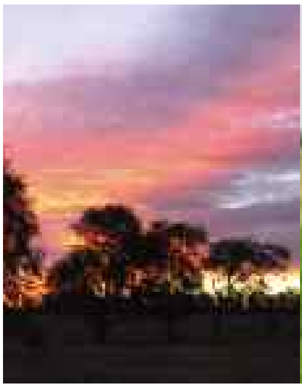
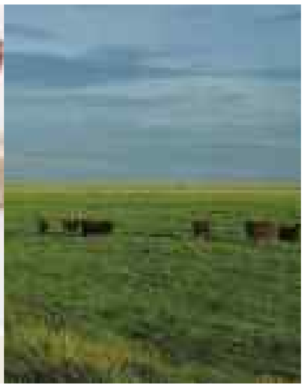







Australian Agricultural Company Limited Annual Report 2008

"AAco does not underestimate the impact or duration of the global financial crisis and the difficulties facing many Australian companies. However, we have an unshakeable belief in the fundamental strengths of AAco's business.

At our core we are a cattle and property company with a magnificent asset base of quality arable land, supporting a food source that is in increasing demand both at home and abroad."

Charles Bright, Acting Chairman

Table of contents

Corporate Calendar

> General Meeting **27 April 2009**
> Annual General Meeting **27 May 2009**
> Half Year End **30 June 2009**
> Half Year Results **August 2009**
> Financial Year End **31 December 2009**
> Full Year 2009 Results **February 2010**

Australian Agricultural Company Limited (AAco) is one of the world's leading beef producers with more than 550,000 cattle on 27 properties covering over 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 Securities 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.

Annual General Meeting

The Annual General Meeting of Shareholders of the Company will be held on Wednesday 27 May 2009 at 1.00 pm in the Redlands Room, Level 5, Hilton Brisbane, 190 Elizabeth Street, Brisbane.

2008 in Summary

Despite the combined impact last year of prolonged drought, low cattle prices, high operating costs and adverse foreign exchange and interest rates, AAco:

> Achieved positive operating cash flow of $10.7 million

> Preserved our essential breeding herd

> Sold 252,354 cattle (181,943 in 2007) albeit at lower average prices

> Acquired the 4JS Wagyu herd, thereby increasing Wagyu capacity by 50 per cent

> Revalued the property portfolio upwards by 5 per cent ($39.7 million pre-tax) over prior year

> Commenced the sale of property assets considered surplus to our strategic requirements in order to reduce debt and align the portfolio more closely with AAco's business growth efficiency model – prices to reflect full 2008 values

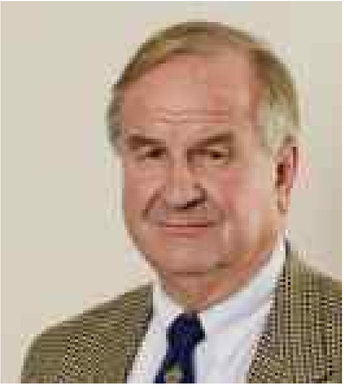
> Expanded 1824 Premium Beef brand in to 90 Woolworths' Supermarkets in Queensland

> Expanded our export markets for 1824 and Wagyu brands of beef

2009 outlook:

> Greatly improved seasonal conditions
> Cattle prices to improve in the second half
> An increase in kilos of beef produced
> Lower interest rates
> Reduced station operating costs and corporate overheads
> A more competitive Australian dollar that will support demand for export beef sales

Acting Chairman's Letter



Dear Fellow Shareholder,

2008 was a year of challenge and change for our Company.

Low cattle prices and significant drought-related costs, together with an abnormal non-cash 'mark to market' expense of $25 million relating to AAco's interest rate swaps, generated a reported accounting loss for the Company of $38.7 million. Clearly a disappointing result.

However early business trends and external factors in 2009 are giving Board and management reason to be cautiously optimistic about AAco's prospects for this year and beyond. We expect to provide an update on current trading at the Annual General Meeting in May.

Investing for Growth

It was a busy year for AAco. With a new Board and Chief Executive Officer at the helm, the opportunity was taken to review the Company's ten year strategic plan, put in place four years ago. Despite the operating challenges presented in recent years by the drought and more recently the financial crisis, the Board reaffirmed its commitment to the goals and long term strategic objectives set in 2005. This position will however be reviewed during the current year with new opportunities in front of the Company.

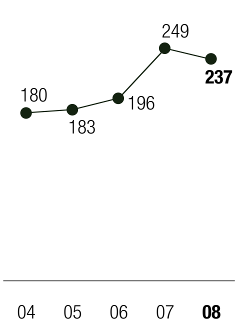
In the short term, however, our priorities have been focused on protecting the breeding herd as the business manages its way through the drought and we strengthen the balance sheet. As property prices in northern Australia continued to improve throughout 2008, AAco has been approached by a number of parties interested in purchasing some of our cattle stations. At the same time, some rarely offered and highly strategic property assets came on to the market. Towards the end of 2008 the first of several potential transactions, directed towards consolidating and improving the balance of AAco's land holdings in northern Australia, was announced to the market.

Since balance date AAco has advised the market of the sale of three Queensland cattle stations to Macquarie Pastoral Group for a total price of approximately $145 million. The Company has also announced its intention to purchase two Northern Territory properties 'Tipperary' and 'Litchfield' from interests controlled by Mr Allan Myers, for a total price of $105 million. This transaction is subject to shareholder approval which will be sought at a General Meeting of AAco shareholders to be held on 27 April 2009. The Independent Directors of AAco unanimously support this proposed acquisition as the properties are of exceptional quality and are ideally situated close to Darwin's port facilities. These transactions would not materially affect cattle numbers as cattle sales from the Queensland properties would be matched by purchases in the Northern Territory.

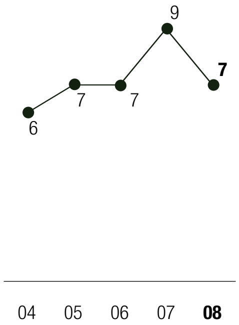
Board/Chief Executive Changes

Following the 2007 Annual General Meeting, which saw the resignation of a number of AAco Directors, there have been significant changes to Board membership. Since May 2008 I have had the honour of chairing the Board in an Acting capacity, ably assisted by my fellow Non-Executive Directors Mr Philip Toyne and Mr Brett Heading (who were appointed to the Board in May and June 2008 respectively). In October Mr Les Wozniczka resigned from the Board, after serving as a non-executive director since 2004. In August Mr Stephen Toms was confirmed as Chief Executive Officer (CEO).

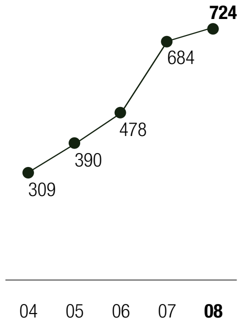
On behalf of shareholders I thank the current and past directors for their service to the Company and look forward to introducing the newly-appointed Directors and CEO to you at the next General Meeting.



Operating Revenue
$237 million



Dividend Per Share
$0.07 cents



Property Portfolio Valuation
$724 million

Share Register

During 2008 our major shareholder, Futuris Corporation Ltd (FCL) continued to seek a buyer for its 43% interest in AAco. This process has necessarily imposed significant strain on the Board and management of the Company. Since balance date, FCL has announced a number of transactions to divest its stake to a range of parties. The IFFCO Group of Dubai has acquired 14.99 per cent of AAco from FCL and, subject to regulatory approval, will acquire a further 5 per cent. Separately, interests controlled by Mr Allan Myers intend to acquire 19.9 per cent of FCL's AAco shareholding. The balance of FCL's holding was sold to institutional investors via a managed global book-build.

Ordinary Dividends

An unfranked dividend of seven cents per share was paid in October 2008 in accordance with AAco's policy of aligning dividend payments with cash flows. Guidance on the next dividend will be given at the Company's Annual General Meeting.

S&P/ASX 200

AAco's significance as an investment opportunity was recognised in September 2008 when the Company was admitted to the S&P/ASX 200 for the first time since listing in 2001.

Our total shareholder return over the last 6 years, to December 2008, was 16.9%, which comfortably exceeds the market return of 6.44% over the same period.

Outlook

AAco does not underestimate the impact or duration of the global financial crisis and the difficulties facing many Australian companies. However, we have an unshakeable belief in the fundamental strengths of AAco's business. At our core we are a cattle and property company with a magnificent asset base of quality arable land, supporting a food source that is in increasing demand both at home and abroad. The business restructuring program initiated last year will enhance AAco's ability to capitalise on its strong competitive position in domestic and world markets as global demand for quality Australian beef increases.

Over the company's 185-year history, it has weathered two depressions and any number of recessions and has not only survived but continued to prosper. Today AAco remains a strong, robust company.

Improved earnings this year will be underpinned by anticipated improved seasonal conditions, higher cattle prices in the latter part of the year, lower fuel, grain and agistment costs and the virtuous conjunction of low interest rates and a relatively weak Australian dollar. These benefits will impact on our financial results in the second half of the 2009 financial year and flow into 2010, should these trends continue.

AAco's corporate goal is to be the premier listed vehicle for investment in the global cattle industry and we continue to move towards that light on the hill. Under Stephen Toms' leadership and with the support of more than 400 Company people who work every day throughout Queensland and the Northern Territory to build our business, we believe that we can and will continue to deliver superior shareholder returns over time.

Charles Bright
Acting Chairman

Chief Executive Officer's Report

There can be no doubt that 2008 was one of AAco's most challenging years in recent times, as low cattle prices, drought conditions, record fuel and grain costs, high interest rates and a strong Australian dollar combined to create an extremely challenging environment for the Company.

It is a tribute to the quality of AAco's land holdings, its unique cattle production system and the commitment of its employees that AAco not only emerged from 2008 with its vital breeding herd largely intact but also generated positive cash flow of $10.7 million and further increases in the value of its property portfolio.

AAco has four key assets – our cattle, our land, our brand and our people. As one of Australia's longest-established companies, these are the assets that have always underpinned our past prosperity and will continue to ensure the Company's success.

Before reporting on AAco's performance in 2008 I want to recognise the outstanding performance of our employees during what was a very difficult year.

Employees

It is on the quality of its people in particular that AAco's future profitable growth depends. For this reason we continue to invest heavily in the personal and professional development and safety of our workforce.

Some 80 per cent of AAco's employees operate on our network of cattle stations spread across north-eastern Australia. Our employees and their families went through a tough year in 2008 as they strove to manage our land and cattle assets effectively in the face of the twin challenges of intractable drought and depressed markets.

Our team pulled together magnificently and met these challenges head on.

The preservation of the majority of our breeding herd and the maintenance of positive cash flow would not have been possible without the efforts of each and every one of our team.

It can sometimes be difficult to communicate our appreciation across our vast distances. The AAco Board and management are very mindful of the 'above and beyond' efforts of all concerned to maintain and sustain our business last year and thereby lay down the building blocks for future growth in more favourable seasonal and market conditions.

Safety Performance

The health and safety of employees and visitors is of primary importance to AAco. The Company has made an ongoing and significant commitment to investment in safety programs. In 2008, as a direct result of AAco's 'Safety First' culture, there was a 40 per cent reduction in recorded incidents. This great achievement testifies to the professional approach taken by station management and local employees to this vital issue.

Operating Performance in 2008

Despite the severe operational challenges AAco faced last year, the Company kept its focus on the main game. This was to maintain cash flow and to execute a large scale drought mitigation plan to preserve the breeding herd essential for the fulfilment of the Company's plan to grow its beef cattle herd under management to more than a million head by 2015. Both of these key objectives were achieved.

Other important operational achievements during the year included:

> The continued expansion of the Wagyu herd, which constituted around 6 per cent of the total cattle sales of the Company by volume and 16 per cent by value in 2008. AAco now enjoys at least a 30 per cent share of the domestic market, and strong export growth for this sought after high quality beef product.

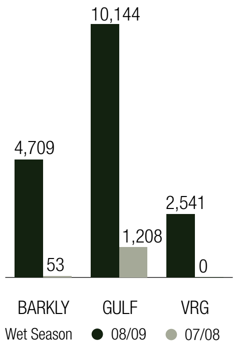
> The advancement of environmental management programs and the establishment of a carbon footprint for AAco. These are necessary precursors to AAco's participation in the emissions trading scheme likely to cover agriculture by 2015.

> Closely targeted capital expenditure to provide additional water for cattle in the Barkly region.

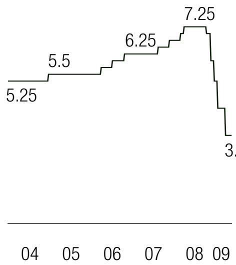
Financial Performance

AAco's total revenue in 2008 of $237 million fell by 5% or $11.8 million as a result of lower prices for grassfed animals, low weight gain and subdued market prices generally. In addition the $125 million in revenue raised from the sale of cattle during the year was slightly lower than in the prior year (despite a higher number of cattle sold) due to a lower value achieved per head. The high Australian dollar also adversely affected revenue from wholesale beef sales (at $100 million) despite sales volumes continuing to grow in Korea, Japan, the USA and other new markets.

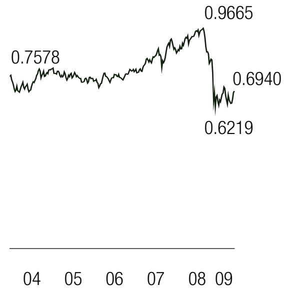
The combination of lower revenue and increased operating costs (+$11 million) arising from higher cropping



Actual Rainfall by Region
(mm)



Australian Cash Rate
(%)



AUD/USD

activity, agistment, fuel and grain costs, resulted in a 58.5% fall in earnings before interest tax and depreciation from $41 million in 2007 to $17 million.

Profitability of the company was further impacted by finance costs which more than doubled the prior year to $58.9 million, although a $25 million one off, non cash charge relating to the mark to market of AAco's interest rate swap position was a major contributor to this increase.

In contrast to the previous year, AAco achieved a $32 million turnaround in net operating cash flow from a $21.2 million negative cash flow in 2007 to positive cash inflow of $10.7 million in 2008. This was due to tight management of the cattle herd during the drought, including a 39% decrease in cattle purchases, as well as benefits arising from the timing of interest payments. In 2009 operating cash outflows are likely due to the significant investment associated with AAco's herd-building program following the breaking of the drought in January.

Agribusiness is highly dependent on global forces of supply and demand in the pricing of both its product and key inputs – with unpredictable weather patterns a major determinant of both. Over the short term AAco must manage these whilst at the same time maintaining its focus on building the value of its land assets over the long term. The volatility in the annual profit result and cash flow statement reflects this ongoing challenge for AAco and focusing on these elements in isolation when monitoring the company's performance misses the bigger picture.

AAco's balance sheet highlights the underlying strength of our business. During 2008 the property portfolio, which accounts for 61% of total assets, was revalued upward by $39.7 million, reflecting continued strength in northern property values. This increased the total asset base to $1.34 billion continuing the trend over the past six years which has seen AAco's asset base grow at an average rate of 25% per annum. AAco's net asset backing as at 31 December 2008 stood at $2.63 per share.

Operating Outlook for 2009

The key earnings drivers for AAco are rainfall, grain costs, fuel costs, the Australian dollar exchange rate and interest rates, which of course all ultimately influence cattle prices. All of these drivers trended negatively for the Company in 2008. In 2009, all of these drivers have turned in a positive direction, setting the scene for a year of recovery, subject to continued demand for beef, which will underpin cattle prices over 2009 and 2010.

In the first two months of 2009, AAco's stations received more rainfall than they collectively recorded in 2008. While there have been some stock losses, and equipment and property damage due to flooding, the resulting pasture growth will underpin cattle production for 2009 and leading into 2010.

Feed grain costs have more than halved from their peak of over $400 per tonne and of course it is common knowledge that oil prices have plummeted in the past few months.

A decline in the relative value of the Australian dollar has coincided with a steady reduction in interest rates, both restoring export competitiveness and reducing the average cost of funds.

The net effect of all of this turnaround in our key drivers will be a significant decrease in station expenses such as agistment, transport and feed costs. Other general cost-saving initiatives are expected to result in the more efficient use of labour and reduced corporate overheads.

On the revenue side, cattle prices in the first quarter of 2009 have not rallied as expected due to the continuing economic downturn. However, the Australian Meat and Livestock Association (MLA) is forecasting higher cattle prices in Australia later this year as herd rebuilding constrains young cattle supplies.

Globally, the availability of quality beef is subject to limitations as herd health issues affect South American supplies and USA cow calf inventories decline. At the same time the appetite for Australian sourced beef continues to grow in Japan, Korea and the USA.

Emerging markets, particularly for live exports, including countries in Central Asia and the Middle East will be a continuing marketing focus for AAco in 2009.

As diminishing herds force up prices and the effects of the global recession are felt, so market opportunities will develop for AAco. We aim to increase our herd stock in the first half of 2009, before supply becomes tight. Our property investment strategy is aimed at capitalising on the low end grass fed beef market, whilst allowing us to maintain our current focus on our core Wagyu and 1824 brands.

Key drivers that affect earnings and cattle prices

	Driver	Impact on 2008	Positive Outlook for 2009
1	**Rainfall**	> Severe dry conditions on the Barkly region which impacted 40% of the breeding herd.	> More rain in January than all of 2008 and some of the highest in 90 years. > This will provide significant feed reserves for the next two years.
2	**Feed grain Costs**	> Peaked at over $400 per tonne during 2008.	> Current grain is less than $200 per tonne. > This will dramatically lower input costs to the feedlot business.
3	**Diesel**	> Oil prices reached $US 145 per barrel. > The company had significant additional mustering, transport and water pumping costs due to drought.	> Oil prices as low as $US 35 per barrel. > Offset by weaker dollar but still an improvement.
4	**Australian Dollar**	> This peaked at $US0.94 and eroded our competitive position in key markets of Japan, USA and Korea.	> At 31 March 2009, the AUD was $US0.68. > This will assist in restoring Australian beef's competitiveness.
5	**Interest Costs**	> Variable Interest Costs based on a cash rate of around 7.25%.	> Variable rates now based on a cash rate of around 3%.
6	**Beef/Demand**	> Beef prices depressed for most of 2008	> Beef prices forecast by industry to improve later in 2009

Strategic Priorities for 2009

AAco intends to implement a number of strategic actions in 2009 to secure the future prosperity of the Company. The immediate goal is to restock properties that have massive feed pools and thereby eliminate agistment costs. Fully stocked stations improve economies of scale. Through this process some surplus land has been identified for spot sale to fund the restocking program and reduce debt.

The Company will continue to explore alternative land use initiatives for potential carbon sequestration, in the process redefining elements of AAco's long-term business strategy in light of the accelerated pace of climate change.

AAco's examination of opportunities for agricultural diversity will also be advanced. Studies into diversification of the Company's agribusiness portfolio continue and may include more cropping and vertical integration of the supply chain to market.

Capital management initiatives are also on the agenda, with further debt reduction and other related matters being considered.

Long-term strategic focus

The long-term strategic focus of AAco remains unaltered. The Company's 10-year plan, approved in 2005, envisages a doubling of the herd size over ten years and a tripling of the production of feed crops.

The land-carrying capacity on selected properties will be improved by up to 20 per cent and additional appropriate grazing lands that support geographic diversity and thus lower portfolio risk will be acquired.

The Company intends to pursue margin growth through economies of scale and improved management programs as well as increase the throughput of AAco cattle through feedlots, thereby enhancing branded product marketing opportunities.

AAco's target is to increase the percentage of beef production sold as branded beef to a minimum of 40 per cent of cattle sold.

Stephen Toms
Chief Executive Officer

2008 Report Card

	10 Year Goals	Outcome in 2008	Comment
Land	*Lower portfolio risk by acquiring additional grazing land that fits current pathways*	> Acquired a small parcel of freehold land on Brunette Downs > Subdivisional projects providing additional control of grazing pasture completed	> Increasing demand for grass-fed cattle may require the restructure of our land portfolio over time
	Improve land-carrying capacities by up to 20% on selected properties	> Several unutilised areas on stations identified and provided with reticulated water, increasing grazing capacity	> Value of property portfolio grew 5% following increased carrying capacity from development and net rises in underlying land values
Cattle	*More than double herd size to 1 million head by 2015*	> Drought decreased mature breeding herd by 42,000 head	> Breeding herd will need to be restocked in 2009/2010
	Improve Wagyu production capability	> 4JS Wagyu herd acquired – Wagyu production capacity increased by 50% (40,000 processed annually)	> AAco now has 30% of domestic Wagyu market. > Majority of Wagyu is for export and will strengthen AAco's presence in Asia, USA, Middle East and Europe
	Increase total kilograms of beef production	> Total beef production in 2008 decreased by 19 per cent to 63 million kilograms	> Continuing drought limited AAco's ability to grass fatten light condition cattle pre-sale. Cattle sold early to keep breeding herd intact
People	*Increase staff capacities to fulfil operational requirements*	> Head Stockmen's Forum leadership program and Production Chain Tour conducted > 68 employees gained formal Agriculture and Rural Business qualifications	> Forum focused on developing AAco's future leaders
	Recruit, train and retain high quality employees	> University recruitment strategies implemented > Formal employee station transfer program activated > Mentored e-learning programs conducted	> Every employee has the opportunity to complete an Annual Staff Plan that enables them to create an individual progressive training plan
	Promote AAco as an employer of choice for both men and women in regional Australia	> AAco Women's Forum held in Mt Isa. Station Support Manual launched by (the then) Queensland Governor, Quentin Bryce	> Forum designed to inspire Managers' Assistants to be leaders and mentors in their remote communities
Brands	*Focus on high value markets and expand brand sales internationally*	> Expanded brand development in Hong Kong, Thailand & Korean retail markets	> Wagyu highly sought after in Asian supermarkets with strong forward sales orders > AAco currently holds 30% market share of Australian Wagyu production
	Increase branded beef/ portion control business	> 1824 premium beef brand now available in over 100 Woolworths' supermarkets across Queensland > Kilograms produced increased by 39% over the prior year	> Maintain focus on domestic business and continue to develop export opportunities for portion control business
	Increase branded beef sales by 50%	> Branded beef sales decreased by 6% in 2008	> Despite a small decrease in sales revenue in 2008, branded beef sales have grown 1.5 times since the goal was set in 2005

Operational Review

Land

Aerial view Avon/Austral Downs before and after the 2008/2009 wet season

Interests in land and buildings represent 61 per cent of the gross assets of AAco.

While sales of rural property slowed during 2008, prices continued to rise strongly in the Northern Territory and Queensland Gulf country. Market value increases and higher carrying capacity (reflecting development work on the Gulf properties as part of AAco's Property Development Program) led to a 5 per cent rise ($39.7 million pre-tax) in the value of the Company's property portfolio at 31 December 2008, compared with a year earlier.

This revaluation was supported by an independent valuation of approximately one half of the portfolio completed by Herron Todd White in December 2008 and is indicative of a trend towards rising values for quality well-managed stations. AAco properties have increased in value each year over the past five years, with the total value of AAco's property, plant and equipment at $847 million as at 31 December 2008.

A steady increase in cattle-carrying capacity is a key business goal of the Company. Last year a number of unutilised areas were identified and were provided with a reticulated water supply, expanding the available grazing areas on these properties.

The expansion of AAco's landholdings in 2008 was not significant. A small parcel of freehold land at Brunette Downs was acquired and some subdivisional projects that provide additional control of grazing pasture and the segregation of cattle in the Northern Region were completed.

In 2009, three station sales have been completed, with further sales and acquisitions proposed. All of these transactions will enhance the quality and competitive advantage of AAco's properties, many of which lie in catchments of the northern river systems and have reliable rainfall with good runoff and soil quality.

Record rainfall early this year across the drought-affected Barkly Tableland and in the Gulf Region will offer opportunities this year for further increases in the productivity of AAco's existing landholdings.

Environment

As one of the largest owner-occupiers of agricultural land in Australia, AAco is committed to the implementation of environmental policies and practices that go beyond regulatory compliance.

In 2007 AAco joined the Federal Government's Greenhouse Challenge Plus programme, in order to prepare the company for dealing with Greenhouse Gas (GHG) measurement and abatement in the future.

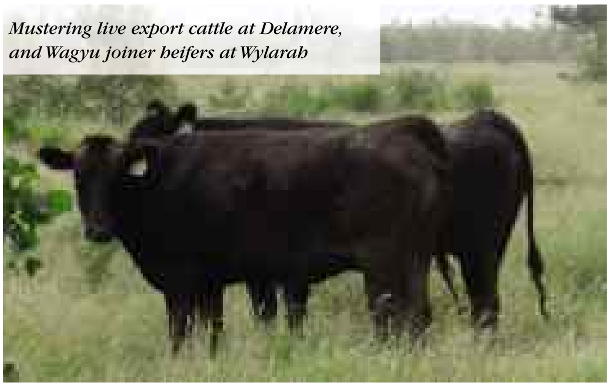
Greenhouse gas emissions from agriculture are currently under consideration for inclusion in the Carbon Pollution Reduction Scheme, from 2015. AAco believes that this will provide a commercial opportunity for those agribusinesses able to actively provide GHG offsets or abatement. AAco will actively pursue these opportunities and press for clarity in calculation methods that enable us to participate in GHG measurement and ultimately carbon trading.

While the Department of Climate Change continues to wrestle with the complexity of accurately accounting for methane gas emissions from cattle, across various grazing regimes and cattle breeds, AAco is monitoring this work closely. We understand these emissions are a significant contributor to GHG emissions and have volunteered our herd for ongoing research into biological measures to reduce or eliminate this problem.

In the meantime we continue to look for opportunities to improve soil management, nutrition, feed management, feed waste reduction and all forms of energy conservation to reduce our overall Greenhouse Footprint.

Specific environmental initiatives undertaken by AAco in 2008 are discussed in our separate publication 'Future Country 2008'.

Cattle



Mustering live export cattle at Delamere, and Wagyu joiner heifers at Wylarah

Cattle represent 31 per cent of the gross assets of AAco and are the primary source of the Company's income.

Despite some destocking in 2008 because of the severity of the drought, AAco preserved its base breeding herd through the employment of sophisticated herd management practices. The Company plans to restock the breeding herd in the first half of 2009 and to build its overall herd under management to one million head by 2015.

The value of the cattle herd declined slightly in 2008 to just above $420 million and the revenue from cattle sales of $124.8 million was marginally down on the prior year (despite higher sales volumes) because of a lower price achieved per head.

The dry conditions on the Barkly Tableland continued until the end of 2008 and the Company incurred significant unplanned costs in agistment fees, feed supplement purchases, water pumping and transport and mustering arrangements. Many breeding cows were transferred to the Victoria River Group and the Queensland Gulf Region as well as to agistment properties as far south as Bollon, QLD and as far north as Darwin, NT.

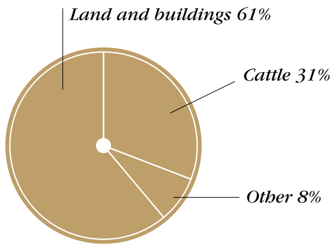
Last year AAco produced 63 million kilograms of beef, a decrease of 19.2 per cent over the prior year. Persistently dry conditions meant that the Company lost the opportunity to grow out light condition cattle prior to market and this largely accounts for the sales decline. These cattle were intentionally sold earlier than normal to ensure that as many breeding cattle as possible were retained.

AAco has adopted a fertility management plan for breeding stock, resulting in an increase in weaning rates, a reduction in the need for supplementary feed, lower labour costs and a significant improvement in the predictability of calving periods.

The sorting of breeding females by pregnancy status, to make calving patterns more predictable, has enabled the Company to estimate and budget for calf production and sale cattle numbers more accurately. This has also led to heavier weaner weights, as calves are born on a rising plane of nutrition at the start of the wet season.

The preservation of the breeding herd is essential for two main reasons. First, any major reduction in numbers would have a marked impact on AAco's capacity to produce calves in the next two years and, secondly, if breeding cattle were sold to stimulate cash flow the Company would be obliged to buy back breeding cattle at a later date to restore productive capacity and herd growth.

AAco Asset Mix



As the Wagyu herd has grown, these cattle are now fed through a dedicated feedlot at Aronui. In an important development last year, Aronui was accredited under the European Union Cattle Accreditation Scheme, giving AAco the right to sell accredited Wagyu beef in all EU countries.

AAco continues to be committed to the health and welfare of animals in our care. Maintaining healthy cattle is critical to ensuring they grow, breed and meet our high quality standards at time of sale. AAco has a Biosecurity Plan in place to ensure that the Company is prepared in the event of an outbreak of an animal disease epidemic and all staff are required to comply with the Australian Model Code of Practice for the Welfare of Animals – Cattle. The Company's animal welfare practices are audited as part of AAco's quality management system that incorporates CattleCare for stations and the National Feedlot Accreditation Scheme for feedlots.

People

The team at the Head Stockmen's Forum 2008, and staff taking care of our herd

AAco prides itself on the quality and professionalism of its people. The Company invests significant resources in the training and development of its more than 400 employees, most of whom are located on the Company's twenty-four stations spread across north-eastern Australia.

AAco aspires to be an employer of choice for both men and women in rural and regional Australia. In 2008 the Company took steps to build on the growing recognition by women that AAco is a Company that can offer them a challenging and fulfilling career.

Last year the first AAco Women's Forum was held in Mt Isa and the AAco Station Support Manual was launched at the Forum by (the then) Queensland Governor, Quentin Bryce. The Manual is a useful handbook for station life, covering essential topics such as first aid, hospitality and the maintenance of station infrastructure.

The Company is well regarded for its employee development programs and each staff member is given the opportunity to participate in a variety of training methods including; mentored e-learning programs; short courses (such as horsemanship skills and chemical accreditation); as well as to study for Certificate II and III in Agriculture and Certificate IV in Rural Business. In 2008 32 employees received Agriculture Certificates and 23 completed the Rural Business course while 13 others received a Statement of Attainment.

In June/July 2008 the Head Stockmen's Forum took place in Townsville, with an emphasis on building technical and coaching skills, for the development of the next generation of AAco's business leaders.

An Employee of the Week Award was introduced last year to reward and recognise staff members who provide outstanding service to the Company. The award is a tangible demonstration of the value that AAco's management team attaches to the contributions of individual employees, many of whom work in relative isolation on remote properties but whose collective efforts have made the Company what it is today.

AAco encourages staff to learn about stations other than their own and the Company has a formal transfer program that cross-trains people. The annual production chain tour rewards several employees with a tour of the Company's supply chain. This involves visits to several AAco properties and/or Chef's Partner to gain a better understanding of the overall value chain.

In 2008 AAco continued its long-established practice of school and university interaction and recruitment to promote the Company's image as the employer of choice in the beef industry. Work experience programs were conducted, a scholarship was again offered at the University of Queensland and career expos were attended. All these activities, together with intensive advertising in rural media, testify to AAco's single-minded determination to attract and retain the highest quality workforce available.

It is our aim in 2009 to move to significantly increase indigenous employment opportunities over a wide range of skilled occupations. This will be achieved through co-operation with Federal and State Governments and various indigenous land groups.

Safety

AAco is committed to maintaining our excellent safety performance record and to the reduction of risk to our employees, contractors, suppliers and customers. We continue to meet this goal through a focus on behavioural safety initiatives supported by senior management leadership, cultural change strategies, and best practice management systems.

Safety initiatives introduced in 2008 included:

> An education program on fatigue management; and
> Compilation of a job dictionary that will assist management to identify suitable duties for an injured worker and provide a greater understanding of the functional requirements of specific jobs.

Brands

AAco premium quality brands; 1824 Rib Fillet, and Kobe Cuisine Wagyu

In 2008 the Beef Group and Chef's Partner team continued to develop the retail and food service markets for AAco's range of branded products.

AAco's reputation as a consistent supplier of premium quality, farm direct, grain fed Australian beef is unrivalled. Consumers throughout Asia and the Middle East are hearing the Company's marketing message, evidenced by not only unprecedented demand for the Company's branded beef products from these regions but also from Western Europe. The Beef Group processed approximately 40,000 head of cattle in the 2008 year.

The acquisition of the prize 4JS Wagyu herd in September 2008 increased AAco's full blood and purebred production capacity by 50 per cent. The major Wagyu brands Master Kobe, Kobe Cuisine, Darling Downs Wagyu and the joint marketing program in the USA under the Greg Norman Signature Wagyu label, have all benefited from the acquisition of the herd.

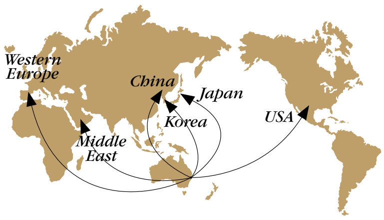
AAco's 1824 Premium Beef brand, which evokes the Company's 185 year heritage, is renowned for consistent eating quality traits and adaptability and is now available in more than 100 Woolworths' supermarkets throughout Queensland. As part of our efforts to gain prominence interstate, the Beef Group successfully showcased 1824 Premium Beef and other brands at leading trade shows in Melbourne and Sydney during the year.

AAco was the 2008 winner of two key export awards, the Agribusiness Award at the Premier of Queensland's Export Awards 2008 and the Monash University Export Award at the NAB Agribusiness Awards for Excellence 2008.

'Paddock to Plate' traceability is critical to the success of our quality brands. AAco ensures the food safety and quality of our brands right through the production process. The Company's unique quality management system incorporates on-farm, feedlot and meat processing food safety programs and ensures that both wholesale and retail customers can be assured that optimal product quality is maintained at any point of the distribution chain.

AAco branded beef lives up to its promise to deliver unsurpassed tenderness and extraordinarily flavoursome beef every time.

Market opportunities



Board of Directors

"AAco is a special Company, and I am privileged to chair the Board of this historic organisation. Our long-term goal is to be the premier listed vehicle for investment in the global cattle industry."

Charles Bright (Acting Chairman)

"AAco takes its environmental responsibilities very seriously and I am proud to be involved in a company committed to embracing energy conservation, emissions control, and pasture management to build its sustainable future."

Philip Toyne (Non-executive Director)

"I have joined the board at a very interesting point in the context of AAco's 185 year history. I am honoured to be given this opportunity, but mindful of the responsibility of preserving and enhancing shareholder value during a period of great economic challenge."

Brett Heading (Non-executive Director)

The Directors submit their report for the year ended 31 December 2008.

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.

Charles Bright, BA MA (Oxon)
(Acting Chairman) Non-executive Director

Appointed to the Board in November 2003. Appointed Acting Chairman on 21 May 2008. Member of the Board Audit Committee, Chairman of the Board Remuneration and Nomination Committee and the Board Research and Development Committee.

C. Bright has 33 years in investment banking in Australia, London and New York. He was Chairman of Potter Warburg Securities from 1989 to 1995. Between 1995 and 1997, he 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.

During the past three years C. Bright has served as a director of the following listed companies:

> Futuris Corporation Limited* – Appointed May 2002
> Webster Limited* – Appointed August 2005
> Integrated Tree Cropping Limited – Delisted July 2006, name changed ITC Limited*
> Tassal Group Limited – Appointed August 2005; Resigned September 2008

* Denotes current directorship

Brett Heading BCom LLB (Hons)
Non-executive Director

Appointed to the Board on 17 June 2008. B. Heading is an experienced corporate lawyer and is Chairman of Partners at law firm McCullough Robertson Lawyers.

He is a member of the Takeovers Panel and the Board of Taxation.

B. Heading has extensive boardroom experience gained over the past 15 years as a company director of listed and unlisted companies in the agribusiness, property and biotechnology sectors. He is currently Chairman of the dual listed ChemGenex Pharmaceuticals Ltd.

B. Heading's experience in agribusiness is both from a legal and commercial perspective. He is a Director of Peanut Company of Australia Limited. Private interests include chairmanship of wine producer Clovely Estate Pty Ltd, as well as Burnett Valley Vineyards Pty Ltd, Burnett Valley Olives Pty Ltd and James Heading Pastoral Pty Ltd.

During the past three years B. Heading has served as a director of the following listed companies:

> ChemGenex Pharmaceuticals Ltd* – Appointed July 2002
> Capilano Honey Ltd – Appointed July 2008; Resigned October 2008
> Ambri Ltd – Appointed 10 November 2006; Resigned 2 July 2008

* Denotes current directorship

Phillip Toyne LLB, Dip.Ed
Non-executive Director

Appointed to the Board on 21 May 2008. P. Toyne is an independent director of ITC Limited. He is President of Bush Heritage Australia, joining the Bush Heritage Board in 2000. P. Toyne is a former head of the Australian Conservation Foundation and Deputy Secretary of the Commonwealth Department for the Environment.

He is also currently a Director of CVC Sustainable Investments Pty Ltd*, and Eco Futures Pty Ltd.

During the past three years P. Toyne has served as a director of the following listed companies:

> Integrated Tree Cropping Limited – Delisted July 2006, name changed ITC Limited*
> Agri Energy Limited – Appointed 15 May 2006; Resigned 19 March 2008

* Denotes current directorship

Nick Burton Taylor AM B.Ec (Syd), F Fin, FCA, FAICD
Former Director (Not re-elected, retired effective 21 May 2008)

Appointed to the Board in April 2001 and appointed Chairman in August 2003. Before retiring on 21 May 2008, he was Chairman of the Board Remuneration and Nomination Committee and the Board Research and Development Committee and was a member of the Board Audit Committee. N. Burton Taylor was also Acting Chief Executive Officer of the Company from 22 January 2008 until his retirement.

Principal of Hillgrove Pastoral Pty Ltd and Kenny's Creek Angus, a producer of beef, wool and grain. Member of the Rabobank Advisory Board and Chairman of Country Education Foundation of Australia.

A past president of the Institute of Chartered Accountants.

During the past three years N. Burton Taylor has served as a director of the following listed companies:

> CSR Limited* – Appointed August 2008
> Hamilton James & Bruce Group Limited – Appointed July 2004; Retired February 2008

* Denotes current directorship

Don Mackay, MAICD
Former Managing Director/Chief Executive Officer (Resigned effective 22 January 2008)

Appointed Chief Executive Officer and reappointed Managing Director in January 2004. Prior to his resignation on 22 January 2008, he was a Member of the Board Research and Development Committee and attended all other Board committees by invitation. He was 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.

Hon Tim Fischer, AC
Former Non-executive Director (Retired effective 21 May 2008)

Appointed to the Board in October 2001. Before retiring on 21 May 2008, he was the 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, and Veterans Affairs and Communications. Prior to being elected to the Parliament, he was an army officer and NSW State Parliamentarian. Former National Chairman of the Royal Flying Doctor Service and was formerly on the Board of APT Freightlink and Ausmore Singapore.

Chris Roberts, B.Comm
Former Non-executive Director (Resigned effective 21 May 2008)

Appointed to the Board in June 2001. Prior to his resignation on 21 May 2008, he was Chairman of the Board Audit Committee and a member of the Board 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.

During the past three years C. Roberts has served as a director of the following listed companies:

> Amcor Limited* – Appointed February 1999
> Cockatoo Ridge Wines Limited – Appointed January 2002; Resigned April 2006

* Denotes current directorship

Les Wozniczka, MBA, BSc (Hon)
Former Non-executive Director
(Resigned effective 15 October 2008)

Appointed to the Board in October 2004. Prior to his resignation on 15 October 2008, he was a Member of the Board Audit Committee and the Board Remuneration and Nomination Committee.

Formerly the Chief Executive Officer and Executive Director of Futuris Corporation Limited (FCL) (resigned 26 September 2008). 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.

During the past three years L. Wozniczka has also served as a director of the following listed companies:

> Futuris Corporation Limited – Appointed January 2002; Resigned September 2008
> Integrated Tree Cropping Limited – Delisted July 2006, name changed ITC Ltd; Resigned September 2008
> Amcom Telecommunications Limited – Appointed February 2007; Resigned October 2008
> Forest Enterprises Australia Limited – Appointed August 2005; Resigned October 2008

Greg Paramor, FAPI, FAICD
Former Non-executive Director
(Resigned effective 21 May 2008)

Appointed to the Board in June 2007. Prior to his resignation on 21 May 2008, he was a 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. He is 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. He is a director of a number of not for profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation.

During the past three years G. Paramor has served as a director of the following listed companies:

> Mirvac Group – Appointed January 2005; Resigned August 2008

Peter Zachert, B.Bus, M.Com. M.Geoscience, FCA, FAIM
Former Alternate Non-executive Director
(Resigned effective 15 October 2008)

Appointed as Alternate Director for L. Wozniczka in November 2004 and resigned as Alternate Director effective automatically upon the resignation of L. Wozniczka on 15 October 2008.

Appointed as Chief Financial Officer 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. He has 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, ACIS, MAICD

Appointed Company Secretary and General Counsel in November 2006. Before joining the Company, was Special Counsel for a leading law firm. Specialised in company and property law, mergers and acquisitions and other commercial contracts. Over 17 years experience in legal practice, having practised in both Queensland and New South Wales.

B. Bennett is a Chartered Secretary and a member of the Institute of Company Directors.

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
C. Bright[1]	60,000	Nil
B. Heading[1]	15,421	Nil
P. Toyne[1]	Nil	Nil
N. Burton Taylor[2]	7,444,375	Nil
D. Mackay[2]	31,289	2,386,000
T. Fischer[2]	52,828	Nil
C. Roberts[2]	495,231	Nil
L. Wozniczka[2]	Nil	Nil
P. Zachert[2]	Nil	Nil
G. Paramor[2]	40,000	Nil

1 *Denotes current director*

2 *Share holding as at the date of resignation or retirement*

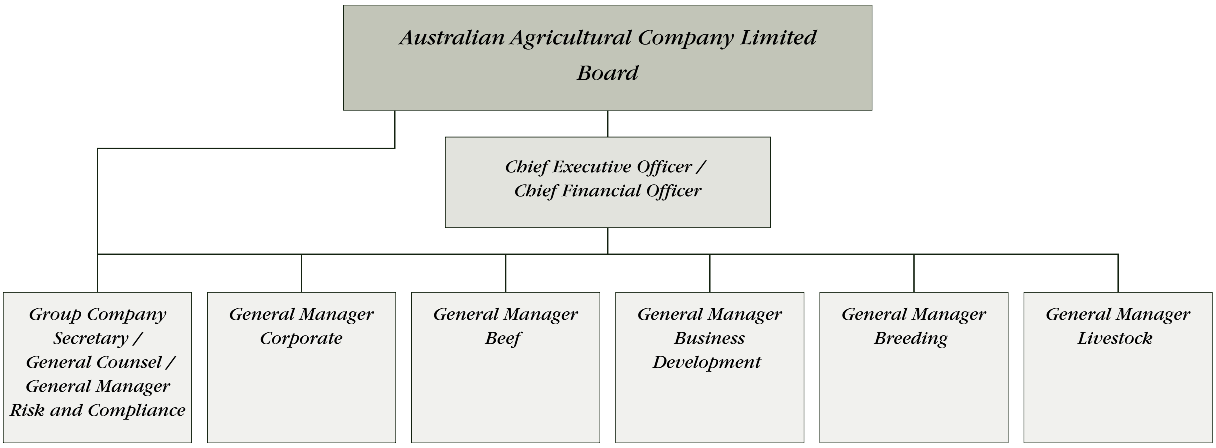
DIVIDENDS AND EARNINGS PER SHARE

Earnings Per Share	2008 Cents	2007 Cents
Basic earnings per share	(15.0)	1.5
Diluted earnings per share	(15.0)	1.4

	2008		2007	
Dividends	Cents	$'000	Cents	$'000
Final dividend paid: on ordinary shares	7	17,988	7	17,486
Dividend paid in the year: on ordinary shares	–	–	2	4,992

CORPORATE INFORMATION

Corporate Structure



Nature of Operations and Principal Activities

The principal activities of entities within the consolidated group during the year 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 415 employees as at 31 December 2008 (2007: 472 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 the Company is a cattle producer with a significant position in the Australian food industry. The Company is the largest beef cattle producer in Australia and runs a herd in excess of 590,000 head of cattle.

The Company 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. The Company has been recognised as an efficient, quality cattle producer and one of Australia's most environmentally responsible cattle operations.

The Company 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 the Company's production is for high quality beef for restaurants and domestic supermarkets.

Through its cattle production system, the Company can supply a consistent quality and volume of product throughout the year. The Company'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. The Company plans to capture these opportunities through a strategy of herd growth, brand building and extracting market premiums for its systems-based approach to production.

On 5 September 2008, the Company was added to the S&P/ASX 200 for the first time since listing in 2001.

Cattle and Farming Operations

The Cattle Division aims to produce a high quality traceable beef product by focusing on genetic gain, increasing productivity and best management practices in an environmentally sustainable manner.

Cattle represent 31% of the gross assets of the business and are the primary source of income and cash generation for the Company.

The Company sold 252,354 head of cattle in 2008 (181,943 head in 2007) at an average price of $731 per head compared to $927 per head in 2007. The increase in cattle sold was partly due to the carry forward of aged breeding cattle from the previous year and the requirement to sell a substantial number of lighter condition store cattle to provide feed for breeding cattle transferred from the drought affected Barkly region.

Cattle Revenue of $124.8 million in 2008 ($126.7 million in 2007) was marginally down on the prior year despite the higher volume of cattle sold, due to a lower value per head achieved.

The dry conditions on the Barkly region persisted through to the end of December 2008 and the Company incurred significant costs of agistment, additional feed supplement, water pumping, transportation and mustering costs. The strategy was to retain as many breeding cows as possible and these were transferred to the other two breeding regions in the Victoria River Group and the Queensland Gulf Region as well as to external agistment properties as far south as New South Wales and as far north as Darwin. Breeding cows are the long term life blood and the engine room of the business and the focus was to preserve breeding capacity wherever possible.

The downside of the focus to prevent the loss of breeding cows was that the Company needed to make space on other properties and so a substantial number of young cattle had to be sold into what, at times, were unfavourable markets. These poorer grass fed markets were negatively impacted during most of the year by an uncompetitive Australian Dollar ($AUD), high grain prices and drought affected sales from the same region.

The importance of the underlying strategy to retain and preserve the breeding herd cannot be overstated. Breeding cattle take approximately two years to become productive and have an average ten year productive life span. To reduce the breeding herd would severely impact on the Company's ability to produce calves in the following two years. Additionally if breeding cattle had been sold, operating cash flow would have been higher, but in the following period the Company would have to buy back breeding cattle in order to restore productive capacity.

The Wagyu cattle business, an initiative commenced in mid 2006, has performed better than the rest of the cattle business. The Wagyu cattle business represents 6% of the volume of total cattle sales and 16% of the value of total cattle sales. Margins on Wagyu cattle sales, whilst tighter than previous periods due to the high $AUD and high grain feed prices, were still superior to other cattle sale types. The Company was able to consolidate its strong domestic market share in Wagyu (over 30%) with the acquisition of the 4JS Wagyu stud herd in September 2008. The success of the Wagyu cattle business is underpinned by the full supply chain control the Company delivers through its Wholesale Beef Division to wholesale customers and retailers.

Land

Interests in land and buildings represent 61% of the gross assets of the Company. Despite harsh economic conditions the value of the northern rural property sector has remained resilient.

The value of the property portfolio grew 5% compared to 2007 as a result of increased carrying capacity from development and net rises in underlying land values, predominantly in the Queensland Gulf Region. Values are supported by independent valuations conducted in December 2008.

The Company remains focused on increasing shareholder value. Successful execution of the previously announced sale of 5 properties, and joint venture agreement under the Heads of Agreement entered into in December 2008, will allow the group to create a new fee based income stream from the management of these properties. The cash generated from this transaction will also allow the Company to reduce debt and restructure capital. The sale is yet to be finalised at the date of this report.

Wholesale Beef

The wholesale beef division has delivered a profit contribution of $2.9 million in 2008 ($0.4 million in 2007) despite a 6% reduction in revenue from $105.6 million in 2007 to $99.5 million in 2008. This profit is delivered on an invested capital base of approximately $6.0 million. The main driver of this improved profit performance has been the ability of the business to supply to quality supermarket customers both overseas and in Australia. The Wagyu product lines have performed very well and the portion control and 1824 business is improving margins as volume of sales increase.

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

The Company 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 and managing a robust and diverse portfolio of properties;
- CATTLE – Developing its unique cattle production system, and increasing herd under management;
- BRANDS – Growing its brands and wholesale beef business; and
- PEOPLE – Looking after the welfare of staff, the community and the environment.

OPERATING RESULTS FOR THE YEAR

Summarised operating results are as follows:

	Revenues $M		Results $M	
	2008	2007	2008	2007
Cattle and Farming Operations	137.7	142.8	2.6	30.2
Wholesale Beef	99.5	105.6	2.9	0.4

Factors having a significant impact on the results in the above table are:

> RAINFALL – Severe dry conditions on the Barkly region which impacted 40% of the breeding herd;
> FEED GRAIN COSTS – Peaked at over $400 per ton during 2008;
> DIESEL OIL – Prices reached $US 145 per barrel. The Company had significant additional mustering, transport and water pumping costs due to drought;
> AUSTRALIAN DOLLAR – Peaked at $0.94 against the USD and eroded competitive position in key markets of Japan, USA and Korea; and
> INTEREST COSTS – Variable Interest Costs based on a cash rate of around 7.25%.

Cattle and Farming Operations

During 2008 the Company produced 63 million kilograms of beef – a decrease of 19.2% over the prior 12 months. The main reason for the decline was the lost opportunity, caused by the dry conditions, to grass fatten light condition cattle prior to market. As noted above these cattle were sold earlier than normal in order to retain as many of the breeding cattle as possible.

Wholesale Beef

Wholesale beef continued its expansion into new markets and increased their contribution to net profit by $2.5 million over the prior year. Wagyu beef expanded into Korea, Japan and the USA whilst 1824 branded beef expanded domestically with Woolworths increasing from 85 stores in 2007 to 90 in 2008 across Queensland and the Northern Territory.

Shareholder Returns

The Company 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.

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 30 June to 31 December (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.

	2004	2005	2006	2007	2008
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	21%	14%	5%	18%	2%
EBITDA Return on average herd value post valuation	21%	13%	8%	10%	4%
Combined Return on Gross Assets after notional tax at 30%	14%	11%	4%	11%	-2%
PROFIT BASED RETURNS					
Return on Sales (EBITDA)/Revenue	34%	25%	16%	16%	7%
3 year compound Total Shareholder return (TSR)	25%	28%	21%	30%	8%
3 year compound growth in S&P 300 Accumulation index	14%	18%	25%	21%	-4%
PER SHARE STATISTICS					
EPS	16 cents	7 cents	4 cents	1 cent	-15 cents
Dividend paid during the year per share	6 cents	7 cents	7 cents	9 cents	7 cents
NTA per share	$2.02	$2.20	$2.34	$2.78	$2.63
NTA per share growth compounded over 3 years	24%	31%	16%	11%	6%

Notes:

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

REVIEW OF FINANCIAL CONDITION

Asset & Capital Structure

The debt leverage of the Company (Debt/(Debt + Equity)) has increased from 37% in 2007 to 38% in 2008. The Company aims to operate at a leverage ratio of between 30% and 40%.

Dividend Reinvestment Plan

In August 2008, the Board offered Shareholders the opportunity to participate in 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 2007.

The DRP was fully underwritten by ABN AMRO Morgans and resulted in the issue of 7,217,517 Ordinary Shares at an issue price of $2.49.

Cash from Operations

Operating Cash flow was a significant improvement at $10.7 million inflow (2007: $21.2 million outflow), an increase of $31.9 million over the prior period. The operating cash flow before interest, tax and other one off items was an improvement of $21.3 million.

The main reason for the increased cash flow was related to increased volumes of cash sales of cattle, improved trading in Wholesale beef and lower cash operating costs.

Liquidity and Funding

The group has an overall banking facility of $450 million of which $425 million was drawn down at 31 December 2008. The net loan position as at 31 December 2008, after taking into account cash at bank, was $405 million.

This overall facility consists of two underlying loan tranches. The first tranche of $200 million is due to roll in January 2010 and the second tranche of $250 million is due to roll in January 2011.

The Directors believe facilities are adequate to deal with working capital demand and stay in business capital expenditure for 2009.

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.

Risk Management and Compliance

The Board has ultimate responsibility for the oversight of risk management and compliance across the Company. Specific responsibility for the risk management and compliance process is delegated to the Board Audit Committee.

Risk is an integral part of the Company'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 Chief Executive Officer is accountable to the Board for the development and management of the Company's Risk and Compliance Framework and is supported by the Group Company Secretary/General Counsel/General Manager Risk and 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 the Company's Risk Register are addressed through the Risk and Compliance Framework (including the Company's quality management systems) thereby reducing risk exposure to key stakeholders.

The Company'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 the Company's annual strategic planning process, the Risk Management Policy and Plan are developed and submitted to the Board for approval (via the Board Audit Committee). The Risk Register is reviewed and tested regularly in line with changes to the Company's strategy by the Company's Risk Review Committee;

> 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 the Company's long-term strategy into key operational objectives for the following twelve month period;

> Key Performance Indicators for the 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 the Company'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 the Company's risk profile and/or risk treatment plans.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 22 December 2008, the Company entered into a Heads of Agreement in relation to the proposed sale of five properties to Primary Holdings International Group. The proposed transaction is subject to regulatory approvals, negotiation of transaction documents and buyer finance. The transaction also involves a proposed joint venture arrangement, which will enable the Company to have ongoing participation in the raising of cattle on these properties. As at the date of this report, the parties are continuing to work towards successful completion of the transaction.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company's major shareholder, Futuris Corporation Limited (FCL) announced on 23 October 2007 that it intended to sell its 43% shareholding in the Company.

On 6 May 2008, FCL announced that it had terminated the sale process for its 43% shareholding in the Company.

Later in 2008, through a series of informal press comments, FCL announced that it was continuing with the sale of its 43% shareholding in the Company.

This was confirmed by FCL in an announcement on 28 October 2008.

The Company has been advised by FCL that since that time it has held discussions with parties interested in acquiring all or part of its 43% shareholding in the Company.

As at the date of this report there has been no further material developments on this issue.

On 21 and 26 May 2008, the Company confirmed in announcements to the ASX that proceedings had commenced against Elders Limited relating to the purchase of product during the period 2002 to 2005. On 23 January 2009 the Company served Elders Limited with a Writ of Execution in relation to the claim. The Company expects this litigation to progress during 2009 in accordance with the court rules, unless a settlement is reached through mediation or negotiation. The Company is unable to quantify any potential impact of this action at the date of this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

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. The Company 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' activities requires licensing and regular reporting and monitoring. The Company 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.

The Company is aware of the reporting requirements under the National Greenhouse and Energy Reporting Act 2007 (the Act). The Company has conducted an assessment, which complies with the framework provided by the Department of Climate Change. This assessment has concluded the Company's energy consumption and greenhouse gas emissions are below thresholds set for mandatory registration and reporting under the Act. However, the Company continues to voluntarily report under the 'Greenhouse Challenge Plus' Program.

The Board and management maintain close contact with Government and Industry bodies regarding developing the Company's environmental and climate change strategies. The Company is committed to finding and delivering solutions in this vital area.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 11,555,330 unissued ordinary shares under options (11,555,330 at reporting date). Refer to note 29 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 (under the Executive Option Plan) have exercised options to acquire 305,759 fully paid ordinary shares in the Company at a weighted average exercise price of $1.74. Since the end of the financial year, no 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 Access, Insurance and Indemnity 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 (Audited)

This report outlines the remuneration arrangements in place for directors and executives of the Company and the group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

DETAILS OF KEY MANAGEMENT PERSONNEL (INCLUDING THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP)

(i) Directors
C. Bright Acting Chairman (non-executive)

B. Heading Director (non-executive)

P. Toyne Director (non-executive)

(ii) Directors who resigned or retired during the period
N. Burton Taylor (retired 21 May 2008)*
Chairman (non-executive)/Chief Executive Officer

D. Mackay (resigned 22 January 2008)
Managing Director/Chief Executive Officer

T. Fischer (retired 21 May 2008)
Director (non-executive)

C. Roberts (resigned 21 May 2008)
Director (non-executive)

L. Wozniczka (resigned 15 October 2008)
Director (non-executive)

G. Paramor (resigned 21 May 2008)
Director (non-executive)

P. Zachert (resigned 15 October 2008)
Alternate Director (non-executive)

* was not re-elected at the Company's Annual General Meeting 21 May 2008.

(iii) Key Executives
S. Toms
Chief Executive Officer

B. Bennett
Company Secretary/General Counsel

D. Connolly
General Manager – Livestock

P. Dempsey
General Manager – Beef Group

A. Jones
General Manager – Business Development

T. Gallagher
General Manager – Breeding

S. Kenny (appointed 14 April 2008)
General Manager – Corporate

There were no changes of the CEO or KMP after reporting date and before the date the financial report was authorised for issue.

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.

BOARD REMUNERATION AND NOMINATION COMMITTEE

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

The Board 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 of the Company 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. 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 Chief Executive Officer on the advice of the Board Remuneration and Nomination Committee which obtains independent remuneration advice as necessary.

The Chairman oversees the Chief Executive Officer's recommendations for remuneration of senior executives with the assistance of the Board 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 shorter-term and longer-term incentives;
> link reward with the Company's financial performance and strategic positioning and to reward superior performance; and
> align the interests of senior executives with those of shareholders.

Structure

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

Remuneration is structured in three components:

> Fixed Remuneration

> Variable or 'at risk' Remuneration comprising:

– Short term Incentives

– Long 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

Short term Incentive (STI)

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

The aim of the short 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 short 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 short term incentive is set at a level that provides the senior executive with incentive to achieve the targets whilst not imposing an unreasonable cost on the Company.

The short 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, staff morale and safety.

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

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

STI bonus for 2007 and for 2008

For the 2007 financial year, 67% of the STI cash bonus of $1,139,000 as previously accrued in that period vested and was paid in the 2008 financial year. There were seven forfeitures. The remuneration committee will consider the STI payments for the 2008 financial year in March 2009. The maximum STI cash bonus for the 2008 financial year is $1,032,000. This amount has been accrued on the basis that it is probable that all employees will meet their 80% hurdle for their respective KPI's for the period. Any adjustments between the actual amounts to be paid in April 2009 as determined by the remuneration committee and the amounts accrued will be adjusted in the 2009 financial year. The minimum amount of the STI cash bonus assuming that no employees meet their respective KPI's for the 2008 financial year is nil.

There have been no alterations to the STI bonus plans since their grant date.

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

The Chief Executive Officer

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

Direct Reports to the Chief Executive Officer

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

Executive Option Plan

The Consolidated Entity has an Executive Option Plan (EOP) for the granting of non-transferable options to the senior executives and middle management with more than twelve months' service at the grant date. The executive and middle management option plan works on the following basis:

There are two sets of conditions and/or hurdles:

1. The first condition relates to the issuing of the option, as opposed to the vesting condition. In order for employees to be granted options, the Company's Total Shareholder Return (TSR) performance for the relevant year has to exceed the median benchmark S&P ASX 300 Accumulation index for the same period. The quantity of options is determined by how far above the benchmark the Company has performed.

   The strike price for the option is calculated using the 30 day volume weighted average share price (VWAP) prior to the announcement of the annual results of the Company which are announced on, or about, 7 February each year.

   The option issuance is a formula driven calculation for both the hurdle and the strike price. When the Company exceeds the TSR hurdle, the allocation of options for eligible employees are calculated and then approved by the Board Remuneration and Nomination Committee. The 'grant date' for an option is the day that the option is formally granted.

2. The second condition relates to the vesting of the options. The options will vest in three equal tranches over the following three years commencing 1 January of each subsequent year. An employee whose employment terminates prior to the vesting of any tranche will lose their unvested option entitlement, unless otherwise determined by the Board.

The incentive is designed to works in two ways:

1. The Company must outperform the market in order to trigger options being issued.
2. The employee must stay with the Company for the ensuing three years, in order for all tranches to vest, thus aiding retention of staff in a very tight labour market.

The options granted in 2008 related to the Company's performance against the market in 2007. The first tranche of these options (one-third) vested on 1 January 2009.

Total options granted in 2008 were 3,259,151 at a strike price of $3.27 being VWAP leading up to 6 February 2008 when the results were announced for the year ended 31 December 2007.

The plan applies to eligible employees earning over $50,000. This includes head stockmen and most supervisory staff. All other employees (paid under $AUD50,000) are eligible to be issued fully paid shares to the value of $1000 p.a. under the Tax-exempt Employee Share Plan (TESP). An employee must have been employed by the Company for 12 months to be eligible in the following year.

The method of allocation of options is related to an employee's base salary and linked to their set incentive arrangement which includes the short term incentive 'STI'.

As part of the terms and conditions of employment, the Company prohibits employees from entering into arrangements to protect the value of unvested LTI awards. An employee must not enter into any scheme, arrangement or agreement (including options and derivatives) under which the employee may alter the economic benefit/risk derived from security holdings in the Company under unvested entitlements (e.g. unvested equity-based incentive or award grant).

No Director or officer or employee may deal in Company shares at any time for short term gain, including buying and selling shares in a 3 month period or using forward contracts, without approval of the Chairman, in the case of the Chairman, a Director chosen by the Board for that purpose.

Former Managing Director/Chief Executive Officer (resigned 22 January 2008)

The above plan did not apply to the former Managing Director/Chief Executive Officer, who was subject to the plan approved by shareholders three years prior. The former Managing Director/Chief Executive Officer did not receive any options in 2007 or 2008.

The option entitlements for the former Managing Director/Chief Executive Officer, D. Mackay, were subject to the achievement of earnings per share growth performance hurdles over a rolling three-year period.

The performance hurdle defined a minimum performance requirement that had to be achieved if the former Managing Director/Chief Executive Officer was to receive any benefit under the long term incentive scheme.

D. Mackay, the former Managing Director/Chief Executive Officer, was previously issued 1,386,000 options.

Additionally, 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 D. Mackay the former Managing Director/Chief Executive Officer at a fixed exercise price, pursuant to the AAco Executive Option Plan Rules established on 28 June 2001 and on the terms and conditions set out below:

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

The EPS compound growth performance for the three years ended 31 December 2005 and for the three years ended 31 December 2006 was 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**	

D. Mackay resigned from his position as Managing Director/Chief Executive Officer on 22 January 2008. As at 31 December 2007, the EPS vesting condition for the options issued to D. Mackay was not met, and therefore the options were forfeited. Upon his resignation the Board determined that no extensions or amendments should be made to the original terms of options held by him.

COMPANY PERFORMANCE

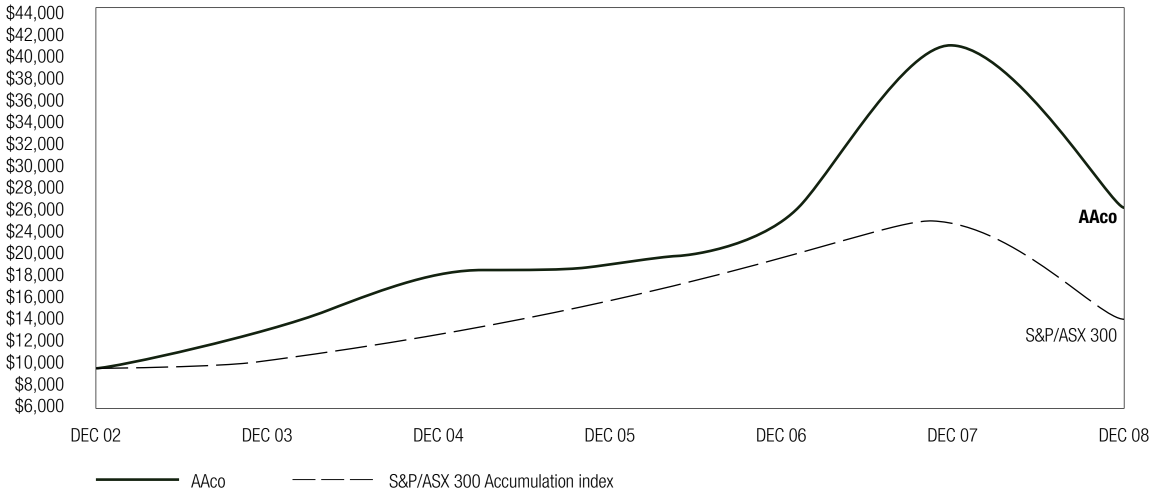
Earnings per share (EPS) on an annual calendar year basis are noted in the table below:

Per Share Statistics	2003	2004	2005	2006	2007	2008
EPS (to the nearest cent)	5 cents	16 cents	7 cents	4 cents	1.5 cents	(15.0 cents)

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



Series 1 = The Company Total shareholder return
Series 2 = S&P ASX 300 Accumulation index.

EMPLOYMENT CONTRACTS

AAco Group employees are employed by the subsidiary companies, AA Company Pty Ltd and Chefs Partner Pty Ltd.

The Chief Executive Officer (CEO) is employed under an Executive Service Agreement. The agreement has no fixed term and provides that:

> The CEO 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 the CEO's employment by 12 months written notice or provide payment in lieu of the notice period based on the CEO'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 the CEO's employment if serious misconduct has occurred.

D. Mackay resigned as Managing Director and Chief Executive Officer of the Company and his Executive Service Agreement was terminated on 22 January 2008. Upon termination D. Mackay received a payment of $297,500 in respect of accumulated long service leave and a termination benefit payment of $505,463. The Board determined that no extensions or amendments should be made to the original terms of options held by him.

N. Burton Taylor acted as Chief Executive Officer of the Company, in addition to his position as Chairman from 22 January 2008 until his retirement from both positions on 21 May 2008. N. Burton Taylor's executive service agreement reflected that of the CEO as detailed above, except that the appointment was stated to end when a replacement full time Chief Executive Officer was appointed by the Board and there was no entitlement to superannuation, STI or LTI. No additional termination benefit was paid to N. Burton Taylor upon his retirement.

S. Toms was appointed Chief Executive Officer on 12 August 2008, having acted in that role since 21 May 2008, on the same terms detailed above.

The executive service agreement for other senior managers generally reflect that of S. Toms, with the exception that notice periods by the employee and the Company are 6 months.

REMUNERATION OF KEY MANAGEMENT PERSONNEL AND THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP

	Short term			Post Employment	Long-term	Termination	Total	Performance Related
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Long service leave	Termination Benefits		
Directors	$	$	$	$	$	$	$	%
C. Bright								
31/12/08	**124,901**	**–**	**–**	**12,906**	**–**	**–**	**137,807**	**–**
31/12/07	94,000	–	–	8,460	–	–	102,460	–
B. Heading[1]								
31/12/08	**67,663**	**–**	**–**	**–**	**–**	**–**	**67,663**	**–**
31/12/07	–	–	–	–	–	–	–	–
P.Toyne[1]								
31/12/08	**61,042**	**–**	**–**	**–**	**–**	**–**	**61,042**	**–**
31/12/07	–	–	–	–	–	–	–	–
N. Burton Taylor[2]								
31/12/08	**192,178**	**–**	**–**	**6,143**	**–**	**–**	**198,321**	**–**
31/12/07	175,000	–	–	15,750	–	–	190,750	–
L.Wozniczka[1,3]								
31/12/08	**67,500**	**–**	**–**	**–**	**–**	**–**	**67,500**	**–**
31/12/07	90,000	–	–	–	–	–	90,000	–
D. Mackay[4]								
31/12/08	**46,108**	**–**	**2,698**	**3,612**	**297,500**	**505,463**	**855,381**	**–**
31/12/07	449,273	122,821	32,378	54,402	–	–	658,874	18.64
T. Fischer[2]								
31/12/08	**30,030**	**–**	**–**	**2,703**	**–**	**–**	**32,733**	**–**
31/12/07	77,000	–	–	6,930	–	–	83,930	–
C. Roberts[5]								
31/12/08	**39,000**	**–**	**–**	**3,510**	**–**	**–**	**42,510**	**–**
31/12/07	100,000	–	–	9,000	–	–	109,000	–
G. Paramor[5]								
31/12/08	**28,470**	**–**	**–**	**2,562**	**–**	**–**	**31,032**	**–**
31/12/07	34,500	–	–	3,105	–	–	37,605	–
P. Zachert[3]								
31/12/08	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
31/12/07	–	–	–	–	–	–	–	–
Total Remuneration:								
Directors								
31/12/08	**656,892**	**–**	**2,698**	**31,436**	**297,500**	**505,463**	**1,493,989**	
31/12/07	1,019,773	122,821	32,378	97,647	–	–	1,272,619	

1 *B. Heading's Directors' fees are paid to McCullough Robertson Lawyers, P.Toyne's Directors fees are paid to Eco Futures Pty Limited and L.Wozniczka's Directors fees are paid to Futuris Group.*
2 *N. Burton Taylor and T Fischer retired as Directors on 21 May 2008. N. Burton Taylor acted as CEO from 22 January 2008 to 21 May 2008.*
3 *L.Wozniczka resigned as a Director on 15 October 2008. P. Zachert acted as an alternate for L.Wozniczka until 15 October 2008.*
4 *D. Mackay resigned as Managing Director and CEO on 22 January 2008.*
5 *C. Roberts and G. Paramor resigned as Directors on 21 May 2008.*

REMUNERATION OF KEY MANAGEMENT PERSONNEL AND THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP (CONTINUED)

	Short term			Post Employment	Share based payment	Total	Performance Related
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Super-annuation	Options		
Executives	$	$	$	$	$	$	%
S. Toms[1]							
31/12/08	438,052	158,590	2,000	53,879	130,818	783,339	39.95
31/12/07	269,219	74,655	24,040	33,653	202,953	604,520	45.92
B. Bennett							
31/12/08	224,771	26,634	–	22,627	78,232	352,264	29.77
31/12/07	174,312	–	–	15,688	5,557	195,557	2.84
D. Connolly							
31/12/08	223,954	50,009	–	24,656	78,886	377,505	34.14
31/12/07	217,431	43,865	–	23,517	122,754	407,567	40.88
P. Dempsey							
31/12/08	223,486	35,651	–	23,323	77,159	359,619	31.37
31/12/07	212,844	44,100	–	23,126	120,026	400,096	41.02
A. Jones							
31/12/08	201,834	43,119	–	22,046	66,603	333,602	32.89
31/12/07	183,486	15,535	–	17,913	103,659	320,593	37.18
T. Gallagher[2]							
31/12/08	203,903	39,025	1,292	22,155	68,331	334,706	32.07
31/12/07	–	–	–	–	–	–	–
S. Kenny[3]							
31/12/08	153,908	–	10,465	14,794	–	179,167	–
31/12/07	–	–	–	–	–	–	–
Total Remuneration:							
Executives							
31/12/08	1,669,908	353,028	13,757	183,480	500,029	2,720,202	
31/12/07	1,057,292	178,155	24,040	113,897	554,949	1,928,333	

1 *S. Toms was appointed to the position of CEO on 12 August 2008.*

2 *T. Gallagher did not meet the definition of a key management person under AASB 124 for the 2007 financial year but is a key management person for 2008 as a result of a management restructure.*

3 *S. Kenny was appointed 14 April 2008.*

COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR (CONSOLIDATED)

	Terms and conditions for each grant						
31 December 2008	Granted No.	Grant date	Fair value per option at grant date ($) (note 29)	Exercise price per option ($) (note 29)	Expiry/last exercise date	First exercise date	Vested
Executives							
S. Toms[2]	300,000	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
B. Bennett[1]	76,000	02 Jan 2008	0.76	3.15	01 Jan 2013	01 Jan 2009	76,000
	143,939	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
D. Connolly[2]	179,545	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
P. Dempsey[2]	175,758	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
A. Jones[2]	151,515	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
T. Gallagher[2]	155,303	30 Oct 2008	0.22	3.27	01 Jan 2014	01 Jan 2009	–
Total	**1,182,060**						**76,000**

1 *B. Bennett received 76,000 options on 02 January 2008. These options vested immediately as they were issued in relation to the 2007 financial year.*

2 *Options issued on 30 October 2008 will vest one third each 1 January commencing 2009. There are vesting conditions relating to cessation of employment, death and permanent disability.*

OPTIONS GRANTED AS PART OF REMUNERATION (CONSOLIDATED)[1]

31 December 2008	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Executives				
S. Toms	65,000	–	–	16.7
B. Bennett[2]	88,947	–	–	22.2
D. Connolly	38,901	–	–	20.9
P. Dempsey	38,081	–	–	21.5
A. Jones	32,828	–	–	20.0
T. Gallagher	33,649	–	–	20.4

1 *For details on the valuation of the options, including models and assumptions used, please refer to note 29.*

2 *B. Bennett received 76,000 options on 02 January 2008. These options vested immediately as they were issued in relation to the 2007 financial year.*

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were no forfeitures of options granted to key management personnel during the period.

There were no shares issued to key management personnel on exercise of compensation options during the period.

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 Environmental Committee	Research and Development Committee
Current Directors					
C. Bright	18 (18)	5 (6)	1 (1)	2 (2)	2 (2)
B. Heading	12 (12)	3 (3)	1 (1)		2 (2)
P. Toyne	13 (13)	3 (3)		1 (1)	
Former Directors					
N. Burton Taylor	5 (5)	3 (3)	2 (2)		
D. Mackay					
T. Fischer	5 (5)	2 (2)		1 (1)	
C. Roberts	5 (5)	3 (3)	2 (2)		
L. Wozniczka*	10 (11)	5 (5)	3 (3)		
G. Paramor	5 (5)	1 (1)	1 (1)	1 (1)	

** P. Zachert attended Nil Meetings and Nil Board Audit Committee Meeting as alternate for L. 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	Independent Committee
Brett Heading (C)	Charles Bright (C)	Phillip Toyne (C)	Charles Bright (C)	Brett Heading
Phillip Toyne	Brett Heading	Brett Heading	Brett Heading	Phillip Toyne
Charles Bright	Phillip Toyne	Charles Bright #		
Les Wozniczka ~	*Les Wozniczka ~*	*Tim Fischer ~*	*Nick Burton Taylor ~*	*Nick Burton Taylor ~*
Chris Roberts ~	*Chris Roberts ~*	*Greg Paramor ~*		*Tim Fischer ~*
Nick Burton Taylor ~				*Greg Paramor ~*
				Chris Roberts ~
				Don Mackay ~

Notes:
(C) Designates the Chairman of the Committee as at the date of this report
~ Member during the year, before cessation of directorship
 # Member during the year, but not as at the date of this report

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 Ltd 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

We have obtained the following independent declaration from our auditors Ernst & Young.

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

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

In relation to our audit of the financial report of Australian Agricultural Company Limited for the financial year ended 31 December 2008, 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
Brisbane
10 February 2009

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:

	2008	2007
Income Tax Returns	NIL	$5,000

Signed in accordance with a resolution of the Directors.

Charles Bright
Acting Chairman

Brisbane
10 February 2009

Corporate Governance Statement

The Board is responsible for the corporate governance of the consolidated entity. The Company has adopted a Risk and Compliance Framework to ensure that the Company 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 published guidelines and corporate governance principles released by the ASX Corporate Governance Council (CGC).

The table below summarises the Company's compliance with the CGC's recommendations as at the date of this report.

	Recommendation	Comply Yes/No	Reference/ Explanation	ASX LR / Recommendation
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT				
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 36	*ASX LR 1.1*
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 36	*ASX LR 1.2*
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 36	*ASX LR 1.3*
PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE				
2.1	A majority of the Board should be independent directors.	Yes*	Page 36	*ASX LR 2.1*
2.2	The chair should be an independent director.	No	Page 37	*ASX LR 2.2*
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes*	Page 37	*ASX LR 2.3*
2.4	The Board should establish a nomination committee with recommended composition.	Yes*	Page 37	*ASX LR 2.4*
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes	Page 39	*ASX LR 2.5*
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 36	*ASX LR 2.6*
PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: > The practices necessary to maintain confidence in the Company's integrity; > The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and > The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Page 37	*ASX LR 3.1*
3.2	Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 37	*ASX LR 3.2*
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 37	*ASX LR 3.3*

***** *Meaning as at the date of this report but not for the full year.*

	Recommendation	Comply Yes/No	Reference/ Explanation	ASX LR / Recommendation
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING				
4.1	The Board should establish an audit committee.	Yes	Page 38	*ASX LR 4.1*
4.2	The audit committee should be structured so that it:	Yes*	Page 38	*ASX LR 4.2*
	> Consists only of non-executive directors; > Consists of a majority of independent directors; > Is chaired by an independent chair, who is not chair of the Board; and > Has at least three members.			*ASX LR 12.7*
4.3	The audit committee should have a formal charter.	Yes	Page 38	*ASX LR 4.3*
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Page 38	*ASX LR 4.4*
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE				
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page 38	ASX LR 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 38	ASX LR 5.2
PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 38	ASX LR 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 38	ASX LR 6.2
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 38	ASX LR 7.1
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	Page 38	ASX LR 7.2
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer [or equivalent] and the Chief Financial Officer [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 39	ASX LR 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 38	ASX LR 7.4

***** Meaning as at the date of this report but not for the full year.*

	Recommendation	Comply Yes/No	Reference / Explanation	ASX LR / Recommendation
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY				
8.1	The Board should establish a remuneration committee with recommended composition	No	Page 39	ASX LR 8.1
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive remuneration directors and senior executives.	Yes	Page 39	ASX LR 8.2
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Page 39	ASX LR 8.3

Principle 1: Lay Solid Foundations for Management and Oversight

The Board is responsible to the Company's 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 relevant to the position of director held by each director in office at the date of the annual report are included in the directors' report on pages 13-33.

Name	Term in Office
C. Bright	5yrs 1 month
P. Toyne	7 months
B. Heading	6 months

The composition of the Board went through significant change during 2008. The year commenced with a Board of 6 directors (4 independent, 2 non-independent) and, as at 31 December 2008 the Board consists of 3 members (2 independent, 1 non-independent).

Directors of the Company 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 be reasonably perceived to interfere with, the exercise of their unfettered and independent judgement.

In accordance with the definition above, the following directors of the Company during the period are considered independent.

Name	Position	Status
P. Toyne	Non-executive director	Current
B. Heading	Non-executive director	Current
T. Fischer	Non-executive director	Retired 21 May 2008
C. Roberts	Non-executive director	Resigned 21 May 2008
G. Paramor	Non-executive director	Resigned 21 May 2008

From January 2008 to 15 October 2008, the Company did not have a majority of independent directors on the Board. This was due to the changes in composition of the Board. With the resignation of D. Mackay (MD/CEO) on 22 January 2008, the then chairman, N. Burton Taylor, undertook the role of Acting CEO to 21 May 2008 (when he retired as a Director). During this period the Board consisted of an equal number of independent and non-independent directors.

At the Company's Annual General Meeting on 21 May 2008, N. Burton Taylor stood for re-election but was not re-elected, T. Fischer retired and C. Roberts and G. Paramor resigned from the Board. These retirements and resignations left the Company with a caretaker Board consisting of two non-independent directors, C. Bright and L. Wozniczka. On 21 May 2008, P. Toyne was appointed as an independent director to the Board. On 17 June 2008, B. Heading was appointed as an independent director to the Board. These appointments resulted in an equal number of independent and non-independent directors on the Board.

L. Wozniczka resigned from the Board on 15 October 2008, which left the Company with a majority of independent directors on the Board, consistent with the Corporate Governance Council's recommendations. This position has remained unchanged since 15 October 2008.

The Board notes the Corporate Governance Council's recommendation that the Chairman should be an independent director. It is the Board's view that neither Acting Chairman C. Bright, nor former Chairman N. Burton Taylor are considered to be independent directors.

From 22 January 2008 to 21 May 2008 the role of Chairman and Acting CEO was performed by N. Burton-Taylor, which is not in accordance with recommendations 2.2 and 2.3 of the ASX Corporate Governance Council published guidelines. N. Burton-Taylor performed the role of Acting CEO whilst the Board undertook an executive search for a replacement CEO. When N. Burton Taylor was not re-elected to the Board on 21 May 2008, the roles of Chairman and Acting CEO were taken over by separate individuals, consistent with the guidelines.

The Board believes the Acting Chairman, C. Bright, is the most appropriate person to serve as Acting Chairman until a replacement Chairman is appointed to the Board. He has significantly longer experience on the Board than P. Toyne and B. Heading, who were appointed in May 2008 and June 2008 respectively.

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 5 Board committees:

> Board Audit Committee (discussed under Principle 4)
> Board Remuneration and Nomination Committee
> Board Health, Safety and Environmental Committee
> Board Research and Development Committee
> Board Independent Sub-committee

At times during the year, the Board Remuneration and Nomination Committee did not maintain the structure as per Recommendation 2.4 and 8.1.

The Board Remuneration and Nomination Committee did not have a majority of independent directors for part of the year to 15 October 2008, due to the changes to the composition of the Board, as detailed above. Subsequent to 15 October 2008, the Board Remuneration and Nomination Committee consists of a majority of independent directors, which is consistent with the guidelines recommendation.

C. Bright, the Acting Chairman of the Board Remuneration and Nomination Committee, is not independent as required under Recommendations 2.4 and 8.1 of the guidelines. The Board believes that C. Bright is the most appropriate director to chair this committee, at this time, due to his experience with the Company.

Subsequent to October 2007, the Board formed an independent Sub-committee of independent directors to oversee any matters where an actual or potential conflict between the interests of the Company and the interests of the Company's major shareholder Futuris Corporation Limited (FCL) may exist. The matters presently overseen by the Board Independent Sub-committee are the legal action by the Company against Elders Limited (a subsidiary of FCL) (details provided on page 21 of the Directors Report) as well as aspects of the prospective sale of FCL's 43% shareholding in the Company (refer details on page 21 of the Directors Report). The current members of the Board Independent Sub-committee are P. Toyne and B. Heading.

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 the high standards of corporate and individual behavior 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 13 to 15 of the Directors Report.

The number of meetings of the Board Audit Committee and attendance by the Board Audit Committee Members are shown on page 31 of the Directors Report.

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

The Chief Executive Officer/Chief Financial Officer has, under principle 4.1, signed off that the accounts present a true and fair view.

The composition of the Board Audit Committee changed during the period due to resignations and new appointments of Board members. This resulted in some time during the year where there was not a majority of independent directors, the chair of the committee was not independent and a brief period where the committee had only two members.

The above situations were rectified as soon as suitable directors were available for membership of the Board Audit Committee. As at the date of this report, all recommended guidelines from the ASX Corporate Governance Council are being complied with.

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 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 by proxy. All Directors and senior management attend the meeting, along with the external auditor.

Principle 7: Recognise and Manage Risk
The Board acknowledges the Revised Supplementary Guidance to Principle 7 issued by the ASX in June 2008, and continues to improve the risk management activities of the Company.

The Board has ultimate responsibility for risk management and compliance across the Company. Specific responsibility for the oversight of the risk management and compliance process is delegated to the Board Audit Committee.

The Company's Risk and Compliance Framework has been developed with reference to Australian Standard 4360 Risk Management, and includes:

> The Board approved Risk Management Policy (published on the Company's website);
> The consolidated Risk Register, detailing key strategic, operational, compliance, and financial risks;
> The Risk Review Committee, with members from the executive team; and
> An accredited ISO 9001:2000 Quality Management System including a detailed set of policies and procedures for Company activities.

The Company carries out a formal risk review, including revision of insurance policies that the Company has in place, on an annual basis. Identified material business risks have assigned risk ratings and appropriate controls developed or mitigating circumstances documented. The Company has a risk awareness culture, and all members of the management team have a responsibility for risk in their area.

The Risk Review Committee, comprising members of the Company's management team, assists the Board to ensure that risk management activities within the Company are carried out in accordance with the Risk and Compliance Framework. The Risk Review Committee meets quarterly and reports to directors on the effectiveness of the Company's management of its material business risks and any other matters are included in the Risk and Compliance Report submitted to the Board.

To assist stakeholders in understanding the nature of the risks faced by the Company, the Board has prepared a list of key operational risks as part of this Principle 7 disclosure. This list is by no means exhaustive, and will be subject to change based on underlying market events.

Company Key Operational Risks

> Workplace Health and Safety
> Biosecurity threats
> Food Safety threats
> Cattle supply and costs of operation
> Environmental issues including water and climate change

The Company is currently negotiating a co-sourced arrangement with BDO Kendalls Chartered Accountants to conduct internal audit activities. This function will assist the Company in providing assurance on the adequacy of the Company's Risk and Compliance Framework, and identifying areas for improvement.

Chief Executive Officer/Chief Financial Officer (CEO/CFO) Declaration

In accordance with section 295A of the Corporations Act, the Chief Executive Officer/Chief Financial Officer has provided a written statement to the Board that to the best of his knowledge:

> His view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board
> The Company's risk management and internal compliance and control system is operating effectively in all material respects

Please refer to the risk management and compliance section of the Directors' Report on page 20 for additional information.

Principle 8: Remunerate Fairly and Responsibly

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 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.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, including the Chief Executive Officer and the senior executive team. To assist in this process, the Board has a Board Remuneration and Nomination Committee, (the Committee) comprising three non executive Directors. Members of the Committee are shown on page 31 of the Directors Report, together with details of the Committee meetings held and attendees at those meetings.

The Charter of the Board Remuneration and Nomination Committee is available on the Company's website.

The nature and amount of the 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.

Currently no director or executive uses hedging instruments to limit their exposure to risk on either shares or options in the Company. The Company's policy is that the use of such hedging instruments is prohibited.

For details of the amount of remuneration and all monetary and non-monetary components for all of the Directors and each of the key executives during the year, refer to the Remuneration Report.

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

Brisbane
10 February 2009

Financial Statements

Income Statement

for the year ended 31 December 2008

	Note	Consolidated		Parent	
		Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
		$000	$000	$000	$000
Revenue	3	237,144	248,977	71,385	40,044
Profit/(loss) from disposal of non-current assets		(264)	529	(76)	(150)
		236,880	249,506	71,309	39,894
Employee expenses	3(f)	(33,895)	(34,731)	–	–
Cattle expenses		(19,735)	(15,066)	–	–
Cattle agistment costs		(5,967)	(426)	–	–
Feedlot cattle expenses		(33,375)	(31,682)	–	–
Fuel expenses		(9,499)	(6,587)	–	–
Farming expenses		(4,544)	(2,471)	–	–
Other station operating costs		(9,684)	(9,123)	–	–
Lease and property related costs		(4,651)	(5,117)	–	–
Business development and other non station operating costs		(778)	(912)	–	–
Cost of goods sold of value-add businesses		(86,402)	(90,600)	–	–
Administration and other costs		(11,238)	(12,107)	(245)	(1,296)
Operating expenses		(219,768)	(208,822)	(245)	(1,296)
Profit from continuing operations before finance costs, income tax, depreciation and amortisation		17,112	40,684	71,064	38,598
Depreciation and amortisation	3(c)	(11,615)	(10,395)	(810)	(813)
Earnings before finance costs and income tax expense		5,497	30,289	70,254	37,785
Mark to market valuation of interest rate swaps		(24,850)	447	(24,850)	447
Interest and finance expenses	3(d)	(34,065)	(27,903)	(33,579)	(27,444)
Finance costs		(58,915)	(27,456)	(58,429)	(26,997)
Profit/(loss) from continuing operations before income tax		(53,418)	2,833	11,825	10,788
Income tax benefit/(expense)	4	14,702	753	16,594	8,759
Profit/(loss) from continuing operations after related income tax expense		**(38,716)**	**3,586**	**28,419**	**19,547**
Net loss/(profit) attributable to minority interests		–	59	–	–
Net profit/(loss) attributable to members of the parent entity	18		3,645	28,419	19,547
Basic earnings per share (cents per share)	32	(15.0)	1.5		
Diluted earnings per share (cents per share)	32	(15.0)	1.4		
Unfranked dividend per share (cents per share)	5	7.0	9.0		

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

Balance Sheet

As at 31 December 2008

		Consolidated		Parent	
		31/12/08	31/12/07	31/12/08	31/12/07
	Note	$000	$000	$000	$000
Current Assets					
Cash and cash equivalents	19	20,047	8,487	415	1,546
Receivables	6	11,415	10,633	180	120
Interest rate swaps		–	2,017	–	2,017
Inventories	7	22,830	25,382	–	–
Biological assets – livestock	8	129,127	127,305	–	–
Current tax assets		–	874	–	12,497
Other assets		451	979	–	705
Total Current Assets		183,870	175,677	595	16,885
Non-Current Assets					
Receivables	9	89	209	708,173	616,650
Biological assets – livestock	8	292,678	299,199	–	–
Property, plant and equipment	10	847,254	810,397	72,390	73,484
Investment – at cost	11	–	–	72,136	70,979
Deferred tax assets	4	8,295	1,673	6,861	114
Intangible assets	12	10,130	10,945	2,254	2,254
Total Non-Current Assets		1,158,446	1,122,423	861,814	763,481
Total Assets		**1,342,316**	**1,298,100**	**862,409**	**780,366**
Current Liabilities					
Payables	13	30,691	18,163	11,490	156
Provisions	14	2,634	2,853	–	–
Interest bearing liabilities	15	2,320	1,860	–	–
Interest rate swaps		22,834	–	22,834	–
Current tax liabilities		6,188	–	6,188	–
Total Current Liabilities		64,667	22,876	40,512	156
Non-Current Liabilities					
Provisions	14	600	465	–	–
Interest bearing liabilities	15	426,387	417,343	424,537	415,000
Deferred tax liabilities	4	145,407	131,852	16,168	16,280
Total Non-Current Liabilities		572,394	549,660	440,705	431,280
Total Liabilities		**637,061**	**572,536**	**481,217**	**431,436**
Net Assets		**705,255**	**725,564**	**381,192**	**348,930**
Equity					
Issued capital	16	172,785	154,070	177,409	158,507
Reserves	17	518,297	500,617	176,680	173,751
Retained profits (accumulated losses)	18	14,173	70,877	27,103	16,672
Total parent entity interest in equity		705,255	725,564	381,192	348,930
Total minority interest	16(b)	–	–	–	–
Total Equity		**705,255**	**725,564**	**381,192**	**348,930**

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

Cash Flow Statement

for the year ended 31 December 2008

		Consolidated		Parent	
		Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	Note	$000	$000	$000	$000
Cash Flows from Operating Activities					
Receipts from customers		268,597	266,072	–	15
Payments to suppliers, employees and others		(246,775)	(265,155)	–	–
Income tax received		5,655	113	6,665	–
Interest received		1,808	317	1,376	29
Net GST received from ATO		4,299	5,361	4,299	5,361
Proceeds from AMP settlement		–	10,000	–	10,000
Stanbroke legal costs		–	(1,246)	–	(1,233)
Net operating cash flows before interest and finance costs		33,584	15,462	12,340	14,172
Payment of interest and finance costs		(22,843)	(36,648)	(22,357)	(36,189)
Net operating cash flows	**19(b)**	**10,741**	**(21,186)**	**(10,017)**	**(22,017)**
Cash Flows from Investing Activities					
Payments for property, plant and equipment and other assets		(9,623)	(31,185)	–	–
Proceeds from sale of property, plant and equipment		374	2,634	–	–
Repayment from/(advance to) controlled entities		–	–	(1,370)	(24,405)
Net investing cash flows		**(9,249)**	**(28,551)**	**(1,370)**	**(24,405)**
Cash Flows from Financing Activities					
Proceeds from issue of shares		531	991	719	991
Proceeds from borrowings		9,537	51,400	9,537	51,400
Payment of dividends		–	(4,992)		(4,992)
Net financing cash flows		**10,068**	**47,399**	**10,256**	**47,399**
Net (decrease)/increase in cash and cash equivalents held		11,560	(2,338)	(1,131)	977
Cash and cash equivalents at the beginning of the financial period		8,487	10,825	1,546	569
Cash and cash equivalents at the end of the financial period	**19(a)**	**20,047**	**8,487**	**415**	**1,546**

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

Statements of Changes in Equity

for the year ended 31 December 2008

	Attributable to equity holders of the consolidated entity					
	Issued capital	Reserves	Retained earnings	Total	Minority interest	Total equity
CONSOLIDATED	$000	$000	$000	$000	$000	$000
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
Total income and expense for the period recognised directly in Equity	–	141,780	–	141,780	–	141,780
Profit for the period	–	–	3,645	3,645	(59)	3,586
	135,400	498,914	93,355	727,669	65	727,734
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
Cost of share-based payment	–	1,736	–	1,736	–	1,736
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**
Fair value revaluation of land and buildings	–	28,035	–	28,035	–	28,035
Adjustment to reset tax cost bases	–	(11,513)	–	(11,513)	–	(11,513)
Total income and expense for the period recognised directly in Equity	–	16,522	–	16,522	–	16,522
Profit for the period	–	–	(38,716)	(38,716)	–	(38,716)
	154,070	517,139	32,161	703,370	–	703,370
Issue of share capital under dividend reinvestment plan	17,973	–	–	17,973	–	17,973
Exercise of options	532	–	–	532	–	532
Tax effect of capitalised rights issue costs	86	–	–	86	–	86
Cost of share-based payment	–	1,158	–	1,158	–	1,158
Issue of share capital under employee share plan	124	–	–	124	–	124
Equity dividends	–	–	(17,988)	(17,988)	–	(17,988)
At 31 December 2008	**172,785**	**518,297**	**14,173**	**705,255**	**-**	**705,255**

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

	Attributable to equity holders of the parent entity					
	Issued capital	Reserves	Retained earnings	Total	Minority interest	Total equity
PARENT	$000	$000	$000	$000	$000	$000
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
Total income and expense for the period recognised directly in Equity	–	10,268	–	10,268	–	10,268
Profit for the period	–	–	19,547	19,547	–	19,547
	139,837	172,048	39,150	351,035	–	351,035
Issue of share capital under dividend reinvestment plan	17,464	–	–	17,464	–	17,464
Exercise of options	991	–	–	991	–	991
Cost of share-based payment	–	1,736	–	1,736	–	1,736
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**
Fair value revaluation of land and buildings	–	(208)	–	(208)	–	(208)
Adjustment to reset tax cost bases	–	1,979	–	1,979	–	1,979
Total income and expense for the period recognised directly in Equity	–	1,771	–	1,771	–	1,771
Profit for the period	–	–	28,419	28,419	–	28,419
	158,507	175,522	45,091	379,120	–	379,120
Issue of share capital under dividend reinvestment plan	17,973	–	–	17,973	–	17,973
Exercise of options	719	–	–	719	–	719
Cost of share-based payment	–	1,158	–	1,158	–	1,158
Issue of share capital under employee share plan	124	–	–	124	–	124
Tax effect of capitalised rights issue costs	86	–	–	86	–	86
Equity dividends	–	–	(17,988)	(17,988)	–	(17,988)
At 31 December 2008	**177,409**	**176,680**	**27,103**	**381,192**	**–**	**381,192**

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

1. CORPORATE INFORMATION

The financial report of Australian Agricultural Company Limited for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 10 February 2009.

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 principle 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 2008 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 2008 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual reporting periods beginning on or after 1 January 2008. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

> AASB 2007 – 1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11 (AASB2)*
> AASB 2007 – 2 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12 (AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139)*
> AASB 2007 – 4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038)*
> AASB 2007 – 5 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities (AASB 102)*
> AASB 2007 – 7 *Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128)*
> AASB Interpretation 4 (revised) *Determining whether an Arrangement contains a Lease*
> AASB Interpretation 11 AASB 2 – *Group and Treasury Share Transactions*
> AASB Interpretation 12 *Service Concession Arrangements*
> AASB Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
> AASB Interpretation 129 *Service Concession Arrangements: Disclosures*
> AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*

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 reported 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)(v)
> Fair value determination of land refer note 2(e)(v)
> Fair value determination of livestock refer note 2(e)(iii)
> Fair value determination of derivative financial instruments refer note 2(e)(xx)

(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 26) 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 26).

(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) 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.

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.

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.

Livestock

Determination of net market value of livestock:

At 31 December 2008 the Consolidated Entity has approximately 362,686 breeding cattle (31 December 2007: 325,278) and 227,696 non-breeding cattle (31 December 2007: 262,902).

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.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Consolidated Entity's herd profile is as follows:

	Number of Cattle	
	31 December 2008	31 December 2007
Breeding		
Commercial and bull breeding herd	362,686	325,278
Non-Breeding		
Trading cattle	227,696	262,902
Total	**590,382**	**588,180**

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 long 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 short 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 2008. These valuations have remained consistent to 31 December 2008.

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.

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.

(iv) Foreign currency translation

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

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.

(v) Property, plant and equipment

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

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

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

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

Impairment

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

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

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

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluations

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

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

All pastoral and perpetual property leases have been classified as property, plant and equipment in the balance sheet at 31 December 2008. 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.

(vi) Finance costs

Finance costs are recognised as an expense when incurred.

(vii) 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.

(viii) 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.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(ix) 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.

(x) 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.

(xi) 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.

(xii) 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.

(xiii) 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.

(xiv) 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.

(xv) 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.

(xvi) Leases

a) Pastoral and Perpetual property leases

Pastoral and perpetual property leases have been included in Property, Plant and Equipment at 31 December 2008. (Refer note 2(e)(v)).

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.

(xvii) 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.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xviii) Other taxes

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

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

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

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

(xix) 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.

(xx) 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 3 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 6 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.

	Consolidated		Parent	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	$000	$000	$000	$000
3. REVENUES AND EXPENSES				
(a) Revenue				
Cattle revenue (including revaluation)*	124,816	126,745	–	–
Other livestock revenue	411	2,815	–	–
Crop revenue	8,565	4,299	–	–
Revenue from sale of goods of value-add businesses	99,337	100,297	–	–
Revenue from rendering of services	–	610	–	–
	233,129	234,766	–	–

* *Included in cattle revenue is a net increment in market value of livestock of $13,531,000 (31/12/07: net increment $459,372)*

(b) Other revenues				
Dividends:				
– wholly owned group	–	–	70,000	30,000
Interest income:				
– unrelated parties	1,808	317	1,376	29
Proceeds from AMP settlement*	–	10,000	–	10,000
Other revenue	2,207	3,894	9	15
Total other revenue	4,015	14,211	71,385	40,044
Total revenues for operating activities	**237,144**	**248,977**	**71,385**	**40,044**

* During the year ended 31/12/07 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	3,916	3,233	505	504
– Plant and equipment	6,884	6,337	305	309
	10,800	9,570	810	813
Amortisation of:				
– Other intangibles	815	825	–	–
Total depreciation and amortisation	11,615	10,395	810	813
(d) Interest and finance expenses				
Bank loans and overdrafts	32,952	27,476	32,916	27,432
Other financing charges	758	95	663	12
Finance charges payable under finance leases and hire purchase contracts	355	332	–	–
Total interest and finance expenses (on historical cost basis)	34,065	27,903	33,579	27,444
(e) Other expense items				
Provision for employee benefits				
– Annual leave	2,147	2,166	–	–
– Long service leave	108	200	–	–
Total provision for employee benefits	2,255	2,366	–	–
Operating lease rentals	2,111	3,084	–	–
Research and development costs	121	167	–	–

	Consolidated		Parent	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	$000	$000	$000	$000
3. REVENUES AND EXPENSES (CONTINUED)				
(f) Employee expenses				
Salaries and wages	26,879	28,091	–	–
Workers' compensation costs	1,052	1,065	–	–
Superannuation costs	2,328	2,167	–	–
Post-employment benefits	822	48	–	–
Expense of share-based payments	1,282	1,865	–	–
Payroll tax	1,532	1,495	–	–
	33,895	34,731	–	–
4. INCOME TAX				
Major components of income tax expense for the years ended 31 December 2008 and 31 December 2007 are:				
Income Statement				
Current income tax				
Current income tax charge	3,372	1,866	(9,838)	(9,644)
Previous period adjustments	–	370	–	370
Deferred income tax				
Relating to origination and reversal of temporary differences	(18,074)	(2,989)	(6,756)	515
Income tax (benefit)/expense reported in income statement	**(14,702)**	**(753)**	**(16,594)**	**(8,759)**
Statement of changes in equity				
Deferred income tax				
Net gain on revaluation of land and buildings	(25,008)	(61,046)	103	(4,373)
Tax effect of capitalised rights issue costs	86	86	86	86
Income tax benefit reported in equity	**(24,922)**	**(60,960)**	**189**	**(4,287)**
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 2008 and 31 December 2007 is as follows:				
Profit from continuing operations	(53,418)	2,833	11,825	10,788
At the statutory income tax rate of 30% (2007: 30%)	(16,025)	850	3,548	3,236
Non-assessable dividends	–	–	(21,000)	(9,000)
Capital losses recouped	–	(2,195)	–	(2,195)
Non-assessable capital gain	1,138	(919)	1,138	(805)
Amortisation of intangible assets	247	247	–	–
Building depreciation not deductible	1,202	971	151	151
Capital allowance on buildings	(910)	(679)	(98)	(112)
Over provision in prior years	(669)	54	336	415
Other items (net)	315	918	(669)	(449)
Income tax (benefit)	**(14,702)**	**(753)**	**(16,594)**	**(8,759)**

	Balance Sheet		Income Statement	
			Year ended	Year ended
	31/12/08	31/12/07	31/12/08	31/12/07
	$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	173	264	91	120
Investments	–	–	–	(485)
Revaluations of land and buildings to fair value	(103,771)	(78,764)	–	–
Revaluations of trading stock for tax purposes	(41,809)	(53,352)	(11,543)	(3,015)
	(145,407)	**(131,852)**		
CONSOLIDATED				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	94	200	106	489
Investments	8	8	–	–
Leave entitlements	970	995	25	(70)
Other employee costs	333	369	36	4
Interest rate swaps	6,850	–	(6,850)	
Accruals and other	40	101	61	(32)
	8,295	**1,673**	**(18,074)**	**(2,989)**
PARENT				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(40)	(50)	(9)	–
Revaluations of land & buildings to fair value	(16,128)	(16,230)	–	–
Revaluation of trading stock for tax purposes	–	–	–	–
Other	–	–	–	–
	(16,168)	**(16,280)**		
PARENT				
Deferred income tax assets				
Capitalised expenses accelerated for book purposes	3	106	103	486
Investments	8	8	–	–
Other employee costs	–	–	–	29
Interest rate swaps	6,850	–	(6,850)	–
	6,861	**114**	**(6,756)**	**515**

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.

	Note	Consolidated Year ended 31/12/08 $000	Consolidated Year ended 31/12/07 $000	Parent Year ended 31/12/08 $000	Parent Year ended 31/12/07 $000
5. DIVIDENDS PAID ON ORDINARY SHARES					
Dividends declared and paid during the year					
Final dividend 7.00 cents per share, 0% franked (2007: 7.00 cents per share, 0% franked)		17,988	17,486	17,988	17,486
Special dividend 2.00 cents per share, 0% franked, paid on 12 April 2007		–	4,992	–	4,992
	18	17,988	22,478	17,988	22,478
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% (2007: 30%)				(5,388)	267
– franking credits that will arise from the payment of income tax payable as at the end of the financial year				5,388	–
				–	267

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	1 Oct 2008
Final	7.00	0	5 Oct 2007
Interim	2.00	0	12 Apr 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 31/12/08 $000	Consolidated 31/12/07 $000	Parent 31/12/08 $000	Parent 31/12/07 $000
6. RECEIVABLES (CURRENT)				
Trade debtors	10,087	9,511	–	–
Sundry debtors	1,328	1,122	180	120
	11,415	10,633	180	120
Trade debtors are non interest bearing and are generally on 14 day terms.				
7. INVENTORIES (CURRENT)				
Bulk stores – at cost	8,498	8,417	–	–
Feedlot commodities – at cost	11,281	13,160	–	–
Other – at cost	3,051	3,805	–	–
Total current inventories	22,830	25,382	–	–

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
8. BIOLOGICAL ASSETS – LIVESTOCK				
Current				
Cattle at net market value				
(31 December 2008: 180,450 head, 31 December 2007: 206,675 head)	129,011	127,223	–	–
Other livestock at net market value	116	82	–	–
Total current livestock	129,127	127,305	–	–
Non-Current				
Livestock at net market value				
(31 December 2008: 409,932 head, 31 December 2007: 381,505 head)	289,310	296,216	–	–
Other livestock at net market value	3,368	2,983	–	–
Total non-current livestock	292,678	299,199	–	–
	421,805	**426,504**	**–**	**–**
Livestock Movement				
Carrying amount at 1 January	426,504	406,519	–	–
Gain/(loss) from changes to fair value less estimated point of sale costs	149,410	124,674	–	–
Purchases of livestock	40,563	49,762	–	–
Sale of livestock	(194,672)	(154,451)	–	–
Carrying amount at 31 December	**421,805**	**426,504**	**–**	**–**
9. RECEIVABLES (NON-CURRENT)				
Non-trade amounts owing by:				
Related parties				
– Wholly owned group	–	–	708,084	616,441
Other receivables	89	209	89	209
Total non-current receivables	89	209	708,173	616,650

		Consolidated		Parent	
		31/12/08	31/12/07	31/12/08	31/12/07
	Note	$000	$000	$000	$000
10. PROPERTY, PLANT AND EQUIPMENT					
Freehold Land					
Opening balance, at fair value		103,438	67,290	5,173	1,673
Additions		–	2,763	–	–
Net amount of revaluation increments less decrements		68	33,385	344	3,500
Closing balance, at fair value	(a)	103,506	103,438	5,517	5,173
Pastoral Leases					
Opening balance, at fair value		580,633	411,173	56,240	45,099
Net amount of revaluation increments less decrements		39,584	169,460	(552)	11,141
Closing balance, at fair value	(b)	620,217	580,633	55,688	56,240
Buildings and Improvements					
Opening balance, at fair value		113,885	93,640	12,733	12,733
Additions		4,016	20,251	–	–
Disposals		(109)	(6)	–	–
Closing balance, at fair value	(a)	117,792	113,885	12,733	12,733
Accumulated Depreciation					
Opening balance		(18,637)	(15,405)	(3,386)	(2,882)
Depreciation for the year		(3,916)	(3,233)	(505)	(504)
Disposals		18	1	–	–
Closing balance	(a)	(22,535)	(18,637)	(3,891)	(3,386)
Fair Value		117,792	113,885	12,733	12,733
Accumulated depreciation and impairment		(22,535)	(18,637)	(3,891)	(3,386)
Net carrying amount		95,257	95,248	8,842	9,347
Net freehold land, pastoral leases, buildings and improvements		818,980	779,319	70,047	70,760
Plant and Equipment					
Opening balance, at cost		59,286	52,830	4,449	4,449
Additions		4,626	8,220	–	–
Disposals		(1,915)	(1,673)	(132)	–
Disposals through sale of entities/operations		–	(91)	–	–
Closing balance, at cost		61,997	59,286	4,317	4,449
Accumulated Depreciation					
Opening balance		(28,208)	(23,024)	(1,725)	(1,416)
Depreciation for the year		(6,884)	(6,337)	(305)	(309)
Disposals		1,369	1,108	56	–
Disposals through sale of entities/operations		–	45	–	–
Closing balance		(33,723)	(28,208)	(1,974)	(1,725)
Net plant and equipment		28,274	31,078	2,343	2,724
Total property, plant and equipment, net		847,254	810,397	72,390	73,484

10. 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 2008. Fair value was determined by reference to an open market basis, being the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the valuation date. The controlled entity has developed a process where properties are independently valued on a three year rolling basis. Each year approximately one third of properties covering all regions are valued. 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 2008.

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	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
Deemed cost	305,467	299,762	11,690	11,761
Accumulated depreciation	(22,535)	(18,637)	(3,891)	(3,386)
Net carrying amount	282,932	281,125	7,799	8,375

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

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

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
11. INVESTMENTS AT COST (NON-CURRENT)				
Investments:				
Investment in controlled entities, at cost	–	–	73,255	72,098
Impairment to recoverable amount	–	–	(1,119)	(1,119)
Total investments	–	–	72,136	70,979

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
12. INTANGIBLE ASSETS (NON-CURRENT)				
Goodwill				
At 1 January (net of accumulated amortisation)	4,303	4,634	1,176	1,176
Disposals	–	(331)	–	–
At 31 December (net of accumulated amortisation)	4,303	4,303	1,176	1,176
Goodwill	9,932	9,932	1,268	1,268
Accumulated amortisation	(5,629)	(5,629)	(92)	(92)
Goodwill, net	4,303	4,303	1,176	1,176
Agistment rights				
At 1 January (net of accumulated amortisation)	4,915	5,729	–	–
Amortisation	(815)	(814)	–	–
At 31 December (net of accumulated amortisation)	4,100	4,915	–	–
Agistment rights	8,162	8,162	–	–
Accumulated amortisation	(4,062)	(3,247)	–	–
Agistment rights, net	4,100	4,915	–	–
Other intangibles				
At 1 January (net of accumulated amortisation)	1,727	3,348	1,078	1,078
Disposals	–	(1,621)	–	–
At 31 December (net of accumulated amortisation)	1,727	1,727	1,078	1,078
Other intangibles	2,619	2,619	1,664	1,664
Accumulated amortisation	(892)	(892)	(586)	(586)
Other intangibles, net	1,727	1,727	1,078	1,078
Total intangible assets, net	10,130	10,945	2,254	2,254

For the year ended 31 December 2008, 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 prior year the Consolidated Entity disposed of an intangible asset relating to the Consolidated Entity's interest in the Environinvest Beef Cattle Project.

		Consolidated		Parent	
		31/12/08	31/12/07	31/12/08	31/12/07
	Note	$000	$000	$000	$000
13. PAYABLES (CURRENT)					
Trade creditors	(a)	12,939	9,848	–	–
Other creditors and accruals		17,752	8,315	11,490	156
Total current payables		30,691	18,163	11,490	156

(a) Includes $1,728,000 (31/12/07: $920,000) 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	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
14. PROVISIONS				
At 1 January	3,318	3,178	–	–
Arising during year	2,255	2,366	–	–
Utilised	(2,339)	(2,226)	–	–
At 31 December	3,234	3,318	–	–
Employee benefits:				
– annual leave	1,791	1,799	–	–
– long service leave	843	1,054	–	–
Total current provisions	2,634	2,853	–	–
Employee benefits:				
– long service leave	600	465	–	–
Total other non current provisions	600	465	–	–
	3,234	3,318	–	–

The consolidated entity employed 415 full-time equivalent employees as at 31 December 2008 (31 December 2007: 472 employees).

15. INTEREST BEARING LOANS AND BORROWINGS

Current				
Obligations under finance leases	2,320	1,860	–	–
	2,320	1,860	–	–
Non-current				
Obligations under finance leases	1,850	2,343	–	–
Other Loans:				
$200,000,000 bank loan	174,537	165,000	174,537	165,000
$250,000,000 bank loan	250,000	250,000	250,000	250,000
	426,387	**417,343**	**424,537**	**415,000**

$200,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2010. The effective interest rate is 8.44%. 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 8.44%. It is intended that this loan will be renewed prior to the maturity date.

Refer to note 25 for financing facilities available.

		Consolidated		Parent	
		31/12/08	31/12/07	31/12/08	31/12/07
	Note	$000	$000	$000	$000
16. ISSUED CAPITAL					
Ordinary shares	(a)	172,785	154,070	177,409	158,507
Total contributed equity		172,785	154,070	177,409	158,507

(a) Movements in issued capital for the period:

	31/12/08		31/12/07	
Consolidated	Number of shares	$000	Number of shares	$000
Beginning of the financial period	256,679,183	154,070	249,231,858	135,400
Issued for cash on exercise of share options	305,759	532	682,962	991
Tax adjustment for rights issue costs	–	86	–	86
Dividend reinvestment plan	7,217,517	17,973	6,716,375	17,464
Employee share plan	62,000	124	47,988	129
End of the financial period	264,264,459	172,785	256,679,183	154,070

At 31 December 2008 the issued capital of Australian Agricultural Company Limited was $177,409,000 and the Consolidated Entity was $172,785,000.

(b) Outside equity interests in consolidated entity

The Consolidated Entity disposed of its 51% interest in Rural Management Partners (RMP) during the year ended 31 December 2007, refer note 26.

(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 2008 is 38% (2007: 37%). 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). During the current period the DRP was fully underwritten by ABN AMRO Morgans and resulted in the issue of 7,217,517 (2007: 6,716,375) Ordinary Shares at an issue price of $2.49 (2007: $2.60).

For the Consolidated Entity's financial risk management objectives and policies refer note 20.

	Consolidated				
	Asset revaluation reserve	Capital profits reserve	Financial instruments reserve	Employee equity benefits reserve	Total
	$000	$000	$000	$000	$000
17. RESERVES					
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
Revaluation of land and buildings	28,035	–	–	–	28,035
Adjustment to reset tax cost bases	(11,513)	–	–	–	(11,513)
Share based payment	–	–	–	1,158	1,158
31 December 2008	435,953	77,719	–	4,625	518,297

	Parent				
	Asset revaluation reserve	Capital profits reserve	Financial instruments reserve	Employee equity benefits reserve	Total
	$000	$000	$000	$000	$000
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
Revaluation of land and buildings	(208)	–	–	–	(208)
Adjustment to reset tax cost bases	1,979	–	–	–	1,979
Share based payment	–	–	–	1,158	1,158
31 December 2008	**58,489**	**113,566**	**–**	**4,625**	**176,680**

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 29 for further details of these plans.

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
18. RETAINED PROFITS (ACCUMULATED LOSSES)				
Retained Profits (Accumulated Losses)				
Retained profits at the beginning of the financial period	70,877	89,710	16,672	19,603
Net profit for the financial period	(38,716)	3,645	28,419	19,547
Total available for appropriation	32,161	93,355	45,091	39,150
Dividends paid	(17,988)	(22,478)	(17,988)	(22,478)
Retained profits at the end of the financial period	14,173	70,877	27,103	16,672

19. CASH AND CASH EQUIVALENTS

(a) Reconciliation of Cash

	Consolidated 31/12/08 $000	Consolidated 31/12/07 $000	Parent 31/12/08 $000	Parent 31/12/07 $000
For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks.				
Cash on hand	14,369	8,411	415	1,546
Call deposits with banks	5,678	76	–	–
Total	**20,047**	**8,487**	**415**	**1,546**

The fair value of cash assets is $20,047,000 (2007: $8,487,000).
Cash on hand earns interest at 6.45% (2007: 6.34%).
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 31/12/08	12 months ended 31/12/07	12 months ended 31/12/08	12 months ended 31/12/07
	$000	$000	$000	$000
Net profit after income tax	(38,716)	3,586	28,419	19,547
Adjustments for non-cash income and expense items:				
Depreciation and amortisation	11,615	10,395	810	814
Gain on disposal of controlled entity	–	72	–	150
(Gain)/loss on sale of property, plant and equipment	264	(137)	76	–
Share of associates net losses	–	–	–	–
Increment in net market value of livestock	4,698	(19,985)	–	–
Movement in:				
– Income tax payable	7,062	2,264	18,685	(9,360)
– Deferred taxes	(16,109)	(2,904)	(4,793)	601
Decrement in value of non current assets	–	(49)	–	–
Changes in assets & liabilities net of effects from purchase and sale of controlled entities:				
(Increase)/decrease in assets:				
– Accounts receivable	1,464	(1,653)	(88,087)	(24,781)
– Inventories	2,552	(3,938)	–	–
– Prepayments and other assets	528	(972)	705	(705)
Increase/(decrease) in liabilities:				
– Trade/sundry creditors	13,474	(9,837)	11,334	(8,283)
– Interest rate swaps	22,834	–	22,834	
– Provisions – employee	1,075	1,972	–	–
Net cash provided by/(used in) operating activities	**10,741**	**(21,186)**	**(10,017)**	**(22,017)**

19. CASH AND CASH EQUIVALENTS (CONTINUED)

(c) Non-Cash Financing and Investing Activities

During the year ended 31 December 2008, the consolidated entity acquired motor vehicles with an aggregate fair value of $1,082,713 (year ended 31 December 2007: $1,605,246) 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.

20. 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 mix of 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 6 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 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 2008:

	Consolidated		Parent	
	2008	2007	2008	2007
	$000	$000	$000	$000
Financial Assets				
Cash assets	20,047	8,487	415	1,546
Interest rate swaps	–	2,017	–	2,017
	20,047	10,504	415	3,563
Financial Liabilities				
$250,000,000 bank loan	(95,000)	(206,000)	(95,000)	(206,000)
Interest rate swaps	(22,834)	–	(22,834)	–
	(117,834)	(206,000)	(117,834)	(206,000)
Net exposure	**(97,787)**	**(195,496)**	**(117,419)**	**(202,437)**

20. 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 2008:

$200,000,000 bank loan

This is a syndicated loan which is unsecured. The loans are repayable on 31 January 2010. The effective interest rate is 8.44%. 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 8.44%. 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 and other derivatives, 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 2008, after taking into account the effect of interest rate swaps, approximately 77% 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)	
	2008	2007
	$000	$000
Consolidated:		
+1% (100 basis points)	7,307	329
-0.5% (50 basis points)	(3,653)	422
Parent:		
+1% (100 basis points)	7,239	312
-0.5% (50 basis points)	(3,620)	439

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.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

At 31 December 2008, the Consolidated Entity had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated		Parent	
	2008	2007	2008	2007
	$000	$000	$000	$000
Financial Assets				
Forward currency contracts	–	44	–	–
		44		–
Financial Liabilities				
Forward currency contracts	816	75	–	–
Net Exposure	(816)	(31)	–	–

At 31 December 2008 all foreign currency receivables were covered by forward currency contracts or foreign exchange options.

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

At 31 December 2008, 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)	
	2008	2007
	$000	$000
Consolidated:		
AUD/USD +10%	1,335	507
AUD/USD –5%	(773)	(356)
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.

20. 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.

	≤6 months	6-12 months	1-2 years	2-5 years	Total
Year ended 31 December 2008	$000	$000	$000	$000	$000
CONSOLIDATED					
Financial assets					
Cash & cash equivalents	20,047	–	–	–	20,047
Receivables	11,355	60	60	29	11,504
	31,402	60	60	29	31,551
Financial liabilities					
Payables	30,691	–	–	–	30,691
Interest bearing liabilities	18,387	10,449	187,393	261,707	477,936
Derivatives	3,956	4,084	8,168	10,596	26,804
	53,034	14,533	195,561	272,303	535,431
Net maturity	**(21,632)**	**(14,473)**	**(195,501)**	**(272,274)**	**(503,880)**
PARENT					
Financial assets					
Cash & cash equivalents	415	–	–	–	415
Receivables	120	60	60	29	269
	535	60	60	29	684
Financial liabilities					
Payables	11,490	–	–	–	11,490
Interest bearing liabilities	16,904	9,612	186,125	261,125	473,766
Derivatives	3,956	4,084	8,168	10,596	26,804
	32,350	13,696	194,293	271,721	512,060
Net maturity	**(31,815)**	**(13,636)**	**(194,233)**	**(271,692)**	**(511,376)**

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 2008 the Consolidated Entity had forward purchased approximately 63% (2007: 90%) of its expected grain usage for the coming twelve months.

21. 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	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
CONSOLIDATED				
Financial assets				
Cash	20,047	8,487	20,047	8,487
Current receivables	11,415	10,633	11,415	10,633
Non current receivables	89	209	89	209
Interest rate swaps	–	2,017	–	2,017
Financial liabilities				
Payables	30,691	18,163	30,691	18,163
Interest rate swaps	22,834	–	22,834	–
Interest-bearing loans and borrowings:				
Obligations under finance leases	4,170	4,203	4,170	4,203
Bank loans	424,537	415,000	424,537	415,000
PARENT				
Financial assets				
Cash	415	1,546	415	1,546
Receivables	180	120	180	120
Interest rate swaps	–	2,017	–	2,017
Financial liabilities				
Payables	11,490	156	11,490	156
Interest rate swaps	22,834	–	22,834	–
Interest-bearing loans and borrowings:				
Bank loans	424,537	415,000	424,537	415,000

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	
	2008	2007	2008	2007
	$000	$000	AUD/USD	AUD/USD
Sell US$/Buy Australian$				
Sell US$ Maturity 0-12 Months – Consolidated	13,870	8,200	0.7240	0.8806
Buy US$/Sell Australian$				
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 $816,000 (2007: $30,000) for the Consolidated Entity (Parent: Nil).

21. 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 2008, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	$000	$000	$000	$000
0-1 years	50,000	79,000	50,000	79,000
1-3 years	200,000	130,000	200,000	130,000
3-5 years	80,000	–	80,000	–

These swaps are subject to mark to market valuations so that they are recorded at fair value. The valuation takes into account interest differentials between fixed rate and market variable rate and time to maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value loss on interest rate swaps during the year was $24,850,000 (2007: $447,000 gain) for the Consolidated Entity and $24,850,000 (2007: $447,000 gain) for the Company.

Refer to Note 20 for further information regarding interest rate and credit risk exposure.

22. COMMITMENTS

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

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
Leased land and buildings:				
Not later than one year	2,031	2,293	–	–
Later than one year but not later than five years	3,082	4,646	–	–
Total leased land and buildings	5,113	6,939	–	–
Leased plant and equipment:				
Not later than one year	1,406	12	–	–
Later than one year but not later than five years	2,812	–	–	–
Total leased plant and equipment	4,218	12	–	–

Property, plant and equipment lease rental payments are generally fixed. Except for motor vehicles, purchase options exist in relation to some operating leases.

(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		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000
CONSOLIDATED				
Within one year	2,320	1,860	–	–
After one year but not more than five years	1,850	2,343	–	–
Total minimum lease payments	4,170	4,203	–	–

(c) Capital Commitments
The Consolidated Entity had entered into forward purchase contracts for $6,657,000 worth of grain commodities as at 31 December 2008 (2007: $9,450,000). The contracts are expected to be settled within 12 months from balance date.

The Consolidated Entity had entered into forward purchase contracts for $2,151,000 worth of cattle as at 31 December 2008 (2007: Nil). The contracts are expected to be settled within 12 months from balance date.

	Consolidated		Parent	
	31/12/08	31/12/07	31/12/08	31/12/07
	$000	$000	$000	$000

23. CONTINGENCIES

Contingent liabilities at balance date, not otherwise provided for in these financial statements are categorised as follows:

Guarantees and indemnities:

	31/12/08 Consolidated $000	31/12/07 Consolidated $000	31/12/08 Parent $000	31/12/07 Parent $000
Bank guarantees provided in relation to premises	64	64	–	–

At 31 December 2008 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.

On 21 and 26 May 2008, the Company confirmed in announcements to the ASX that proceedings had commenced against Elders Limited relating to the purchase of product during the period 2002 to 2005. On 23 January 2009 the Company served Elders Limited with a Writ of Execution in relation to the claim. The Company expects this litigation to progress during 2009 in accordance with the court rules, unless a settlement is reached through mediation or negotiation. The Company is unable to quantify any potential impact at the date of this report.

24. IMPAIRMENT TESTING OF ASSETS

Goodwill acquired through business combinations and acquisitions has been allocated to their respective cash generating units (CGUs) for impairment testing based on a value in use calculation. The CGU's tested for impairment have been calculated on cash flow projections approved by senior management over a five year period. The pre-tax discount rate applied was 15.0%. The growth rate used to extrapolate the cash flows was 3.0%. No impairment was indicated at 31 December 2008.

25. FINANCING ARRANGEMENTS

The consolidated entity has access to the following financing facilities:

	31/12/08					
	Consolidated			Parent		
	Accessible $000	Drawn-down $000	Unused $000	Accessible $000	Drawn-down $000	Unused $000
$200,000,000 bank loan	200,000	175,000	25,000	200,000	175,000	25,000
$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	425,064	29,436	454,500	425,064	29,436

	31/12/07					
	Consolidated			Parent		
	Accessible $000	Drawn-down $000	Unused $000	Accessible $000	Drawn-down $000	Unused $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

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

26. CONTROLLED ENTITIES

The consolidated financial statements at 31 December 2008 include the following controlled entities.

Name of controlled entity	Notes	Place of Incorporation	31/12/08 % of shares held	31/12/07 % 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

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
MILTON 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).

26. CONTROLLED ENTITIES (CONTINUED)

(b) Financial information for class order closed group.

	Consolidated 31/12/08 $000	Consolidated 31/12/07 $000
Current Assets		
Cash and cash equivalents	20,047	8,487
Receivables	14,242	13,461
Interest rate swaps	–	2,017
Inventories	22,830	25,382
Biological assets – livestock	129,127	127,305
Current tax assets	–	874
Other assets	451	979
Total Current Assets	186,697	178,505
Non-Current Assets		
Receivables	89	209
Biological assets – livestock	292,678	299,199
Property, plant and equipment	847,254	810,397
Investment – at cost	50	50
Deferred tax assets	8,295	1,673
Intangible assets	10,130	10,945
Total Non-Current Assets	1,158,496	1,122,473
Total Assets	**1,345,193**	**1,300,978**
Current Liabilities		
Payables	30,691	18,163
Provisions	2,634	2,853
Interest bearing liabilities	2,320	1,860
Interest rate swaps	22,834	–
Current tax liabilities	6,188	–
Total Current Liabilities	64,667	22,876
Non-Current Liabilities		
Provisions	600	465
Interest bearing liabilities	426,387	417,343
Deferred tax liabilities	145,407	131,852
Total Non-Current Liabilities	572,394	549,660
Total Liabilities	**637,061**	**572,536**
Net Assets	**708,132**	**728,442**
Equity		
Issued capital	172,785	154,070
Reserves	518,297	500,617
Retained profits (accumulated losses)	17,050	73,755
Total parent entity interest in equity	708,132	728,442
Total minority interest	–	–
Total Equity	**708,132**	**728,442**

26. CONTROLLED ENTITIES (CONTINUED)

	31/12/08	31/12/07
	$000	$000
Income Statement of the Closed Group:		
Revenue	236,880	248,629
Employee expenses	(33,895)	(34,266)
Cattle Expenses	(19,735)	(15,066)
Cattle agistment costs	(5,967)	(426)
Feedlot cattle expenses	(33,375)	(31,682)
Fuel expenses	(9,499)	(6,587)
Farming expenses	(4,544)	(2,471)
Other station operating costs	(9,684)	(9,122)
Lease and property related costs	(4,651)	(5,058)
Business development and other non station operating costs	(778)	(912)
Cost of goods sold of value add business	(86,402)	(90,600)
Administration and other costs	(11,238)	(11,910)
Earnings before interest expense, income tax, depreciation and amortisation	17,112	40,529
Depreciation and amortisation	(11,615)	(10,384)
Finance costs	(58,915)	(27,456)
Profit from continuing operations before income tax	(53,418)	2,689
Income tax expense	14,702	753
Profit from continuing operations after related income tax expense	**(38,716)**	**3,442**

(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 2008 there was no remaining minority interest in the equity of the Consolidated Entity. The results for the year until disposal are presented below:

	2008	2007
	$000	$000
Income Statement of Rural Management Partners:		
Revenue	–	611
Expenses	–	732
Gross profit/(loss)	–	(121)
Gain on disposal	–	265
Earnings before income tax	–	144
Income tax expense	–	–
Profit after income tax expense	–	144
Net (profit)/loss attributable to outside equity interests	–	59
Net profit attributable to members of the parent entity	–	**203**

27. SEGMENT INFORMATION

Primary Segment – Business segments	Consolidated			
	Cattle & Farming Operations	Wholesale Beef	Other	Total
31/12/08	$000	$000	$000	$000
Revenue	137,687	99,457	–	237,144
Profit from disposal of non-current assets	(264)	–	–	(264)
Allocated costs	(134,835)	(96,548)	–	(231,383)
Contribution	2,588	2,909	–	5,497
Finance Costs				(58,915)
Profit before tax				(53,418)
Income tax benefit/(expense)				14,702
Net profit for the year				(38,716)
Assets	1,335,252	9,966	(2,902)	1,342,316
Liabilities	633,025	4,036	–	637,061
Other segment information				
Capital expenditure	(8,413)	(229)	–	(8,642)
Depreciation	(10,428)	(372)	–	(10,800)
Amortisation	(815)	–	–	(815)

Primary Segment – Business segments	Consolidated			
	Cattle & Farming Operations	Wholesale Beef	Other	Total
31/12/07	$000	$000	$000	$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)	(358)	(6)	(9,576)
Amortisation	(814)	–	(5)	(819)

Secondary Segment – Geographic segments

The consolidated entity operated entirely within Australia during the periods from 1 January 2008 to 31 December 2008 and 1 January 2007 to 31 December 2007.

28. REMUNERATION OF AUDITORS

	Consolidated		Parent	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
Remuneration received, or due and receivable, by the auditor, Ernst & Young, of the parent entity for:				
– Audit or review of the financial statements	349	312	349	312
– Other services	–	5	–	5
	349	317	349	317
Other services comprise:				
Ernst & Young				
– Taxation compliance	–	5	–	5
	–	5	–	5

29. EMPLOYEE BENEFITS

(a) Executive Option Plan

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

Chief Executive Officer – Executive Options

On 30 October 2008, 300,000 options were granted to S. Toms in three equal tranches with a fair value per option of $0.18, $0.22 and $0.25 respectively. These options were issued in relation to the 2007 financial year and S. Toms' former role of Chief Financial Officer. Options issued will vest one third each 1 January, commencing 2009. There are vesting conditions relating to cessation of employment, death and permanent disability. The exercise price of these options is fixed at $3.27. Any vested options unexercised on 1 January 2014 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity. These option terms are consistent with the senior executive options disclosed below. No options have been issued to S. Toms in his role as CEO.

Former Managing Director/Chief Executive Officers – Executive Options

On 11 March 2005, 1,500,000 options were granted to D. Mackay (resigned as Chief Executive Officer 22 January 2008) 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 first two tranches of this scheme vested on satisfaction of the vesting conditions. 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.

N. Burton-Taylor performed the dual role of Chairman and Chief Executive Officer from 22 January 2008 to 21 May 2008. During this period no options were granted to the Chief Executive Officer.

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

Senior Executive – Executive Options

On 30 October 2008, 806,060 options were granted in three equal tranches with a fair value per option of $0.18, $0.22 and $0.25 respectively. Options issued will vest one third each 1 January commencing 2009. There are vesting conditions relating to cessation of employment, death and permanent disability. The exercise price of these options is fixed at $3.27. Any vested options unexercised on 1 January 2014 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity.

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. There are vesting conditions relating to cessation of employment, death and permanent disability. 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.

In addition, on 2 January 2008, 76,000 options were granted as a single tranche to the company secretary/general counsel with a fair value per option of $0.76. These options vested immediately on grant date. The exercise price of these options is fixed at $3.15. Any options unexercised on 1 January 2013 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity. These options were issued in relation to the 2007 financial year.

Middle Management – Executive Options

On 30 October 2008, 2,077,091 options were granted in three equal tranches with a fair value per option of $0.18, $0.22 and $0.25 respectively. Options issued will vest one third each 1 January commencing 2009. There are vesting conditions relating to cessation of employment, death and permanent disability. The exercise price of these options is fixed at $3.27. Any vested options unexercised on 1 January 2014 will expire. Upon exercise, these options will be settled in ordinary shares of the consolidated entity.

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. There are vesting conditions relating to cessation of employment, death and permanent disability. 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.

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 2008.

	CEO	Senior Exec	Middle Management
2008			
Dividend yield (%)	2.70	2.70	2.70
Expected volatility (%)	38.00	38.00	38.00
Risk-free interest rate (%)	4.70	4.70	4.70
Expected life of option (years)	2.67	2.67	2.67
Option exercise price ($)	3.27	3.27	3.27
Share price at grant date ($)	1.94	1.94	1.94
2007			
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

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 2008, 305,759 (31 December 2007: 682,962) options were exercised over ordinary shares, with a total cash consideration received by the Consolidated Entity of $532,000 (31 December 2007: $991,342).

29. EMPLOYEE BENEFITS (CONTINUED)

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

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at the beginning of the year	7,958,603	1.53	6,278,333	1.25
Granted during the year	3,259,151	3.27	2,926,566	2.09
Forfeited during the year	123,801	2.09	563,334	1.40
Exercised during the year	305,759	1.74	682,962	1.46
Outstanding at the end of the year	10,788,194	2.04	7,958,603	1.53
Exercisable at the end of the year	5,737,799	1.35	4,678,701	1.18

The outstanding balance as at 31 December 2008 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;
> 403,335 options over ordinary shares with an exercise price of $1.50 each;
> 53,371 options over ordinary shares with an exercise price of $1.61 each;
> 2,687,337 options over ordinary shares with an exercise price of $2.09 each;
> 76,000 options over ordinary shares with an exercise price of $3.15 each; and
> 3,183,151 options over ordinary shares with an exercise price of $3.27 each

Included within this balance are options over 2,335,000 shares (2007: 2,335,000 shares) that have not been recognised in accordance with AASB 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with AASB 2.

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

Expiry Date	Exercise Price ($)	2008 No	2007 No
31 March 2010	1.39	1,300,000	1,300,000
31 March 2010	1.50	403,335	547,035
31 March 2010	1.61	53,371	100,002
31 March 2011	1.39	500,000	500,000
6 August 2011	1.00	2,585,000	2,585,000
1 January 2013	2.09	2,687,337	2,926,566
1 January 2013	3.15	76,000	–
1 January 2014	3.27	3,183,151	–
Total		**10,788,194**	**7,958,603**

(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 30 October 2008 shares were issued to 124 (2007: 129) employees at $2.00 (2007: $2.69) being the weighted average share price at that date. The fair value of each share at this date was $2.00 (2007: $2.69).

At 31 December 2008, the ESP holds 96,596 ordinary shares in Australian Agricultural Company Limited (31 December 2007: 91,428).

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

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Compensation for key management personnel

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	2,696,283	2,434,459	–	–
Post-employment benefits	214,916	211,544	–	–
Other long-term benefits	297,500	–	–	–
Termination benefits	505,463	–	–	–
Share-based payment	500,029	554,949	–	–
Total	**4,214,191**	**3,200,952**	**–**	**–**

(b) Option holdings of Key Management Personnel (consolidated)

	Balance at beginning of period 31/12/07	Granted as Remuneration	Options Forfeited	Options Exercised	Balance at end of period 31/12/08	Not Vested & Not exercisable	Vested & Exercisable
Directors							
D. Mackay[1]	2,386,000	–	–	–	2,386,000	–	2,386,000
Executives							
S. Toms	640,625	300,000	–	–	940,625	493,750	446,875
B. Bennett	7,957	219,939	–	–	227,896	149,244	78,652
D. Connolly	375,781	179,545	–	–	555,326	296,732	258,594
P. Dempsey	171,875	175,758	–	–	347,633	290,341	57,292
A. Jones	148,438	151,515	–	–	299,953	250,474	49,479
T. Gallagher[2]	252,344	155,303	–	–	407,647	256,866	150,781
Total	**3,983,020**	**1,182,060**	**–**	**–**	**5,165,080**	**1,737,407**	**3,427,673**

1 *D. Mackay resigned as Managing Director and CEO on 22 January 2008.*

2 *T. Gallagher did not meet the definition of a key management person under AASB 124 for the 2007 financial year but is a key management person for 2008 as a result of a management restructure.*

	Balance at beginning of period 31/12/06	Granted as Remuneration	Options Forfeited	Options Exercised	Balance at end of period 31/12/07	Not Vested & Not exercisable	Vested & Exercisable
Directors							
D. Mackay[1]	2,886,000	–	500,000	–	2,386,000	–	2,386,000
Executives							
S. Toms	350,000	290,625	–	–	640,625	290,625	350,000
B. Bennett	–	7,957	–	–	7,957	7,957	–
D. 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	–
Total	**3,436,000**	**794,676**	**500,000**	**–**	**3,730,676**	**794,676**	**2,936,000**

1 *D. Mackay resigned as Managing Director and CEO on 22 January 2008*

No other directors or executives held options during the period.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Share holdings of Key Management Personnel (consolidated)

	Balance at beginning of period 31/12/07	Granted as Remuneration	Exercise of Options	Net Change Other	Balance at end of period 31/12/08
Directors					
C. Bright	60,000	–	–	–	60,000
B Heading	–	–	–	15,421	15,421
Executives					
P. Dempsey	161,705	–	–	–	161,705
Total	**221,705**	**–**	**–**	**15,421**	**237,126**

	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					
C. Bright	60,000	–	–	–	60,000
N Burton Taylor[1]	7,253,061	–	–	191,314	7,444,375
D. Mackay[2]	30,542	–	–	747	31,289
T. Fischer[1]	51,443	–	–	1,385	52,828
C. Roberts[3]	482,248	–	–	12,983	495,231
G. Paramor[3]	–	–	–	40,000	40,000
Executives					
P. Dempsey	161,705	–	–	–	161,705
Total	**8,038,999**	**–**	**–**	**246,429**	**8,285,428**

1 N. Burton Taylor and T. Fischer retired as Directors on 21 May 2008.
2 D. Mackay resigned as Managing Director and CEO on 22 January 2008.
3 C. Roberts and G. Paramor resigned as Directors on 21 May 2008.

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.

31. 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:

The Chairman, C. Bright and L. Wozniczka (resigned 15 October 2008) are directors of the Futuris Group which owned 42.9% of Australian Agricultural Company Limited on 31 December 2008. 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 an 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 arms length basis.

	Consolidated	
	12 months ended 31/12/08	12 months ended 31/12/07
	$000	$000
Marketing services	1,479	762
Merchandise	8,004	7,388
Total	9,483	8,150

As noted above, during the year the consolidated entity purchased cattle and grain from vendors who contracted with members of the Futuris Group to act as their agent.

B. Heading was appointed as a Director of Australian Agricultural Company Limited on 17 June 2008. B. Heading is also Chairman of law firm McCullough Robertson Lawyers and wine producer Clovely Estate Pty Ltd. Australian Agricultural Company Limited engages McCullough Robertson Lawyers to provide legal advice in relation to commercial transactions. Clovely Estate Pty Ltd purchased meat products from the Group during the current period. The following amounts have been incurred/received by the consolidated entity subsequent to 17 June 2008:

	Consolidated	
	12 months ended 31/12/08	12 months ended 31/12/07
	$000	$000
Professional fees paid to McCullough Robertson Lawyers	128	–
Professional fees owed to McCullough Robertson Lawyers	19	–
Sales to Clovely Estate Pty Ltd	1	–

The former Chairman, N. Burton Taylor (retired 21 May 2008) 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. The following amounts have been paid or received by the consolidated entity prior to 21 May 2008:

	Consolidated	
	12 months ended 31/12/08	12 months ended 31/12/07
	$000	$000
Paid by the consolidated entity for the purchase of livestock	155	123

During the prior year 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 31/12/08	12 months ended 31/12/07
	$000	$000
Lease payments from related parties	9	12
Lease payments owed by related parties	–	12

(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 2007: $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 2008.

(c) Transactions with other related parties

Loans

No loans were made with other related parties during the year ended 31 December 2008 (31 December 2007: $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.

32. 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	
	31/12/08	31/12/07
Net profit attributable to equity holders of the parent ($)	(38,716,000)	3,645,000
Basic earnings per share (cents per share)	(15.0)	1.5
Diluted earnings per share (cents per share)	(15.0)	1.4
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	258,671,233	251,298,499
Effect of dilutive executive options	–	3,363,177
Adjusted weighted average number of ordinary shares used in the calculation of diluted earnings per share	258,671,233	254,661,676
Weighted average number of converted ordinary shares used in the calculation of diluted earnings per share	–	682,962

Details of options are set out in note 29. 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.

33. 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, notes and the additional disclosures included in the directors' report designated as audited, 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 2008 and of their performance for the year ended on that date.

      ii) complying with Accounting Standards and Corporations Regulations 2001.

   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 2008.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified to note 26 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

C. Bright
Acting Chairman

Brisbane
10 February 2009

ERNST & YOUNG

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Agricultural Company Limited, which comprises the balance sheet as at 31 December 2008, 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, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 judgment, 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.

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.

ERNST & YOUNG

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 2008 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 issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 30 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Australian Agricultural Company Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
Brisbane
10 February 2009

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 2008.

(a) Distribution of Equity Securities

Number of Shares	Number of Shareholders
1 to 1,000	1,126
1,001 to 5,000	3,929
5,001 to 10,000	1,399
10,001 to 100,000	1,287
100,001 and Over	78
TOTAL	**7,819**

(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	111,256,983	42.10%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,677,090	15.01%
NATIONAL NOMINEES LIMITED	9,559,166	3.62%
CITICORP NOMINEES PTY LIMITED	9,445,714	3.57%
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,123,016	3.07%
ANZ NOMINEES LIMITED (CASH INCOME A/C)	3,853,505	1.46%
ANZ NOMINEES LIMITED (INCOME REINVEST PLAN A/C)	2,938,555	1.11%
NBT PTY LTD (ASTOR A/C)	2,809,405	1.06%
MR MARTIN JOSEPH GLYNN & MRS ANN GLYNN	1,900,000	.72%
MIRRABOOKA INVESTMENTS LIMITED	1,750,000	.66%
NBT PTY LTD	1,532,405	.58%
VICTORIAN INVESTMENT CORPORATION PTY LTD	1,156,705	.44%
JANVIN PTY LTD	1,130,751	.43%
WARRENGLEN NOMINEES PTY LTD	1,000,000	.38%
BAINPRO NOMINEES PTY LIMITED	969,046	.37%
AMP LIFE LIMITED	777,039	.29%
MR MARTIN JOSEPH GLYNN & MRS ANN GLYNN	771,776	.29%
WASHINGTON H SOUL PATTINSON CO LTD	754,318	.29%
NEWECONOMY COM AU NOMINEES PTY LIMITED (900 ACCOUNT)	733,368	.28%
C P VENTURES LIMITED	722,940	.27%

(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)	111,256,983
Dimensional	13,239,974
Deutsche Bank	13,073,770

(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 267 securities ($1.875 on 31 December 2008) is 213 and they hold 26,012 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 as at 31 December 2008, 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
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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 quoted on the
Australian Securities Exchange
under listing Code AAC.

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Level 30, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Bankers
National Australia Bank
Ground Level
345 George Street
Sydney NSW 2000

Auditors
Ernst & Young
Level 5, Waterfront Place
1 Eagle Street
Brisbane OLD 4000

GREENHOUSE FRIENDLY
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