

On 27 July 2005, 1,400,000 options were granted with a fair value of $0.44 each. These options vested on 1 January 2006. The exercise price of these options is fixed at $1.39. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

No options were granted to senior executives during the year ended 31 December 2006.

Middle Management – Executive Options

On 30 January 2006, 120,000 options were granted to six middle managers in three equal tranches with a fair value per option of $0.30, $0.33 and $0.35 respectively. These managers had not received options in 2005. Options issued will vest one third on each 1 January commencing in 2007. No vesting conditions apply to these options. The exercise price of these options is fixed at $1.61. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

On 27 July 2005, 1,110,000 options were granted in three equal tranches with a fair value per option of $0.35, $0.42 and $0.46 respectively. Options issued will vest one third on each 1 January commencing in 2006. No vesting conditions apply to these options. The exercise price of these options is fixed at $1.50. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity. No options were granted to these middle managers during the year ended 31 December 2006.

The fair value of the options are estimated at the date of grant using the Black Scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 31 December 2006.

2006	**MD/CEO**	**Senior Exec**	**Middle Management**
Dividend yield (%)	-	-	4.15
Expected volatility (%)	-	-	30.00
Risk-free interest rate (%)	-	-	5.50
Expected life of option (years)	-	-	2.00
Option exercise price ($)	-	-	1.61
Share price at grant date ($)	-	-	1.65
2005			
Dividend yield (%)	4.00	4.00	4.00
Expected volatility (%)	30.00	30.00	30.00
Risk-free interest rate (%)	5.25	5.25	5.25
Expected life of option (years)	4.25 – 6.25	4.25	4.25
Option exercise price ($)	1.39	1.39	1.50
Share price at grant date ($)	1.71	1.82	1.82

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 31 December 2006, 396,666 (31 December 2005: 8,063,000) options were exercised over ordinary shares, with a total cash consideration received by the Consolidated Entity of $544,300 (31 December 2005: $7,983,000).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued under the EOP.

	2006 No.	**2006 WAEP**	**2005 No.**	**2005 WAEP**
Outstanding at the beginning of the year	6,635,000	1.25	10,688,000	1.00
Granted during the year	120,000	1.61	4,010,000	1.42
Forfeited during the year	80,001	1.50	-	-
Exercised during the year	396,666	1.37	8,063,000	1.00
Expired during the year			-	-
Outstanding at the end of the year	6,278,333	1.25	6,635,000	1.25
Exercisable at the end of the year	4,985,000	1.19	3,041,666	1.06

EMPLOYEE BENEFITS (continued)

Middle Management – Executive Options (continued)

The outstanding balance as at 31 December 2006 is represented by:

- 2,605,000 options over ordinary shares with an exercise price of $1.00 each;
- 2,530,000 options over ordinary shares with an exercise price of $1.39 each;
- 1,023,333 options over ordinary shares with an exercise price of $1.50 each; and
- 120,000 options over ordinary shares with an exercise price of $1.61 each

Included within this balance are options over 2,355,000 shares (2005: 2,375,000 shares) that have not been recognised in accordance with AASB 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with AASB 2.

Share options issued under the EOP and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price ($)	2006 No.	2005 No.
31 March 2010	1.39	1,530,000	1,900,000
31 March 2010	1.50	1,023,333	1,110,000
31 March 2010	1.61	120,000	-
31 March 2011	1.39	500,000	500,000
6 August 2011	1.00	2,605,000	2,625,000
31 March 2012	1.39	500,000	500,000
Total		6,278,333	6,635,000

(b) Employee Share Plan

On 12 September 2005 the Consolidated Entity introduced an Employee Share Plan (ESP). This plan allows shares in Australian Agricultural Company Limited to be provided to all employees (excluding those participating in the EOP and directors) with greater than one year of service up to the value of $1,000.

The shares were issued to 153 employees at $1.84, being the weighted average share price at 12 September 2005, the date of grant. The fair value of each share at this date was $1.84.

No shares were issued to employees under the ESP during the year ended 31 December 2006.

At 31 December 2006, the ESP holds 57,015 ordinary shares in Australian Agricultural Company Limited (31 December 2005: 83,079).

The fair value of the employee benefit provided under the ESP is estimated at cost at the date of grant.

KEY MANAGEMENT PERSONNEL DISCLOSURES

The total remuneration for each executive director and executive officer comprises a fixed salary (which can be by way of cash and benefits such as motor vehicles), a variable performance based bonus and superannuation.

(a) Details of Key Management Personnel

(i) Directors

N Burton Taylor	Chairman (non-executive)
D J Mackay	Managing Director / Chief Executive Officer
C E Bright	Director (non-executive)
T A Fischer	Director (non-executive)
C I Roberts	Director (non-executive)
L P Wozniczka	Director (non-executive)
P Zachert	Alternate Director (non-executive)

Directors' Report (continued)

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(a) Details of Key Management Personnel (continued)

(ii) Key Executives

B Bennett	Company Secretary / General Counsel (appointed 22 November 2006)
B A Booker*	Company Secretary / General Manager – Risk and Compliance
D R Connolly	General Manager – Livestock Operations
P Dempsey	General Manager – Beef Group
A Jones	General Manager – Land
S N Toms	Chief Financial Officer/General Manager Corporate Services

*The above executive ceased employment with the Consolidated Entity in October 2006.

Key Executives are executives who have the greatest authority for managing the Consolidated Entity, have been employed by the Consolidated Entity at any time during the period and are not a director.

(b) Remuneration of Key Management Personnel

	Short term			Post Employment		Share based payment	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Retirement Benefits	Options	
Directors	$	$	$	$	$	$	$
N Burton Taylor							
31/12/06	162,500	-	-	14,625	-	-	177,125
31/12/05	143,750	-	-	12,937	-	-	156,687
D J Mackay							
31/12/06	426,338	105,240	32,378	50,756	-	357,500	972,212
31/12/05	390,002	67,516	31,844	54,465	-	357,500	901,327
C E Bright							
31/12/06	89,000	-	-	8,145	-	-	97,145
31/12/05	77,000	-	-	6,795	-	-	83,795
T A Fischer							
31/12/06	73,000	-	-	6,570	-	-	79,570
31/12/05	66,500	-	-	5,985	-	-	72,485
C I Roberts							
31/12/06	93,000	-	-	8,370	-	-	101,370
31/12/05	83,500	-	-	7,515	-	-	91,015
L P Wozniczka							
31/12/06	85,000	-	-	-	-	-	85,000
31/12/05	77,500	-	-	-	-	-	77,500
P Zachert							
31/12/06	-	-	-	-	-	-	-
31/12/05	-	-	-	-	-	-	-
Total Remuneration: Directors							
31/12/06	928,838	105,240	32,378	88,466	-	357,500	1,512,422
31/12/05	838,252	67,516	31,844	87,697	-	357,500	1,382,809

Note: L P Wozniczka's directors fees are paid to Futuris Group

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

	Short term			Post employment	Termination	Share based payment	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Termination Benefits	Options	
Executives	$	$	$	$	$	$	$
B Bennett							
31/12/06	18,396	-	-	1,656	-	-	20,052
B A Booker							
31/12/06	127,157	18,844	-	12,014	-	-	158,015
31/12/05	119,266	11,688	-	11,785	-	66,000	208,739
D R Connolly							
31/12/06	210,627	26,588	-	21,349	-	-	258,564
31/12/05	155,964	18,715	-	15,721	-	88,000	278,400
P Dempsey							
31/12/06	150,287	-	-	13,526	-	-	163,813
S N Toms							
31/12/06	261,097	34,404	27,894	29,105	-	-	352,500
31/12/05	205,134	22,477	26,242	22,665	-	154,000	430,518
A Jones							
31/12/06	85,368	-	-	7,683	-	-	93,051
P J Marwedel							
31/12/05	237,558	30,701	-	20,172	194,967	66,000	549,398
M S Tighe							
31/12/05	187,085	19,404	-	18,053	165,537	66,000	456,079
G F Wagstaff							
31/12/05	118,220	18,325	21,967	17,101	352,802	88,000	616,415
Total Remuneration: Executives							
31/12/06	852,932	79,836	27,894	85,333	-	-	1,045,995
31/12/05	1,023,227	121,310	48,209	105,497	713,306	528,000	2,539,549

* Group totals in respect of the financial period ended 31 December 2005 do not necessarily equal the sums of amounts disclosed for 31 December 2005 for individuals disclosed in 31 December 2006 as different individuals were disclosed in the year ended 31 December 2005.

(c) Remuneration Options: Granted and vested during the year

No options were granted to Key Management Personnel during the year ended 31 December 2006.

(d) Option Holdings of Key Management Personnel

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Balance at end of period	Not Vested & Not exercisable	Vested & Exercisable
	31/12/05			**31/12/06**		
Directors						
D J Mackay	2,886,000	-	-	2,886,000	500,000	2,386,000
Executives						
B A Booker	150,000	-	20,000	130,000	-	130,000
D R Connolly	200,000	-	-	200,000	-	200,000
S N Toms	350,000	-	-	350,000	-	350,000
Total	3,586,000	-	20,000	3,566,000	500,000	3,066,000

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Option Holdings of Key Management Personnel (continued)

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Balance at end of period	Not Vested & Not exercisable	Vested & Exercisable
	31/12/04			31/12/05		
Directors						
D J Mackay	1,386,000	1,500,000	-	2,886,000	1,000,000	1,886,000
Executives						
B A Booker	-	150,000	-	150,000	150,000	-
D R Connolly	-	200,000	-	200,000	200,000	-
P J Marwedel	250,000	150,000	-	400,000	233,334	166,666
M S Tighe	-	150,000	-	150,000	150,000	-
S N Toms	-	350,000	-	350,000	350,000	-
G F Wagstaff	20,000	220,000	-	220,000	200,000	20,000
Total	1,656,000	2,700,000	-	4,356,000	2,283,334	2,072,666

No other directors or executives held options during the period.

(e) Shares Beneficially held in Australian Agricultural Company Limited

	Balance at beginning of period	Granted as Remuneration	Exercise of Options	Net Change Other	Balance at end of period
	31/12/05				31/12/06
Directors					
N Burton Taylor	3,139,910	-	-	4,113,151	7,253,061
D J Mackay	30,542	-	-	-	30,542
C E Bright	60,000	-	-	-	60,000
T A Fischer	51,443	-	-	-	51,443
C I Roberts	482,248	-	-	-	482,248
Executives					
B A Booker	10,000	-	20,000	-	30,000
Total	3,774,143	-	20,000	4,113,151	7,907,294

	Balance at beginning of period	Granted as Remuneration	Exercise of Options	Purchased through Rights Issue	Net Change Other	Balance at end of period
	31/12/04					31/12/05
Directors						
N Burton Taylor	649,583	-	-	129,518	2,360,809	3,139,910
D J Mackay	17,117	-	-	3,425	10,000	30,542
C E Bright	50,000	-	-	10,000	-	60,000
T A Fischer	42,869	-	-	8,574	-	51,443
C I Roberts	147,706	-	-	29,542	305,000	482,248
Executives						
B A Booker	-	-	-	-	10,000	10,000
G F Wagstaff	2,165	-	-	-	(1,110)	1,055
Total	909,440	-	-	181,059	2,684,699	3,775,198

No other directors or executives held shares during the period.

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

DIRECTORS' MEETINGS

The number of Meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each director is as follows:

	Board	Audit Committee	Remuneration and Nomination Committee	Health, Safety & Environmental Committee	Research and Development Committee
Nick Burton Taylor	12 (12)	4 (4)	4 (4)		3 (3)
Don Mackay	12 (12)				3 (3)
Charles Bright	12 (12)	4 (4)		3 (3)	3 (3)
Hon Tim Fischer	12 (12)			3 (3)	
Chris Roberts	12 (12)	4 (4)	4 (4)		
Les Wozniczka*	11 (12)	4 (4)	4 (4)		

*Peter Zachert attended two Directors' Meetings as Alternate for Les Wozniczka.

Committee Membership

As at the date of this report, the company had an Audit Committee, a Remuneration and Nomination Committee, a Health, Safety and Environmental Committee and a Research and Development Committee (formerly Breed Development Committee).

Members acting on the Committees of the Board during the year were:

Audit Committee	Remuneration and Nomination Committee	Health, Safety and Environmental Committee	Research and Development Committee
Chris Roberts §	Nick Burton Taylor §	Hon Tim Fischer §	Nick Burton Taylor §
Charles Bright	Chris Roberts	Charles Bright	Charles Bright
Nick Burton Taylor	Les Wozniczka		Don Mackay
Les Wozniczka			

§ Designates the Chairman of the Committee

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, Australian Agricultural Company Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expenses to the wholly-owned subsidiaries based on individual tax obligations. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Australian Agricultural Company Limited.

AUDITOR INDEPENDENCE

The directors received the following declaration from the auditor of Australian Agricultural Company Limited.

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
Waterfront Place
Brisbane QLD 4001

Tel 61 7 3011 3333
Fax 61 7 3011 3100
DX 165 Brisbane

Auditor's Independence Declaration to the Directors of Australian Agricultural Company Limited

In relation to our audit of the financial report of Australian Agricultural Company Limited for the financial year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
5 February 2007

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

- Review of Tax Consolidation $38,860
- Taxation Advice and Compliance $78,950

This report is made in accordance with a resolution of the directors.

N Burton Taylor AM
Chairman

D J Mackay
Managing Director/Chief Executive Officer

Brisbane
5 February 2007

Corporate Governance Statement

The AAco Board is responsible for the corporate governance of the Consolidated Entity. The company has adopted a Risk and Compliance Framework to ensure that AAco and its subsidiary companies are appropriately governed and directors and management at all levels are in a position to effectively discharge their responsibilities to shareholders. The company's Risk and Compliance Framework is consistent with the Best Practice Recommendations (the Recommendations) released by the Australian Stock Exchange Corporate Governance Council (the Council) in 2003.

In accordance with the Council's Recommendations, the Corporate Governance Statement must now contain certain specific information and disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. The company's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations which are set out below.

AAco has continued to enhance its corporate governance practices throughout the financial year and, in the main, complied with the Council's Recommendations. Areas not fully complied with are disclosed under the relevant principle.

Principle 1: Lay Solid Foundations for Management and Oversight

The Board is responsible to its shareholders for the overall governance and performance of the company.

The roles and responsibilities of the Board, Board Committees, management and operating subsidiaries have been established through Board approved charters and formal delegations of authority. The Board and Committee Charters and the Delegations of Authority provide the basis for the good governance of the company and operate in conjunction with the Constitution of the company, the *Corporations Act* and other relevant laws. The Board Charter and Committee Charters are available on the company's website.

Principle 2: Structure the Board to Add Value

The skills, experience and expertise held by each director in office at the date of the Annual Report is included on pages 17 and 18 of this Annual Report. The term in office held by each director at the date of this report is as follows:

Name	Term in Office
Nick Burton Taylor AM	5 years 8 months
Don Mackay	5 years 2 months
Charles Bright	3 years 1 month
Hon Tim Fischer, AC	5 years 1 month
Chris Roberts	5 years 6 months
Les Wozniczka	2 years 3 months

Directors of AAco are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

Principle 2.1 of the Council's Recommendations states that the majority of the Board should be independent directors. However, it is current practice that AAco's major shareholder (Futuris Corporation Limited) has two representatives on the Board. Thus, in a six person Board these two nominee directors, in conjunction with the Managing Director/Chief Executive Officer, result in only 50% of the Board being independent non-executive directors. AAco's Board Charter stipulates that the Board of the company will be made up of not less than 50% of independent non-executive directors. Independent directors at the date of this report include:

Name	Position
Nick Burton Taylor AM	Chairman
Hon Tim Fischer, AC	Director
Chris Roberts	Director

There are procedures in place, agreed by the Board, to enable the directors in furtherance of their duties, to seek independent professional advice at the company's expense.

Board Committees

The Board has established committees to consider certain issues and conduct certain functions in further detail. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board.

There are currently four Board committees:

- Audit
- Remuneration and Nomination
- Health, Safety and Environmental
- Research and Development (formerly Breed Development)

Other committees may be formed from time to time, as required.

Each committee has its own charter, approved by the Board and reviewed annually or on an 'as required' basis. The Chairman oversees all committees and the Managing Director/Chief Executive Officer attends committee meetings by invitation (with the exception of Research and Development where the Managing Director/Chief Executive Officer is a member).

As required under Recommendation 2.4, the company's Remuneration and Nomination Committee comprises three non-executive directors. The names of the members of this committee and their attendance at meetings of the committee are shown on page 35 of this report. Copies of the Director Selection Process Policy and the Remuneration and Nomination Committee Charter are available on the company's website.

Principle 3: Promote Ethical and Responsible Decision-Making

The Board has established a Code of Conduct with the objective of enhancing the company's reputation for fair and responsible dealing and to help to maintain high standards of corporate and individual behaviour throughout the company. The company's Code of Conduct aims to protect the interests of shareholders, customers, employees and suppliers by promoting a culture of accountability and responsibility.

A copy of the company's Code of Conduct is available on the company's website. A copy of the company's Share Trading Policy is also available on the company's website.

Principle 4: Safeguard Integrity in Financial Reporting

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of the company's system of internal control to the Audit Committee.

The Audit Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive directors.

The members of the Audit Committee and their qualifications are shown in this Annual Report on pages 17 and 18. The number of meetings of the Audit Committee and attendance by Audit Committee Members are shown on page 35.

A copy of the Audit Committee Charter is available on the company's website.

The Managing Director/Chief Executive Officer and Chief Financial Officer have, under Principle 4.1, signed off that the accounts present a true and fair view.

Principle 5: Make Timely and Balanced Disclosure

It is the company's policy to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The company has developed policies and procedures in relation to disclosure and compliance with the ASX Listing Rules disclosure requirements. The ASX liaison person is the Company Secretary/General Manager, Risk and Compliance.

A copy of the company's Continuous Disclosure Policy is available on the company's website.

Corporate Governance Statement (continued)

Principle 6: Respect the Right of Shareholders

Information is communicated to shareholders through the distribution of the Annual Report and other communications as required. All significant information is posted on the company's website as soon as it is disclosed to the ASX.

Shareholders can elect to receive all communications electronically, as hard copy or not to receive some communication materials by contacting the share registry.

All shareholders are encouraged to attend and/or participate in the company's Annual General Meeting. Shareholders can attend in person or send a proxy. All directors and senior management attend the meeting, along with the external auditor.

Principle 7: Recognise and Manage Risk

The AAco Board has ultimate responsibility for risk management and compliance across the company. Specific responsibility for the risk management and compliance process has been delegated to the Board Audit Committee. In June 2004, the Board adopted a new Risk Management and Compliance Framework, resulting in:

- The development of a Board approved Risk Management Policy;
- The establishment of a Risk Register developed in conjunction with AAco's Strategic Planning Process. The Risk Register is reviewed regularly in line with changes to AAco's agreed strategy;
- Revised Delegations of Authority to Board Committees, subsidiary companies, the Managing Director/Chief Executive Officer and other senior executives;
- Implementation of a Quarterly Risk and Compliance Report informing the Board of any regulatory or compliance-related breaches and highlighting any changes in AAco's risk profile and/or risk treatment plans.

The Managing Director/Chief Executive Officer and Chief Financial Officer have given sign off to the Board under Recommendation 7.2.1 and 7.2.2 as follows:

- That the statement given under Recommendation 4.1 is based on a sound system of risk management and internal compliance and control; and
- That the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Further information on AAco's Risk and Compliance Framework is provided on page 23 of this report.

Principle 8: Encourage Enhanced Performance

The Board has an approval process for evaluating the performance of the Board, its committees, individual directors and key executives. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of the company.

Principle 9: Remunerate Fairly and Responsibly

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, including the Managing Director/Chief Executive Officer and the senior executive team. To assist in this process, the Board has established a Remuneration and Nomination Committee, comprising three non-executive directors. Members of the Remuneration and Nomination Committee are shown on page 35 of this report, together with details of Remuneration and Nomination Committee meetings held and attendees at those meetings. The Charter of the Remuneration and Nomination Committee is available on the company's website.

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant market conditions. When considered appropriate, the Board obtains independent advice regarding non-executive directors' emoluments.

The nature and amount of the Managing Director/Chief Executive Officer's and key executive's emoluments are linked to the company's financial and operational performance. The expected outcomes of this remuneration structure are:

- retention and motivation of key executives;
- attraction of quality management to the company; and
- performance incentives which allow executives to share in the rewards of the success of the company.

Principle 9: Remuneration Fairly and Responsibly (continued)

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the company and the performance of the individual during the period.

For details of the amount of remuneration and all monetary and non-monetary components for all of the directors and each of the five highest paid executives during the year, refer to pages 32 and 33 of this Report.

Principle 10: Recognise the Legitimate Interests of Stakeholders

The Board established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders.

A copy of the Code of Conduct is available on the company's website www.aaco.com.au.

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Income Statement

For the year ended 31 December 2006

	Note	Consolidated Year ended 31/12/06 $000	Consolidated Year ended 31/12/05 $000	Parent Year ended 31/12/06 $000	Parent Year ended 31/12/05 $000
Revenue	3	**195,774**	183,442	**90,127**	132
Writeback of impairment		**-**	449	**-**	449
Profit from disposal of non-current assets		**4,514**	262	**4,744**	-
		200,288	184,153	**94,871**	581
Share of net profits / (losses) of associates accounted for using the equity method	29	**51**	(225)	**-**	-
Employee expenses		**(28,831)**	(26,408)	**-**	-
Cattle expenses		**(12,834)**	(13,692)	**-**	-
Feedlot cattle expenses		**(28,048)**	(25,455)	**-**	-
Other station operating costs		**(17,788)**	(16,243)	**-**	-
Lease and property related costs		**(6,382)**	(5,933)	**-**	(18)
Business development and other non-station operating costs		**(1,163)**	(2,156)	**-**	-
Cost of goods sold of value-add businesses		**(65,651)**	(36,335)	**-**	-
Administration and other costs		**(8,314)**	(10,971)	**984**	(1,273)
Operating expenses		**(168,960)**	(137,418)	**984**	(1,291)
Profit from continuing operations before finance costs, income tax, depreciation and amortisation		**31,328**	46,735	**95,855**	(710)
Depreciation and amortisation	3(c)	**(9,286)**	(7,811)	**(850)**	(844)
Earnings before finance costs and income tax expense		**22,042**	38,924	**95,005**	(1,554)
Finance costs	3(d)	**(20,514)**	(17,160)	**(20,117)**	(16,898)
Profit/(loss) from continuing operations before income tax		**1,528**	21,764	**74,888**	(18,452)
Income tax benefit/(expense)	4	**8,507**	(4,979)	**11,684**	5,593
Profit/(loss) from continuing operations after related income tax expense		**10,035**	16,785	**86,572**	(12,859)
Net loss/(profit) attributable to minority interests		**67**	(6)	**-**	-
Net profit/(loss) attributable to members of the parent entity	19	**10,102**	16,779	**86,572**	(12,859)
Basic earnings per share (cents per share)	35	**4.1**	7.2		
Diluted earnings per share (cents per share)	35	**4.0**	7.1		
Franked dividend per share (cents per share)	5	**7.0**	7.0		

The accompanying notes form an integral part of this Income Statement.

Balance Sheet

As at 31 December 2006

	Note	Consolidated 31/12/06 $000	Consolidated 31/12/05 $000	Parent 31/12/06 $000	Parent 31/12/05 $000
Current Assets					
Cash and cash equivalents	20	**10,825**	13,640	**569**	5,732
Receivables	6	**9,343**	6,716	**-**	604
Interest rate swaps		**1,603**	-	**1,603**	-
Inventories	7	**21,635**	12,241	**-**	-
Biological assets – livestock	8	**129,525**	155,323	**-**	-
Current tax assets		**3,138**	284	**3,138**	284
Other assets		**451**	905	**-**	-
Total Current Assets		**176,520**	189,109	**5,310**	6,620
Non-Current Assets					
Receivables	9	**-**	732	**567,567**	369,995
Biological assets – livestock	10	**276,802**	217,106	**-**	-
Property, plant and equipment	11	**586,504**	487,572	**59,656**	73,059
Investments in associates accounted for using equity method	29	**-**	588	**-**	-
Investment – at cost	12	**-**	-	**69,752**	65,553
Deferred tax assets	4	**35,529**	39,269	**629**	422
Intangible assets	13	**13,711**	10,755	**2,254**	2,254
Other assets		**-**	27	**-**	23
Total Non-Current Assets		**912,546**	756,049	**699,858**	511,306
Total Assets		**1,089,066**	945,158	**705,168**	517,926
Current Liabilities					
Payables	14	**28,161**	24,285	**8,441**	5,723
Provisions	15	**2,804**	2,199	**-**	-
Interest bearing liabilities	16	**57,495**	11,875	**56,000**	11,000
Interest rate swaps		**-**	289	**-**	289
Total Current Liabilities		**88,460**	38,648	**64,441**	17,012
Non-Current Liabilities					
Provisions	15	**374**	399	**-**	-
Interest bearing liabilities	16	**310,213**	242,745	**307,600**	240,100
Deferred tax liabilities	4	**107,651**	104,688	**11,907**	14,625
Total Non-Current Liabilities		**418,238**	347,832	**319,507**	254,725
Total Liabilities		**506,698**	386,480	**383,948**	271,737
Net Assets		**582,368**	558,678	**321,220**	246,189
Equity					
Issued capital	17	**135,400**	134,220	**139,837**	138,657
Reserves	18	**357,134**	327,213	**161,780**	157,055
Retained profits (accumulated losses)	19	**89,710**	97,054	**19,603**	(49,523)
Total parent entity interest in equity		**582,244**	558,487	**321,220**	246,189
Total minority interest	17(b)	**124**	191	**-**	-
Total Equity		**582,368**	558,678	**321,220**	246,189

The accompanying notes form an integral part of this Balance Sheet.

Cash Flow Statement

For the year ended 31 December 2006

	Note	Consolidated		Parent	
		Year ended 31/12/06 $000	Year ended 31/12/05 $000	**Year ended 31/12/06 $000**	Year ended 31/12/05 $000
Cash Flows from Operating Activities					
Receipts from customers		**228,278**	205,004	**-**	-
Payments to suppliers, employees and others		**(229,719)**	(170,959)	**(1,227)**	(1,661)
Payment of interest and finance costs		**(17,199)**	(15,825)	**(17,126)**	(15,819)
Income tax paid		**503**	(4,005)	**503**	(2,100)
Interest received		**297**	652	**66**	492
Net GST received from ATO		**5,403**	364	**5,405**	362
Net operating cash flows	20(b)	**(12,437)**	15,231	**(12,379)**	(18,726)
Cash Flows from Investing Activities					
Payments for property, plant and equipment and other assets		**(135,504)**	(28,207)	**-**	-
Proceeds from sale of property, plant and equipment		**53,533**	487	**53,025**	-
Purchase of controlled entity net of cash acquired		**(4,006)**	-	**(4,134)**	-
Repayment from/(advance to) controlled entities		**-**	-	**(137,274)**	2,000
(Advance to)/repayment from associated entity		**-**	(500)	**-**	(500)
Proceeds from disposal of associated entity		**-**	2,200	**-**	-
Net investing cash flows		**(85,977)**	(26,020)	**(88,383)**	1,500
Cash Flows from Financing Activities					
Proceeds from issue of shares		**545**	73,237	**545**	73,237
Proceeds from borrowings		**112,500**	-	**112,500**	-
Repayment of borrowings		**-**	(39,100)	**-**	(39,100)
Payment of dividends		**(17,446)**	(17,400)	**(17,446)**	(17,400)
Net financing cash flows		**95,599**	16,737	**95,599**	16,737
Net (decrease)/increase in cash and cash equivalents held		**(2,815)**	5,948	**(5,163)**	(489)
Cash and cash equivalents at the beginning of the financial period		**13,640**	7,692	**5,732**	6,221
Cash and cash equivalents at the end of the financial period	20(a)	**10,825**	13,640	**569**	5,732

The accompanying notes form an integral part of the Cash Flow Statement.

Statement of Changes in Equity

For the year ended 31 December 2006

CONSOLIDATED	Issued capital $000	Reserves $000	Retained earnings $000	Total $000	Minority interest $000	Total equity $000
	Attributable to equity holders of the Consolidated Entity					
At 31 December 2004	**60,830**	**243,671**	**97,675**	**402,176**	**185**	**402,361**
Fair value revaluation of land and buildings	-	82,659	-	82,659	-	82,659
Cost of share-based payment	-	1,172	-	1,172	-	1,172
Total income and expense for the period recognised directly in Equity	-	83,831	-	83,831	-	83,831
Profit for the period	-	-	16,779	16,779	6	16,785
	60,830	327,502	114,454	502,786	191	502,977
Issue of share capital	65,407	-	-	65,407	-	65,407
Exercise of options	7,983	-	-	7,983	-	7,983
Net loss on interest rate swaps	-	(289)	-	(289)	-	(289)
Equity dividends	-	-	(17,400)	(17,400)	-	(17,400)
At 31 December 2005	**134,220**	**327,213**	**97,054**	**558,487**	**191**	**558,678**
Fair value revaluation of land and buildings	-	29,090	-	29,090	-	29,090
Cost of share-based payment	-	509	-	509	-	509
Total income and expense for the period recognised directly in Equity	-	29,599	-	29,599	-	29,599
Profit for the period	-	-	10,102	10,102	(67)	10,035
	134,220	356,812	107,156	598,188	124	598,312
Issue of share capital as part payment for acquisition of controlled entity	288	-	-	288	-	288
Exercise of options	545	-	-	545	-	545
Tax effect of capitalised rights issue costs	347	-	-	347	-	347
Reversal of net loss on interest rate swaps	-	322	-	322	-	322
Equity dividends	-	-	(17,446)	(17,446)	-	(17,446)
At 31 December 2006	**135,400**	**357,134**	**89,710**	**582,244**	**124**	**582,368**

The accompanying notes form an integral part of the Statement of Changes in Equity.

Statement of Changes in Equity

For the year ended 31 December 2006

PARENT	Issued capital	Reserves	Retained earnings	Total	Minority interest	Total equity
		Attributable to equity holders of the parent entity				
	$000	$000	$000	$000	$000	$000
At 31 December 2004	**60,830**	**126,307**	**(19,264)**	**167,873**	**-**	**167,873**
Fair value revaluation of land and buildings	-	29,865	-	29,865	-	29,865
Cost of share-based payment	-	1,172	-	1,172	-	1,172
Total income and expense for the period recognised directly in Equity	-	31,037	-	31,037	-	31,037
Profit for the period	-	-	(12,859)	(12,859)	-	(12,859)
	60,830	157,344	(32,123)	186,051	-	186,051
Issue of share capital	65,407	-	-	65,407	-	65,407
Exercise of options	12,420	-	-	12,420	-	12,420
Net loss on interest rate swaps	-	(289)	-	(289)	-	(289)
Equity dividends	-	-	(17,400)	(17,400)	-	(17,400)
At 31 December 2005	**138,657**	**157,055**	**(49,523)**	**246,189**	**-**	**246,189**
Fair value revaluation of land and buildings	-	3,894	-	3,894	-	3,894
Cost of share-based payment	-	509	-	509	-	509
Total income and expense for the period recognised directly in Equity	-	4,403	-	4,403	-	4,403
Profit for the period	-	-	86,572	86,572	-	86,572
	138,657	161,458	37,049	337,164	-	337,164
Issue of share capital	288	-	-	288	-	288
Exercise of options	545	-	-	545	-	545
Tax effect of capitalised rights issue costs	347	-	-	347	-	347
Reversal of net loss on interest rate swaps	-	322	-	322	-	322
Equity dividends	-	-	(17,446)	(17,446)	-	(17,446)
At 31 December 2006	**139,837**	**161,780**	**19,603**	**321,220**	**-**	**321,220**

The accompanying notes form an integral part of the Statement of Changes in Equity.

Notes to the Financial Statements

For the year ended 31 December 2006

1 CORPORATE INFORMATION

The financial report of Australian Agricultural Company Limited for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 6 February 2007.

Australian Agricultural Company Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 2.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

It is recommended that the financial report be considered together with any public announcements made by Australian Agricultural Company Limited and its controlled entities during the year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for land and buildings, livestock and derivative financial instruments that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

(c) Changes in accounting policies

Australian Accounting Standards and UIG Interpretations that have recently been amended and are effective from 1 January 2006 are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group accounting policies	Application date of the Consolidated Entity
AASB 2005-1	Amendments to Australian Accounting Standard	Amendment to AASB 139 to allow the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in certain circumstances.	For annual reporting periods beginning on or after 1 January 2006.	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006
AASB 2005-4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]	Amendments relate to the restriction on designating financial instruments at fair value through profit and loss.	For annual reporting periods beginning on or after 1 January 2006.	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006
AASB 2005-5	Amendments to Australian Accounting Standards [AASB 1 & AASB 139]	Consequential amendments made to AASB 1 due to the issue of UIG Interpretations 4 *Determining whether an Arrangement contains a Lease*. Consequential amendments made to AASB 139 due to the issue of UIG Interpretations 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.	For annual reporting periods beginning on or after 1 January 2006.	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006

Reference	Title	Summary	Application date of standard	Impact on Group accounting policies	Application date of the Consolidated Entity
AASB 2005-6	Amendments to Australian Accounting Standards [AASB 3]	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted.	For annual reporting periods beginning on or after 1 January 2006.	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006
AASB 2005-9	Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]	The amendments to all four standards provide guidance as to which standard applies to financial guarantee contracts under certain circumstances.	For annual reporting periods beginning on or after 1 January 2006.	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006
AASB 2006-1	Amendments to Australian Accounting Standards [AASB 121]	The amendment clarifies the requirements relating to an entity's investment in foreign operations and assists the financial reporting of entities with investments in operations that have a different functional currency.	For annual reporting periods ending on or after 31 December 2006	For the year ended 31 December 2006, there has been no financial impact.	1 January 2006
UIG 4	Determining whether an Arrangement contains a Lease	Specifies criteria for determining whether an arrangement is, or contains, a lease.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038	Amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures*	1 January 2007	For the year ended 31 December 2006, there has been no financial impact.	1 January 2007
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132	1 January 2007	For the year ended 31 December 2006, there has been no financial impact.	1 January 2007
UIG 7	Applying the restatement approach under AASB 128 *Financial Reporting in Hyperinflationary Economies*	Address the requirement in AASB 129 for financial statements to be stated in terms of the measuring unit current at the reporting date when reporting in the currency of a hyperinflationary economy.	1 March 2006	For the year ended 31 December 2006, there has been no financial impact.	1 January 2007
UIG 8	Scope of AASB 2 *Share Based Payment*	Clarifies that the scope of AASB 2 includes transactions in which the entity cannot identify specifically some or all of the goods or services received as consideration for the equity instruments of the entity or other share-based payment	1 May 2006	For the year ended 31 December 2006, there has been no financial impact.	1 January 2007
UIG 9	Reassessment of Embedded Derivatives	Clarifies that an entity reassesses whether an embedded derivative contained in a host contract must be separated from the host and accounted for as a derivative under AASB 139 only when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required.	1 June 2006	For the year ended 31 December 2006, there has been no financial impact.	1 January 2007

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Agricultural Company Limited, and its subsidiaries, referred to collectively throughout these financial statements as the "Consolidated Entity". The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Minority interests represent the interests in Rural Management Partners Pty Ltd, not held by the Consolidated Entity.

(ii) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where shares are issued in a business combination, the fair value of the shares is the market price on the date of issue of the Consolidated Entity. The transaction costs relating to the issue of shares are recognised directly in equity.

All identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Consolidated Entity's share of the identifiable net assets of the subsidiary acquired is recognised as goodwill.

(iii) Investment in associate

For the first three months of the year the Consolidated Entity accounted for its investment in Chefs Partner Pty Limited, then an associate, under the equity method of accounting in the consolidated financial statements. The financial statements of the associate are used by the Consolidated Entity to apply the equity method.

In April 2006 the Consolidated Entity increased its investment in Chefs Partner to 100%. From this date the results of Chefs Partner have been consolidated into the Consolidated Entity's accounts.

(iv) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Livestock

Revenue on cattle is recognised in accordance with Accounting Standard AASB 141 Agriculture which requires livestock to be measured at their net market value at each reporting date. The net market value is determined through price movements, natural increase and the weight of the herd.

Net increments or decrements in the market value of livestock are recognised as revenue or expense in the income statement, determined as:

(i) the difference between the total net market value of livestock recognised at the beginning of the financial year and the total net market value of livestock recognised as at the reporting date; less

(ii) costs expected to be incurred in realising the market value (including freight and selling costs).

Effectively the value of the Consolidated Entity's entire herd is formally marked to market each quarter.

Determination of net market value of livestock:

At 31 December 2006 the Consolidated Entity has approximately 297,009 breeding cattle (31 December 2005: 269,287) and 264,152 non-breeding cattle (31 December 2005: 237,279).

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(iv) Revenue recognition *(continued)*

The breeding cattle comprise principally females and breeding bulls, up to 10 years of age. The non-breeding cattle comprise trading cattle including feedlot cattle (at Goonoo and Aronui feedlots). Trading cattle represent steers and heifers sold by the Consolidated Entity which are generally less than three years old and most are under two years old.

The Consolidated Entity's herd profile is as follows:

	Number of Cattle	
	31 December 2006	31 December 2005
Breeding		
Commercial and bull breeding herd	**297,009**	269,287
Non-Breeding		
Trading cattle	**264,152**	237,279
Total	**561,161**	506,566

Market values for each herd type are determined after assessing a number of key market indicators to ensure the values determined are representative of the Consolidated Entity's herd.

Broadly, net market values are determined as follows for the most significant types of cattle:

- commercial breeding herd – prices for these cattle generally reflect a longer term view of the cattle market and as such are less volatile than movements in the spot cattle prices evident with trading cattle. The value of these cattle is determined by reference to prices received for large representative sales of like breeding cattle to the group's herd;
- trading cattle – prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators used only as general reference include Roma store cattle prices, Queensland Cattle Market Index, and actual spot cattle prices received / quoted for company cattle in and around balance date; and
- bull breeding herd – these were independently valued at 30 September 2006. These valuations have remained consistent to 31 December 2006.

Cropping Operations

Revenue on cropping operations is accounted for in accordance with AASB 141 Agriculture which requires the market value of the harvest be brought to account as revenue. The value of crops in the ground at balance date is not brought to account as the directors consider that the fair value cannot be reliably measured and the amount is likely to be immaterial.

Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the consumer.

Rendering of Services

Revenue is recognised on the rendering of services when the outcome of a contract to provide services can be measured reliably and the service is performed.

(v) Foreign currency translation

Both the functional and presentation currency of Australian Agricultural Company Limited and its subsidiaries is Australian dollars (A$).

Foreign currency items are translated to Australian currency on the following bases:

- transactions are converted at exchange rates approximating those in effect at the date of each transaction; and
- amounts payable and receivable are translated at the average of the buy and sell rates available on the close of business at balance date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(v) Foreign currency translation *(continued)*

Exchange differences relating to monetary items are included in the Income Statement, as exchange gains or losses, in the period when the exchange rate changes, except where the exchange difference relates to a transaction intended to hedge the purchases or sale of goods or services, in which case the exchange difference is included in the measurement of the purchase or sale.

(vi) Property, plant and equipment

Land, buildings and improvements are measured on a fair value basis as determined by a directors' valuation. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value.

Plant and equipment is stated at cost less accumulated depreciation less any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Fixed Asset Type	Average Useful Life
Buildings	40 years
Fixed improvements	30 years
Owned plant and equipment	3-10 years
Plant and equipment under lease	2-5 years
Motorised equipment	5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. 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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

All pastoral and perpetual property leases have been classified as property, plant and equipment in the balance sheet at 31 December 2006. Future payments on the leases are nominal. All payments have therefore been expensed in the financial report.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrement of the same asset previously recognised in the income statement.

Any revaluation decrement is recognised in the Income Statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve. In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(vi) Property, plant and equipment *(continued)*

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to the Capital Profits Reserve.

Independent valuations are performed annually to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

(vii) Finance costs

Finance costs are recognised as an expense when incurred.

(viii) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(ix) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(ix) Intangible assets *(continued)*

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(x) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(xi) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

(xii) Inventories

Bulk stores of feed and grain held for use in the Consolidated Entity's operations have been valued at the lower of cost or net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(xiii) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(xiv) Share-based payment transactions

The Consolidated Entity provides benefits to employees (excluding non-executive directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently two plans in place to provide these benefits:

(i) the Executive Option Plan (EOP), which provides benefits to the Managing Director/Chief Executive Officer, senior executives and middle management, and

(ii) the Employee Share Plan (ESP), which provides benefits to all employees, excluding directors, senior executives and middle management.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(xiv) Share-based payment transactions *(continued)*

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by management using Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Agricultural Company Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(xv) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with the original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xvi) Trade and other receivables

Trade receivables, which generally have 14 day terms, are recognised and carried at original invoice amount.

An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xvii) Leases

a) Pastoral and Perpetual property leases

Pastoral and perpetual property leases have been included in Property, Plant and Equipment at 31 December 2006. (Refer note 2(d) (vi)).

b) Other leases

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(xviii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised; and
- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xix) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except receivables and payables which are stated with the amount of GST included and where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

(xx) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Consolidated Entity expects some or all of a provision to be reimbursed, it is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies (continued)

(xx) Provisions *(continued)*

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xxi) Derivative financial instruments

The Consolidated Entity uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

Forward exchange contracts

Forward exchange contracts are entered into where agreements are made to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 3 months. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The company does not apply hedge accounting as it does not meet the very strict requirements of the standard. As at 1 January 2005 the fair value of foreign currency contracts were taken to equity and will be recognised through the income statement when the underlying transaction is recognised in income. Net receipts and payments are recognised through the income statement. Any gains or losses arising from changes in fair value are taken directly to the income statement.

Interest rate swaps

Interest rate swap agreements are entered into and used to convert the variable interest rate of short-term borrowings to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates. The fair value of interest rate swaps is determined by reference to market values of similar instruments.

The company does not apply hedge accounting as it does not meet the very strict requirements of the standard. As at 1 January 2005 the fair value of interest rate swaps were taken to equity and will be recognised through the income statement when the underlying transaction is recognised in income. Net receipts and payments are recognised as an adjustment to interest expense. Any gains or losses arising from changes in fair value are taken directly to the income statement.

	Consolidated		Parent	
	Year ended 31/12/06 $000	Year ended 31/12/05 $000	**Year ended 31/12/06 $000**	Year ended 31/12/05 $000
3. REVENUES AND EXPENSES				
(a) Revenue				
Cattle revenue (including revaluation)*	**114,486**	135,743	**-**	-
Crop revenue	**3,206**	3,699	**-**	-
Revenue from sale of goods of value-add businesses	**74,154**	39,945	**-**	-
Revenue from rendering of services	**1,448**	1,752	**-**	-
	193,294	181,139	**-**	-
*Included in cattle revenue is a net decrement in market value of livestock of $17,385,000 (31/12/05: net increment $32,935,000)				
(b) Other revenues				
Dividends:				
– wholly owned group	**-**	-	**90,000**	-
Interest income:				
– unrelated parties	**297**	203	**66**	43
Other revenue	**2,183**	2,100	**61**	89
Total other revenue	**2,480**	2,303	**90,127**	132
Total revenues for operating activities	**195,774**	183,442	**90,127**	132
(c) Depreciation and amortisation				
Depreciation of:				
– Buildings and leasehold improvements	**2,695**	2,316	**540**	531
– Plant and equipment	**5,777**	4,676	**310**	313
	8,472	6,992	**850**	844
Amortisation of:				
– Other intangibles	**814**	819	**-**	-
Total depreciation and amortisation	**9,286**	7,811	**850**	844
(d) Finance costs				
Bank loans and overdrafts	**19,869**	16,679	**19,829**	16,656
Other financing charges	**324**	257	**288**	242
Finance charges payable under finance leases and hire purchase contracts	**321**	224	**-**	-
Total finance cost (on historical cost basis)	**20,514**	17,160	**20,117**	16,898
Unrealised (profit) on interest rate swap	**(1,301)**	(268)	**(1,301)**	(268)

	Consolidated		Parent	
	Year ended 31/12/06 $000	Year ended 31/12/05 $000	**Year ended 31/12/06 $000**	Year ended 31/12/05 $000

3. REVENUES AND EXPENSES (continued)

(e) Other expense items

Provision for employee benefits				
– Annual leave	**1,942**	1,611	**-**	-
– Long service leave	**243**	226	**-**	-
Total provision for employee benefits	**2,185**	1,837	**-**	-
Operating lease rentals	**5,582**	6,130	**-**	10
Research and development costs	**163**	89	**-**	-

(f) Employee expenses

Salaries and wages	**23,885**	20,017	**-**	-
Workers' compensation costs	**1,143**	1,589	**-**	-
Superannuation costs	**1,959**	1,659	**-**	-
Post-employment benefits	**94**	796	**-**	-
Expense of share-based payments	**509**	1,317	**-**	-
Payroll tax	**1,241**	1,030	**-**	-
	28,831	26,408	**-**	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

	Consolidated		Parent	
	Year ended 31/12/06 $000	Year ended 31/12/05 $000	**Year ended 31/12/06 $000**	Year ended 31/12/05 $000
4. INCOME TAX				
Major components of income tax expense for the years ended 31 December 2006 and 31 December 2005 are:				
Income Statement				
Current income tax				
Current income tax charge	**(7,760)**	2,464	**(11,651)**	(5,985)
Previous period adjustments	**-**	8	**-**	-
Deferred income tax				
Relating to origination and reversal of temporary differences	**(747)**	2,507	**(33)**	392
Income tax (benefit)/expense reported in income statement	**(8,507)**	4,979	**(11,684)**	(5,593)
Statement of changes in equity				
Deferred income tax				
Net gain on revaluation of land and buildings	**(7,797)**	2,142	**2,545**	(3,727)
Tax effect of capitalised rights issue costs	**347**	-	**347**	-
Income tax benefit reported in equity	**(7,450)**	2,142	**2,892**	(3,727)
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Consolidated Entity's effective income tax rate for the years ended 31 December 2006 and 31 December 2005 is as follows:				
Profit from continuing operations	**1,528**	21,764	**74,888**	(18,452)
At the statutory income tax rate of 30% (2005: 30%)	**458**	6,529	**22,466**	(5,536)
Share of associate's net (losses)/profits	**(15)**	67	**-**	-
Non-assessable dividends	**-**	-	**(27,000)**	-
Net benefit transferred to parent from wholly owned subsidiary on entry to tax consolidation	**(2,282)**	-	**-**	-
Capital losses recouped	**(4,576)**	-	**(4,576)**	-
Non-assessable capital gain	**(1,419)**	(1)	**(1,423)**	-
Share options	**-**	(1,331)	**-**	-
Amortisation of intangible assets	**244**	244	**-**	-
Building depreciation not deductible	**808**	1,105	**61**	-
Capital allowance on buildings	**(584)**	(1,469)	**-**	-
Impairment of non current assets to recoverable amount	**-**	(327)	**-**	(327)
Over provision in prior years	**(1,371)**	(22)	**(1,371)**	-
Other items (net)	**230**	184	**159**	270
At effective income tax rate of -557% (2005: 23%)	**(8,507)**	4,979	**(11,684)**	(5,593)

	Balance Sheet		Income Statement	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
4. INCOME TAX (continued)				
Deferred income tax				
Deferred income tax at 31 December relates to the following:				
CONSOLIDATED				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	**384**	411	**27**	(565)
Investments	**(485)**	(485)	**-**	485
Revaluations of land and buildings to fair value	**(51,183)**	(47,882)	**-**	1,006
Revaluations of trading stock for tax purposes	**(56,367)**	(56,732)	**(365)**	1,231
Other	**-**	-	**-**	(65)
	(107,651)	(104,688)		
CONSOLIDATED				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	**689**	434	**(82)**	212
Investments	**8**	53	**46**	172
Leave entitlements	**925**	745	**(180)**	33
Other employee costs	**373**	179	**(193)**	11
Revaluations of land & buildings to fair value	**33,466**	37,790	**-**	-
Accruals and other	**68**	68	**-**	(13)
	35,529	39,269	**(747)**	2,507
PARENT				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	**(50)**	(50)	**-**	(15)
Revaluations of land & buildings to fair value	**(11,857)**	(14,575)	**-**	-
Revaluation of trading stock for tax purposes	**-**	-	**-**	-
Other	**-**	-	**-**	-
	(11,907)	(14,625)		
PARENT				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	**592**	334	**(85)**	209
Investments	**8**	53	**46**	172
Other employee costs	**29**	-	**(29)**	-
Accruals and other	**-**	35	**35**	26
	629	422	**(33)**	392

Tax consolidation

Australian Agricultural Company Limited and its 100% owned subsidiaries are a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries based on individual tax obligations. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Australian Agricultural Company Limited.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

	Note	Consolidated		Parent	
		Year ended 31/12/06 $000	Year ended 31/12/05 $000	**Year ended 31/12/06 $000**	Year ended 31/12/05 $000
5. DIVIDENDS PAID ON ORDINARY SHARES					
Dividends declared and paid during the year					
Current period final dividends 7.00 cents per share, 0% franked (2005: 7.00 cents per share, 20% franked)		**17,446**	17,400	**17,446**	17,400
	19	**17,446**	17,400	**17,446**	17,400
Franking Credits					
The amount of franking credits available for the subsequent financial year are:					
– franking account balance as at the end of the financial year at 30% (2005: 30%)				**381**	884
– franking credits that will arise from the payment of income tax payable as at the end of the financial year				**-**	(503)
				381	381

Franking Account

The tax rate at which dividends have been franked is 30%.

Dividend History

Ordinary Dividend

Dividend Type	Cents per Share	Franked %	Pay Date
Final	7.00	0	16 Oct 2006
Final	7.00	20	14 Oct 2005
Final	6.00	70	13 Oct 2004
Final	4.00	100	28 Nov 2003
Interim	2.00	100	13 Jun 2003
Final	6.08	100	04 Oct 2002

	Consolidated		Parent	
	31/12/06 $000	31/12/05 $000	**31/12/06 $000**	31/12/05 $000
6. RECEIVABLES (CURRENT)				
Trade debtors	**7,889**	3,751	**-**	37
Sundry debtors	**1,454**	2,965	**-**	567
	9,343	6,716	**-**	604

Trade debtors are non interest bearing and are generally on 14 day terms.

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
7. INVENTORIES (CURRENT)				
Bulk stores – at cost	**6,203**	2,800	**-**	-
Feedlot commodities – at cost	**10,826**	8,787	**-**	-
Other – at cost	**4,606**	654	**-**	-
Total current inventories	**21,635**	12,241	**-**	-
8. BIOLOGICAL ASSETS – LIVESTOCK (CURRENT)				
Livestock at net market value (31 December 2006: 212,837 head, 31 December 2005: 193,542 head)	**129,525**	155,323	**-**	-
Total current livestock	**129,525**	155,323	**-**	-
9. RECEIVABLES (NON-CURRENT)				
Related parties				
– Wholly owned group	**-**	-	**567,567**	369,995
Other related parties				
– Associated company	**-**	732	**-**	-
Other receivables	**-**	-	**-**	-
Total non-current receivables	**-**	732	**567,567**	369,995
10. BIOLOGICAL ASSETS – LIVESTOCK (NON-CURRENT)				
Livestock at net market value (31 December 2006: 348,324 head, 31 December 2005: 313,024 head)	**276,802**	217,106	**-**	-
Total non-current livestock	**276,802**	217,106	**-**	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

	Note	Consolidated 31/12/06 $000	Consolidated 31/12/05 $000	Parent 31/12/06 $000	Parent 31/12/05 $000
11. PROPERTY, PLANT AND EQUIPMENT					
Freehold Land					
Opening balance, at fair value		**62,557**	49,759	**1,925**	1,843
Transfers		**(7,439)**	-	**-**	-
Additions		**4,155**	7,439	**-**	-
Disposals		**(257)**	(10)	**(257)**	-
Net amount of revaluation increments less decrements		**8,274**	5,369	**5**	82
Closing balance, at fair value	(a)	**67,290**	62,557	**1,673**	1,925
Pastoral Leases					
Opening balance, at fair value		**327,092**	258,825	**56,374**	43,081
Transfers		**6,543**	-	**-**	-
Additions		**61,542**	203	**-**	-
Disposals		**(17,020)**	-	**(17,021)**	-
Net amount of revaluation increments less decrements		**33,016**	68,064	**5,746**	13,293
Closing balance, at fair value	(b)	**411,173**	327,092	**45,099**	56,374
Buildings and Improvements					
Opening balance, at fair value		**85,234**	67,826	**14,102**	12,186
Transfers		**896**	-	**-**	-
Additions		**12,330**	10,341	**-**	-
Disposals		**(4,820)**	(24)	**(1,369)**	-
Net amount of revaluation increments less decrements		**-**	7,091	**-**	1,916
Closing balance, at fair value	(a)	**93,640**	85,234	**12,733**	14,102
Accumulated Depreciation					
Opening balance		**(13,728)**	(11,419)	**(2,685)**	(2,154)
Depreciation for the year		**(2,695)**	(2,316)	**(540)**	(531)
Disposals		**1,018**	7	**343**	-
Closing balance	(a)	**(15,405)**	(13,728)	**(2,882)**	(2,685)
Fair Value		**93,640**	85,234	**12,733**	14,102
Accumulated depreciation and impairment		**(15,405)**	(13,728)	**(2,882)**	(2,685)
Net carrying amount		**78,235**	71,506	**9,851**	11,417
Net freehold land, pastoral leases, buildings and improvements		**556,698**	461,155	**56,623**	69,716
Plant and Equipment					
Opening balance, at cost		**46,010**	36,812	**4,449**	4,449
Additions		**10,864**	10,988	**-**	-
Acquisition of subsidiary		**823**	-	**-**	-
Disposals		**(4,867)**	(1,790)	**-**	-
Closing balance, at cost		**52,830**	46,010	**4,449**	4,449
Accumulated Depreciation					
Opening balance		**(19,593)**	(16,509)	**(1,106)**	(793)
Acquisition of subsidiary		**(543)**	-	**-**	-
Depreciation for the year		**(5,752)**	(4,676)	**(310)**	(313)
Disposals		**2,864**	1,592	**-**	-
Closing balance		**(23,024)**	(19,593)	**(1,416)**	(1,106)
Net plant and equipment		**29,806**	26,417	**3,033**	3,343
Total property, plant and equipment, net		**586,504**	487,572	**59,656**	73,059
Cost		**52,830**	46,010	**4,449**	4,449
Accumulated depreciation and impairment		**(23,024)**	(19,593)	**(1,416)**	(1,106)
Net carrying amount		**29,806**	26,417	**3,033**	3,343

11. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The fair values of freehold land, pastoral leases, buildings and improvements have been determined by reference to director valuations, based upon independent valuations performed by Herron Todd White in December 2006. Fair value was determined by reference to an open market basis, being the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the valuation date. The Controlled Entity has developed a process where properties are independently valued on a three year rolling basis. Each year approximately one third of properties covering all regions are valued. Regional uplift percentages were applied to like properties in order for directors to arrive at a total revaluation adjustment. The basis of the valuations was existing use.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly offset against the surplus in the asset revaluation reserve, otherwise it is charged to the net profit or loss.

The effective date of the revaluation was 31 December 2006.

If freehold land, pastoral leases, buildings and improvements were measured using the deemed cost model (the fair value of the assets in 1995) the carrying amounts would be as follows:

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
Deemed cost	**276,737**	206,262	**11,761**	23,995
Accumulated depreciation	**(15,405)**	(13,728)	**(2,882)**	(2,685)
Net carrying amount	**261,332**	192,534	**8,879**	21,310

b) The Consolidated Entity's cattle stations are generally held under a leasehold agreement with the Crown. Leasehold properties in Queensland are mainly pastoral holdings which are term leases with a maximum period of 50 years. In the Northern Territory, the pastoral leases held by the Consolidated Entity have been granted on a perpetual basis by the Northern Territory Government.

While there is no obligation for leases to be renewed by the Queensland Government at expiry, the directors are not presently aware of any reason why leases would not be renewed on substantially the same terms based upon practise by the Queensland Government.

12. INVESTMENTS AT COST (NON-CURRENT)

Investments:				
Investment in controlled entities, at cost	**-**	-	**70,871**	66,669
Impairment to recoverable amount	**-**	-	**(1,119)**	(1,116)
Total investments	**-**	-	**69,752**	65,553

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

	Consolidated		Parent	
	31/12/06	31/12/05	31/12/06	31/12/05
	$000	$000	$000	$000
13. INTANGIBLE ASSETS (NON-CURRENT)				
Goodwill				
At 1 January (net of accumulated amortisation)	**859**	859	**1,176**	1,176
Additions	**3,775**	-	**-**	-
Amortisation	**-**	-	**-**	-
At 31 December (net of accumulated amortisation)	**4,634**	859	**1,176**	1,176
Goodwill	**10,446**	6,671	**1,268**	1,268
Accumulated amortisation	**(5,812)**	(5,812)	**(92)**	(92)
Goodwill, net	**4,634**	859	**1,176**	1,176
Agistment rights				
At 1 January (net of accumulated amortisation)	**6,548**	7,367	**-**	-
Additions	**-**	-	**-**	-
Amortisation	**(819)**	(819)	**-**	-
At 31 December (net of accumulated amortisation)	**5,729**	6,548	**-**	-
Agistment rights	**8,162**	8,162	**-**	-
Accumulated amortisation	**(2,433)**	(1,614)	**-**	-
Agistment rights, net	**5,729**	6,548	**-**	-
Other intangibles				
At 1 January (net of accumulated amortisation)	**3,348**	3,348	**1,078**	1,078
Additions	**-**	-	**-**	-
Amortisation	**-**	-	**-**	-
At 31 December (net of accumulated amortisation)	**3,348**	3,348	**1,078**	1,078
Other intangibles	**4,240**	4,240	**1,664**	1,664
Accumulated amortisation	**(892)**	(892)	**(586)**	(586)
Other intangibles, net	**3,348**	3,348	**1,078**	1,078
Total intangible assets, net	**13,711**	10,755	**2,254**	2,254

For the year ended 31 December 2006, agistment rights were capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of nine years.

Intangibles are tested for impairment annually or where an indicator of impairment arises.

14. PAYABLES (CURRENT)					
Trade creditors	(a)	**12,577**	10,425	**145**	172
Other creditors and accruals		**15,584**	13,860	**8,297**	5,551
Total current payables		**28,161**	24,285	**8,442**	5,723

(a) Includes $1,628,000 (31/12/05: $1,230,000) of trade creditor amounts owing to the Futuris Group.

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Other creditors are non-interest bearing and have an average term of three months.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000

15. PROVISIONS

At 1 January	**2,598**	2,421	**-**	-
Arising during year	**2,185**	1,837	**-**	-
Utilised	**(1,605)**	(1,660)	**-**	-
At 31 December	**3,178**	2,598	**-**	-
Employee benefits:				
– annual leave	**1,824**	1,396	**-**	-
– long service leave	**980**	803	**-**	-
Total current provisions	**2,804**	2,199	**-**	-
Employee benefits:				
– long service leave	**374**	399	**-**	-
Total other non-current provisions	**374**	399	**-**	-
	3,178	2,598	**-**	-

The Consolidated Entity employed 471 full-time equivalent employees as at 31 December 2006 (31 December 2005: 427 employees).

16. INTEREST BEARING LOANS AND BORROWINGS

Current				
Obligations under finance leases	**1,495**	875	**-**	-
Other Loans:				
$68,400,000 bank loan (2005: $25,000,000)	**56,000**	11,000	**56,000**	11,000
	57,495	11,875	**56,000**	11,000
Non-current				
Obligations under finance leases	**2,613**	2,645	**-**	-
Other Loans:				
$307,600,000 bank loan (2005: $291,000,000)	**307,600**	240,100	**307,600**	240,100
	310,213	242,745	**307,600**	240,100

$307,600,000 bank loan
This is a syndicated and acquisition loan which is unsecured. The loans are repayable on 29 December 2007. The effective interest rate is 6.5%. It is intended that this loan will be renewed prior to the maturity date.

$68,400,000 bank loan
This is a working capital loan that is unsecured and repayable in full on 29 December 2007. The effective interest rate is 6.5%. It is intended that this loan will be renewed prior to the maturity date.

Refer to note 26 for financing facilities available.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
17. ISSUED CAPITAL				
Ordinary shares (a)	**135,400**	134,220	**139,837**	138,657
Total contributed equity	**135,400**	134,220	**139,837**	138,657

(a) Movements in issued capital for the period:

Consolidated	31/12/06		31/12/05	
	Number of shares	**$000**	**Number of shares**	**$000**
Beginning of the financial period	**248,673,487**	**134,220**	200,102,726	60,830
Issued for cash on exercise of share options	**396,666**	**545**	8,063,000	7,983
Share based component of Chefs Partner acquisition	**161,705**	**288**	-	-
Tax adjustment for rights issue costs	**-**	**347**	-	-
Issued for cash to take up 1 for 5 rights issue	**-**	**-**	40,424,682	65,254
Employee Share Plan	**-**	**-**	83,079	153
End of the financial period	**249,231,858**	**135,400**	248,673,487	134,220

At 31 December 2006 the issued capital of Australian Agricultural Company Limited was $139,836,000 and the Consolidated Entity was $135,400,000.

(b) Outside equity interests in Consolidated Entity:

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
Contributed equity	**348**	348	**-**	-
Reserves	**-**	-	**-**	-
Accumulated losses	**(224)**	(157)	**-**	-
Total outside equity interests	**124**	191	**-**	-

18. RESERVES

	Consolidated				
	Asset revaluation reserve $000	Capital profits reserve $000	Financial instruments reserve $000	Employee equity benefits reserve $000	Total $000
31 December 2004	175,863	67,758	-	50	243,671
Revaluation of land and buildings	82,659	-	-	-	82,659
Net losses on interest rate swaps	-	-	(289)	-	(289)
Share based payment	-	-	-	1,172	1,172
31 December 2005	258,522	67,758	(289)	1,222	327,213
Revaluation of land and buildings	29,090	-	-	-	29,090
Sale of Wrotham Park	(9,961)	9,961	-	-	-
Reversal of net loss on interest rate swaps	-	-	322	-	322
Share based payment	-	-	-	509	509
31 December 2006	277,651	77,719	33	1,731	357,134

	Parent				
	Asset revaluation reserve $000	Capital profits reserve $000	Financial instruments reserve $000	Employee equity benefits reserve $000	Total $000
31 December 2004	22,267	103,990	-	50	126,307
Revaluation of land and buildings	29,865	-	-	-	29,865
Net losses on interest rate swaps	-	-	(289)	-	(289)
Share based payment	-	-	-	1,172	1,172
31 December 2005	52,132	103,990	(289)	1,222	157,055
Revaluation of land and buildings	3,894	-	-	-	3,894
Sale of Wrotham Park	(9,576)	9,576	-	-	-
Reversal of net loss on interest rate swaps	-	-	322	-	322
Share based payment	-	-	-	509	509
31 December 2006	46,450	113,566	33	1,731	161,780

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

Capital profits reserve

The capital profits reserve is used to accumulate realised capital profits. The reserve can be used to pay dividends.

Financial instruments reserve

This reserve records the remaining balance of deferred gains and losses on interest rate swaps and foreign exchange contracts at transition to AIFRS.

Employee equity benefits reserve

The employee share option and share plan reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 32 for further details of these plans.

	Consolidated		Parent	
	31/12/06 $000	31/12/05 $000	**31/12/06 $000**	31/12/05 $000
19. RETAINED PROFITS (ACCUMULATED LOSSES)				
Retained profits at the beginning of the financial period	**97,054**	97,675	**(49,523)**	(19,264)
Net profit for the financial period	**10,102**	16,779	**86,572**	(12,859)
Total available for appropriation	**107,156**	114,454	**37,049**	(32,123)
Dividends paid	**(17,446)**	(17,400)	**(17,446)**	(17,400)
Retained profits at the end of the financial period	**89,710**	97,054	**19,603**	(49,523)

20. CASH AND CASH EQUIVALENTS

(a) Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks.

	Consolidated 31/12/06	Consolidated 31/12/05	Parent 31/12/06	Parent 31/12/05
Cash on hand	6,435	8,082	569	206
Call deposits with banks	4,390	5,558	-	5,526
Total	10,825	13,640	569	5,732

The fair value of cash assets is $10,825,000 (2005: $13,640,000).

Cash on hand earns interest at 5.75% (2005: 5.0%).

Short term deposits are for one day and earn interest at the respective short term deposit rates.

(b) Reconciliation of Net Profit after Income Tax to Net Cash Provided by Operating Activities

	Consolidated 31/12/06	Consolidated 31/12/05	Parent 31/12/06	Parent 31/12/05
Net profit after income tax	**10,035**	16,785	**86,572**	(12,859)
Adjustments for non-cash income and expense items:				
Depreciation and amortisation	**9,286**	7,811	**850**	844
Loss on disposal of controlled entity				
Gain on sale of property, plant and equipment	**(4,514)**	(262)	**(4,744)**	-
Share of associates net losses	**(51)**	224	**-**	-
Increment in net market value of livestock	**3,390**	(16,787)	**-**	-
Movement in:				
– Income tax payable	**(2,854)**	(1,546)	**(2,854)**	(1,546)
– Deferred taxes	**(5,150)**	2,427	**(8,327)**	(6,374)
Impairment of investment to recoverable amount	**-**	449	**-**	449
Changes in assets & liabilities net of effects from purchase and sale of controlled entities:				
(Increase)/decrease in assets:				
– Accounts receivable	**(29,053)**	588	**(83,204)**	1,543
– Inventories	**1,402**	(1,876)	**-**	-
– Prepayments and other assets	**443**	(389)	**26**	11
Increase/(decrease) in liabilities:				
– Trade/sundry creditors	**3,930**	7,636	**(698)**	(794)
– Provisions – employee	**699**	171	**-**	-
Net cash provided by/(used in) operating activities	**(12,437)**	15,231	**(12,379)**	(18,726)

20. CASH AND CASH EQUIVALENTS (continued)

(c) Non-Cash Financing and Investing Activities

During the year ended 31 December 2006 the Consolidated Entity acquired motor vehicles with an aggregate fair value of $1,818,252 (year ended 31 December 2005: $2,395,219) by means of finance leases.

(d) Cash Flows from Investing Activities

For the year ended 31 December 2006 cash flows from investing activities included the purchase of Eva Downs and Anthony Lagoon including property, plant, equipment and cattle for $100 million and the sale of Wrotham Park station for $53 million.

For the year ended 31 December 2005 cash flows from investing activities included the purchase of the Violet Vale property (adjoining Kalmeta Station) for $6.6 million.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Australian Agricultural Company Limited and its controlled entities use basic derivative instruments to manage financial risk. The Consolidated Entity does not use or issue derivative or financial instruments for speculative or trading purposes.

The Consolidated Entity has a policy objective to ideally maintain the percentage of fixed and variable rate debt within controlled limits. Interest rate swaps are entered into to maintain the fixed and variable rate debt.

The Consolidated Entity does not currently hedge its beef commodity price exposure, however, it has a policy whereby it will forward sell a significant proportion of its feedlot cattle sales for a period of up to three months.

The majority of the Consolidated Entity's revenue is received in Australian dollars, although the prices received are influenced by movements in exchange rates, particularly that of the US dollar and Japanese yen relative to the Australian dollar. The Consolidated Entity does not currently hedge any of this indirect currency exposure.

The Consolidated Entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and cash.

The main purpose of these financial instruments is to partially finance the Consolidated Entity's operations.

The Consolidated Entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Consolidated Entity also enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Consolidated Entity's operations and its sources of finance.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Consolidated Entity's exposure to market risk for changes in interest rates relates primarily to the Consolidated Entity's long term debt obligations.

The Consolidated Entity's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The Consolidated Entity's policy is to keep at least 50% of its borrowings at fixed rates of interest.

To manage this mix in a cost-efficient manner, the Consolidated Entity enters into interest rate swaps, in which the Consolidated Entity agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

At 31 December 2006, after taking into account the effect of interest rate swaps, approximately 52% of the Consolidated Entity's borrowings are at a fixed rate of interest.

Foreign currency risk

The Consolidated Entity also has transactional currency exposures. Such exposure arises from sales by the Wholesale Beef segment in currencies other than in Australian dollars.

The Consolidated Entity undertakes forward sales in foreign currencies. All forward sales are covered with Foreign Exchange Contracts to coincide with the expected receipt of foreign funds spread over the year.

The forward currency contracts must be in the same currency as the sold item.

It is the Consolidated Entity's policy not to enter into forward contracts until a firm commitment is in place.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk

The credit risk of financial assets of the Consolidated Entity which have been recognised on the Balance Sheet is generally the carrying amount, net of any provisions of doubtful debts.

With respect to receivables, the majority of the Consolidated Entity's credit risk is in Australia and is generally concentrated in the meat processing industry. The group manages its credit risk by maintaining strong relationships with a limited number of quality customers. At times risk is mitigated by paying commissions to a third party to accept credit risk in relation to certain sales overseas.

There are no significant concentrations of credit risk within the Consolidated Entity.

22. FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Consolidated Entity's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
CONSOLIDATED				
Financial assets				
Cash	**10,825**	13,640	**10,825**	13,640
Trade receivables	**9,343**	6,716	**9,343**	6,716
Investments in associates accounted for using the equity method	**-**	588	**-**	588
Non-current receivable	**-**	732	**-**	732
Interest rate swap	**1,603**	268	**1,603**	268
Financial liabilities				
Trade payables	**28,161**	24,285	**28,161**	24,285
Interest-bearing loans and borrowings:				
Obligations under finance leases	**4,108**	3,520	**4,108**	3,302
Floating rate borrowings	**363,600**	251,100	**363,600**	251,100
PARENT				
Financial assets				
Cash	**569**	5,732	**569**	5,732
Trade receivables	**-**	604	**-**	604
Interest rate swap	**1,603**	268	**1,603**	268
Financial liabilities				
Trade payables	**8,441**	5,723	**8,441**	5,723
Interest-bearing loans and borrowings:				
Floating rate borrowings	**363,600**	251,100	**363,600**	251,100

22. FINANCIAL INSTRUMENTS (continued)

The fair value of derivative items has been calculated by discounting the expected future cash flows at prevailing interest rates.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

31 December 2006	<1 year $000	>1-<2 years $000	>2-<3 years $000	>3-<4 years $000	>4-<5 years $000	>5 years $000	Total $000
CONSOLIDATED							
Fixed rate							
Interest rate swap	1,603	-	-	-	-	-	1,603
Obligations under finance leases	1,495	1,626	917	70	-	-	4,108
Floating rate							
Cash assets	10,825	-	-	-	-	-	10,825
$165,000,000 term loan	165,000	-	-	-	-	-	165,000
$186,000,000 acquisition loan	173,600	-	-	-	-	-	173,600
$ 25,000,000 working capital	25,000	-	-	-	-	-	25,000
PARENT							
Fixed rate							
Interest rate swap	1,603	-	-	-	-	-	1,603
Floating rate							
Cash assets	569	-	-	-	-	-	569
$165,000,000 term loan	165,000	-	-	-	-	-	165,000
$126,000,000 acquisition loan	173,600	-	-	-	-	-	173,600
$ 25,000,000 working capital	25,000	-	-	-	-	-	25,000

31 December 2005	<1 year $000	>1-<2 years $000	>2-<3 years $000	>3-<4 years $000	>4-<5 years $000	>5 years $000	Total $000
CONSOLIDATED							
Fixed rate							
Interest rate swap	268	-	-	-	-	-	268
Obligations under finance leases	875	1,363	1,282	-	-	-	3,520
Floating rate							
Receivables – other related parties	732	-	-	-	-	-	732
Cash assets	13,640	-	-	-	-	-	13,640
$165,000,000 term loan	-	165,000	-	-	-	-	165,000
$126,000,000 acquisition loan	-	75,100	-	-	-	-	75,100
$ 25,000,000 working capital	11,000	-	-	-	-	-	11,000
PARENT							
Fixed rate							
Interest rate swap	268	-	-	-	-	-	268
Floating rate							
Cash assets	5,732	-	-	-	-	-	5,732
$165,000,000 term loan	-	165,000	-	-	-	-	165,000
$126,000,000 acquisition loan	-	75,100	-	-	-	-	75,100
$ 25,000,000 working capital	11,000	-	-	-	-	-	11,000

Refer to note 16 for disclosure of effective interest rates and maturities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

22. FINANCIAL INSTRUMENTS (continued)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Consolidated Entity and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

23. COMMITMENTS

(a) Future minimum lease payments under non-cancellable operating leases at 31 December 2006 are as follows:

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
Leased plant and equipment:				
Not later than one year	**-**	-	**-**	-
Later than one year but not later than five years	**-**	-	**-**	-
Later than five years	**-**	-	**-**	-
Total leased plant and equipment	**-**	-	**-**	-
Leased land and buildings:				
Not later than one year	**4,921**	4,832	**-**	-
Later than one year but not later than five years	**7,870**	12,755	**-**	-
Later than five years	**-**	-	**-**	-
Total leased land and buildings	**12,791**	17,587	**-**	-
Leased motor vehicles:				
Not later than one year	**89**	318	**-**	-
Later than one year but not later than five years	**9**	61	**-**	-
Later than five years	**-**	-	**-**	-
Total leased motor vehicles	**98**	379	**-**	-

Property, plant and equipment lease rental payments are generally fixed. Renewal options do exist in relation to these operating leases. Motor vehicle lease rental payments are fixed over the term of the lease. Except for motor vehicles, purchase options exist in relation to these operating leases. Failure to exercise the option on the land and building lease will result in a fixed fee payable to the lessor.

(b) Finance lease expenditure contracted for is payable as follows:

The Consolidated Entity has finance leases for motor vehicles.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

CONSOLIDATED				
Within one year	**1,495**	875	**-**	-
After one year but not more than five years	**2,613**	2,645	**-**	-
Total minimum lease payments	**4,108**	3,520	**-**	-

23. COMMITMENTS (continued)

(c) Capital Commitments

At 31 December 2006 the Consolidated Entity has no capital commitments.

At 31 December 2005 the Consolidated Entity had a commitment to purchase the Marilla property, near Goonoo station, for the sum of $4,000,000. The completion date was 15 February 2006.

	Consolidated		Parent	
	31/12/06	31/12/05	**31/12/06**	31/12/05
	$000	$000	**$000**	$000
24. CONTINGENT LIABILITIES				
Contingent liabilities at balance date, not otherwise provided for in these financial statements are categorised as follows:				
Guarantees and indemnities:				
Bank guarantee in relation to the Goonoo feedlot	**3,300**	3,300	**-**	-
Bank guarantees provided in relation to premises	**64**	104	**-**	-

At 31 December 2006 there are a number of native title claims over some of the Consolidated Entity's cattle properties. Negotiations are continuing with stakeholders to resolve these claims. The directors are not aware of any native title rights that may be found to co-exist with the Consolidated Entity's rights and as such they do not expect any impact on the business to result from native title claims.

The Consolidated Entity has commenced legal proceedings against AMP with regard to the Stanbroke sale process. A contingent asset has not been recognised for any potential proceeds as the outcome of the case is uncertain. In addition, as the case is yet to commence, the company has not recognised any liability for potential legal costs.

25. IMPAIRMENT TESTING OF ASSETS

Goodwill acquired through business combinations and acquisitions has been allocated to their respective cash generating units (CGUs) for impairment testing based on a value in use calculation. The CGU's tested for impairment have been calculated on cash flow projections approved by senior management over a five year period. The pre-tax discount rate applied was 11.0%. The growth rate used to extrapolate the cash flows was 3.0%. No impairment was indicated at 31 December 2006.

The carrying value of Chefs Partner acquired in April 2006 was tested for impairment at 31 December 2006. The CGU's tested for impairment have been calculated on cash flow projections approved by senior management over a five year period. The pre-tax discount rate applied was 15.0%. The growth rate used to extrapolate the cash flows was 3.0%. No impairment was indicated at 31 December 2006.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

26. FINANCING ARRANGEMENTS

The Consolidated Entity has access to the following financing facilities:

	31/12/06					
	Consolidated			Parent		
	Accessible $000	Drawn-down $000	Unused $000	Accessible $000	Drawn-down $000	Unused $000
Term loan facility	165,000	165,000	-	165,000	165,000	-
Acquisition facility	186,000	173,600	12,400	186,000	173,600	12,400
Working capital facility	25,000	25,000	-	25,000	25,000	-
Guarantee facility	4,500	3,364	1,136	4,500	3,364	1,136
Total financing facilities	380,500	366,964	13,536	380,500	366,964	13,536

	31/12/05					
	Consolidated			Parent		
	Accessible $000	Drawn-down $000	Unused $000	Accessible $000	Drawn-down $000	Unused $000
Term loan facility	165,000	165,000	-	165,000	165,000	-
Acquisition facility	126,000	75,100	50,900	126,000	75,100	50,900
Working capital facility	25,000	11,000	14,000	25,000	11,000	14,000
Guarantee facility	3,300	3,300	-	3,300	3,300	-
Total financing facilities	319,300	254,400	64,900	319,300	254,400	64,900

The facilities are provided on a negative pledge basis. Financial covenants are in place with respect to minimum interest cover ratios, maximum debt cover ratios and minimum consolidated net worth.

27. CONTROLLED ENTITIES

The consolidated financial statements at 31 December 2006 include the following controlled entities.

Name of controlled entity	Notes	Place of Incorporation	31/12/06 % of shares held	31/12/05 % of shares held
Parent Entity				
Australian Agricultural Company Limited	(a)	Australia		
A. A. Company Pty Ltd	(a)	Australia	100	100
Austcattle Holdings Pty Ltd	(a)	Australia	100	100
A. A. & P. Joint Holdings Pty Ltd	(a)	Australia	100	100
Shillong Pty Ltd	(a)	Australia	100	100
James McLeish Estates Pty Limited	(a)	Australia	100	100
Wondoola Pty Ltd	(a)	Australia	100	100
Waxahachie Pty Ltd	(a)	Australia	100	100
Naroo Pastoral Company Pty Limited	(a)	Australia	100	100
AACo Nominees Pty Limited	(a)	Australia	100	100
Chefs Partner Pty Ltd	(a)	Australia	100	45
Polkinghornes Stores Pty Limited		Australia	100	100
Rural Management Partners Pty Ltd		Australia	51	51

The parent entity, Australian Agricultural Company Limited, a public company, is domiciled in Brisbane, Australia.

The registered office and principal place of business is located at:
Level 1, 299 Coronation Drive, Brisbane Qld 4064

27. CONTROLLED ENTITIES (continued)

(a) These companies have entered into a deed of cross guarantee dated 22 November 2006 with Australian Agricultural Company Limited which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding-up of that company. As a result of a Class Order issued by the Australian Securities and Investments Commission, these companies are relieved from the requirement to prepare financial statements.

The consolidated Income Statement and Balance Sheet of all entities included in the Class Order "closed group" are set out at footnote (b).

(b) Financial information for Class Order closed group.

	31/12/06 $000	31/12/05 $000
Balance Sheet for the Closed Group:		
Total current assets	**180,483**	191,285
Total non-current assets	**914,120**	756,235
Total assets	**1,094,603**	947,520
Total current liabilities	**89,644**	38,160
Total non-current liabilities	**418,239**	347,826
Total liabilities	**507,883**	385,986
Net assets	**586,720**	561,534
Equity		
Issued capital	**135,400**	134,220
Reserves	**357,134**	327,213
Retained profits	**94,186**	100,101
Total equity	**586,720**	561,534
Income Statement of the Closed Group:		
Revenue	**198,834**	182,395
Share of net losses of associates accounted for using the equity method	**51**	(225)
Employee expenses	**(27,825)**	(25,337)
Cattle expenses	**(12,834)**	(13,692)
Feedlot cattle expenses	**(28,048)**	(25,455)
Other station operating costs	**(17,788)**	(16,243)
Lease and property related costs	**(6,260)**	(5,886)
Business development and other non station operating costs	**(1,163)**	(2,156)
Cost of goods sold of value add business	**(65,651)**	(36,335)
Administration and other costs	**(7,881)**	(10,228)
Earnings before interest expense, income tax, depreciation and amortisation	**31,435**	46,838
Depreciation and amortisation	**(9,265)**	(7,791)
Finance costs	**(20,514)**	(17,160)
Profit from continuing operations before income tax	**1,656**	21,887
Income tax expense	**8,507**	(4,979)
Profit from continuing operations after related income tax expense	**10,163**	16,908

28. BUSINESS COMBINATIONS

On 7 April 2006, Australian Agricultural Company Limited acquired the remaining 55% of the voting shares of its associate company, Chefs Partner Pty Limited (Chefs Partner). From that date the Consolidated Entity now owns 100% of Chefs Partner. The company is a Brisbane based supplier of beef and other meats to the food service sector.

The total cost of the combination was $3,761,000 and comprised an issue of ordinary shares, the payment of cash and costs directly attributable to the combination. The Consolidated Entity issued 161,705 ordinary shares with a fair value of $1.78 each, based on the market price of the shares on the date of issue.

The fair value of the identifiable assets and liabilities of Chefs Partner as at the date of acquisition were:

	Consolidated	
	Recognised on acquisition $'000	Carrying value $'000
Cash and cash equivalents	128	128
Trade receivables	1,062	1,062
Other receivables	24	24
Inventories	1,192	1,192
Fixed assets	1,208	1,208
Intangibles	715	715
	4,329	4,329
Trade payables	(1,172)	(1,172)
Other payables	(159)	(159)
Provisions	(150)	(150)
Loans payable	(1,573)	(1,573)
	(3,054)	(3,054)
Fair value of total identifiable net assets (100%)	1,275	
Fair value of acquired identifiable net assets (55%)	701	
Goodwill arising on acquisition	3,060	
	3,761	
Cost of the combination:		
Shares issued, at fair value	288	
Cash paid	3,368	
Direct costs relating to the acquisition	105	
Total cost of the combination	3,761	

From the date of acquisition Chefs Partner has contributed a $116,000 loss to the net profit of the Consolidated Entity.

29. INVESTMENT IN ASSOCIATE

Details of material interests in associated entities are as follows:

Name and principal activities	Reporting date of associated entity	Ownership Interest		Voting power		Carrying amount	
		31/12/06	31/12/05	31/12/06	31/12/05	31/12/06 $000	31/12/05 $000
Chefs Partner Pty Ltd	30 June	100%	45%	100%	45%	-	588
						-	588

Principal Activities

Chefs Partner Pty Ltd is a provider of beef and other meats to the food service sector.

Purchase of Associate

On 7 April 2006, the Consolidated Entity purchased the remaining shares in Chefs Partner. Refer note 28.

Sale of Associate

On 8 December 2005 the Consolidated Entity sold its remaining 25% holding in Shakespeares Holding Pty Ltd for cash proceeds of $2.2 million.

Share of associate's results	31/12/06 $000	31/12/05 $000
Revenue	**2,598**	16,132
Profit / (loss) before income tax	**51**	(225)
Income tax expense	**-**	-
Share of net results of associates	**51**	(225)

Carrying amount of investment in associate	Retained profits $000	Other reserves $000	Carrying value $000	Total carrying amount $000
Balance at 31 December 2004	(724)	-	1,739	1,015
Movements during the period				
– Share of net result	(225)	-	-	(225)
– Additional investment acquired in Chefs Partner	-	-	324	324
Impairment written back	-	-	450	450
Disposal of Shakespeares	473	-	(1,449)	(976)
Balance at 31 December 2005	(476)	-	1,064	588
Movements during the period				
– Share of net result	51	-	-	51
– Acquisition of Chefs Partner	425	-	(1,064)	(639)
Balance at 31 December 2006	-	-	-	-

	31/12/06 $000	31/12/05 $000
Accumulated losses of the Consolidated Entity attributable to associate		
Balance at the beginning of the financial period	**-**	(724)
Reversal of Shakespeare's losses	**-**	473
Share of associate's net losses	**-**	(225)
Balance at the end of the financial period	**-**	(476)

Other

There are no direct transactions with the associated entities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

30. SEGMENT INFORMATION

Primary Segment – Business segments 31/12/06	Cattle & Farming Operations $000	Consolidated Wholesale Beef $000	Other $000	Total $000
Revenue	116,558	77,762	1,454	195,774
Profit from disposal of non-current assets	4,514	-	-	4,514
Equity accounted profits	-	51	-	51
Allocated costs	(101,583)	(75,133)	(1,581)	(178,297)
Contribution	19,489	2,680	(127)	22,042
Unallocated Costs				
Finance Costs				(20,514)
Profit before tax				1,528
Income tax expense				8,507
Net profit for the year				10,035
Assets	1,083,773	8,023	(2,730)	1,089,066
Liabilities	503,994	2,452	252	506,698
Other segment information				
Capital expenditure	(87,194)	(1,697)	-	(88,891)
Depreciation	(8,208)	(243)	(21)	(8,472)
Amortisation	(814)	-	-	(814)
Primary Segment – Business segments 31/12/05				
Revenue	142,187	39,945	1,759	183,891
Profit from disposal of non-current assets	262	-	-	262
Equity accounted profits	-	81	(306)	(225)
Allocated costs	(104,955)	(38,673)	(1,376)	(145,004)
Contribution	37,494	1,353	77	38,924
Unallocated Costs				
Finance Costs				(17,160)
Profit before tax				21,764
Income tax expense				(4,979)
Net profit for the year				16,785
Assets	941,252	6,526	(2,621)	945,157
Liabilities	380,451	5,820	209	386,480
Other segment information				
Capital expenditure	(28,908)	(14)	(49)	(28,971)
Depreciation	(6,967)	(10)	(15)	(6,992)
Amortisation	(802)	(9)	(8)	(819)

Secondary Segment – Geographic segments

The Consolidated Entity operated entirely within Australia during the periods from 1 January 2005 to 31 December 2005 and 1 January 2006 to 31 December 2006.

	Consolidated		Parent	
	Year ended 31/12/06 $000	Year ended 31/12/05 $000	Year ended 31/12/06 $000	Year ended 31/12/05 $000

31. REMUNERATION OF AUDITORS

Remuneration received, or due and receivable, by the auditor, Ernst & Young, of the parent entity for:

– Audit or review of the financial statements	252	281	252	281
– Other services	116	231	116	231
	368	512	368	512

Other services comprise:				
Ernst & Young				
– Taxation compliance	116	143	116	143
– Audit of adoption of AIFRS	-	36	-	36
– Rights issue review	-	40	-	40
– Other	-	12	-	12
	116	231	116	231

32. EMPLOYEE BENEFITS

(a) Executive Option Plan

The Consolidated Entity has one Executive Option Plan (EOP) for the granting of non-transferable options to the Managing Director/Chief Executive Officer, senior executives and middle management with more than twelve months' service at the grant date.

Managing Director/Chief Executive Officer – Executive Options

On 11 March 2005, 1,500,000 options were granted in three equal tranches with a fair value of $0.39 each. Options issued will vest when the following conditions have been met:

The earnings per share of the Consolidated Entity have increased by a minimum of 5% per annum compound for each of the three years ending 31 December 2005, 2006 and 2007 respectively. The exercise price of these options is fixed at $1.39 being the 30 day trading average prior to 25 November 2004. Any vested options that are unexercised, for each tranche, on 31 March 2010, 31 March 2011 and 31 March 2012 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

No options were granted to the Managing Director/Chief Executive Officer during the year ended 31 December 2006.

Senior Executive – Executive Options

On 27 July 2005, 1,400,000 options were granted with a fair value of $0.44 each. These options vested on 1 January 2006. The exercise price of these options is fixed at $1.39. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

No options were granted to Senior Executives during the year ended 31 December 2006.

Middle Management – Executive Options

On 30 January 2006, 120,000 options were granted to six Middle Managers in three equal tranches with a fair value per option of $0.30, $0.33 and $0.35 respectively. These managers had not received options in 2005. Options issued will vest one third on each 1 January commencing in 2007. No vesting conditions apply to these options. The exercise price of these options is fixed at $1.61. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity.

On 27 July 2005, 1,110,000 options were granted in three equal tranches with a fair value per option of $0.35, $0.42 and $0.46 respectively. Options issued will vest one third on each 1 January commencing in 2006. No vesting conditions apply to these options. The exercise price of these options is fixed at $1.50. Any vested options that are unexercised on 31 March 2010 will expire. Upon exercise, these options will be settled in ordinary shares of the Consolidated Entity. No options were granted to these Middle Managers during the year ended 31 December 2006.

The fair value of the options are estimated at the date of grant using the Black Scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 31 December 2006.

32. EMPLOYEE BENEFITS (continued)

(a) Executive Option Plan (continued)

2006	MD/CEO	Senior Exec	Middle Management
Dividend yield (%)	-	-	4.15
Expected volatility (%)	-	-	30.00
Risk-free interest rate (%)	-	-	5.50
Expected life of option (years)	-	-	2.00
Option exercise price ($)	-	-	1.61
Share price at grant date ($)	-	-	1.65

2005			
Dividend yield (%)	4.00	4.00	4.00
Expected volatility (%)	30.00	30.00	30.00
Risk-free interest rate (%)	5.25	5.25	5.25
Expected life of option (years)	4.25 – 6.25	4.25	4.25
Option exercise price ($)	1.39	1.39	1.50
Share price at grant date ($)	1.71	1.82	1.82

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 31 December 2006, 396,666 (31 December 2005: 8,063,000) options were exercised over ordinary shares, with a total cash consideration received by the Consolidated Entity of $544,300 (31 December 2005: $7,983,000).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued under the EOP.

	2006 No.	2006 WAEP	2005 No.	2005 WAEP
Outstanding at the beginning of the year	6,635,000	1.25	10,688,000	1.00
Granted during the year	120,000	1.61	4,010,000	1.42
Forfeited during the year	80,001	1.50	-	-
Exercised during the year	396,666	1.37	8,063,000	1.00
Expired during the year			-	-
Outstanding at the end of the year	6,278,333	1.25	6,635,000	1.25
Exercisable at the end of the year	4,985,000	1.19	3,041,666	1.06

The outstanding balance as at 31 December 2006 is represented by:

- 2,605,000 options over ordinary shares with an exercise price of $1.00 each;
- 2,530,000 options over ordinary shares with an exercise price of $1.39 each;
- 1,023,333 options over ordinary shares with an exercise price of $1.50 each; and
- 120,000 options over ordinary shares with an exercise price of $1.61 each

Included within this balance are options over 2,355,000 shares (2005: 2,375,000 shares) that have not been recognised in accordance with AASB 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with AASB 2.

32. EMPLOYEE BENEFITS (continued)

(a) Executive Option Plan (continued)

Share options issued under the EOP and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price ($)	2006 No	2005 No.
31 March 2010	1.39	1,530,000	1,900,000
31 March 2010	1.50	1,023,333	1,110,000
31 March 2010	1.61	120,000	-
31 March 2011	1.39	500,000	500,000
6 August 2011	1.00	2,605,000	2,625,000
31 March 2012	1.39	500,000	500,000
Total		6,278,333	6,635,000

(b) Employee Share Plan

On 12 September 2005 the Consolidated Entity introduced an Employee Share Plan (ESP). This plan allows shares in Australian Agricultural Company Limited to be provided to all employees (excluding those participating in the EOP and directors) with greater than one year of service up to the value of $1,000.

The shares were issued to 153 employees at $1.84, being the weighted average share price at 12 September 2005, the date of grant. The fair value of each share at this date was $1.84.

No shares were issued to employees under the ESP during the year ended 31 December 2006.

At 31 December 2006, the ESP holds 57,015 ordinary shares in Australian Agricultural Company Limited (31 December 2005: 83,079).

The fair value of the employee benefit provided under the ESP is estimated at cost at the date of grant.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES

The total remuneration for each executive director and executive officer comprises a fixed salary (which can be by way of cash and benefits such as motor vehicles), a variable performance based bonus and superannuation.

(a) Details of Key Management Personnel

(i) Directors

N Burton Taylor	Chairman (non-executive)
D J Mackay	Managing Director / Chief Executive Officer
C E Bright	Director (non-executive)
T A Fischer	Director (non-executive)
C I Roberts	Director (non-executive)
L P Wozniczka	Director (non-executive)
P Zachert	Alternate Director (non-executive)

(ii) Key Executives

B Bennett	Company Secretary / General Counsel (appointed 22 November 2006)
B A Booker*	Company Secretary / General Manager – Risk and Compliance
D R Connolly	General Manager – Livestock Operations
P Dempsey	General Manager – Beef Group
A Jones	General Manager – Land
S N Toms	Chief Financial Officer/General Manager Corporate Services

*The above executive ceased employment with the Consolidated Entity in October 2006.

Key Executives are executives who have the greatest authority for managing the Consolidated Entity, have been employed by the Consolidated Entity at any time during the period and are not a director.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel

REMUNERATION PHILOSOPHY

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director/Chief Executive Officer and the senior management team.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is reasonable and acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 October 2003 when shareholders approved an aggregate remuneration of $600,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. With the exception of the Chairman, an additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more committees.

Non-executive directors are encouraged to hold shares in the company. Any shares purchased by the directors are purchased on market.

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION

The Board is responsible for determining the remuneration of the Managing Director/Chief Executive Officer on the advice of the Remuneration and Nomination Committee which obtains independent remuneration advice as necessary.

The Chairman oversees the Managing Director/Chief Executive Officer's recommendations for remuneration of senior executives with the assistance of the Remuneration and Nomination Committee (in relation to equity incentives and executive contracts) and independent remuneration advice (where necessary).

Objectives

The Board's objectives are to:

- ensure that senior executives are appropriately rewarded having regard to their role and responsibilities within the company;
- ensure an appropriate balance between fixed and "at risk" remuneration and, in relation to the "at risk" component, an appropriate balance between short-term and longer-term incentives;
- link reward with the company's financial performance and strategic positioning and to reward superior performance; and
- align the interests of senior executives with those of shareholders.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

Structure
Remuneration is determined as part of an annual performance review, having regard to market factors, relevant comparative data, a performance evaluation process and independent remuneration advice (where necessary).

Remuneration is structured in three components:

- Fixed Remuneration
- Variable or "at risk" remuneration comprising:
  - Shorter Term Incentives
  - Longer Term Incentives

The company encourages its senior executives to own the company's securities to further align their interests with the interests of other shareholders.

Fixed Remuneration
This component comprises cash and other benefits and entitlements and is set so as to provide a base level of remuneration which is both appropriate to the role and responsibilities and reflects current market conditions.

Fixed remuneration is reviewed annually as part of a review that takes into account the individual's performance, the overall performance of the company in the case of the senior executives and the relevant business unit's performance in the case of business unit executives and current comparative remuneration data.

Senior executives are given the opportunity to receive a portion of their fixed remuneration in forms other than cash (such as motor vehicles) under a framework that ensures the company does not incur excessive cost.

Variable Remuneration – Shorter Term Incentive (STI)
This component comprises cash and/or shares in the company (issued under the company's Employee Share Plan) and reflects the individual's performance in achieving various objectives over the prior 12 months.

The aim of the shorter term incentive is to link the achievement of the company's annual and/or immediate financial and broader operational targets with the remuneration received by the senior executives responsible for achieving those targets.

In the case of the senior executive group their shorter term incentive is linked to the overall performance of the company and, in the case of business unit executives, the relevant business unit's performance with a linkage to the consolidated corporate performance.

The total potential shorter term incentive is set at a level that provides the senior executive with real incentive to achieve the targets while not imposing an unreasonable cost on the company.

The actual shorter term incentive payment made to a senior executive depends upon the extent to which targets prescribed for a financial year are met. The targets comprise both quantitative and qualitative indicators and take into account factors such as the maturity of the business, competitive pressure and business cycle. The indicators include contribution to earnings and net profit after tax, market share maintenance/growth, success of new business activities, turnaround of under-performing assets, customer relationships, risk management, leadership and staff morale and safety.

The Board assesses the performance of the Managing Director/Chief Executive Officer against his targets and determines his actual shorter term incentive payment based upon the recommendation of the Remuneration and Nomination Committee.

The Managing Director/Chief Executive Officer assesses the performance of other senior executives against their targets and determines the actual shorter term incentive payments with oversight by the Board through the Chairman and the Remuneration and Nomination Committee.

Variable Pay – Long Term Incentive (LTI)
This component currently comprises options over shares in the company and either reflects the individual's performance in achieving various objectives over the prior 12 months or, in the case of the Managing Director/Chief Executive Officer, contain performance hurdles for future performance.

The aim of the longer term incentive is to reward senior executives in a manner which aligns this component of remuneration with the creation of shareholder wealth.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

The Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer's longer term incentive comprises options entitlements, which are determined by the Board with the assistance of the Remuneration and Nomination Committee and independent expert remuneration advice (where appropriate), and approved by shareholders.

The option entitlements are subject to the achievement of earnings per share growth performance hurdles over a rolling three-year period. This performance hurdle aims to encourage pursuit of sustainable continuous improvement with the objective of achieving superior performance for the benefit of shareholders.

The performance hurdle defines a minimum performance requirement that must be achieved if the Managing Director/Chief Executive Officer is to receive any benefit under the long term incentive scheme.

Existing LTI for the Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer has previously been issued 1,386,000 options.

Shareholders in General Meeting in 2005 approved the issue of three annual tranches of 500,000 options (each to subscribe for one fully paid ordinary share in the capital of the company) to the Managing Director/Chief Executive Officer at a fixed exercise price, pursuant to the AAco Executive Option Plan Rules established on 28 June 2001 and on the terms and conditions set out below:

- The fixed exercise price is AAco's 30 day trading average prior to the date of the Remuneration and Nomination Committee's resolution of 25 November 2004 ($1.39);
- Each tranche of options will be subject to the Exercise Condition that the earnings per share for Australian Agricultural Company Limited will increase by a minimum of 5% per annum compound over the three year periods ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively;
- Earnings per share will be adjusted appropriately for capital changes including issues, consolidations and restructures;
- The Vesting Date will be the date on which each Exercise Condition has been met;
- The Exercise Period for each tranche is from the date of vesting to 31 March 2010, 31 March 2011 and 31 March 2012 respectively;
- Where employment is terminated in other than Special Circumstances, eligibility for vesting of share rights in respect of incomplete measurement periods will be forfeited;
- In Special Circumstances (death, total permanent disablement, retirement, retrenchment, company initiated terminations for other than cause and others determined by the Board from time to time) the Board will make a determination in relation to grants for which the three year measurement period has not finished at the date of termination, as to the extent, if any, to which the options will vest having regard to performance to date and the portion of the measurement period completed at the date of termination;
- In the event of a takeover or change in control of AAco:
  - 50% of unvested options made within the last three years would vest, as soon as the Board forms the opinion that the takeover or change in control will occur, and
  - all or part of the other 50% of the unvested share right grants made within the last three years may be vested by the Board as determined in its absolute discretion.

The EPS compound growth performance for the three years ended 31 December 2005 and for the three years ended 31 December 2006 has been met and therefore the vesting status of each of the three tranches is shown in the following table:

Tranche	Number of Options	Date on which Option was vested
First Tranche	500,000	1 January 2006
Second Tranche	500,000	1 January 2007
Third Tranche	500,000	Options have not yet vested
Total	**1,500,000**	

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

Other Executives

Direct Reports to the Managing Director/Chief Executive Officer

The longer term incentive of the Managing Director/Chief Executive Officer's direct reports is determined by the Managing Director/Chief Executive Officer with oversight and approval by the Board through the Remuneration and Nomination Committee. Entitlement to the incentive and its quantum and form is dependent upon an assessment of the individual's contribution over the prior financial year to factors that position the company for longer term success and increasing shareholder wealth such as the development of new business activities, strategic positioning, and execution of key transactions.

EMPLOYMENT CONTRACTS

AAco Group employees are employed by the subsidiary company, A.A. Company Pty Ltd.

The Managing Director/Chief Executive Officer, Don Mackay, is employed under an executive service agreement. The agreement has no fixed term and provides that:

- Mr Mackay may terminate his employment by giving 12 months written notice. No STI's or LTI's will apply to any financial year during which employment ceases and LTI options that have not vested will be forfeited.
- The company may terminate Mr Mackay's employment by 12 months written notice or provide payment in lieu of the notice period based on Mr Mackay's fixed component plus a variable component in recognition that termination during a financial year affects the ability to earn a performance incentive during that year. LTI options that have not vested will be forfeited upon termination.
- The company may summarily terminate Mr Mackay's employment if serious misconduct has occurred.

The executive service agreement for other senior managers generally reflect that of Mr Mackay's with the exception that notice periods by the employee and the company are three months.

Remuneration of Key Management Personnel

	Short term			Post employment		Share based payment	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Retirement Benefits	Options	
Directors	$	$	$	$	$	$	$
N Burton Taylor							
31/12/06	162,500	-	-	14,625	-	-	177,125
31/12/05	143,750	-	-	12,937	-	-	156,687
D J Mackay							
31/12/06	426,338	105,240	32,378	50,756	-	357,500	972,212
31/12/05	390,002	67,516	31,844	54,465	-	357,500	901,327
C E Bright							
31/12/06	89,000	-	-	8,145	-	-	97,145
31/12/05	77,000	-	-	6,795	-	-	83,795
T A Fischer							
31/12/06	73,000	-	-	6,570	-	-	79,570
31/12/05	66,500	-	-	5,985	-	-	72,485
C I Roberts							
31/12/06	93,000	-	-	8,370	-	-	101,370
31/12/05	83,500	-	-	7,515	-	-	91,015
L P Wozniczka							
31/12/06	85,000	-	-	-	-	-	85,000
31/12/05	77,500	-	-	-	-	-	77,500
P Zachert							
31/12/06	-	-	-	-	-	-	-
31/12/05	-	-	-	-	-	-	-
Total Remuneration: Directors							
31/12/06	928,838	105,240	32,378	88,466	-	357,500	1,512,422
31/12/05	838,252	67,516	31,844	87,697	-	357,500	1,382,809

Note: L P Wozniczka's director's fees are paid to Futuris Group

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

	Short term			Post employment	Termination	Share based payment	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Termination Benefits	Options	
Executives	$	$	$	$	$	$	$
B Bennett							
31/12/06	18,396	-	-	1,656	-	-	20,052
B A Booker							
31/12/06	127,157	18,844	-	12,014	-	-	158,015
31/12/05	119,266	11,688	-	11,785	-	66,000	208,739
D R Connolly							
31/12/06	210,627	26,588	-	21,349	-	-	258,564
31/12/05	155,964	18,715	-	15,721	-	88,000	278,400
P Dempsey							
31/12/06	150,287	-	-	13,526	-	-	163,813
S N Toms							
31/12/06	261,097	34,404	27,894	29,105	-	-	352,500
31/12/05	205,134	22,477	26,242	22,665	-	154,000	430,518
A Jones							
31/12/06	85,368	-	-	7,683	-	-	93,051
P J Marwedel							
31/12/05	237,558	30,701	-	20,172	194,967	66,000	549,398
M S Tighe							
31/12/05	187,085	19,404	-	18,053	165,537	66,000	456,079
G F Wagstaff							
31/12/05	118,220	18,325	21,967	17,101	352,802	88,000	616,415

Total Remuneration: Executives

31/12/06	852,932	79,836	27,894	85,333	-	-	1,045,995
31/12/05	1,023,227	121,310	48,209	105,497	713,306	528,000	2,539,549

(c) Remuneration options: Granted and vested during the year

No options were granted to Key Management Personnel during the year ended 31 December 2006.

(d) Option Holdings of Key Management Personnel

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Balance at end of period	Not Vested & Not exercisable	Vested & Exercisable
	31/12/05			31/12/06		
Directors						
D J Mackay	2,886,000	-	-	2,886,000	500,000	2,386,000
Executives						
B A Booker	150,000	-	20,000	130,000	-	130,000
D R Connolly	200,000	-	-	200,000	-	200,000
S N Toms	350,000	-	-	350,000	-	350,000
Total	3,586,000	-	20,000	3,566,000	500,000	3,066,000

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Option holdings of Key Management Personnel (continued)

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Balance at end of period	Not Vested & Not exercisable	Vested & Exercisable
	31/12/04			31/12/05		
Directors						
D J Mackay	1,386,000	1,500,000	-	2,886,000	1,000,000	1,886,000
Executives						
B A Booker	-	150,000	-	150,000	150,000	-
D R Connolly	-	200,000	-	200,000	200,000	-
P J Marwedel	250,000	150,000	-	400,000	233,334	166,666
M S Tighe	-	150,000	-	150,000	150,000	-
S N Toms	-	350,000	-	350,000	350,000	-
G F Wagstaff	20,000	200,000	-	220,000	200,000	20,000
Total	1,656,000	2,700,000	-	4,356,000	2,283,334	2,072,666

No other directors or executives held options during the period.

(f) Shares beneficially held in Australian Agricultural Company Limited

	Balance at beginning of period	Granted as Remuneration	Exercise of Options	Net Change Other	Balance at end of period
	31/12/05				31/12/06
Directors					
N Burton Taylor	3,139,910	-	-	4,113,151	7,253,061
D J Mackay	30,542	-	-	-	30,542
C E Bright	60,000	-	-	-	60,000
T A Fischer	51,443	-	-	-	51,443
C I Roberts	482,248	-	-	-	482,248
Executives					
B A Booker	10,000	-	20,000	-	30,000
Total	3,774,143	-	20,000	4,113,151	7,907,294

	Balance at beginning of period	Granted as Remuneration	Exercise of Options	Purchased through Rights Issue	Net Change Other	Balance at end of period
	31/12/04					31/12/05
Directors						
N Burton Taylor	649,583	-	-	129,518	2,360,809	3,139,910
D J Mackay	17,117	-	-	3,425	10,000	30,542
C E Bright	50,000	-	-	10,000	-	60,000
T A Fischer	42,869	-	-	8,574	-	51,443
C I Roberts	147,706	-	-	29,542	305,000	482,248
Executives						
B A Booker	-	-	-	-	10,000	10,000
G F Wagstaff	2,165	-	-	-	(1,110)	1,055
Total	909,440	-	-	181,059	2,684,699	3,775,198

No other directors or executives held shares during the period.

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

34. RELATED PARTY DISCLOSURES

(a) *Other Director transactions*

Directors of the Consolidated Entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the Consolidated Entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances.

These transactions include the following and have been quantified below where the transactions are considered likely to be of interest to users of these financial statements:

Charles Bright and Les Wozniczka are directors of the Futuris Group which owned 42.4% of Australian Agricultural Company Limited on 31 December 2006. Futuris own 100% of Elders Australia Limited and a number of other Elders Australia subsidiaries. Elders Australia is one of the largest providers of farm services in Australia. The Australian Agricultural Company Limited and Elders Australia have entered into agreement under which the latter provides livestock procurement (as an agent to the ultimate vendor), merchandise and marketing services to the Consolidated Entity (on a non-exclusive basis) and on either a fee per head or percentage of sale price basis (depending on the method of sale) on a contracted arm's length basis.

	Consolidated	
	Year ended 31/12/06 $000	**Year ended 31/12/05 $000**
Marketing services	**682**	296
Merchandise	**7,323**	7,749
Total	**8,005**	8,045

As noted above during the year the Consolidated Entity purchased cattle from vendors who contracted with members of the Futuris Group to act as their agent.

The Chairman, Nick Burton Taylor has entered into sale arrangements with the Consolidated Entity with respect to livestock on commercial terms and conditions no more favourable than those available to other suppliers. For the years ended 31 December 2006 and 31 December 2005 the following amounts have been paid or received by the Consolidated Entity:

	Consolidated	
	Year ended 31/12/06 $000	**Year ended 31/12/05 $000**
Paid by the Consolidated Entity for the purchase of livestock	**113**	43

(b) *Transactions with related parties in the wholly owned group*

Loans

Loans are made by the parent entity to wholly owned subsidiaries. The loans are repayable on demand. No interest has been charged on these loans by the parent entity for the current financial period (31 December 2005: $nil). The parent entity does not expect to call these loans within the next 12 months and therefore they are not disclosed as current assets at 31 December 2006.

(c) *Transactions with other related parties*

Loans

No loans were made with other related parties during the year ended 31 December 2006 (31 December 2005: $nil).

All transactions with other related parties are conducted on commercial terms and conditions.

(d) *Ultimate parent entity*

The ultimate controlling entity of the Consolidated Entity is Australian Agricultural Company Limited.

35. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the Consolidated Entity's basic and diluted earnings per share computations:

	Consolidated	
	31/12/06	31/12/05
Net profit attributable to equity holders of the parent ($)	**10,102,000**	16,779,000
Basic earnings per share (cents per share)	**4.1**	7.2
Diluted earnings per share (cents per share)	**4.0**	7.1
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**248,984,015**	233,275,048
Effect of dilutive executive options	**3,272,870**	2,903,750
Adjusted weighted average number of ordinary shares used in the calculation of diluted earnings per share	**252,256,885**	236,178,798
Weighted average number of converted ordinary shares used in the calculation of diluted earnings per share	**396,666**	8,063,000

Details of options are set out in note 32. The earnings used for basic and dilutive earnings per share is net profit.

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

36. SUPERANNUATION COMMITMENTS

The Consolidated Entity participates in one superannuation fund covering substantially all of its employees, which provides benefits on a cash accumulation basis, for employees on retirement, resignation or disablement, or to their dependents on death.

In addition, the Consolidated Entity is required to provide a minimum level of superannuation support for employees under the Australian Superannuation Guarantee legislation.

Directors' Declaration

In accordance with a resolution of the directors of the Australian Agricultural Company Limited, we state that:

1. In the opinion of the directors:
   a) The financial statements and notes of the company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
      I. giving a true and fair view of the company's and Consolidated Entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
      II. complying with Accounting Standards and Corporation Regulations 2001; and
   b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2006.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified to note 27 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

N Burton Taylor AM
Chairman

D J Mackay
Managing Director/Chief Executive Officer

Brisbane
5 February 2007

Independent Audit Report

ERNST & YOUNG

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Australia

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Independent audit report to members of Australian Agricultural Company Limited

Scope

The financial report, and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Australian Agricultural Company Limited (the company) and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independent Audit Report (continued)

ERNST & YOUNG

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence
We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion
In our opinion: the financial report of Australian Agricultural Company Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of Australian Agricultural Company Limited and the consolidated entity at 31 December 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
Brisbane
5 February 2007

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 31 January 2007.

(a) Distribution of Equity Securities

Number of Shares	Number of Shareholders
1 to 1,000	896
1,001 to 5,000	4,262
5,001 to 10,000	1,559
10,001 to 100,000	1,548
100,001 and Over	85
TOTAL	**8,350**

(b) Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares as shown in the company's Share Register are:

	Quoted Ordinary Shares	% of Issued Capital
HOLLYMONT LIMITED	105,377,708	42.27%
NATIONAL NOMINEES LIMITED	14,019,703	5.62%
ANZ NOMINEES LIMITED	10,229,194	4.10%
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,122,538	3.26%
CITICORP NOMINEES PTY LIMITED	7,905,610	3.17%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,127,931	2.06%
WESTPAC CUSTODIAN NOMINEES LIMITED	4,829,962	1.94%
MR PETER MICHAEL HAMILTON HOLMES A COURT	3,022,884	1.21%
MR MARTIN JOSEPH GLYNN & MRS ANN GLYNN	2,936,776	1.18%
NBT PTY LIMITED	2,735,751	1.10%
NBT PTY LTD	1,442,855	.58%
NIZIN HOLDINGS PTY LIMITED	1,200,000	.48%
COGENT NOMINEES PTY LIMITED	1,127,169	.45%
JANVIN PTY LTD	1,101,106	.44%
VICTORIAN INVESTMENT CORPORATION PTY LTD	1,095,580	.44%
WARRENGLEN NOMINEES PTY LTD	1,000,000	.40%
MR ALAN RICHARD BIGNELL & MRS GLENDA ELLEN BIGNELL	889,993	.36%
RPG MANAGEMENT PTY LIMITED	865,266	.35%
WASHINGTON H SOUL PATTINSON CO LTD	754,318	.30%
UGO HOLDINGS PTY LTD	700,000	.28%

(c) Substantial Shareholders

The names of substantial shareholders who have notified the company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Hollymont Limited (and associated entities)	107,158,025

(d) Voting Rights

All ordinary shares carry one vote per share without restriction.

(e) Marketable Shares

The number of security investors holding less than a marketable parcel of 235 securities ($2.130 on 31 January 2007) is 101 and they hold 9,352 securities.

AAco Property Report

AAco's property portfolio of **22 stations, 3 farms and 2 feedlots** covers approximately 8.2 million hectares positioned to reduce the risk associated with climate and market volatility.

Details of each property's purpose and size are provided below.

Property	Purpose / Function	Station Area (ha)
Anthony Lagoon	Breeding / Growing	607,900
Aronui Feedlot	Feedlot	-
Austral Downs	Breeding	469,203
Avon Downs	Breeding	393,900
Brighton Downs	Growing	420,614
Brunette Downs	Breeding / Bull Breeding / Growing	1,221,200
Camfield	Breeding / Growing	276,900
Canobie	Breeding / Bull Breeding	429,065
Carrum	Breeding	50,614
Clonagh	Growing	98,200
Dalgonally	Growing	128,000
Delamere	Breeding	300,348
Eva Downs	Breeding	280,200
Glentana	Backgrounding	15,841
Goonoo Farm	Backgrounding / Farming	27,754
Goonoo Feedlot	Feedlot	-
Gregory Downs	Breeding	266,425
Gregory Farm	Farming	339
Headingly	Breeding	1,003,251
Kalmeta	Growing	116,072
Lawn Hill	Breeding	525,000
Meteor	Bull Breeding / Genetic Development	16,011
Montejinni	Breeding	309,294
Rockhampton Downs	Breeding	511,900
South Galway	Growing	487,620
Wondoola	Breeding	252,500
Wylarah	Bull Breeding / Backgrounding / Farming	30,173
TOTAL		**8,238,324**

Company Information

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Ph: (07) 3368 4400
Fax: (07) 3368 4401

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Brisbane QLD 4000
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www.linkmarketservices.com.au

AAco shares are quoted on the Australian Stock Exchange under listing Code AAC.

AAco Website
www.aaco.com.au