Australian Agricultural Company Limited
ABN 15 010 892 270

2007 Annual Report

ASX Announcement No. 21/2008 **18 April 2008**

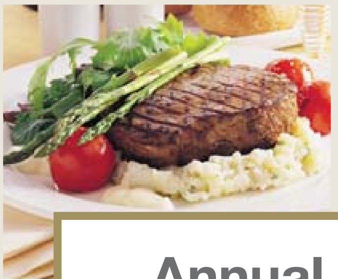
A copy of the 2007 Annual Report for the Australian Agricultural Company Limited ("AAco") is attached.

Issued by:

Bruce Bennett
Company Secretary
(07) 3368 4400

www.aaco.com.au

Australian Agricultural Company Limited



Annual Report 2007

About AAco

Australian Agricultural Company Limited (AAco) is one of the world's leading beef producers 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 Australian 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.

Emanating from a convergence of international and domestic events, agriculture in Australia is poised to take advantage of high international commodity prices and a reappraisal of the value attributed to cereal and red meat proteins.

AAco is uniquely positioned to capitalise on this new future which shows signs of entering into an extended cycle.

Annual General Meeting

The Annual General Meeting of the Company will be held at 2.00pm on Wednesday 21 May 2008 at Meeting Room 1, Mezzanine Level, Brisbane Convention & Exhibition Centre, Cnr Merivale & Glenelg Streets, South Bank, Brisbane, Queensland.

Contents

2007 in Summary

2007 has seen a long overdue change in agriculture – the manifestation of a move away from a supply-driven to a demand-driven market focus with other investors taking positions in the pricing of the soft commodity sector.

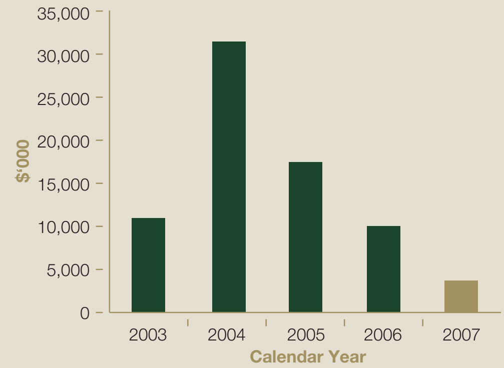
It is expected that these changing dynamics in global demand for food will highlight the strength of the AAco business model, cattle production system and the increasing value of the Company's land holdings.

The Company's results for 2007 underline the strength of its position:

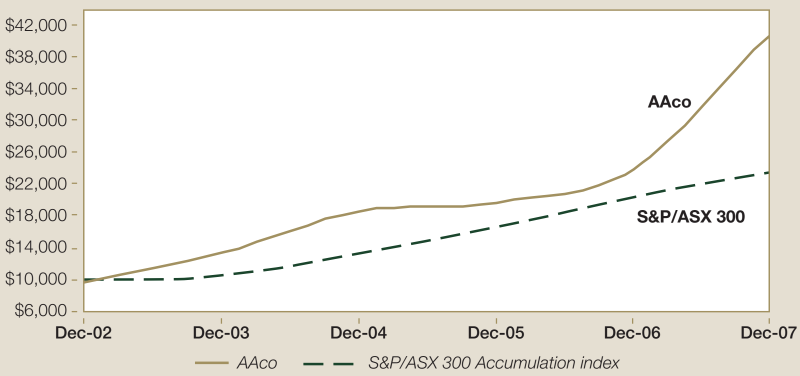
- sales revenue increases 36% for our branded beef/portion control business from $78 million to $106 million;
- herd increases 5.7%;
- production of beef increases 7%;
- calving percentages up to 74% from 71% last year;
- carrying capacity of our existing properties increases, with more than 20,000 head retained to stock newly developed areas;
- focus continues on high value markets with an increase of Wagyu breeders by 5,000 head;
- 1824 branded product now marketed into Hong Kong and Korea; and
- AAco Wagyu is now being enjoyed in more than 400 restaurants in the USA through the Greg Norman Signature Wagyu Program and the Darling Downs Wagyu brands.

Operating Revenue

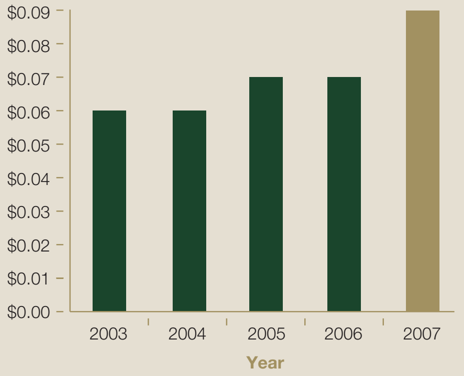
Net Profit After Tax



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



Dividend Per Share



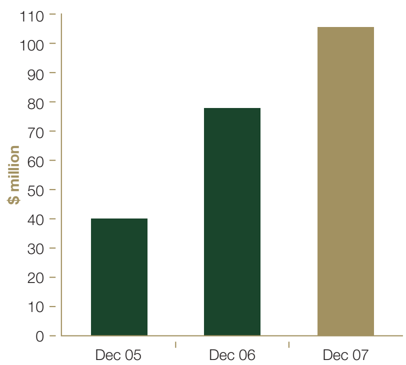
2007 Report Card

Our achievements for the year

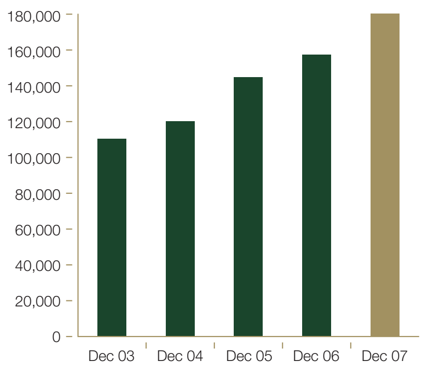
Cattle

Strategy set in 2005	Target	Outcome	Comment
> Double the herd in 10 years	8.6% per annum increase	5.7% increase to 588,000 head (last year 11%)	Average over the last two years is 8.5%. Drought affected market
	Increase total kilograms of beef production	Increased kilograms produced 7% from 73 million kg to 78 million kg (last year 9%)	
> Increase calving percentages	>70%	74% (last year 71%)	Aim to maintain or improve this result

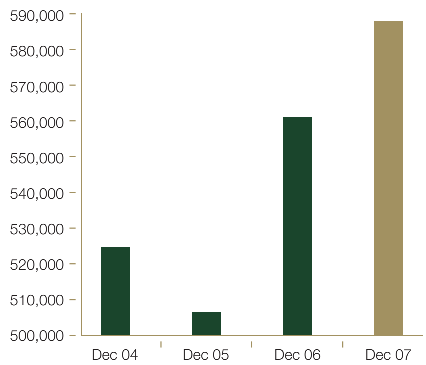
Wholesale Beef Sales



Natural Increase (No. of Head)



Herd Size



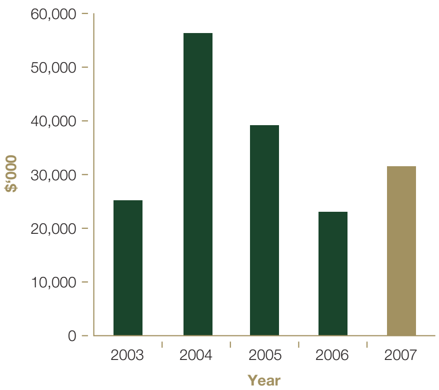
Brands

Strategy set in 2005	Target	Outcome	Details
> Focus on high value markets	Acquire Wagyu breeding capacity	Increased breeders for First Cross (FI) Wagyu by 5,000 head	Successfully converted traditional Brahman breeding properties to Wagyu production
	Expand 1824 to Asia	1824 introduced to Japan in 2006 and Hong Kong and Korea in 2007	
> Increase branded beef/portion control business	Increase sales by 50%	Increased sales by 36% (last year 95%)	Average over the last two years is 65%

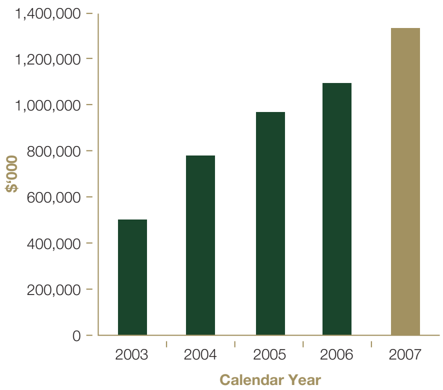
Land

Strategy set in 2005	Target	Outcome	Details
> Increase carrying capacity of existing properties	20,000 head per annum	Over 20,000 head retained to stock newly developed areas	Main developments have been on breeding stations in the north
> Acquire additional properties to support planned growth	Less than 8% per annum increase	No additional properties bought this year other than conversion of Goonoo Station and Feedlot from lease to freehold	Net herd capacity increase of approximately 31,000 head on more efficient properties

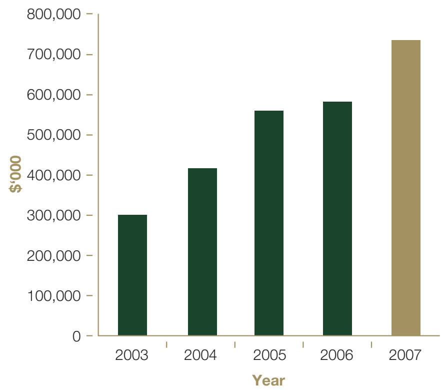
Earnings Before Interest and Tax



Total Assets



Net Assets



Chairman and CEO's Report

Emanating from a convergence of international and domestic events, agriculture in Australia is poised to take advantage of high international commodity prices and a reappraisal of the value attributed to cereal and red meat proteins.

Australian Agricultural Company Limited is uniquely positioned to capitalise on this new future which shows signs of entering into an extended cycle.

There are five key trends indicating food prices will continue to rise:

- growing world population;
- continuing increases in consumer disposable income (particularly India and China);
- the finite amount and declining availability of farming land;
- climate change impacts; and
- diversion of farming from food to energy production.

These trends demonstrate a long overdue and real change in agriculture – the manifestation of a move away from a supply-driven to a demand-driven market focus with other investors taking positions in the pricing of the soft commodity sector.

These changing dynamics in global demand for food will highlight the strength of the AAco business model, our cattle production system and the increasing value of our land holdings. The AAco strategic focus – land, cattle, brands, and people – means we are well placed to capitalise on this promising outlook for the agricultural sector.

Results for 2007 underline the strength of our position:

- sales revenue increases 36% for our branded beef/portion control business from $78 million to $106 million;
- herd increases 5.7%;
- production of beef increases 7%;
- calving percentages up to 74% from 71% last year;
- carrying capacity of our existing properties increases with more than 20,000 head retained to stock newly developed areas;
- focus continues on high value markets with an increase of Wagyu breeders by 5,000 head;
- 1824 branded product now marketed into Hong Kong and Korea; and
- AAco Wagyu is now being enjoyed in more than 400 restaurants in the USA through the Greg Norman Signature Wagyu Program.

The capacity and flexibility of AAco's cattle production system is emphasised by the fact that despite the effects of the drought for the past two years, we have been able to increase the size of our herd by an average of 8.5% per annum. As cattle represent 32% of the gross assets of the business and are the primary source of income and cash generation for the Company, this is a significant achievement.

Another key factor to note in assessing AAco's strength is the value of our land holdings. In 2007 your Directors undertook an independent valuation of AAco's property portfolio. The valuation supported a $202.8 million uplift on revaluation representing a 36% increase.

Since the Futuris Corporation announcement in October 2007 of their intention to sell their stake in AAco there has been much speculation as to outcomes. At the announcement of our Year End results we announced a co-operative approach with our major shareholder in getting to a point of resolution. This process continues however at this point there are no material developments to report. I look forward to updating you at our forthcoming Annual General Meeting.

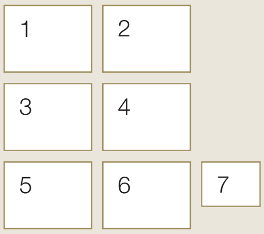
I am very pleased to note that 2007 saw the positive relationship we have with our staff and their families recognised in AAco being awarded the Rimfire Resource Agribusiness Employer of Choice Award, as part of the NAB Agribusiness Awards for Excellence 2007.

In looking forward we expect AAco's performance to continue to improve and deliver on our Company's goal to be the premier listed vehicle enabling public investment in the global cattle industry . The Company offers a unique window for shareholders to observe and participate in the agricultural sector. As a company we will continue directing our energies to enhance these experiences from both a financial and custodial perspective.

Thank you.

Nick Burton Taylor AM
Chairman and Chief Executive Officer

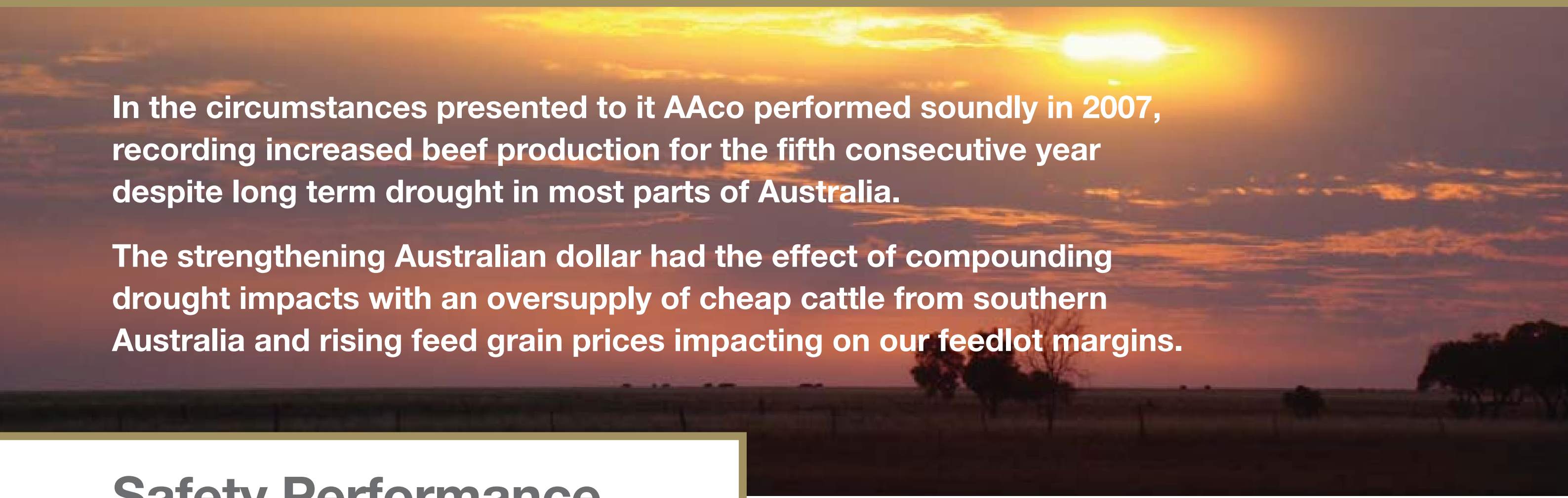
Board of Directors



1. Nick Burton Taylor AM (Chair)
2. Hon Tim Fischer AC
3. Chris Roberts
4. Greg Paramor
5. Charles Bright
6. Les Wozniczka
7. Bruce Bennett (Company Secretary/ General Counsel)

Directors' profiles appear on pages 15 and 16.

Operational Review



In the circumstances presented to it AAco performed soundly in 2007, recording increased beef production for the fifth consecutive year despite long term drought in most parts of Australia.

The strengthening Australian dollar had the effect of compounding drought impacts with an oversupply of cheap cattle from southern Australia and rising feed grain prices impacting on our feedlot margins.

Safety Performance

AAco is committed to ensuring the health, safety and wellbeing of all employees, visitors and the wider community. The safety of our people is a value that is never compromised and our "Safety First" philosophy encourages the AAco family to remain aware of the inherent risks of working in the agricultural sector, to care for themselves and each other in their daily lives.

In 2007 we have continued the pursuit of excellence in safety in an industry that faces particular challenges and a measure of our achievement is demonstrated by an ability to reduce the cost of our workers compensation premiums.

It remains the absolute focus of the AAco Board and all levels of management to seek continual improvement of our health and safety performance and to continue as a leader in this sector.

Financial Performance

Revenue

Total Revenue in 2007 was $250 million, an increase of 25% on the previous year. Net cattle revenue rose to $133 million from $118 million in 2006.

AAco's other major source of revenue is its branded beef business. 2007 saw significant growth for the Company's branded beef business with sales revenue increasing from $78 million to $106 million, an increase of 36%.

AAco's 1824 and Wagyu businesses were exposed to significant margin pressure due to cheap meat flooding the market from southern Australia as a carry over from the 2006 drought and continued drought impacts in 2007. Foreign currency also impacted exported meat.

Net profit after tax decreased from $10.1 million in 2006 to $3.6 million in 2007. It should be noted that the prior year result was significantly enhanced from the sale of Wrotham Park and associated tax benefits.

Cattle Prices

The drought conditions in south-eastern Australia meant 2007 was a year of volatile cattle prices.

Whilst cattle prices plunged during the year (which affected cash profits), a late rally in December, due to better rainfall in southern Australia resulted in cattle values rising to similar closing levels of 2006. A cattle herd valuation increment was $0.5 million in 2007 compared to a decrement of $17.3 million in 2006.

AAco's herd finished the year in excellent condition and is well placed for a productive 2008. Overall AAco sold 181,943 head of cattle in 2007 (199,002 head in 2006) at an average price of $927 per head compared to $935 in 2006.

Expenses

Operating overheads for the year rose by 23% to $208 million, a rise of $40 million. The significant factor for the rise was the increase in wholesale beef overheads from $75 million in 2006 to $105 million in 2007 which underpinned the rise in revenues.

Other operational costs relating to cattle production rose approximately 10% much of which was driven by increasing grain costs, as well as additional labour to manage a larger herd and other variable expenses associated with increasing production.

EBIT

Earnings Before Interest and Tax increased from $22 million in 2006 to $31 million in 2007 up 39%. This included the benefit of the one off settlement with AMP for $10 million.

Borrowing Costs

Borrowing costs for 2007 rose to $27.9 million from $20.5 million in 2006. This increase was due to higher borrowings to fund the conversion of Goonoo Station and Feedlot from lease to freehold (cost $19 million), the herd expansion and a gradual increase in interest rates.

Dividend

The total dividend of 9 cents per share included a special dividend of 2 cents per share.

In August 2007, the AAco Board recommenced the Company's Dividend Reinvestment Plan (DRP) in respect of the dividend of 7 cents per Ordinary Share that was paid for the period ending 31 December 2006.

The DRP was fully underwritten by ABN AMRO Morgans and resulted in the issue of 6,716,375 Ordinary Shares at an issue price of $2.60.

Special Dividend

AAco's federal court action against AMP in relation to the sale of Stanbroke Pastoral Company in 2003 was settled in February 2007.

Under the settlement AMP paid AAco the sum of $10 million. Subsequently, the AAco Board declared a special dividend of 2 cents per share (unfranked) which was paid in April 2007.

Ordinary Dividend

A dividend of 7 cents per share unfranked was paid in October 2007. 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 AAco's Annual General Meeting in May 2008, when a better knowledge of seasonal and market conditions will be available.

Increase in Asset Values

Gross Assets increased to $1.3 billion from $1.1 billion, an increase of $242 million (23%). The main drivers for this were:

- Purchase of Goonoo Station and Feedlot ($19 million) in May 2007; and
- Land and leasehold revaluations of $202.8 million.

Net Assets increased 25% from $582 million to $726 million.

Net Tangible Assets per share increased 22% from $2.28 to $2.78 per share.

Cash Flow

Operating Cash Outflow was $21.2 million compared to $12.4 million in the previous year reflecting the Company's continued herd retention strategy.

This outflow was a result of a decision to retain an additional 20,000 head of female cattle. These cattle were held back as prices in the domestic market were depressed and the Company was able to accommodate these cattle on stations which had increased carrying capacity due to recent land development programs.

Total Shareholder Return

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.

Operational Review (continued)

Operating Performance

Seasonal Conditions

2007 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, AAco's strategic focus on northern Australia meant it was insulated from much of these drought conditions in terms of threats to the physical wellbeing of the herd.

Indeed AAco's northern properties, where most of the Company's breeding cattle are located, had a good year with rainfall slightly in excess of long term averages across most stations.

Notwithstanding the on-ground performance of our herd the national market forces in the cattle market clearly impacted our financial performance.

Land

A full independent valuation of AAco's property portfolio was completed by valuer Herron Todd White in December 2007. The valuation uplift was approximately $203 million. Total property, plant and equipment increased $224 million to $810 million.

After provision for notional Capital Gains Tax, this property value change represented an approximate increase to Net Tangible Assets per share of 55 cents.

This increase in property, plant and equipment values reflects a combination of the benefits of AAco's Property Development Program additional acquisitions and ongoing price increases for quality northern Australian land assets.

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

AAco has long recognised the importance of water as a resource and a belief in the attributes of northern Australian production opportunities. 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 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 will become an increasingly valuable asset.

AAco continues with its representations to government to see responsible land use changes to its pastoral holdings.

Cattle

Cattle represent 32% of the gross assets of the business and are the primary source of income and cash generation for the Company. This year the Company continued to experience volatile cattle prices. The volatility was caused by two major factors; drought in southern Australia which affected domestic prices and the strengthening Australian dollar which depressed export prices. This double impact put pressure on cash revenues in both the cattle business and the wholesale beef business.

As a result the Company elected to retain a significant number of female cattle rather than sell them into a falling market and thus obtain the benefit of their calves, which will flow into future periods. This decision affected cash flow and is reflected in the increased herd. It is pleasing to note that whilst drought affected most Australian producers during 2007, AAco's cattle herd finished the year in excellent condition and is well placed for a productive 2008.

The Wagyu herd which was acquired in mid 2006 is also in very good condition and has been delivering calving rates in excess of 80%. It should be noted that cash flows from this investment will take three years to mature being the cycle time from birth to slaughter weight.

The herd grew 5.7% through breeder retention and was supported by the increased Wagyu specific breeding herd.

Beef production increased 7% from 73 million kg to 78 million kg, while the calving rate increased from 71% to 74%.

Operational Review (continued)


Brands

AAco's Beef Group marketing program enables the Company to add value throughout the supply chain to deliver higher shareholder returns.

In mid 2007, AAco launched the 1824 brand through 85 Woolworths stores in Queensland and the Northern Territory.

Domestically AAco's Chefs Partner business has now reached the required volumes to produce consistent profits out of its new factory and with the distribution of 1824 product into Woolworths it is expected that this business will continue to grow.

At the same time, processing throughput for branded beef was increased from 550 to approximately 800 head of cattle per week. This also contributed to the 36% increase in branded sales to $106 million.

In order to maintain these ambitious targets for branded beef production, AAco is 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.

As a result of AAco's export marketing activities, AAco Wagyu is now being enjoyed in more than 400 restaurants in the USA through the Greg Norman Signature Wagyu Program and our Darling Downs Wagyu brands.

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 is well positioned to grow its substantial market share in regions such as Japan, Korea and China over imports from the USA.

Environment

In recognition of the corporate responsibility held by AAco as one of the largest holders of agricultural land in Australia, AAco has sought to demonstrate itself as a leader.

Some of the many initiatives AAco has been developing through research and collaboration include:

- an innovative partnership with Australian Wildlife Conservancy (AWC) monitoring the health of tropical savannas by using the condition of bird populations as an environmental indicator;
- managing grazing behaviour through controlling waters and GPS tracking; and
- the trialing of remote water technologies utilising a telemetric water system.

Operational Review (continued)

Environment (continued)

AAco has been investigating whether it is beneficial, or even possible to rotationally graze breeding cows across extensive paddocks by controlling and alternating watering points. This research has being carried out at AAco's Rockhampton Downs property on the Barkly Tablelands, Northern Territory. The project has been highly successful in managing cattle behaviour and has, in a short time, had a positive impact on pastures.

In addition to the initial research and in partnership with CSIRO, a project was developed to quantify the spatial distribution of cattle and relate this to pasture availability when water is supplied from single or multiple points in large paddocks.

Once combined with pasture monitoring data, the results will give us a better understanding of the grazing patterns and behaviour exhibited by the cattle in these two different grazing systems. In the long term this combined research will enable us to develop grazing management strategies which benefit land condition and productivity. A second deployment of GPS collars will occur in 2008. This GPS spatial distribution research has also been partly funded by Meat and Livestock Australia.

People

2007 saw the positive relationship AAco has with its staff and their families recognised with AAco being awarded the Rimfire Resource Agribusiness Employer of Choice Award, as part of the NAB Agribusiness Awards for Excellence 2007.

This outcome is consistent with the results of an Employee Engagement Survey undertaken in 2007 with the level of employee engagement well above industry benchmark averages.

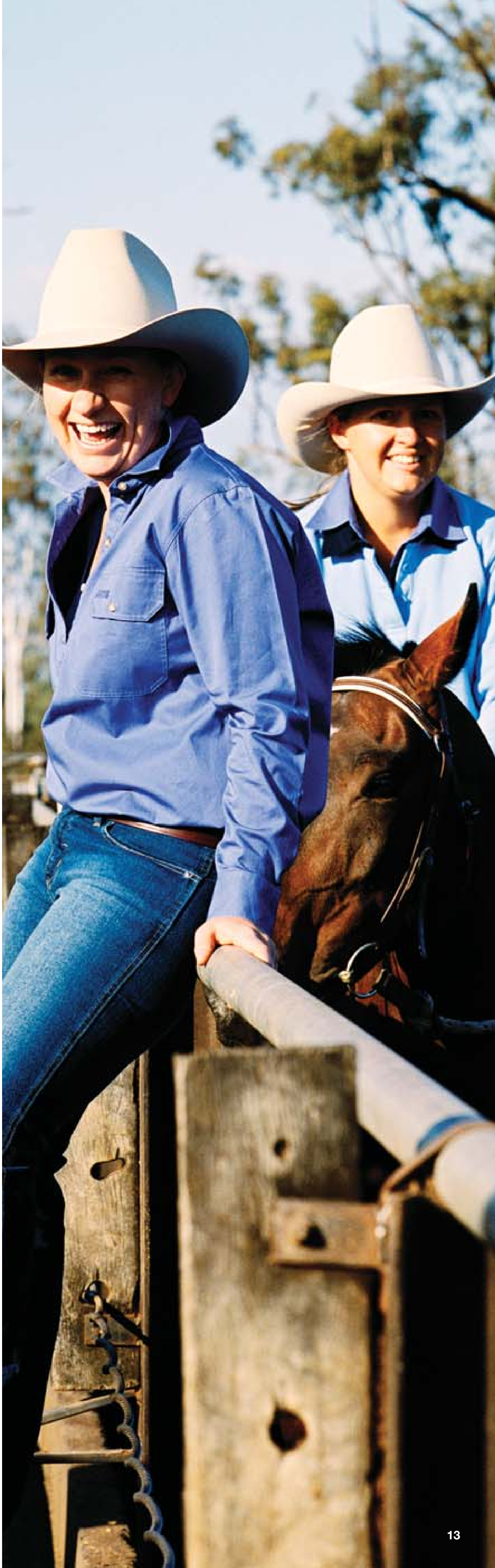
Key outcomes were:

- 90% proud of the work they do;
- 94% committed to doing their job well;
- 78% recommend AAco to family and friends as an employer; and
- 86% speak highly of AAco products.

However, 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. Whilst the competition in AAco's core business areas for employees tends not to be as great, the employment market for support roles such as transport, mechanics and catering is tight and AAco will continue to develop policies and programs distinguishing it as an employer of choice in rural Australia.

There is a growing recognition among women of the employment opportunities offered by the rural sector, being a trend that is likely to continue.

The Company is embarking on a range of initiatives to engage with the women who live and work on our stations to find career opportunities that are harmonious with talent and ambition.



Financial Statements

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Directors’ Report

The Directors submit their report for the year ended 31 December 2007.

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 unless otherwise stated.

Nick Burton Taylor AM B.Ec (Syd), F Fin, FCA, FAICD Non-Executive Chairman
(Appointed Chief Executive Officer on 22 January 2008)

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 and is a member of the Board 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
(Resigned effective 22 January 2008)

Appointed Chief Executive Officer and reappointed Managing Director in January 2004. Member of the Research and 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 Educational 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 Board Audit Committee, the Board Health, Safety and Environmental Committee and became a member of the Research and 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 Board 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 National Chairman of the Royal Flying Doctor Service and is on the Board of APT Freightlink and Ausmore Singapore.

DIRECTORS (continued)

Chris Roberts, B.Comm Non-Executive Director

Appointed to the Board in June 2001. Chairman of the Board 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.

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

Appointed to the Board in October 2004. Member of the Board 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, Amcom Telecommunications Limited and Forest Enterprises Australia Limited.

Greg Paramor, FAPI, FAICD Non-Executive Director

Appointed to the Board in June 2007. Member of the Board Health, Safety and Environmental Committee.

Appointed Managing Director of Mirvac Group following the acquisition of the James Fielding Group (JFG) in January 2005.

He has been involved in the real estate and funds management industry for the past 35 years.

Participated in forming property vehicles for public investment since 1981 and was the co-founder of Growth Equities Mutual, Paladin Australia and JFG.

A past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors.

A Director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation.

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, CSA

Appointed Company Secretary and General Counsel in November 2006. Before joining AAco, was Special Counsel for a leading law firm. Specialised in company and property law, mergers and acquisitions and other commercial contracts. Over 16 years experience in legal practice, having practised in both Queensland and New South Wales.

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	7,444,375	Nil
D.J. Mackay	31,289	2,386,000
T.A. Fischer	52,828	Nil
C.I. Roberts	495,231	Nil
C.E. Bright	60,000	Nil
L. Wozniczka	Nil	Nil
P. Zachert	Nil	Nil
G Paramor	40,000	Nil

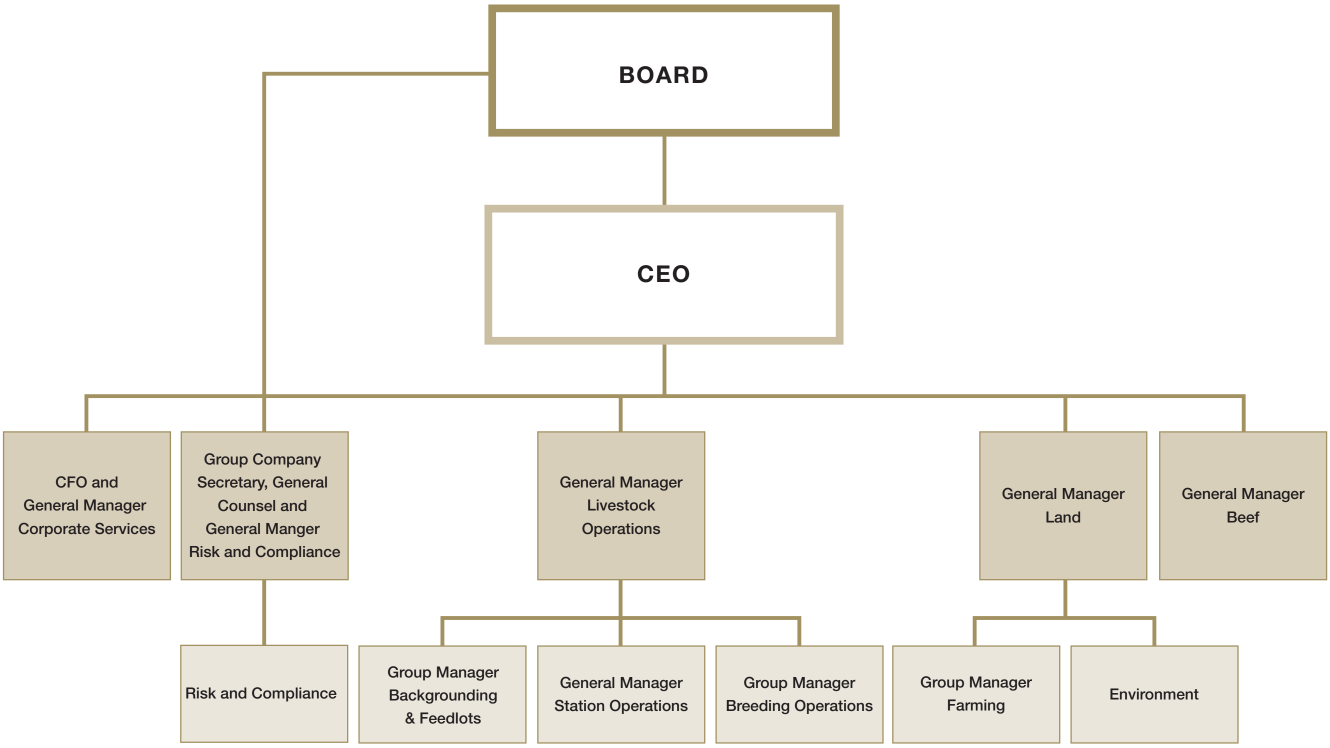
DIVIDENDS AND EARNINGS PER SHARE

Earnings Per Share	2007 Cents	2006 Cents
Basic earnings per share	1.5	4.1
Diluted earnings per share	1.4	4.0

	2007		2006	
Dividends	**Cents**	**$'000**	**Cents**	**$'000**
Final dividend paid:				
• on ordinary shares	7	17,486	0	0
Dividend paid in the year:				
• on ordinary shares	2	4,992	7	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 472 employees as at 31 December 2007 (2006: 471 employees).

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 588,000 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 32% of the gross assets of the business and are the primary source of income and cash generation for the Company. This year the Company continued to experience very volatile cattle prices in certain markets. The volatility was caused by two major factors, drought in Southern Australia which affected domestic prices and the strengthening Australian dollar which depressed export prices. This double impact put pressure on cash revenues in both the cattle business and the wholesale beef business. As a result the Company elected to retain a significant number of female cattle rather than sell them into a falling market and thus obtain the benefit of their calves, which will flow into future periods. This also affected cash flow, and is reflected in the increased balance of cattle. It is pleasing to note that whilst drought affected most Australian producers during 2007, AAco's cattle herd finished the year in excellent condition and is well placed for a productive 2008.

Overall AAco sold 181,943 head of cattle in 2007 (199,002 head in 2006) at an average price of $927 per head compared to $935 in 2006.

Land

Interests in land and buildings represent 59% of the gross assets of the Company.

The Directors undertook a valuation of the property portfolio and based on independent advice revalued the properties by $202.8 million. This represents a 36% increase in property values.

Wholesale Beef

2007 saw significant growth for the Company's branded beef business with sales revenue increasing from $77.8 million to $105.6 million, an increase of 36%.

AAco's 1824 and Wagyu businesses were exposed to significant margin pressure due to cheap meat flooding the market as a carry over from the 2006 drought and continued drought impacts in 2007. Currency also impacted exported meat.

AMP Litigation Settled

AAco's Federal Court action against AMP in relation to the sale of Stanbroke Pastoral Company in 2003 was settled in February 2007.

Under the settlement AMP paid AAco the sum of $10 million.

Subsequently, the Board declared a special dividend of 2 cents per share (unfranked) which was paid in April 2007.

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 total shareholder return.

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 2007 the Company produced 78 million kilograms of beef - an increase of 5% over the prior 12 months.

Wholesale Beef

Wholesale beef continued its expansion into new markets and increased revenue by $28 million over the prior year. Wagyu beef expanded into Korea, Japan and the USA whilst 1824 branded beef expanded domestically into a new deal with Woolworths with currently 85 stores in Queensland and the Northern Territory.

Summarised operating results are as follows:

	Revenues $M		Results $M	
	2007	**2006**	**2007**	**2006**
Cattle and Farming Operations	142.8	116.6	30.2	19.5
Wholesale Beef	105.6	77.8	0.4	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.

OPERATING RESULTS FOR THE YEAR (continued)

Shareholder Returns (continued)

	2003	2004	2005	2006	2007
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	32%	21%	14%	5%	18%
EBITDA Return on average herd value post valuation	14%	21%	13%	8%	10%
Combined Return on Gross Assets after notional tax at 30%	17%	14%	11%	4%	11%
PROFIT BASED RETURNS					
Return on Sales (EBITDA)/Revenue	24%	34%	25%	16%	16%
3 year compound Total Shareholder return (TSR)	n/a	25%	28%	21%	30%
3 year compound growth in S&P 300 Accumulation index	n/a	14%	18%	25%	21%
PER SHARE STATISTICS					
EPS	5 cents	16 cents	7 cents	4 cents	1 cent
Dividend paid during the year / share	6 cents	6 cents	7 cents	7 cents	9 cents
NTA per share	1.49	2.02	2.20	2.34	2.78
NTA per share growth compounded over 3 years	n/a	24%	31%	16%	11%

Notes:

- All figures rounded to the nearest whole number.
- The Dividend Reinvestment Plan was suspended by the Board in 2004 and reinstated for the dividend announced August 2007.

REVIEW OF FINANCIAL CONDITION

Capital Structure

The debt leverage of the Company (Debt / (Debt + Equity)) has decreased from 39% for 2006 to 37% in 2007. The Company aims to operate at a leverage ratio of between 30% and 40%.

Dividend Reinvestment Plan

In August 2007, the AAco Board recommenced the Company's Dividend Reinvestment Plan (DRP) in respect of the dividend of 7 cents per Ordinary Share that was paid for the period ending 31 December 2006.

The DRP was fully underwritten by ABN AMRO Morgans and resulted in the issue of 6,716,375 Ordinary Shares at an issue price of $2.60.

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. 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 20% 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 $21 million outflow (2006 : $12 million outflow).

The main reason for the lower cash flow was due to the payment of 5 months worth of interest at year end which would typically be accrued under the normal six monthly bill rolls that occur in February and August. Accordingly, interest contained in payables in the balance sheet is less than last year. This was due to the Company's facilities being renewed on 20 December 2007.

REVIEW OF FINANCIAL CONDITION (continued)

Liquidity and Funding

The group has an overall banking facility of $450 million of which $415 million was drawn down at 31 December 2007.

Directors believe facilities are adequate to deal with working capital demand and stay in business capital expenditure for 2008.

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 $1.3 billion from $1.1 billion, an increase of $242 million (21%). The main drivers for this were:

- Purchase of Goonoo Station ($19 million) in May 2007
- Land and leasehold revaluations of $202.8 million

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

AAco's major shareholder, Futuris Corporation Limited announced in late October 2007 that it intended to sell its 43% shareholding in AAco within the year ended 30 June 2008. As at 6 February 2008, there had been no further material developments on this issue.

This report otherwise 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.

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.
- The pumping of underground water for the prescribed purpose of 'Livestock Intensive' requires licencing and regular reporting and monitoring. AAco has several licences requiring these regulations and conditions to be met.
- Stock watering facilities, which utilise bores, require licensing in Queensland, and registration in the Northern Territory.
- Stock water facilities shared with Queensland Stock Routes need to comply with revised registered Stock Route water agreements requirements. A permit to occupy is also required if this facility is unfenced within a station grazing area.
- Vegetation Clearing Permits are sought under the Vegetation Management Act 1999 (Queensland) for any clearing required for ongoing operations including but not limited to the development of areas for land use change and the installation of infrastructure such as fence lines and water development.

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 8,013,274 unissued ordinary shares under options (7,958,603 at reporting date). Refer to note 31 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 682,962 fully paid ordinary shares in AAco at a weighted average exercise price of $1.46. Since the end of the financial year, 12,329 options have been exercised.

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 Director's and Officer's insurance policies 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 these policies.

The terms of the insurance contracts prohibit 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 24 May 2007 when shareholders approved an aggregate remuneration of $875,000 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.

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (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, contains 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.

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (continued)

Structure (continued)

Managing Director/CEO

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 & 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 3 years ended 31 December 2005 and for the three years ended 31 December 2006 has been met. The EPS compound growth performance for the three years ended 31 December 2007 was not met. 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	Forfeited
Total	**1,500,000**	

SENIOR MANAGEMENT AND EXECUTIVE DIRECTOR REMUNERATION (continued)

Structure (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 & 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

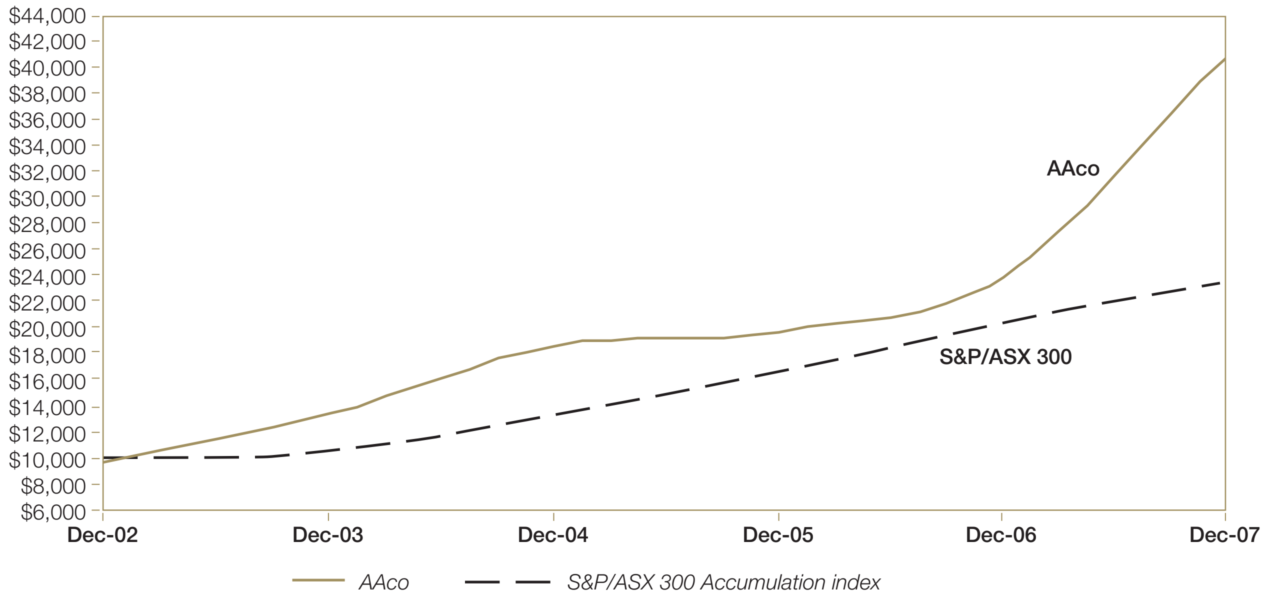
Earnings per share (EPS) on an annual calendar year basis are noted in the table below:

Per Share Statistics	2003	2004	2005	2006	2007
EPS (to the nearest cent)	5 cents	16 cents	7 cents	4 cents	1.5 cents

As a guide to Total Shareholder Return the graph below demonstrates the shareholder wealth created over the past five years returning a significant increase over and above the benchmark S&P300 accumulation index.

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, AA Company Pty Ltd.

The Managing Director/Chief Executive Officer, Don Mackay, was 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 3 months.

Don Mackay resigned as Managing Director and CEO of AAco and his executive service agreement was terminated on 22 January 2008.

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 12 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 ended 31 December 2005, 2006 and 2007. Earnings per share did not increase by a minimum of 5% for the three years ended 31 December 2007. 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.

The third tranche of options granted on 11 March 2005 did not vest on 1 January 2008 as the vesting conditions were not met. The 500,000 options granted in this tranche were forfeited and no expense for these options was recognised during the period.

No options were granted to the Managing Director/Chief Executive Officer during the year ended 31 December 2007 or the year ended 31 December 2006.

Senior Executive – Executive Options

On 24 October 2007, 947,020 options were granted in three equal tranches with a fair value per option of $1.13, $1.15 and $1.17 respectively. Options issued will vest one third each 1 January commencing 2008. No vesting conditions apply to these options. The exercise price of these options is fixed at $2.09. Any vested options unexercised on 1 January 2013 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 24 October 2007, 1,979,546 options were granted in three equal tranches with a fair value per option of $1.13, $1.15 and $1.17 respectively. Options issued will vest one third each 1 January commencing 2008. No vesting conditions apply to these options. The exercise price of these options is fixed at $2.09. Any vested options unexercised on 1 January 2013 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity.

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.

EMPLOYEE BENEFITS (continued)

Middle Management – Executive Options (continued)

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.

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 2007.

2007	MD/CEO	Senior Executives	Middle Management
Dividend yield (%)	-	4.20	4.20
Expected volatility (%)	-	30.00	30.00
Risk-free interest rate (%)	-	6.48	6.48
Expected life of option (years)	-	2.69	2.69
Option exercise price ($)	-	2.09	2.09
Share price at grant date ($)	-	3.08	3.08
2006			
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

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 2007, 682,962 (31 December 2006: 396,666) options were exercised over ordinary shares, with a total cash consideration received by the consolidated entity of $991,342 (31 December 2006: $544,300).

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding at the beginning of the year	6,278,333	1.25	6,635,000	1.25
Granted during the year	2,926,566	2.09	120,000	1.61
Forfeited during the year	563,334	1.40	80,001	1.50
Exercised during the year	682,962	1.46	396,666	1.37
Expired during the year	-	-	-	-
Outstanding at the end of the year	7,958,603	1.53	6,278,333	1.25
Exercisable at the end of the year	4,678,701	1.18	4,985,000	1.19

The outstanding balance as at 31 December 2007 is represented by:

- 2,585,000 options over ordinary shares with an exercise price of $1.00 each;
- 1,800,000 options over ordinary shares with an exercise price of $1.39 each;
- 547,035 options over ordinary shares with an exercise price of $1.50 each;
- 100,002 options over ordinary shares with an exercise price of $1.61 each; and
- 2,926,566 options over ordinary shares with an exercise price of $2.09 each

Included within this balance are options over 2,335,000 shares (2006: 2,355,000 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.

EMPLOYEE BENEFITS (continued)

Middle Management – Executive Options (continued)

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

Expiry Date	Exercise Price ($)	2007 No	2006 No.
31 March 2010	1.39	1,300,000	1,530,000
31 March 2010	1.50	547,035	1,023,333
31 March 2010	1.61	100,002	120,000
31 March 2011	1.39	500,000	500,000
6 August 2011	1.00	2,585,000	2,605,000
31 March 2012	1.39	-	500,000
1 January 2013	2.09	2,926,566	-
Total		7,958,603	6,278,333

(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.

On 24th October 2007 shares were issued to 129 employees at $2.69 being the weighted average share price at that date. The fair value of each share at this date was $2.69.

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

At 31 December 2007, the ESP holds 91,428 ordinary shares in Australian Agricultural Company Limited (31 December 2006: 57,015).

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 (resigned 22 January 2008)	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)
G Paramor	Director (non-executive)
P Zachert	Alternate Director (non-executive)

(ii) Key Executives

B Bennett	Company Secretary / General Counsel
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

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.

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(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							
31/12/07	175,000	-	-	15,750	-	-	190,750
31/12/06	162,500	-	-	14,625	-	-	177,125
D J Mackay*							
31/12/07	449,273	122,821	32,378	54,402	-	-	658,874
31/12/06	426,338	105,240	32,378	50,756	-	96,500	711,212
C E Bright							
31/12/07	94,000	-	-	8,460	-	-	102,460
31/12/06	89,000	-	-	8,145	-	-	97,145
T A Fischer							
31/12/07	77,000	-	-	6,930	-	-	83,930
31/12/06	73,000	-	-	6,570	-	-	79,570
C I Roberts							
31/12/07	100,000	-	-	9,000	-	-	109,000
31/12/06	93,000	-	-	8,370	-	-	101,370
L P Wozniczka							
31/12/07	90,000	-	-	-	-	-	90,000
31/12/06	85,000	-	-	-	-	-	85,000
G Paramor							
31/12/07	34,500	-	-	3,105	-	-	37,605
31/12/06	-	-	-	-	-	-	-
P Zachert							
31/12/07	-	-	-	-	-	-	-
31/12/06	-	-	-	-	-	-	-

Total Remuneration: Directors

31/12/07	1,019,773	122,821	32,378	97,647	-	-	1,272,619
31/12/06	928,838	105,240	32,378	88,466	-	96,500	1,251,422

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

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

Executives	Short term			Post employment	Termination	Share based payment	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Termination Benefits	Options	
	$	$	$	$	$	$	$
B Bennett							
31/12/07	174,312	-	-	15,688	-	5,557	195,557
31/12/06	18,396	-	-	1,656	-	-	20,052
B A Booker							
31/12/07	-	-	-	-	-	-	-
31/12/06	127,157	18,844	-	12,014	-	-	158,015
D R Connolly							
31/12/07	304,587	43,865	-	31,361	-	122,754	502,567
31/12/06	210,627	26,588	-	21,349	-	-	258,564
P Dempsey							
31/12/07	212,844	44,100	-	23,126	-	120,026	400,096
31/12/06	150,287	-	-	13,526	-	-	163,813
S N Toms							
31/12/07	269,219	74,655	24,040	33,653	-	202,953	604,520
31/12/06	261,097	34,404	27,894	29,105	-	-	352,500
A Jones							
31/12/07	183,486	15,535	-	17,913	-	103,659	320,593
31/12/06	85,368	-	-	7,683	-	-	93,051
Total Remuneration: Executives							
31/12/07	1,144,448	178,155	24,040	121,741	-	554,949	2,023,333
31/12/06	852,932	79,836	27,894	85,333	-	-	1,045,995

(c) Option holdings of Key Management Personnel

	Balance at beginning of period	Granted as Remun-eration	Options Forfeited	Options Exercised	Balance at end of period	Not Vested & Not exercisable	Vested & Exercisable
	31/12/06				31/12/07		
Directors							
D J Mackay*	2,886,000	-	500,000	-	2,386,000	-	2,386,000
Executives							
B Bennett	-	7,957	-	-	7,957	7,957	-
D R Connolly	200,000	175,781	-	-	375,781	175,781	200,000
P Dempsey	-	171,875	-	-	171,875	171,875	-
A Jones	-	148,438	-	-	148,438	148,438	-
S N Toms	350,000	290,625	-	-	640,625	290,625	350,000
Total	3,436,000	794,676	500,000	-	3,730,676	794,676	2,936,000

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) 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
	31/12/05			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

No other directors or executives held options during the period.

(d) 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
	31/12/06				31/12/07
Directors					
N Burton Taylor	7,253,061	-	-	191,314	7,444,375
D J Mackay*	30,542	-	-	747	31,289
C E Bright	60,000	-	-	-	60,000
T A Fischer	51,443	-	-	1,385	52,828
C I Roberts	482,248	-	-	12,983	495,231
G Paramor	-	-	-	40,000	40,000
Executives					
Nil					
Total	7,877,294	-	-	246,429	8,123,723

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

	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

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' Report (continued)

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 and Environment Committee	Research and Development Committee
N Burton Taylor	13 (13)	6 (6)	3 (3)		3 (3)
DJ Mackay	13 (13)				3 (3)
CE Bright	13 (13)	6 (6)		3 (3)	3 (3)
Hon TA Fischer	13 (13)			3 (3)	
CI Roberts	12 (13)	6 (6)	3 (3)		
LP Wozniczka*	11 (13)	4 (6)	3 (3)		
G Paramor	7 (7)			1 (1)	

* Peter Zachert attended two Directors' Meetings and one Board Audit Committee Meeting as Alternate for Les Wozniczka.

Committee Membership

As at the date of this report, the Company had a Board Audit Committee, a Board Remuneration and Nomination Committee, a Board Health, Safety and Environmental Committee and a Board Research and 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
CI Roberts ∞	N Burton Taylor ∞	Hon TA Fischer ∞	N Burton Taylor ∞
CE Bright	CI Roberts	CE Bright	CE Bright
N Burton Taylor	LP Wozniczka	G Paramor	DJ Mackay
LP 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 period ended 31 December 2007, 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
6 February 2008

Directors' Report (continued)

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:

Income Tax Returns $5,000

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

N Burton Taylor AM
Chairman

Brisbane
6 February 2008

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 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.

Don Mackay resigned as Managing Director and CEO of AAco and his executive service agreement was terminated on 22 January 2008. Nick Burton Taylor AM Chairman of AAco has taken over the role of CEO, whilst the AAco Board undertakes an executive search for a replacement CEO. This statement has been compiled to reflect the policies and practices throughout the reporting period to 31 December 2007. This change of CEO will impact upon the disclosures for the 31 December 2008 reporting period. The Board has established controls and protocols to maintain appropriate adherence to the Corporate Governance principles during this period.

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 15 and 16 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	6 years 8 months
Don Mackay (resigned 22 January 2008)	6 years 2 months
Charles Bright	4 years 1 month
Hon Tim Fischer, AC	6 years 1 month
Chris Roberts	6 years 6 months
Les Wozniczka	3 years 3 months
Greg Paramor	6 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 judgment.

Principle 2.1 of the Council's Recommendations states that the majority of the Board should be independent Directors.

The following Directors of AAco are considered to be independent:

Name	Position
Nick Burton Taylor AM	Chairman/Non-executive Director
Chris Roberts	Non-executive Director
Hon Tim Fischer AC	Non-executive Director
Greg Paramor	Non-executive Director

Principle 2: Structure the Board to Add Value (continued)

It is current practice that AAco's major shareholder (Futuris Corporation Limited) has two representatives on the Board. Prior to the appointment of Greg Paramor, the former six person Board comprised these two nominee Directors, and the Managing Director/Chief Executive Officer, with the result that only 50% of the Board were independent non-executive Directors. Since the appointment of Greg Paramor in June 2007, four of the seven Directors and therefore a majority of Directors of the Board are independent non-executive Directors. In any event, 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.

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:

- Board Audit
- Board Remuneration and Nomination
- Board Health, Safety and Environmental
- Board Research and 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 34 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.

Under the Company's Share Trading Policy, a Director, executive or employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to these securities.

Directors and employees are required to notify the Company Secretary prior to trading in securities of the Company.

As required by the ASX Listing Rules, the Company notifies the ASX of any transactions completed by Directors in the securities of the Company.

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 a Board 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 Board Audit Committee.

The Board 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 Board Audit Committee are non-executive Directors.

The members of the Board Audit Committee and their qualifications are shown in this Annual Report on pages 15 and 16. The number of meetings of the Board Audit Committee and attendance by Board Audit Committee Members are shown on page 34.

A copy of the Board 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 Counsel/General Manager, Risk and Compliance.

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

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, or 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 the current 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 22 of this Report.

Corporate Governance Statement (continued)

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 34 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.

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 31 and 32 of this Report.

There is no scheme to provide retirement benefits to non-executive Directors.

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 2007

	Note	Consolidated		Parent	
		Year ended 31/12/07 $000	Year ended 31/12/06 $000	**Year ended 31/12/07 $000**	Year ended 31/12/06 $000
Revenue	3	**248,977**	195,774	**40,044**	90,127
Profit from disposal of non-current assets		**529**	4,514	**(150)**	4,744
		249,506	200,288	**39,894**	94,871
Share of net profits / (losses) of associates accounted for using the equity method		**-**	51	**-**	-
Employee expenses		**(34,602)**	(28,831)	**-**	-
Cattle expenses		**(15,621)**	(12,834)	**-**	-
Feedlot cattle expenses		**(31,682)**	(28,048)	**-**	-
Other station operating costs		**(18,181)**	(17,788)	**-**	-
Lease and property related costs		**(5,117)**	(6,382)	**-**	-
Business development and other non-station operating costs		**(912)**	(1,163)	**-**	-
Cost of goods sold of value-add businesses		**(90,600)**	(65,651)	**-**	-
Administration and other costs		**(11,660)**	(8,314)	**(849)**	984
Operating expenses		**(208,375)**	(168,960)	**(849)**	984
Profit from continuing operations before finance costs, income tax, depreciation and amortisation		**41,131**	31,328	**39,045**	95,855
Depreciation and amortisation	3(c)	**(10,395)**	(9,286)	**(813)**	(850)
Earnings before finance costs and income tax expense		**30,736**	22,042	**38,232**	95,005
Finance costs	3(d)	**(27,903)**	(20,514)	**(27,444)**	(20,117)
Profit/(loss) from continuing operations before income tax		**2,833**	1,528	**10,788**	74,888
Income tax benefit/(expense)	4	**753**	8,507	**8,759**	11,684
Profit/(loss) from continuing operations after related income tax expense		**3,586**	10,035	**19,547**	86,572
Net loss/(profit) attributable to minority interests		**59**	67	**-**	-
Net profit/(loss) attributable to members of the parent entity	19	**3,645**	10,102	**19,547**	86,572
Basic earnings per share (cents per share)	34	**1.5**	4.1		
Diluted earnings per share (cents per share)	34	**1.4**	4.0		
Franked dividend per share (cents per share)	5	**9.0**	7.0		

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

Balance Sheet

As at 31 December 2007

		Consolidated		Parent	
		31/12/07	31/12/06	**31/12/07**	31/12/06
	Note	**$000**	$000	**$000**	$000
Current Assets					
Cash and cash equivalents	20	**8,487**	10,825	**1,546**	569
Receivables	6	**10,633**	9,343	**120**	-
Interest rate swaps		**2,017**	1,603	**2,017**	1,603
Inventories	7	**25,382**	21,443	**-**	-
Biological assets - livestock	8	**127,305**	129,566	**-**	-
Current tax assets		**874**	3,138	**12,497**	3,138
Other assets		**938**	451	**705**	-
Total Current Assets		**175,636**	176,369	**16,885**	5,310
Non-Current Assets					
Receivables	9	**209**	-	**616,650**	567,567
Biological assets - livestock	10	**299,199**	276,953	**-**	-
Property, plant and equipment	11	**810,397**	586,504	**73,484**	59,656
Investment – at cost	12	**-**	-	**70,979**	69,752
Deferred tax assets	4	**1,673**	2,063	**114**	629
Intangible assets	13	**10,986**	13,711	**2,254**	2,254
Total Non-Current Assets		**1,122,464**	879,231	**763,481**	699,858
Total Assets		**1,298,100**	1,055,600	**780,366**	705,168
Current Liabilities					
Payables	14	**18,163**	28,161	**156**	8,441
Provisions	15	**2,853**	2,804	**-**	-
Interest bearing liabilities	16	**1,860**	57,495	**-**	56,000
Total Current Liabilities		**22,876**	88,460	**156**	64,441
Non-Current Liabilities					
Provisions	15	**465**	374	**-**	-
Interest bearing liabilities	16	**417,343**	310,213	**415,000**	307,600
Deferred tax liabilities	4	**131,852**	74,185	**16,280**	11,907
Total Non-Current Liabilities		**549,660**	384,772	**431,280**	319,507
Total Liabilities		**572,536**	473,232	**431,436**	383,948
Net Assets		**725,564**	582,368	**348,930**	321,220
Equity					
Issued capital	17	**154,070**	135,400	**158,507**	139,837
Reserves	18	**500,617**	357,134	**173,751**	161,780
Retained profits (accumulated losses)	19	**70,877**	89,710	**16,672**	19,603
Total parent entity interest in equity		**725,564**	582,244	**348,930**	321,220
Total minority interest	17(b)	**-**	124	**-**	-
Total Equity		**725,564**	582,368	**348,930**	321,220

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

Cash Flow Statement

For the year ended 31 December 2007

		Consolidated		Parent	
		Year ended 31/12/07	Year ended 31/12/06	**Year ended 31/12/07**	Year ended 31/12/06
	Note	**$000**	$000	**$000**	$000
Cash Flows from Operating Activities					
Receipts from customers		**266,072**	228,278	**15**	-
Payments to suppliers, employees and others		**(265,155)**	(229,190)	**-**	(698)
Income tax received		**113**	503	**-**	503
Interest received		**317**	297	**29**	66
Net GST received from ATO		**5,361**	5,403	**5,361**	5,405
Proceeds from AMP settlement		**10,000**	-	**10,000**	-
Stanbroke legal costs		**(1,246)**	(529)	**(1,233)**	(529)
Net operating cash flows before interest and finance costs		**15,462**	4,762	**14,172**	4,747
Payment of interest and finance costs		**(36,648)**	(17,199)	**(36,189)**	(17,126)
Net operating cash flows	20(b)	**(21,186)**	(12,437)	**(22,017)**	(12,379)
Cash Flows from Investing Activities					
Payments for property, plant and equipment and other assets		**(31,185)**	(135,504)	**-**	-
Proceeds from sale of property, plant and equipment		**2,634**	53,533	**-**	53,025
Purchase of controlled entity net of cash acquired		**-**	(4,006)	**-**	(4,134)
Repayment from/(advance to) controlled entities		**-**	-	**(24,405)**	(137,274)
Net investing cash flows		**(28,551)**	(85,977)	**(24,405)**	(88,383)
Cash Flows from Financing Activities					
Proceeds from issue of shares		**991**	545	**991**	545
Proceeds from borrowings		**51,400**	112,500	**51,400**	112,500
Payment of dividends		**(4,992)**	(17,446)	**(4,992)**	(17,446)
Net financing cash flows		**47,399**	95,599	**47,399**	95,599
Net (decrease)/increase in cash and cash equivalents held		**(2,338)**	(2,815)	**977**	(5,163)
Cash and cash equivalents at the beginning of the financial period		**10,825**	13,640	**569**	5,732
Cash and cash equivalents at the end of the financial period	20(a)	**8,487**	10,825	**1,546**	569

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

Statement of Changes in Equity

For the year ended 31 December 2007

CONSOLIDATED	Attributable to equity holders of the consolidated entity					
	Issued capital $000	Reserves $000	Retained earnings $000	Total $000	Minority interest $000	Total equity $000
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**
Fair value revaluation of land and buildings	-	141,780	-	141,780	-	141,780
Cost of share-based payment	-	1,736	-	1,736	-	1,736
Total income and expense for the period recognised directly in Equity	-	143,516	-	143,516	-	143,516
Profit for the period	-	-	3,645	3,645	(59)	3,586
	135,400	500,650	93,355	729,405	65	729,470
Issue of share capital under dividend reinvestment plan	17,464	-	-	17,464	-	17,464
Exercise of options	991	-	-	991	-	991
Tax effect of capitalised rights issue costs	86	-	-	86	-	86
Issue of share capital under employee share plan	129	-	-	129	-	129
Reversal of net loss on interest rate swaps	-	(33)	-	(33)	-	(33)
Disposal of 51% share in RMP	-	-	-	-	(65)	(65)
Equity dividends	-	-	(22,478)	(22,478)	-	(22,478)
At 31 December 2007	**154,070**	**500,617**	**70,877**	**725,564**	**-**	**725,564**

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 2007

	Attributable to equity holders of the parent entity					
PARENT	Issued capital	Reserves	Retained earnings	Total	Minority interest	Total equity
	$000	$000	$000	$000	$000	$000
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**
Fair value revaluation of land and buildings	-	10,268	-	10,268	-	10,268
Cost of share-based payment	-	1,736	-	1,736	-	1,736
Total income and expense for the period recognised directly in Equity	-	12,004	-	12,004	-	12,004
Profit for the period	-	-	19,547	19,547	-	19,547
	139,837	173,784	39,150	352,771	-	352,771
Issue of share capital under dividend reinvestment plan	17,464	-	-	17,464	-	17,464
Exercise of options	991	-	-	991	-	991
Issue of share capital under employee share plan	129	-	-	129	-	129
Tax effect of capitalised rights issue costs	86	-	-	86	-	86
Reversal of net loss on interest rate swaps	-	(33)	-	(33)	-	(33)
Equity dividends	-	-	(22,478)	(22,478)	-	(22,478)
At 31 December 2007	**158,507**	**173,751**	**16,672**	**348,930**	**-**	**348,930**

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 2007

1 CORPORATE INFORMATION

The financial report of Australian Agricultural Company Limited for the year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 6 February 2008.

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 consolidated entity are described in the Directors' Report.

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 2007 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

(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*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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 and International Financial Reporting Standards (IFRS).

(c) Changes in accounting policies

Since 1 January 2007 the consolidated entity has adopted the following Standards and Interpretations, mandatory for annual reporting periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the consolidated entity.

- AASB 7 *Financial Instruments: Disclosures*
- AASB 2005 – 10 *Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)*
- Interpretation 8 *Scope of AASB 2 Share-based Payment*
- Interpretation 9 *Reassessment of Embedded Derivatives*
- Interpretation 10 *Interim Financial Reporting and Impairment*

There are a number of Standards and Interpretations that will be mandatory in future reporting periods. The consolidated entity has not elected to early adopt these Standards and Interpretations and does not expect them to have a material effect on the financial position or performance of the consolidated entity.

(d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates on historical liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following accounting policies for which significant judgements, estimates and assumptions have been made. Please refer to the individual accounting policy notes for further details:

- Classification of pastoral leases refer note 2(e)(vi)
- Fair value determination of land refer note 2(e)(vi)
- Fair value determination of livestock refer note 2(e)(iv)

Notes to the Financial Statements (continued)

For the year ended 31 December 2007

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) 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 (as outlined in note 27) as at December each year, referred to collectively throughout these financial statements as the "consolidated entity".

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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.

Investments in subsidiaries held by Australian Agricultural Company Limited are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests represent the interest in Rural Management Partners Pty Ltd, not held by the consolidated entity. Minority interests are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from the parent shareholder's equity. The consolidated entity's investment in Rural Management Partners Pty Ltd was sold during the year ended 31 December 2007 (refer note 27).

(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 prior 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 were 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 livestock 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.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(iv)* *Revenue recognition *(continued)*

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 2007 the consolidated entity has approximately 325,278 breeding cattle (31 December 2006: 297,009) and 262,902 non-breeding cattle (31 December 2006: 264,152).

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 2007	31 December 2006
Breeding		
Commercial and bull breeding herd	**325,278**	297,009
Non-Breeding		
Trading cattle	**262,902**	264,152
Total	**588,180**	561,161

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 consolidated entity'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 2007. These valuations have remained consistent to 31 December 2007.

Other livestock balances include the fair value of the consolidated entity's goat and working horses herd. These biological assets are measured at net market value at balance date in accordance with Accounting Standard AASB 141 *Agriculture.*

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.

Crops in the ground at balance date are measured at their fair value less estimated point of sale costs. The fair value is determined on an estimated yield per hectare basis less estimated harvesting and cartage costs. The value is only brought to account when it can be reliably measured and it's probable that the future economic benefits will be received by the consolidated entity.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(iv) Revenue recognition *(continued)*

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.

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.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

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

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 2007. 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.

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.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(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 lived 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.

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.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(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.

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 the 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 2007. (Refer note 2(e)(vi)).

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(xvii) Leases *(continued)*

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.

(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.

2 STATEMENT OF SIGNIFICANT ACCOUTING POLICIES (continued)

(e) Summary of significant accounting policies (continued)

(xix) Other taxes *(continued)*

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.

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 and currency options

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 a 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 three months. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Foreign exchange options are used in a similar manner to forward exchange contracts as the consolidated entity has the option to buy specified foreign currencies in the future at a predetermined exchange rate. The objective of foreign exchange options is also to match a 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 foreign exchange options are usually for no longer than six months.

The company does not apply hedge accounting as it does not meet the very strict requirements of the standard. The fair value of foreign currency contracts is 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. The fair value of interest rate swaps is recognised through the Income Statement. Any gains or losses arising from changes in fair value are taken directly to the Income Statement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2007

	Consolidated		Parent	
	Year ended 31/12/07 $000	Year ended 31/12/06 $000	**Year ended 31/12/07 $000**	Year ended 31/12/06 $000
3. REVENUES AND EXPENSES				
(a) Revenue				
Cattle revenue (including revaluation)*	**126,745**	114,486	**-**	-
Other livestock revenue	**2,815**	(64)	**-**	-
Crop revenue	**4,299**	3,206	**-**	-
Revenue from sale of goods of value-add businesses	**100,297**	74,154	**-**	-
Revenue from rendering of services	**610**	1,448	**-**	-
	234,766	193,230	**-**	-
*Included in cattle revenue is a net increment in market value of livestock of $459,372 (31/12/06: net decrement $17,385,000)				
(b) Other revenues				
Dividends:				
– wholly owned group	**-**	-	**30,000**	90,000
Interest income:				
– unrelated parties	**317**	297	**29**	66
Proceeds from AMP settlement	**10,000**	-	**10,000**	-
Other revenue	**3,894**	2,247	**15**	61
Total other revenue	**14,211**	2,544	**40,044**	90,127
Total revenues for operating activities	**248,977**	195,774	**40,044**	90,127
During the period the consolidated entity received $10,000,000 as a result of legal proceedings against AMP with regard to the Stanbroke sale process.				
(c) Depreciation and amortisation				
Depreciation of:				
– Buildings and leasehold improvements	**3,233**	2,695	**504**	540
– Plant and equipment	**6,337**	5,777	**309**	310
	9,570	8,472	**813**	850
Amortisation of:				
Other intangibles	**825**	814	**-**	-
Total depreciation and amortisation	**10,395**	9,286	**813**	850
(d) Finance costs				
Bank loans and overdrafts	**27,476**	19,869	**27,432**	19,829
Other financing charges	**95**	324	**12**	288
Finance charges payable under finance leases and hire purchase contracts	**332**	321	**-**	-
Total finance cost (on historical cost basis)	**27,903**	20,514	**27,444**	20,117
Unrealised (profit) on interest rate swap	**(447)**	(1,301)	**(447)**	(1,301)

	Consolidated		Parent	
	Year ended 31/12/07 $000	Year ended 31/12/06 $000	**Year ended 31/12/07 $000**	Year ended 31/12/06 $000
3. REVENUES AND EXPENSES (continued)				
(e) Other expense items				
Provision for employee benefits				
– Annual leave	**2,166**	1,942	**-**	-
– Long service leave	**200**	243	**-**	-
Total provision for employee benefits	**2,366**	2,185	**-**	-
Operating lease rentals	**3,084**	5,582	**-**	-
Research and development costs	**167**	163	**-**	-
(f) Employee expenses				
Salaries and wages	**28,091**	23,885	**-**	-
Workers' compensation costs	**1,065**	1,143	**-**	-
Superannuation costs	**2,167**	1,959	**-**	-
Post-employment benefits	**48**	94	**-**	-
Expense of share-based payments	**1,736**	509	**-**	-
Payroll tax	**1,495**	1,241	**-**	-
	34,602	28,831	**-**	-

For the year ended 31 December 2007

	Consolidated		Parent	
	Year ended 31/12/07 $000	Year ended 31/12/06 $000	**Year ended 31/12/07 $000**	Year ended 31/12/06 $000
4. INCOME TAX				
Major components of income tax expense for the years ended 31 December 2007 and 31 December 2006 are:				
Income Statement				
Current income tax				
Current income tax charge	**1,866**	(7,760)	**(9,644)**	(11,651)
Previous period adjustments	**370**	-	**370**	-
Deferred income tax				
Relating to origination and reversal of temporary differences	**(2,989)**	(747)	**515**	(33)
Income tax (benefit)/expense reported in Income Statement	**(753)**	(8,507)	**(8,759)**	(11,684)
Statement of changes in equity				
Deferred income tax				
Net gain on revaluation of land and buildings	**(61,046)**	(7,797)	**(4,373)**	2,545
Tax effect of capitalised rights issue costs	**86**	347	**86**	347
Income tax benefit reported in equity	**(60,960)**	(7,450)	**(4,287)**	2,892
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 2007 and 31 December 2006 is as follows:				
Profit from continuing operations	**2,833**	1,528	**10,788**	74,888
At the statutory income tax rate of 30% (2006: 30%)	**850**	458	**3,236**	22,466
Share of associate's net (losses)/profits	**-**	(15)	**-**	-
Non-assessable dividends	**-**	-	**(9,000)**	(27,000)
Net benefit transferred to parent from wholly owned subsidiary on entry to tax consolidation	**-**	(2,282)	**-**	-
Capital losses recouped	**(2,195)**	(4,576)	**(2,195)**	(4,576)
Non-assessable capital gain	**(919)**	(1,419)	**(805)**	(1,423)
Amortisation of intangible assets	**247**	244	**-**	-
Building depreciation not deductible	**971**	808	**151**	61
Capital allowance on buildings	**(679)**	(584)	**(112)**	-
Over provision in prior years	**54**	(1,371)	**415**	(1,371)
Other items (net)	**918**	230	**(449)**	159
Income tax (benefit)	**(753)**	(8,507)	**(8,759)**	(11,684)

	Balance Sheet		Income Statement	
			Year ended	Year ended
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$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	**264**	384	**120**	27
Investments	**-**	(485)	**(485)**	-
Revaluations of land and buildings to fair value	**(78,764)**	(17,717)	**-**	-
Revaluations of trading stock for tax purposes	**(53,352)**	(56,367)	**(3,015)**	(365)
	(131,852)	(74,185)		
CONSOLIDATED				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	**200**	689	**489**	(82)
Investments	**8**	8	**-**	46
Leave entitlements	**995**	925	**(70)**	(180)
Other employee costs	**369**	373	**4**	(193)
Accruals and other	**101**	68	**(32)**	-
	1,673	2,063	**(2,989)**	(747)
PARENT				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	**(50)**	(50)	**-**	-
Revaluations of land & buildings to fair value	**(16,230)**	(11,857)	**-**	-
Revaluation of trading stock for tax purposes	**-**	-	**-**	-
Other	**-**	-	**-**	-
	(16,280)	(11,907)		
PARENT				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	**106**	592	**486**	(85)
Investments	**8**	8	**-**	46
Other employee costs	**-**	29	**29**	(29)
Accruals and other	**-**	-	**-**	35
	114	629	**515**	(33)

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 2007

	Note	Consolidated Year ended 31/12/07 $000	Consolidated Year ended 31/12/06 $000	Parent Year ended 31/12/07 $000	Parent Year ended 31/12/06 $000
5. DIVIDENDS PAID ON ORDINARY SHARES					
Dividends declared and paid during the year					
Special dividend 2.00 cents per share, 0% franked, paid on 12 April 2007 (2006: Nil)		**4,992**	-	**4,992**	-
Current period final dividends 7.00 cents per share, 0% franked (2006: 7.00 cents per share, 0% franked)		**17,486**	17,446	**17,486**	17,446
	19	**22,478**	17,446	**22,478**	17,446

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% (2006: 30%)				**267**	381
– franking credits that will arise from the payment of income tax payable at the end of the financial year				**-**	-
				267	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	5 October 2007
Interim	2.00	0	12 April 2007
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 31/12/07 $000	Consolidated 31/12/06 $000	Parent 31/12/07 $000	Parent 31/12/06 $000
6. RECEIVABLES (CURRENT)				
Trade debtors	**9,511**	7,889	**-**	-
Sundry debtors	**1,122**	1,454	**120**	-
	10,633	9,343	**120**	-

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

	Consolidated		Parent	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000
7. INVENTORIES (CURRENT)				
Bulk stores – at cost	**8,417**	6,203	**-**	-
Feedlot commodities – at cost	**13,160**	10,826	**-**	-
Other – at cost	**3,805**	4,414	**-**	-
Total current inventories	**25,382**	21,443	**-**	-
8. BIOLOGICAL ASSETS – LIVESTOCK (CURRENT)				
Cattle at net market value (31 December 2007: 206,675 head, 31 December 2006: 212,837 head)	**127,223**	129,525	**-**	-
Other livestock at net market value	**82**	41	**-**	-
Total current livestock	**127,305**	129,566	**-**	-
9. RECEIVABLES (NON-CURRENT)				
Non-trade amounts owing by:				
Related parties				
– Wholly owned group	**-**	-	**616,441**	567,567
Other receivables	**209**	-	**209**	-
Total non-current receivables	**209**	-	**616,650**	567,567
10. BIOLOGICAL ASSETS – LIVESTOCK (NON-CURRENT)				
Livestock at net market value (31 December 2007: 381,505 head, 31 December 2006: 348,324 head)	**296,216**	276,802	**-**	-
Other livestock at net market value	**2,983**	151	**-**	-
Total non-current livestock	**299,199**	276,953	**-**	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2007

	Note	Consolidated 31/12/07 $000	Consolidated 31/12/06 $000	Parent 31/12/07 $000	Parent 31/12/06 $000
11. PROPERTY, PLANT AND EQUIPMENT					
Freehold Land					
Opening balance, at fair value		**67,290**	62,557	**1,673**	1,925
Transfers		**-**	(7,439)	**-**	-
Additions		**2,763**	4,155	**-**	-
Disposals		**-**	(257)	**-**	(257)
Net amount of revaluation increments less decrements		**33,385**	8,274	**3,500**	5
Closing balance, at fair value	(a)	**103,438**	67,290	**5,173**	1,673
Pastoral Leases					
Opening balance, at fair value		**411,173**	327,092	**45,099**	56,374
Transfers		**-**	6,543	**-**	-
Additions		**-**	61,542	**-**	-
Disposals		**-**	(17,020)	**-**	(17,021)
Net amount of revaluation increments less decrements		**169,460**	33,016	**11,141**	5,746
Closing balance, at fair value	(b)	**580,633**	411,173	**56,240**	45,099
Buildings and Improvements					
Opening balance, at fair value		**93,640**	85,234	**12,733**	14,102
Transfers		**-**	896	**-**	-
Additions		**20,251**	12,330	**-**	-
Disposals		**(6)**	(4,820)	**-**	(1,369)
Net amount of revaluation increments less decrements		**-**	-	**-**	-
Closing balance, at fair value	(a)	**113,885**	93,640	**12,733**	12,733
Accumulated Depreciation					
Opening balance		**(15,405)**	(13,728)	**(2,882)**	(2,685)
Depreciation for the year		**(3,233)**	(2,695)	**(504)**	(540)
Disposals		**1**	1,018	**-**	343
Closing balance	(a)	**(18,637)**	(15,405)	**(3,386)**	(2,882)
Fair Value		**113,885**	93,640	**12,733**	12,733
Accumulated depreciation and impairment		**(18,637)**	(15,405)	**(3,386)**	(2,882)
Net carrying amount		**95,248**	78,235	**9,347**	9,851
Net freehold land, pastoral leases, buildings and improvements		**779,319**	556,698	**70,760**	56,623
Plant and Equipment					
Opening balance, at cost		**52,830**	46,010	**4,449**	4,449
Additions		**8,220**	10,864	**-**	-
Acquisition of subsidiary		**-**	823	**-**	-
Disposals		**(1,673)**	(4,867)	**-**	-
Disposals through sale of entities/operations		**(91)**	-	**-**	-
Closing balance, at cost		**59,286**	52,830	**4,449**	4,449
Accumulated Depreciation					
Opening balance		**(23,024)**	(19,593)	**(1,416)**	(1,106)
Acquisition of subsidiary		**-**	(543)	**-**	-
Depreciation for the year		**(6,337)**	(5,752)	**(309)**	(310)
Disposals		**1,108**	2,864	**-**	-
Disposals through sale of entities/operations		**45**	-	**-**	-
Closing balance		**(28,208)**	(23,024)	**(1,725)**	(1,416)
Net plant and equipment		**31,078**	29,806	**2,724**	3,033
Total property, plant and equipment, net		**810,397**	586,504	**73,484**	59,656
Cost		**59,286**	52,830	**4,449**	4,449
Accumulated depreciation and impairment		**(28,208)**	(23,024)	**(1,725)**	(1,416)
Net carrying amount		**31,078**	29,806	**2,724**	3,033

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 2007. 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 arm's 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. However, at 31 December 2007 all properties were independently valued by Herron Todd White. The basis of valuation 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 2007.

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	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000
Deemed cost	**299,762**	276,737	**11,761**	11,761
Accumulated depreciation	**(18,637)**	(15,405)	**(3,386)**	(2,882)
Net carrying amount	**281,125**	261,332	**8,375**	8,879

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 practice by the Queensland Government.

12. INVESTMENTS AT COST (NON-CURRENT)

Investments:				
Investment in controlled entities, at cost	**-**	-	**72,098**	70,871
Impairment to recoverable amount	**-**	-	**(1,119)**	(1,119)
Total investments	**-**	-	**70,979**	69,752

For the year ended 31 December 2007

		Consolidated		Parent	
		31/12/07	31/12/06	**31/12/07**	31/12/06
		$000	$000	**$000**	$000
13. INTANGIBLE ASSETS (NON-CURRENT)					
Goodwill					
At 1 January (net of accumulated amortisation)		**4,634**	859	**1,176**	1,176
Additions		**41**	3,775	**-**	-
Amortisation		**-**	-	**-**	-
Disposals		**(331)**	-	**-**	-
At 31 December (net of accumulated amortisation)		**4,344**	4,634	**1,176**	1,176
Goodwill		**9,973**	10,446	**1,268**	1,268
Accumulated amortisation		**(5,629)**	(5,812)	**(92)**	(92)
Goodwill, net		**4,344**	4,634	**1,176**	1,176
Agistment rights					
At 1 January (net of accumulated amortisation)		**5,729**	6,548	**-**	-
Additions		**-**	-	**-**	-
Amortisation		**(814)**	(819)	**-**	-
At 31 December (net of accumulated amortisation)		**4,915**	5,729	**-**	-
Agistment rights		**8,162**	8,162	**-**	-
Accumulated amortisation		**(3,247)**	(2,433)	**-**	-
Agistment rights, net		**4,915**	5,729	**-**	-
Other intangibles					
At 1 January (net of accumulated amortisation)		**3,348**	3,348	**1,078**	1,078
Additions		**-**	-	**-**	-
Amortisation		**-**	-	**-**	-
Disposals		**(1,621)**	-	**-**	-
At 31 December (net of accumulated amortisation)		**1,727**	3,348	**1,078**	1,078
Other intangibles		**2,619**	4,240	**1,664**	1,664
Accumulated amortisation		**(892)**	(892)	**(586)**	(586)
Other intangibles, net		**1,727**	3,348	**1,078**	1,078
Total intangible assets, net		**10,986**	13,711	**2,254**	2,254

For the year ended 31 December 2007, 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 ten years.

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

During the period the consolidated entity disposed of an intangible asset relating to the consolidated entity's interest in the Environinvest Beef Cattle Project.

14. PAYABLES (CURRENT)					
Trade creditors	(a)	**9,848**	12,577	**-**	145
Other creditors and accruals		**8,315**	15,584	**156**	8,296
Total current payables		**18,163**	28,161	**156**	8,441

(a) Includes $920,000 (31/12/06: $1,628,000) 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	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000

15. PROVISIONS

At 1 January	**3,178**	2,598	**-**	-
Arising during year	**2,366**	2,185	**-**	-
Utilised	**(2,226)**	(1,605)	**-**	-
At 31 December	**3,318**	3,178	**-**	-
Employee benefits:				
– annual leave	**1,799**	1,824	**-**	-
– long service leave	**1,054**	980	**-**	-
Total current provisions	**2,853**	2,804	**-**	-
Employee benefits:				
– long service leave	**465**	374	**-**	**-**
Total other non current provisions	**465**	374	**-**	**-**
	3,318	3,178	**-**	**-**

The consolidated entity employed 472 full-time equivalent employees as at 31 December 2007 (31 December 2006: 471 employees).

16. INTEREST BEARING LOANS AND BORROWINGS

Current				
Obligations under finance leases	**1,860**	1,495	**-**	-
Other Loans:				
$68,400,000 bank loan (closed)	**-**	56,000	**-**	56,000
	1,860	57,495	**-**	56,000
Non-current				
Obligations under finance leases	**2,343**	2,613	**-**	-
Other Loans:				
$200,000,000 bank loan	**165,000**	-	**165,000**	-
$250,000,000 bank loan	**250,000**	-	**250,000**	-
$307,600,000 bank loan (closed)	**-**	307,600	**-**	307,600
	417,343	310,213	**415,000**	307,600

$200,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2009. The effective interest rate is 7.24%. It is intended that this loan will be renewed prior to the maturity date.

$250,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2011. The effective interest rate is 7.24%. It is intended that this loan will be renewed prior to the maturity date.

Refer to note 26 for financing facilities available.

		Consolidated		Parent	
		31/12/07	31/12/06	**31/12/07**	31/12/06
		$000	$000	**$000**	$000
17. ISSUED CAPITAL					
Ordinary shares	(a)	**154.070**	135,400	**158,507**	139,837
Total contributed equity		**154,070**	135,400	**158,507**	139,837

(a) Movements in issued capital for the period:

Consolidated	31/12/07		31/12/06	
	Number of shares	**$000**	**Number of shares**	**$000**
Beginning of the financial period	**249,231,858**	**135,400**	248,673,487	134,220
Issued for cash on exercise of share options	**682,962**	**991**	396,666	545
Share based component of Chefs Partner acquisition	**-**	**-**	161,705	288
Tax adjustment for rights issue costs	**-**	**86**	-	347
Dividend reinvestment plan	**6,716,375**	**17,464**	-	-
Employee share plan	**47,988**	**129**	-	-
End of the financial period	**256,679,183**	**154,070**	249,231,858	135,400

At 31 December 2007 the issued capital of Australian Agricultural Company Limited was $158,507,000 and the consolidated entity was $154,070,000.

	Consolidated		Parent	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000
(b) Outside equity interests in consolidated entity:				
Contributed equity	**-**	348	**-**	-
Reserves	**-**	-	**-**	-
Accumulated losses	**-**	(224)	**-**	-
Total outside equity interests	**-**	124	**-**	-

The consolidated entity disposed of its 51% interest in Rural Management Partners (RMP) during the year, refer note 27. As at 31 December 2007 there was no remaining minority interest in the equity of the consolidated entity.

(c) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The debt leverage of the consolidated entity (Debt / (Debt + Equity)) as at 31 December 2007 is 37% (2006: 39%). The consolidated entity aims to operate at a leverage ratio of between 30% and 40%.

In August 2007, the AAco Board recommenced the company's Dividend Reinvestment Plan (DRP) in respect of the dividend of 7 cents per Ordinary Share that was declared for the period ended 31 December 2006. The DRP was fully underwritten by ABN AMRO Morgans and resulted in the issue of 6,716,375 Ordinary Shares at an issue price of $2.60.

For the consolidated entity's financial risk management objectives and policies refer note 21.

18. RESERVES

	Consolidated				
	Asset revaluation reserve $000	Capital profits reserve $000	Financial instruments reserve $000	Employee equity benefits reserve $000	Total $000
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
Revaluation of land and buildings	141,780	-	-	-	141,780
Reversal of net loss on interest rate swaps	-	-	(33)	-	(33)
Share based payment	-	-	-	1,736	1,736
31 December 2007	419,431	77,719	-	3,467	500,617

	Parent				
	Asset revaluation reserve $000	Capital profits reserve $000	Financial instruments reserve $000	Employee equity benefits reserve $000	Total $000
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
Revaluation of land and buildings	10,268	-	-	-	10,268
Reversal of net loss on interest rate swaps	-	-	(33)	-	(33)
Share based payment	-	-	-	1,736	1,736
31 December 2007	56,718	113,566	-	3,467	173,751

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. During the period the consolidated entity closed out the interest rate swaps to which the reserve related. The reserve was recognised in the profit and loss.

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.

For the year ended 31 December 2007

	Consolidated		Parent	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000
19. RETAINED PROFITS (ACCUMULATED LOSSES)				
Retained profits at the beginning of the financial period	**89,710**	97,054	**19,603**	(49,523)
Net profit for the financial period	**3,645**	10,102	**19,547**	86,572
Total available for appropriation	**93,355**	107,156	**39,150**	37,049
Dividends paid	**(22,478)**	(17,446)	**(22,478)**	(17,446)
Retained profits at the end of the financial period	**70,877**	89,710	**16,672**	19,603

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.

Cash on hand	**8,411**	6,435	**1,546**	569
Call deposits with banks	**76**	4,390	**-**	-
Total	**8,487**	10,825	**1,546**	569

The fair value of cash assets is $8,487,000 (2006: $10,825,000).
Cash on hand earns interest at 6.34% (2006: 5.75%).
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		Parent	
	12 months ended 31/12/07	12 months ended 31/12/06	**12 months ended 31/12/07**	12 months ended 31/12/06
	$000	$000	**$000**	$000
Net profit after income tax	**3,586**	10,035	**19,547**	86,572
Adjustments for non-cash income and expense items:				
Depreciation and amortisation	**10,395**	9,286	**814**	850
Gain on disposal of Controlled Entity	**72**	-	**150**	-
Gain on sale of property, plant and equipment	**(137)**	(4,514)	**-**	(4,744)
Share of associates net losses	**-**	(51)	**-**	-
Increment in net market value of livestock	**(19,985)**	3,390	**-**	-
Movement in:				
– Income tax payable	**2,264**	(2,854)	**(9,360)**	(2,854)
– Deferred taxes	**(2,904)**	(5,150)	**601**	(8,327)
Decrement in value of non-current assets	**(49)**	-	**-**	-
Changes in assets and liabilities net of effects from purchase and sale of controlled entities:				
(Increase)/decrease in assets:				
– Accounts receivable	**(1,653)**	(29,053)	**(24,781)**	(83,204)
– Inventories	**(3,938)**	1,402	**-**	-
– Prepayments and other assets	**(972)**	443	**(705)**	26
Increase/(decrease) in liabilities:				
– Trade/sundry creditors	**(9,837)**	3,930	**(8,283)**	(698)
– Provisions – employee	**1,972**	699	**-**	-
Net cash provided by/(used in) operating activities	**(21,186)**	(12,437)	**(22,017)**	(12,379)

20. CASH AND CASH EQUIVALENTS (continued)

(c) Non-Cash financing and investing activities

During the year ended 31 December 2007 the consolidated entity acquired motor vehicles with an aggregate fair value of $1,605,246 (year ended 31 December 2006: $1,818,252) by means of finance leases.

(d) Cash flows from investing activities

For the year ended 31 December 2007 cash flows from investing activities included the repurchase of assets that had been previously held under operating lease by Goonoo station and feedlot.

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.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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 3 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.

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.

At balance date, the consolidated entity had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges. The interest rate swap agreements reduce the consolidated entity's exposure to variable interest rate risk at 31 December 2007:

	Consolidated		Parent	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Financial Assets				
Cash assets	**8,487**	10,825	**1,546**	569
Interest rate swaps	**2,017**	1,603	**2,017**	1,603
	10,504	12,428	**3,563**	2,172
Financial Liabilities				
$250,000,000 bank loan	**(206,000)**	-	**(206,000)**	-
$165,000,000 term loan	**-**	(165,000)	**-**	(165,000)
	(206,000)	(165,000)	**(206,000)**	(165,000)
Net exposure	**(195,496)**	(152,572)	**(202,437)**	(162,828)

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The consolidated entity had the following loan facilities fully or partially covered by interest rate swap agreements at 31 December 2007:

$200,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2009. The effective interest rate is 7.24%. It is intended that this loan will be renewed prior to the maturity date.

$250,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2011. The effective interest rate is 7.24%. It is intended that this loan will be renewed prior to the maturity date.

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 table are non-interest bearing and are therefore not subject to interest rate risk.

The consolidated entity's policy is to manage its interest cost using a mix of fixed and variable rate debt, keeping 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 2007, after taking into account the effect of interest rate swaps, approximately 50% of the consolidated entity's borrowings are at a fixed rate of interest.

The consolidated entity regularly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Balance Sheet date:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)	
	2007	2006
	$000	$000
Consolidated:		
+1% (100 basis points)	**329**	475
-0.5% (50 basis points)	**422**	448
Parent:		
+1% (100 basis points)	**312**	458
-0.5% (50 basis points)	**439**	465

The movements in profit are due to the movement in fair value of interest rate swaps, variable rate debt and cash balances, based on movements in interest rates only.

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 or foreign exchange options until a firm commitment is in place.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 31 December 2007, the consolidated entity had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated		Parent	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Financial Assets				
Receivables	**-**	3,345	**-**	-
Forward currency contracts	**44**	-	**-**	-
	44	3,345	**-**	-
Financial Liabilities				
Forward currency contracts	**75**	-	**-**	-
Net Exposure	**(31)**	3,345	**-**	-

At 31 December 2007 all foreign currency receivables were covered by forward currency contracts or foreign exchange options. At 31 December 2006 the company did not have any forward currency contracts or foreign exchange options to cover the exposure to foreign currency risk in US$ receivables.

The following sensitivity is based on the foreign currency risk exposures in existence at the Balance Sheet date.

At 31 December 2007, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)	
	2007	2006
	$000	$000
Consolidated:		
AUD/USD +10%	**507**	(304)
AUD/USD -5%	**(356)**	176
Parent:		
Nil		

The movements in profit are due to the movement in foreign exchange rates resulting in the movement in fair value of foreign exchange contracts and trade receivables.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

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. The risk is mitigated by paying an annual premium 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.

For the year ended 31 December 2007

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the consolidated entity's ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered in the consolidated entity's overall liquidity risk.

The consolidated entity monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

Year ended 31 December 2007	≤6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Total $000
Consolidated financial assets					
Cash and cash equivalents	8,847	-	-	-	**8,847**
Receivables	10,589	-	-	-	**10,589**
Derivatives	(22)	1,143	646	220	**1,987**
	19,414	**1,143**	**646**	**220**	**21,423**
Consolidated financial liabilities					
Payables	18,088	-	-	-	**18,088**
Interest bearing liabilities	6,746	14,824	194,514	335,710	**551,794**
Operating leases	1,164	1,141	2,014	2,632	**6,951**
	25,998	**15,965**	**196,528**	**338,342**	**576,833**
Net maturity	**(6,584)**	**(14,822)**	**(195,882)**	**(338,122)**	**(555,410)**
Parent financial assets					
Cash and cash equivalents	1,546	-	-	-	**1,546**
Receivables	60	60	120	60	**300**
Derivatives	-	1,151	646	220	**2,017**
	1,606	**1,211**	**766**	**280**	**3,863**
Parent financial liabilities					
Payables	156	-	-	-	**156**
Interest bearing liabilities	5,601	14,110	193,220	334,660	**547,591**
	5,757	**14,110**	**193,220**	**334,660**	**547,747**
Net maturity	**(4,151)**	**(12,899)**	**(192,454)**	**(334,380)**	**(543,884)**

Price Risk

The consolidated entity's exposure to commodity price risk is minimal.

The consolidated entity enters into forward purchase contracts for grain commodities. This practice mitigates the price risk for the consolidated entity. As at 31 December 2007 the consolidated entity had forward purchased approximately 90% of its expected grain usage for the coming 12 months.

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	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000
CONSOLIDATED				
Financial assets				
Cash	**8,487**	10,825	**8,487**	10,825
Trade receivables	**10,633**	9,343	**10,633**	9,343
Non-current receivable	**209**	-	**209**	-
Interest rate swaps	**2,017**	1,603	**2,017**	1,603
Financial liabilities				
Trade payables	**18,163**	28,161	**18,163**	28,161
Interest-bearing loans and borrowings:				
Obligations under finance leases	**4,203**	4,108	**4,203**	4,108
Bank loans	**415,000**	363,600	**415,000**	363,600
PARENT				
Financial assets				
Cash	**1,546**	569	**1,546**	569
Trade receivables	**120**	-	**120**	-
Interest rate swaps	**2,017**	1,603	**2,017**	1,603
Financial liabilities				
Trade payables	**156**	8,441	**156**	8,441
Interest-bearing loans and borrowings:				
Bank loans	**415,000**	363,600	**415,000**	363,600

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

Derivative financial instruments used by the consolidated entity

Forward Currency Contracts and Currency Options

The consolidated entity has entered into forward exchange contracts and currency options which are economic hedges but do not satisfy the requirements for hedge accounting.

	Notional Amounts ($AUD)		Average Exchange Rate	
	2007	2006	**2007**	2006
	$000	$000	**AUD/USD**	AUD/USD
Sell US$/Buy A$				
Sell US$ Maturity 0-12 Months – Consolidated	**8,200**	-	**0.8806**	-
Buy US$/Sell A$				
Buy US$ Maturity 0-12 Months – Consolidated	**545**	-	**0.8742**	-

Parent – Nil

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value loss on foreign currency derivatives during the year was $30,000 (2006: $63,000 loss) for the consolidated entity (Parent: Nil).

For the year ended 31 December 2007

22.FINANCIAL INSTRUMENTS (continued)

Interest rate swaps

The consolidated entity has entered into interest rate swaps which are economic hedges but do not satisfy the requirements for hedge accounting.

As at 31 December 2007, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated		Parent	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
0-1 years	**79,000**	124,000	**79,000**	124,000
1-3 years	**130,000**	64,000	**130,000**	64,000

These swaps are measured at fair value by comparing the fixed rate to the market variable rate at balance date. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value gains on interest rate swaps during the year were $447,000 (2006: $1,301,000) for the consolidated entity and $447,000 (2006: $1,301,000) for the company.

Refer to note 21 for further information regarding interest rate and credit risk exposure.

	Consolidated		Parent	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000

23 COMMITMENTS

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

Leased land and buildings:				
Not later than one year	**2,293**	4,921	**-**	-
Later than one year but not later than five years	**4,646**	7,870	**-**	-
Total leased land and buildings	**6,939**	12,791	**-**	-
Leased motor vehicles:				
Not later than one year	**12**	89	**-**	-
Later than one year but not later than five years	**-**	9	**-**	-
Total leased motor vehicles	**12**	98	**-**	-

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	**1,860**	1,495	**-**	-
After one year but not more than five years	**2,343**	2,613	**-**	-
Total minimum lease payments	**4,203**	4,108	**-**	-

(c) Capital commitments

The consolidated entity had contractual obligations to purchase an aeroplane for US$4,259,789 (AUD$4,856,121) at 31 December 2007. This commitment is expected to be settled in December 2008.

The consolidated entity had entered into forward purchase contracts for $9,450,000 worth of grain commodities as at 31 December 2007. The contracts are expected to be settled within 12 months from balance date.

As at December 2006 the consolidated entity had no capital commitments.

	Consolidated		Parent	
	31/12/07	31/12/06	**31/12/07**	31/12/06
	$000	$000	**$000**	$000

24. CONTINGENCIES

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	**-**	-
Bank guarantees provided in relation to premises	**64**	104	**-**	-

At 31 December 2007 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 is currently preparing a claim against a supplier for the supply of a defective product. The consolidated entity is unable to quantify any potential impact at the date of this report.

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 CGUs 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 2007.

26. FINANCING ARRANGEMENTS

The consolidated entity has access to the following financing facilities:

	31/12/07					
	Consolidated			Parent		
	Accessible	**Drawn-down**	**Unused**	**Accessible**	**Drawn-down**	**Unused**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
$200,000,000 bank loan	200,000	165,000	35,000	200,000	165,000	35,000
$250,000,000 bank loan	250,000	250,000	-	250,000	250,000	-
Guarantee facility	4,500	64	4,436	4,500	64	4,436
Total financing facilities	454,500	415,064	39,436	454,500	415,064	39,436

	31/12/06					
	Consolidated			Parent		
	Accessible	**Drawn-down**	**Unused**	**Accessible**	**Drawn-down**	**Unused**
	$000	**$000**	**$000**	**$000**	**$000**	**$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

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.

For the year ended 31 December 2007

27. CONTROLLED ENTITIES

The consolidated financial statements at 31 December 2007 include the following controlled entities.

Name of controlled entity	Notes	Place of Incorporation	31/12/07 % of shares held	31/12/06 % 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	100
Polkinghornes Stores Pty Limited		Australia	100	100
Rural Management Partners Pty Ltd		Australia	-	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

(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.

	31/12/07 $000	31/12/06 $000
Balance Sheet for the Closed Group:		
Total current assets	**178,462**	180,483
Total non-current assets	**1,122,516**	914,120
Total assets	**1,300,978**	1,094,603
Total current liabilities	**22,876**	89,644
Total non-current liabilities	**549,660**	418,239
Total liabilities	**572,536**	507,883
Net assets	**728,442**	586,720
Equity		
Issued capital	**154,070**	135,400
Reserves	**500,617**	357,134
Retained profits	**73,755**	94,186
Total equity	**728,442**	586,720

27. CONTROLLED ENTITIES (continued)

Income Statement of the Closed Group:	**31/12/07 $000**	31/12/06 $000
Revenue	**248,629**	198,834
Share of net losses of associates accounted for using the equity method	**-**	51
Employee expenses	**(34,138)**	(27,825)
Cattle expenses	**(15,621)**	(12,834)
Feedlot cattle expenses	**(31,682)**	(28,048)
Other station operating costs	**(18,180)**	(17,788)
Lease and property related costs	**(5,058)**	(6,260)
Business development and other non-station operating costs	**(912)**	(1,163)
Cost of goods sold of value add business	**(90,600)**	(65,651)
Administration and other costs	**(11,462)**	(7,881)
Earnings before interest expense, income tax, depreciation and amortisation	**40,976**	31,435
Depreciation and amortisation	**(10,384)**	(9,265)
Finance costs	**(27,903)**	(20,514)
Profit from continuing operations before income tax	**2,689**	1,656
Income tax expense	**753**	8,507
Profit from continuing operations after related income tax expense	**3,442**	10,163

(c) On 4 June 2007 the consolidated entity disposed of its 51% interest in Rural Management Partners (RMP). RMP's results are consolidated in the Income Statement until the date of disposal with the balance attributable to minority interests disclosed separately. As at 31 December 2007 there was no remaining minority interest in the equity of the consolidated entity. The results for the year until disposal are presented below:

Income Statement of Rural Management Partners:	**2007 $000**	2006 $000
Revenue	**611**	1,454
Expenses	**732**	1,580
Gross profit/(loss)	**(121)**	(126)
Gain on disposal	**265**	-
Earnings before income tax	**144**	(126)
Income tax expense	**-**	-
Profit after income tax expense	**144**	(126)
Net (profit)/loss attributable to outside equity interests	**59**	67
Net profit attributable to members of the parent entity	**203**	(59)

28. INVESTMENT IN ASSOCIATE

Details of material interests in associated entities are as follows:

Name and principal activities	Reporting date of associated entity	Ownership Interest 31/12/07	Ownership Interest 31/12/06	Voting power 31/12/07	Voting power 31/12/06	Carrying amount 31/12/07 $000	Carrying amount 31/12/06 $000
Chefs Partner Pty Ltd	30 June	100%	100%	100%	100%	-	-
						-	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2007

28. INVESTMENT IN ASSOCIATE (continued)

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.

Carrying amount of investment in associate	Retained profits $000	Other reserves $000	Carrying value $000	Total carrying amount $000
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	-	-	-	-
No movements during the current period	-	-	-	-
Balance at 31 December 2007	-	-	-	-

Other

There are no direct transactions with the associated entities.

29. SEGMENT INFORMATION

Primary Segment – Business segments	Consolidated			
31/12/07	Cattle & Farming Operations $000	Wholesale Beef $000	Other $000	Total $000
Revenue	142,807	105,559	611	248,977
Profit from disposal of non-current assets	365	(101)	265	529
Allocated costs	(113,013)	(105,025)	(732)	(218,770)
Contribution	30,159	433	144	30,736
Finance costs				(27,903)
Profit before tax				2,833
Income tax benefit/(expense)				753
Net profit for the year				3,586
Assets	1,290,924	10,078	(2,902)	1,298,100
Liabilities	568,994	3,542	-	572,536
Other segment information				
Capital expenditure	(30,999)	(235)	-	(31,234)
Depreciation	(9,212)	(350)	(6)	(9,568)
Amortisation	(814)	(8)	(5)	(827)

29. SEGMENT INFORMATION (continued)

Primary Segment – Business segments

	Consolidated			
	Cattle & Farming Operations	Wholesale Beef	Other	Total
31/12/06	**$000**	**$000**	**$000**	**$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
Finance costs				(20,514)
Profit before tax				1,528
Income tax benefit/(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)

Secondary Segment – Geographic segments

The consolidated entity operated entirely within Australia during the periods from 1 January 2007 to 31 December 2007 and 1 January 2006 to 31 December 2006.

30. REMUNERATION OF AUDITORS

	Consolidated		Parent	
	Year ended 31/12/07 $000	**Year ended 31/12/06 $000**	**Year ended 31/12/07 $000**	**Year ended 31/12/06 $000**
Remuneration received, or due and receivable, by the auditor, Ernst & Young, of the parent entity for:				
– Audit or review of the financial statements	312	252	312	252
– Other services	5	116	5	116
	317	368	317	368
Other services comprise:				
Ernst & Young				
– Taxation compliance	5	116	5	116
	5	116	5	116

31. 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 12 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 ended 31 December 2005, 2006 and 2007. Earnings per share did not increase by a minimum of 5% for the three years ended 31 December 2007. 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.

The third tranche of options granted on 11 March 2005 did not vest on 1 January 2008 as the vesting conditions were not met. The 500,000 options granted in this tranche were forfeited and no expense for these options was recognised during the period.

No options were granted to the Managing Director/Chief Executive Officer during the year ended 31 December 2007 or the year ended 31 December 2006.

Senior Executive – Executive Options

On 24 October 2007, 947,020 options were granted in three equal tranches with a fair value per option of $1.13, $1.15 and $1.17 respectively. Options issued will vest one third each 1 January commencing 2008. No vesting conditions apply to these options. The exercise price of these options is fixed at $2.09. Any vested options unexercised on 1 January 2013 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 24 October 2007, 1,979,546 options were granted in three equal tranches with a fair value per option of $1.13, $1.15 and $1.17 respectively. Options issued will vest one third each 1 January commencing 2008. No vesting conditions apply to these options. The exercise price of these options is fixed at $2.09. Any vested options unexercised on 1 January 2013 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity.

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.

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 2007.

31. EMPLOYEE BENEFITS (continued)

(a) Executive Option Plan (continued)

2007	MD/CEO	Senior Executive	Middle Management
Dividend yield (%)	-	4.20	4.20
Expected volatility (%)	-	30.00	30.00
Risk-free interest rate (%)	-	6.48	6.48
Expected life of option (years)	-	2.69	2.69
Option exercise price ($)	-	2.09	2.09
Share price at grant date ($)	-	3.08	3.08
2006			
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

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 2007, 682,962 (31 December 2006: 396,666) options were exercised over ordinary shares, with a total cash consideration received by the consolidated entity of $991,342 (31 December 2006: $544,300).

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding at the beginning of the year	6,278,333	1.25	6,635,000	1.25
Granted during the year	2,926,566	2.09	120,000	1.61
Forfeited during the year	563,334	1.40	80,001	1.50
Exercised during the year	682,962	1.46	396,666	1.37
Expired during the year	-	-	-	-
Outstanding at the end of the year	7,958,603	1.53	6,278,333	1.25
Exercisable at the end of the year	4,678,701	1.18	4,985,000	1.19

The outstanding balance as at 31 December 2007 is represented by:

- 2,585,000 options over ordinary shares with an exercise price of $1.00 each;
- 1,800,000 options over ordinary shares with an exercise price of $1.39 each;
- 547,035 options over ordinary shares with an exercise price of $1.50 each;
- 100,002 options over ordinary shares with an exercise price of $1.61 each; and
- 2,926,566 options over ordinary shares with an exercise price of $2.09 each

Included within this balance are options over 2,335,000 shares (2006: 2,355,000 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.

For the year ended 31 December 2007

31. 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 ($)	2007 No.	2006 No.
31 March 2010	1.39	1,300,000	1,530,000
31 March 2010	1.50	547,035	1,023,333
31 March 2010	1.61	100,002	120,000
31 March 2011	1.39	500,000	500,000
6 August 2011	1.00	2,585,000	2,605,000
31 March 2012	1.39	-	500,000
1 January 2013	2.09	2,926,566	-
Total		7,958,603	6,278,333

(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.

On 24 October 2007 shares were issued to 129 employees at $2.69 being the weighted average share price at that date. The fair value of each share at this date was $2.69.

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

At 31 December 2007, the ESP holds 91,428 ordinary shares in Australian Agricultural Company Limited (31 December 2006: 57,015).

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

32. 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 (resigned 22 January 2008)
C E Bright	Director (non-executive)
T A Fischer	Director (non-executive)
C I Roberts	Director (non-executive)
L P Wozniczka	Director (non-executive)
G Paramor	Director (non-executive)
P Zachert	Alternate Director (non-executive)

(ii) Key Executives

B Bennett	Company Secretary / General Counsel
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

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.

32. 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 24 May 2007 when shareholders approved an aggregate remuneration of $875,000 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.

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32. 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 & 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.

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

The Managing Director/CEO

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 & 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 3 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 3 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.

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (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. The EPS compound growth performance for the three years ended 31 December 2007 was not met. 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	Forfeited
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 & 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, AA 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 3 months.

Don Mackay resigned as Managing Director and CEO of AAco and his executive service agreement was terminated on 22 January 2008.

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

(ii) Remuneration of Key Management Personnel

	Short term			Post Employment		Share based payment	Total
Directors	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	$
N Burton Taylor							
31/12/07	175,000	-	-	15,750	-	-	190,750
31/12/06	162,500	-	-	14,625	-	-	177,125
D J Mackay*							
31/12/07	449,273	122,821	32,378	54,402	-	-	658,874
31/12/06	426,338	105,240	32,378	50,756	-	96,500	711,212
C E Bright							
31/12/07	94,000	-	-	8,460	-	-	102,460
31/12/06	89,000	-	-	8,145	-	-	97,145
T A Fischer							
31/12/07	77,000	-	-	6,930	-	-	83,930
31/12/06	73,000	-	-	6,570	-	-	79,570
C I Roberts							
31/12/07	100,000	-	-	9,000	-	-	109,000
31/12/06	93,000	-	-	8,370	-	-	101,370
L P Wozniczka							
31/12/07	90,000	-	-	-	-	-	90,000
31/12/06	85,000	-	-	-	-	-	85,000
G Paramor							
31/12/07	34,500	-	-	3,105	-	-	37,605
31/12/06	-	-	-	-	-	-	-
P Zachert							
31/12/07	-	-	-	-	-	-	-
31/12/06	-	-	-	-	-	-	-
Total Remuneration: Directors							
31/12/07	1,019,773	122,821	32,378	97,647	-	-	1,272,619
31/12/06	928,838	105,240	32,378	88,466	-	96,500	1,251,422

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

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

Notes to the Financial Statements (continued)

For the year ended 31 December 2007

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Remuneration of Key Management Personnel (continued)

	Short term			Post employment	Termination	Share based payment	Total
Executives	Salary & Fees **$**	Cash Bonus **$**	Non Monetary Benefits **$**	Super-annuation **$**	Termination Benefits **$**	Options **$**	**$**
B Bennett							
31/12/07	174,312	-	-	15,688	-	5,557	195,557
31/12/06	18,396	-	-	1,656	-	-	20,052
B A Booker							
31/12/07	-	-	-	-	-	-	-
31/12/06	127,157	18,844	-	12,014	-	-	158,015
D R Connolly							
31/12/07	304,587	43,865	-	31,361	-	122,754	502,567
31/12/06	210,627	26,588	-	21,349	-	-	258,564
P Dempsey							
31/12/07	212,844	44,100	-	23,126	-	120,026	400,096
31/12/06	150,287	-	-	13,526	-	-	163,813
S N Toms							
31/12/07	269,219	74,655	24,040	33,653	-	202,953	604,520
31/12/06	261,097	34,404	27,894	29,105	-	-	352,500
A Jones							
31/12/07	183,486	15,535	-	17,913	-	103,659	320,593
31/12/06	85,368	-	-	7,683	-	-	93,051
Total Remuneration: Executives							
31/12/07	1,144,448	178,155	24,040	121,741	-	554,949	2,023,333
31/12/06	852,932	79,836	27,894	85,333	-	-	1,045,995

(c) Option holdings of Key Management Personnel

	Balance at beginning of period	Granted as Remun-eration	Options Forfeited	Options Exercised	Balance at end of period	Not Vested and Not exercisable	Vested and Exercisable
	31/12/06				**31/12/07**		
Directors							
D J Mackay*	2,886,000	-	500,000	-	2,386,000	-	2,386,000
Executives							
B Bennett	-	7,957	-	-	7,957	7,957	-
D R Connolly	200,000	175,781	-	-	375,781	175,781	200,000
P Dempsey	-	171,875	-	-	171,875	171,875	-
A Jones	-	148,438	-	-	148,438	148,438	-
S N Toms	350,000	290,625	-	-	640,625	290,625	350,000
Total	3,436,000	794,676	500,000	-	3,730,676	794,676	2,936,000

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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

	Balance at beginning of period 31/12/05	Granted as Remuneration	Options Exercised	Balance at end of period 31/12/06	Not Vested and Not exercisable	Vested and Exercisable
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

No other directors or executives held options during the period.

(d) Shares beneficially held in Australian Agricultural Company Limited

	Balance at beginning of period 31/12/06	Granted as Remuneration	Exercise of Options	Net Change Other	Balance at end of period 31/12/07
Directors					
N Burton Taylor	7,253,061	-	-	191,314	7,444,375
D J Mackay*	30,542	-	-	747	31,289
C E Bright	60,000	-	-	-	60,000
T A Fischer	51,443	-	-	1,385	52,828
C I Roberts	482,248	-	-	12,983	495,231
G Paramor	-	-	-	40,000	40,000
Total	7,877,294	-	-	246,429	8,123,723

Note: * Don Mackay resigned as Managing Director and CEO of AAco on 22 January 2008

	Balance at beginning of period 31/12/05	Granted as Remuneration	Exercise of Options	Net Change Other	Balance at end of period 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

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.

33. 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 42.9% of Australian Agricultural Company Limited on 31 December 2007. 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 and grain 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	
	12 months ended 31/12/07 $000	**12 months ended 31/12/06 $000**
Marketing services	**762**	682
Merchandise	**7,388**	7,323
Total	**8,150**	8,005

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 2007 and 31 December 2006 the following amounts have been paid or received by the consolidated entity:

	Consolidated	
	12 months ended 31/12/07 $000	**12 months ended 31/12/06 $000**
Paid by the consolidated entity for the purchase of livestock	**123**	113

During the year ended 31 December 2007 the consolidated entity also entered into a livestock lease agreement whereby breeding cattle are leased to a director-related entity for a 12 month period. This lease transaction is made both at market prices and on normal commercial terms. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

	Consolidated	
	12 months ended 31/12/07 $000	**12 months ended 31/12/06 $000**
Lease payments from related parties	**12**	N/A
Lease payments owed by related parties	**12**	N/A

33. RELATED PARTY DISCLOSURES (continued)

(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 2006: $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 2007.

(c) *Transactions with other related parties*

Loans

No loans were made with other related parties during the year ended 31 December 2007 (31 December 2006: $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.

34. 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	
	31/12/07	**31/12/06**
Net profit attributable to equity holders of the parent ($)	**3,645,000**	10,102,000
Basic earnings per share (cents per share)	**1.5**	4.1
Diluted earnings per share (cents per share)	**1.4**	4.0
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**251,298,499**	248,984,015
Effect of dilutive executive options	**3,363,177**	3,272,870
Adjusted weighted average number of ordinary shares used in the calculation of diluted earnings per share	**254,661,676**	252,256,885
Weighted average number of converted ordinary shares used in the calculation of diluted earnings per share	**682,962**	396,666

Details of options are set out in note 31. 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.

35. 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 2007 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 2007.
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 in 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

Brisbane
6 February 2008

Independent Audit Report

ERNST & YOUNG

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Australia

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Brisbane QLD 4001

Tel 61 7 3011 3333
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DX 165 Brisbane

Independent auditor's report to the members of Australian Agricultural Company Limited

We have audited the accompanying financial report of Australian Agricultural Company Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(b), the directors also state that the financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

ERNST & YOUNG

Independence

In conducting our audit we have met the independence requirements of 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.

Auditor's Opinion

In our opinion:

1. the financial report of Australian Agricultural Company Limited is in accordance with 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 2007 and of their performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b).

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
Brisbane
6 February 2008

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 December 2007.

(a) Distribution of Equity Securities

Number of Shares	Number of Shareholders
1 to 1,000	944
1,001 to 5,000	4,061
5,001 to 10,000	1,465
10,001 to 100,000	1,450
100,001 and over	80
TOTAL	**8,000**

(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	108,214,800	42.16%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,600,913	13.09%
CITICORP NOMINEES PTY LIMITED	8,619,121	3.36%
ANZ NOMINEES LIMITED (CASH INCOME A/C)	6,640,530	2.59%
NATIONAL NOMINEES LIMITED	6,398,170	2.49%
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,266,331	1.27%
NBT PTY LIMITED	2,809,405	1.09%
CITICORP NOMINEES PTY LIMITED	2,445,110	.95%
ANZ NOMINEES LIMITED (INCOME REINVEST PLAN A/C)	2,076,861	.81%
MR MARTIN JOSEPH GLYNN & MRS ANN GLYNN	1,900,000	.74%
NBT PTY LTD	1,481,701	.58%
HSBC CUSTODY NOMINEES (A/C 2)	1,171,991	.46%
JANVIN PTY LTD	1,130,751	.44%
VICTORIAN INVESTMENT CORPORATION PTY LTD	1,125,076	.44%
WARBONT NOMINEES PTY LTD	1,043,590	.41%
MR MARTIN JOSEPH GLYNN & MRS ANN GLYNN	1,036,776	.40%
WARRENGLEN NOMINEES PTY LTD	1,000,000	.39%
MR ALAN RICHARD BIGNELL & MRS GLENDA ELLEN BIGNELL	889,993	.35%
MERRILL LYNCH AUSTRALIA NOMINEES LIMITED	851,350	.33%
HSBC CUSTODY NOMINEES - GSI ECSA	831,209	.32%

(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)	110,043,048

(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 157 securities ($3.20 on 31 December 2007) is 111 and they hold 6,623 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 Farms	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

Registered Office
Principal Place of Business

Level 1
299 Coronation Drive
Milton QLD 4064
Ph: (07) 3368 4400
Fax: (07) 3368 4401

AAco Website

www.aaco.com.au

Share Registry

Link Market Services Limited
300 Queen Street
Brisbane QLD 4000
Ph: 1300 554 474
www.linkmarketservices.com.au

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

Solicitors

Mallesons Stephen Jacques
Level 30, Waterfront Place
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Bankers

National Australia Bank
Ground Level
345 George Street
Sydney NSW 2000

Auditors

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