Australian Agricultural Company Limited
ABN 15 010 892 270

2010 Annual Report

ASX Announcement : 20/2011 **8 April 2011**

A copy of the 2010 Annual Report for the Australian Agricultural Company Limited is attached.

Issued by:

Bruce Bennett
Company Secretary

www.aaco.com.au

Australian Agricultural Company Limited

ANNUAL REPORT 2010

A POSITIVE FOCUS

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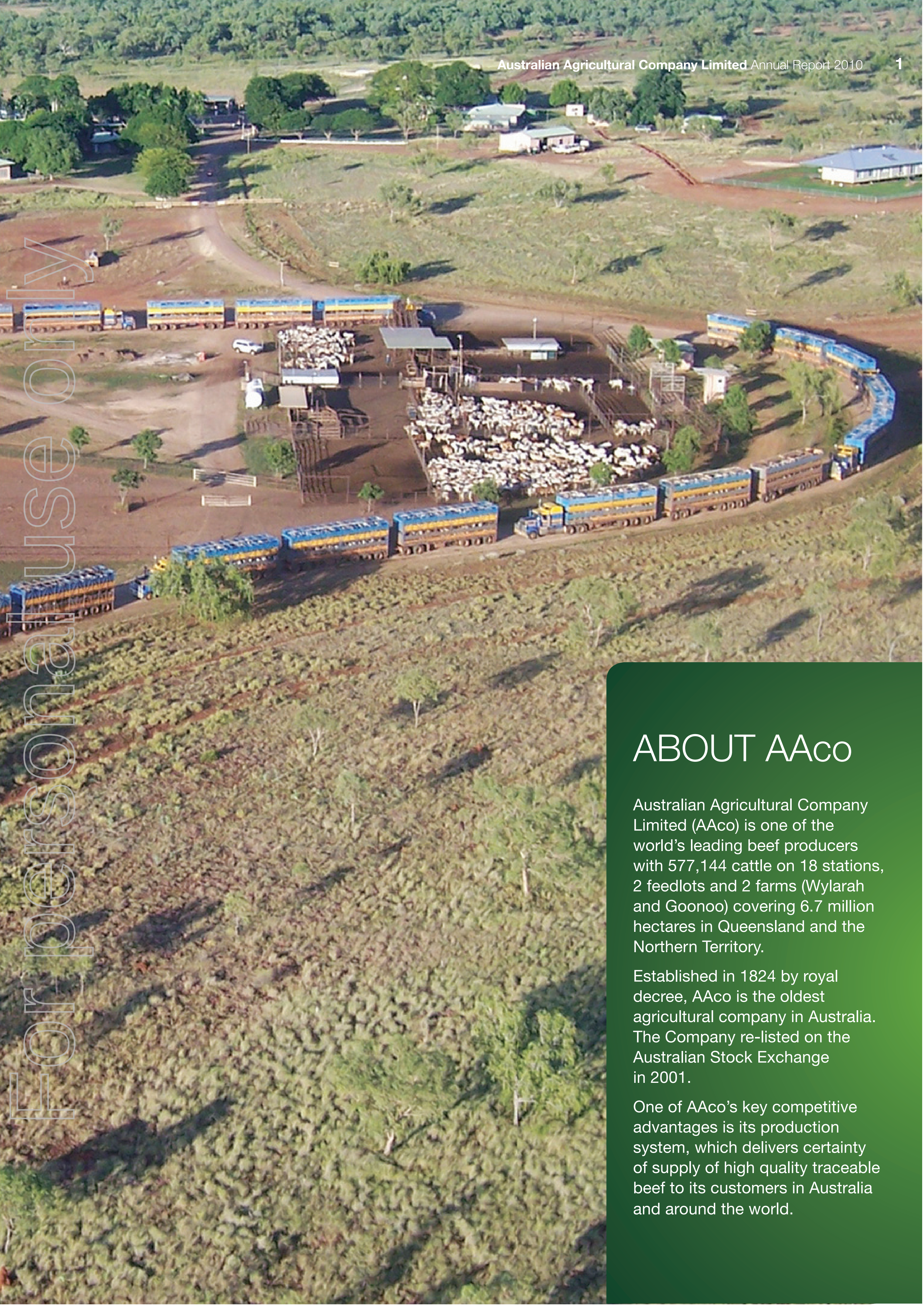
Annual General Meeting

The Annual General Meeting of the Company will be held at 10.00am on Wednesday 11 May 2011 at the Brisbane Convention and Exhibition Centre, Meeting Room 2, Mezzanine Level, Cnr Merivale & Glenelg Streets, South Bank, Brisbane.



ABOUT AAco

Australian Agricultural Company Limited (AAco) is one of the world's leading beef producers with 577,144 cattle on 18 stations, 2 feedlots and 2 farms (Wylarah and Goonoo) covering 6.7 million hectares in Queensland and the Northern Territory.

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

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

POSITIONED FOR GROWTH

Chairman's letter

Dear shareholders,

The Board of Directors is pleased to present to you the Annual Report for 2010. The year just passed has been a critical year for the Company and a year in which it achieved an important milestone; a return to profitability. The profit result, while modest, is a significant achievement considering the previous several years of disappointing financial performance. The Company has now turned the corner and is embarking on a new era of profitability and growth.

The transformation has been implemented through a series of deliberate improvements to the business model, which were identified during the Board's Strategic Review process. David Farley reported to you last year on the outcomes of that review process and the changes that were planned. David and his team have made great progress in implementing these changes and building the Company's focus on trading, processing and exporting beef.

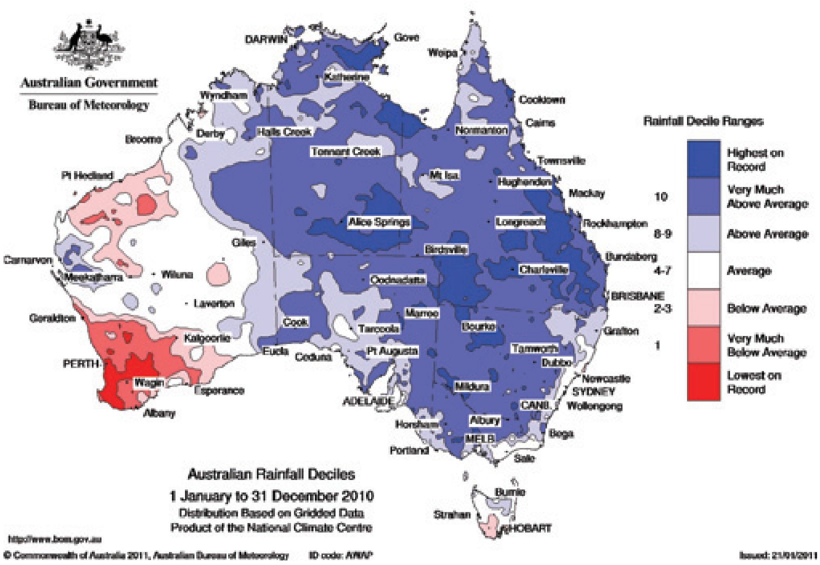
The Company has had a particular focus on utilising its assets and using its extensive land base in the most productive way possible. This focus has materialised during the year in the substantial improvements made to both the herd numbers and, importantly, the herd composition. Having achieved great success in this area, AAco enters the current year with a herd which is younger, more fertile, and of much higher value.

Seasonal conditions

The seasonal conditions throughout many of the Company's properties were good during the year, with solid rainfalls producing plentiful pasture and nutrition for the cattle.

Despite the substantially favourable conditions experienced, the year was unfortunately punctuated by the extensive flooding throughout much of Queensland. The devastation wrought by these unprecedented weather events was widespread.

AAco suffered flooding on its Central Queensland properties, although through skilful management the damage was limited to less than 100 head of cattle and around 2.4 million dollars of infrastructure losses. The losses to the cotton crop were less than originally feared, which will be partially offset by the expected high yields of the balance of the crop and the rising prices of cotton on the world markets. While the flood losses were recognised in the 2010 financial statements, the upside from improved cotton yields and pricing is a benefit that will be recognised in the 2011 financial statements.



The Company has had a particular focus on utilising its assets and using its extensive land base in the most productive way possible.

The global food industry

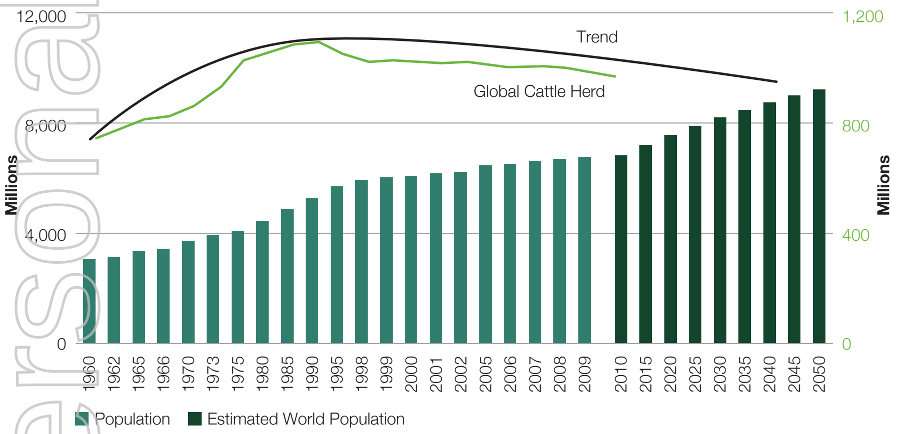
World beef prices have shown strong growth to reflect the increasing demand for and reduced supply of red meat, although the full benefits of these prices was tempered for AAco because of the increasing value of the Australian Dollar.

AAco operates in an environment where food demand, especially the consumption of proteins, is predicted to experience long term and sustained growth. This is driving a fundamental shift in the agricultural sector, from a previous supply-push approach to a demand-pull mentality, where producers need to be aligned to meet the growing demand.

AAco has a solid reputation on the global market as a supplier of high quality, safe and reliable beef products. AAco's beef is disease free and largely hormone free, with great care and attention paid to maintaining this product's safety. These food safety standards give the Company many advantages on the global stage and favourably position the Company to continue developing export markets.

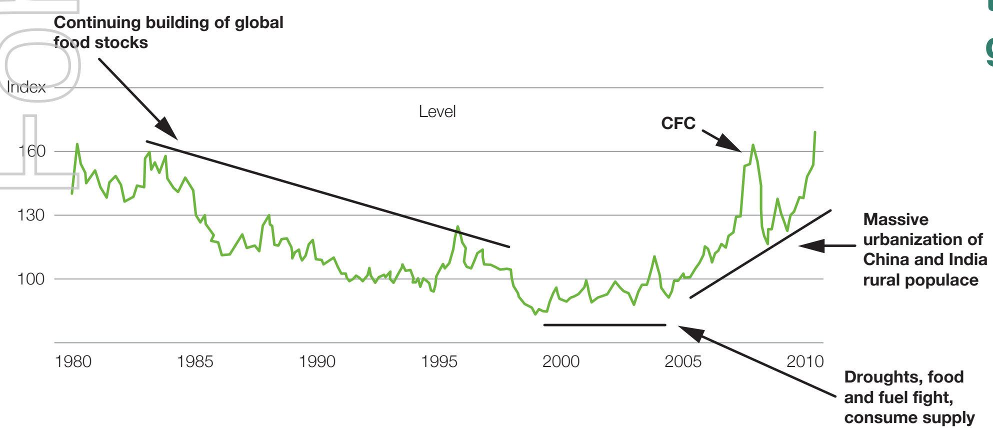
Meeting the rising global demand for red meat is a great opportunity for AAco. The Company will take best advantage of these opportunities by efficiently getting its product to where the consumer demand is, which for AAco increasingly means Asia. That is why the Company continues to expand its capacity to export both live cattle and branded beef to key Asian destination markets.

Trends in World Population and Global Cattle Herd



IMF Food Price Index

SDR 1995 = 100



Board

I was appointed Chairman during the year and I am delighted to have the opportunity to serve this great Company. I have a close association with rural Australia and believe the future is bright for Australian agriculture and producers such as AAco.

The Board was sorry to lose the contribution of Datuk Abdul Samad in early 2011, who resigned for medical reasons, and wishes him well for a speedy recovery. The Board is pleased to announce the appointment of Dato' Sabri Ahmad effective from 4 April 2011.

Dividend

The Board has determined to not declare a dividend for the financial year. However, the return to profitability, and the success in the business turnaround strategy, augers well for increasing returns to shareholders. The Board will continue to monitor the situation closely, mindful of the attractiveness of regular dividends to many shareholders.

AAco operates in an environment where food demand, especially the consumption of proteins, is predicted to experience long term and sustained growth.

The environment

AAco is the custodian of a large area of land in Australia, an area larger in size than the state of Tasmania. The Company takes this responsibility extremely seriously and is ever conscious of its role in protecting the local environment, and supporting regional communities.

The Company takes great pride in its engagement with indigenous communities and actively encourages indigenous employment opportunities at all levels of the organisation. AAco strives to be the reference point for excellence in animal husbandry, conservation, operational innovation, and land stewardship. AAco is also involved in donations of meat to the Channel 7 'Conviction Kitchen' program, which provides selected Australians with the opportunity to rebuild their lives.

As responsible stewards of the land, and like so many in rural Australia, AAco faces the need to control feral animals, which is done in a humane fashion and with utmost regard for the local environment.

Steps have been taken during the year to actively reduce the use of diesel fuel and reduce the Company's carbon footprint through effective herd management. The Company also embarked on solar power generation installations at several stations, conscious of the environmental footprint and the need to use renewable power where possible. The increasing use of technology, such as remote surveillance equipment, offers possibilities to further decrease carbon emissions and the Company's impact on the environment.

Closing

AAco is one of the oldest companies in Australia and has been in continual operation for more than 187 years. It has survived and prospered over these many years thanks to its ability to adapt and respond to challenges as they emerge.

Mindful of the Company's history and heritage, the Board acknowledges that the Company's future rests on its ability to continue adapting and meeting the challenges of global agribusiness.

The old pastoral model is gone; it results in low returns for shareholders and is not suitable for the current global environment. That is why AAco is on a path of transformation, positioning itself to capture the many opportunities that exist along the value chain for export-oriented producers.

The Board would like to thank shareholders for their ongoing support. Despite the recent years of poor performance, AAco has turned the corner. There are now the Board, management and business strategies in place that will best ensure a healthy future for the Company.

The Board would also like to thank David Farley and his team for their outstanding efforts during the year.

The business is well positioned to continue to prosper in the years ahead.

Donald McGauchie
Chairman

OPERATIONAL REVIEW

Chief Executive Officer's letter

Dear shareholders,

Last year was an important transformation year for your Company and a year which has achieved positive improvements at many levels of the business.

The year commenced after several years of underperformance and financial losses. Recognising the need for immediate change, the Board and management team developed a strategy to refocus the business and return it to profitability. This strategy was outlined in the 2010 Annual General Meeting.

AAco has completed the first year of this strategy in what will be a three year turnaround program. Despite the many challenges faced during the year, the business has returned to profitability, achieving increased cattle production and beef sales whilst successfully reducing operating costs.

The progress during the year underlines the potential AAco has as one of Australia's eminent leading agricultural producers.

Financial highlights

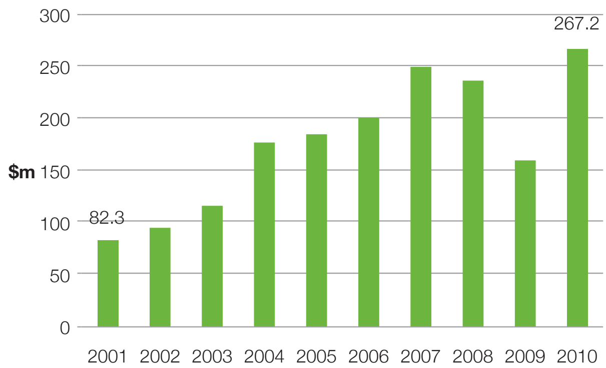
The financial highlights for the year were driven by strong growth in revenues, which delivered the highest revenue result recorded by the business in the decade since re-listing on the ASX.

Revenues were particularly strong from AAco's domestic and export live cattle sales, which increased by 153 per cent, and sales in the wholesale beef division also demonstrated significant growth. During the year AAco's sales profile was well balanced and diversified across its different markets.

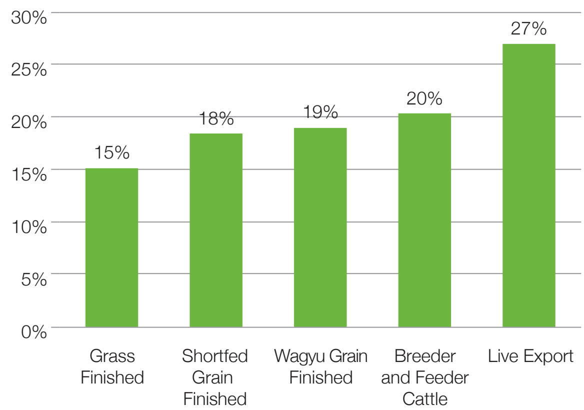
Strong cost control was a major area of achievement, where the Company maintained reduction in operating costs across energy, staff and direct cattle expenses on a per head basis.

The net result of these achievements was a return to profitability, which while not substantial in its own right, marked a turnaround of $55 million compared to the previous year. Net tangible assets were $2.23 per share at the end of the year after property revaluations and goodwill impairment.

AAco Revenue Over 10 Years



2010 Sales Profile



Operational highlights

The favourable seasonal conditions in the year made improvements to the herd possible. Good herd management practices enabled this possibility to be achieved through a deliberate strategy to utilise AACo's available assets and take advantage of the seasonal conditions. Active improvement to water and feed infrastructure has allowed AACo to use the land more productively and reduce the hectares required per head of cattle.

AACo's Branded Beef business, which includes the 1824 and Wagyu product lines, achieved good production increases, with kilograms produced increasing by more than 25 per cent to 15.0 million kilograms. This growth arose substantially in grain fed beef. In the latter half of this year in the United States, AACo expanded its product range and successfully launched the 'Brunette Downs' hormone free grass fed product.

After successfully completing a lengthy and costly accreditation process, European Union accreditation was achieved for the Avon Downs and Goonoo stations. This will enable AACo to participate in the higher premium European markets.

AACo's cropping activities were diversified during the year to include a spring planting cotton crop. Despite some impacts from the Central Queensland floods, the current cotton prices on the world market, which are in excess of $US900 per bale, enable AACo to have a positive and profitable outlook for its cotton harvest during 2011.

Operating cost control was an important focus during the year. Gross margins were upheld in the Branded Beef business, with the cost of goods sold maintained in line with the increased revenues of this division. Administration costs were contained and, combined with some one-off items, delivered a 28 per cent reduction in administration and other costs equating to a year on year saving of over $4.2 million. Cattle and feedlot expenses increased due to the strategic expansion of the herd.

The attainment of European Union accreditation will enable the Company to participate in the higher premium European markets.

Turnaround strategy

The heart of the turnaround strategy is the need to transition the Company from price taker to profit margin maker through deeper vertical integration, while maintaining a clear focus on end user markets, particularly global export markets. Management has determined that this will deliver improved and more robust margins and cash flows into the Company.

A key strategic initiative for the Company has been live cattle exports. Live cattle revenue more than doubled during the year, with exports to many key Asian markets increasing significantly.

AAco expanded beef processing from one processing platform to three platforms in South East Queensland. This provided more flexibility and delivered competitive operating costs. AAco's focus in this area has been, and will continue to be, selling the right cuts of meat to the right international markets, recognising that different countries value different cuts of meat.

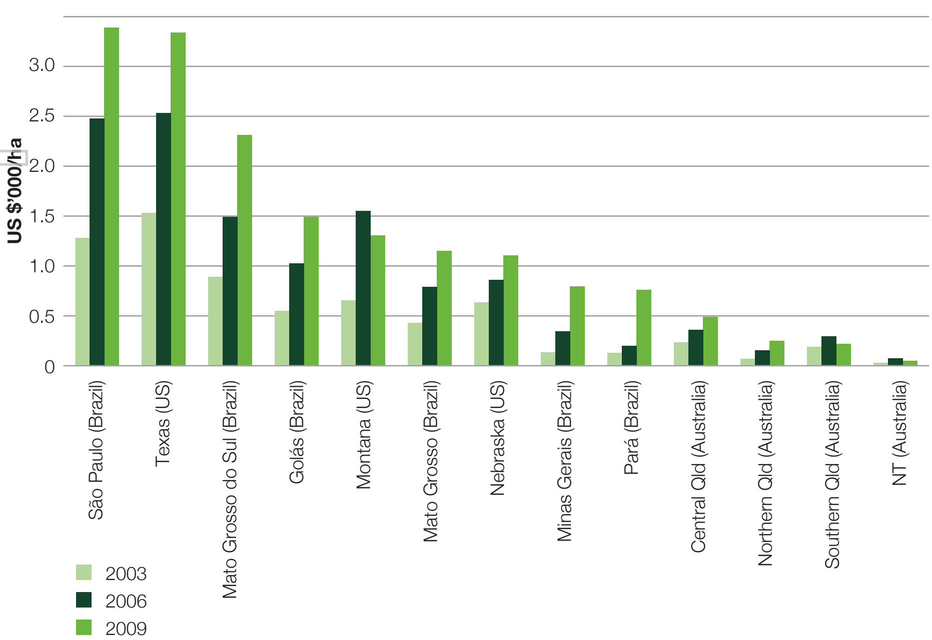
AAco's land assets continued to be reorganised during the year, with expansion of the Company's land under management closer to the export port of Darwin, the major embarkation point for its Asian markets. During the year AAco determined to retain Brighton Downs station after testing the market with a possible sale, as this delivered the best returns in 2011. AAco continues to develop and review its land assets with the goal of maximising their value, productive capacity, long term environmental sustainability and efficiency.

AAco's extensive land assets continue to provide long term unrepeatable security and refuge. Embedded in the turnaround strategy is an ambition to unlock the lands full agronomic and commercial potential. At the conclusion of 2010 the independent valuation of the company land assets caused realignment with recent downward movements to pastoral land prices within Australia. Of this realignment, only $0.6 million impacted the profit result for the year, as the balance was a reversal of market price increases reflected in prior years. The carrying capacity of the land, and hence its profit-earning potential, remains unaffected by this realignment. A review of international land prices suggests that in these times of increased value and worth being placed upon the importance and consequence of global food security, Australian pastoral land valuations may well be conservative compared with broader worldwide valuations.

AAco's cattle breeding activities were adjusted during the year, with the temporary suspension of the Breeder Alliance Program. Given the good seasonal pastures AAco experienced, the Breeder Alliance Program was not required since the Company held sufficient grazing capacity internally. The Breeder Alliance Program will be reintroduced as and when seasonal conditions dictate.

An important part of the turnaround process is the deliberate cultural and knowledge transformation throughout all staffing levels in the organisation. AAco is becoming a truly stakeholder-focused business where Company activities are more closely aligned with stakeholder requirements encompassing shareholders, employees, customers and the wider community. The AAco business and ethics model accepts being accountable as a Company and as individuals, producing a more transparent and sustainable business.

Comparison of Pastoral Land Values 2003-2009 by State/Region for Brazil, the US and Australia.
Thousand USD/ha



Source: FNP, USDA, Australian grazing property index

Business models

The Company is driving performance through each of its core business models by recognising the key, and often distinct, drivers of success in each business unit:

- Breeding;
- Trading;
- Feedlotting;
- Beef Group; and
- Farming.

The breeding business model is designed to maximise live calves on the ground and re-breeding rates, with the goal of consistently supplying cattle to defined specifications. This can best be influenced by ensuring cattle are kept on a rising cycle of nutrition, which can be augmented through pasture monitoring and management supported by the proactive supply of feed supplements. In addition, the focus on breeding genetically perfected composites that are well suited to the local conditions is crucial to the Company's breeding success.

The trading herd business model is focused on delivering quick and efficient weight gains at minimal cost for preselected markets. This requires careful planning to maximise opportunities created by market price movements, and strategically locating cattle to ensure they can be transported as and when required.

The feedlotting business focuses on adding value efficiently, by maximizing the market potential of carefully selected cattle for both domestic and international markets. Both of the Company's feedlots have a clear emphasis on Wagyu cattle which delivers significantly higher value per kilo, despite a lower weight gain per day. Wagyu is a niche opportunity which AAco is progressing deliberately and the Company now commands more than half of the Australian Wagyu production.

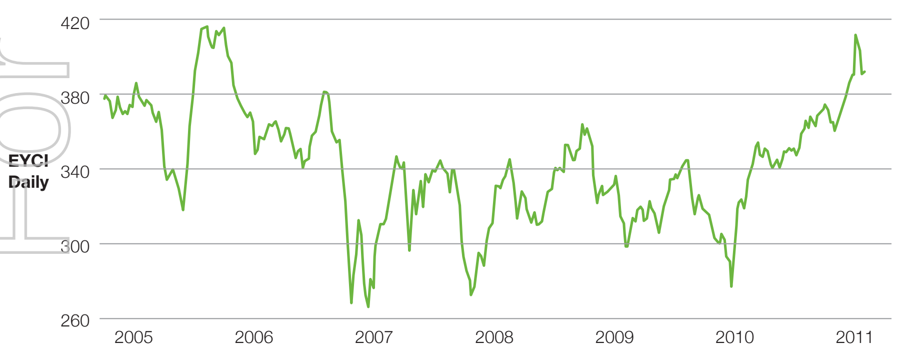
The Beef Group is focused on selling the right cuts of meat into the right international markets. They deliver the Company brand names to the general public, with brands such as Master Kobe, Kobe Cuisine and 1824 further developed during the year, and the US launch of the Brunette Downs grass-fed beef brand.

The Company brands are the customers' assurance of premium quality, tenderness, flavour and consistency worldwide and continue to be sought after, and exclusively specified by, leading international chefs.

The Chefs Partner subsidiary, part of the Beef Group, extends AAco's vertical integration by both selling direct to the consumer and supplying portion controlled packaged meat to the retail sector. The Chefs Partner business model is focused on streamlined processing and packaging, an efficient supply chain and maintaining sales growth. While the business model operates on tight margins and there was some impairment of goodwill recognised during the year, the subsidiary is ideally located in fast growing South East Queensland and has significant growth potential.

AAco farming operations are run in conjunction with backgrounding properties to improve reliability of feed stocks and to provide commodities for the feedlots. In AAco's farming business the key driver of profitable yields is the selection of suitable crops planted at the optimal time and managed by experienced and motivated managers. The Company has achieved vastly improved yields this year through this focus. AAco's inaugural cotton crop was planted in line with this strategy.

EYCI Daily (391.250, 387.500, 391.250, +0.75000)



Risk management

As an agribusiness, AAco is exposed to many external and internal risks. Identifying and mitigating these risks is now a major focus and priority for the Company. Losses arising from natural disasters over the last few years have demonstrated the need for the Company to have more resilience to these events.

To deliver this risk mitigation the Board has formed a specific Risk Management Committee and a new Chief Risk Officer has been appointed. The Company is fostering a culture that acknowledges risk management and is implementing steps that can be taken to manage risk. This is fundamental to achieving success in agribusiness.

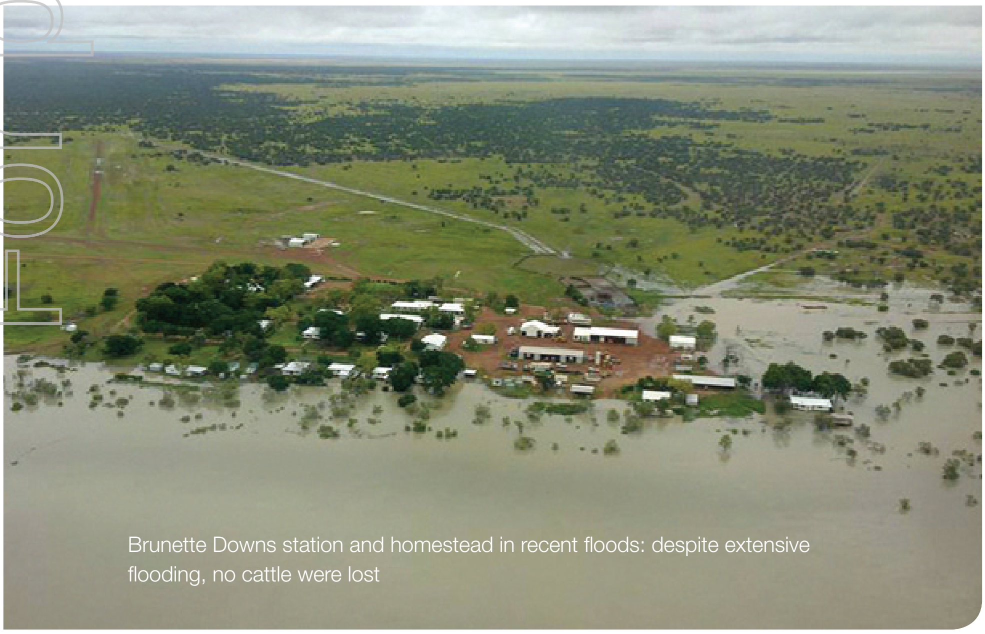
Traditionally, AAco has been a high user of diesel fuel in cattle logistics, water pumping and domestic power generation. Fossil fuel is a large input cost across the Company's operations and during the year several initiatives were implemented to limit fuel usage which delivered reduced freight and station running costs.

The outlook for increased oil prices in the year ahead will continue to pose challenges for agriculture and the Company remains committed to proactively implement its fuel efficiency program thereby reducing its fuel usage and environmental impact.

The Queensland floods in the summer of 2010 have been well documented and they provided the first opportunity for AAco to realise the benefits of recent in-house research and development. Innovative new flood modelling and early warning systems allowed management to be more predictive and proactive in positioning the herds to minimise risk and reduce flood losses. Overall, the flooding has been beneficial for the Company, in that the widespread rainfall will result in excellent pasture coverage in the year ahead across many of the properties in Northern Australia, saving on feed and supplement costs.

The increasing value of the Australian dollar during the year posed challenges to all exporters, including AAco, although the impact was partially offset by increasing beef prices on the global market.

During the year the Indonesian authorities enforced the maximum weight for live cattle exports into the country to 350 kilograms per beast. This impacted the Company in the short term. The required adjustments have now been made to the herd and destination markets which will minimise the impact in the year ahead.



Brunette Downs station and homestead in recent floods: despite extensive flooding, no cattle were lost

Herd improvements

The AAco herd is the second largest asset within the Company and improvements in the herd during the year were a particularly important focus. The cattle are managed to maintain animal fertility, health and productivity, meeting strict animal welfare standards.

Herd numbers at the end of the year were 577,144, an increase of 14 per cent. Strategic investment was made to expand the herd and take advantage of the good seasonal conditions available. This resulted in a temporary outflow of operating cash, with the investment allowing measurable improvements in the herd size and composition.

Improvements to the herd were made in genetic breed types, age profile and fertility. The herd was deliberately diversified to provide a more balanced exposure to grass finished, shortfed grain finished, Wagyu long grain finished, breeder cattle, feeder cattle, and live export.

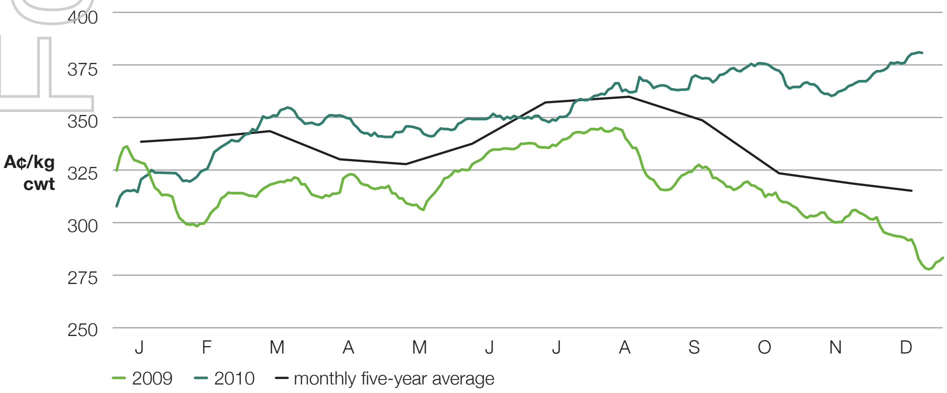
In 2010 AAco grew the Wagyu herd by more than 30 per cent. Wagyu cattle produce an extremely high value meat which is in global demand and AAco supplies more than half the Australian export Wagyu market.

In 2010 the Company completed a comprehensive pregnancy testing program covering the entire breeding herd. This program enabled the herd to be managed into age groups and pregnancy groups. It removed aged non-productive females from the herd, allowing more efficient calving and mustering. As a result of this program, annual mortality rates were significantly reduced and the improvement in herd fertility was reflected by approximately 70 per cent of all breeding stock successfully raising calves.

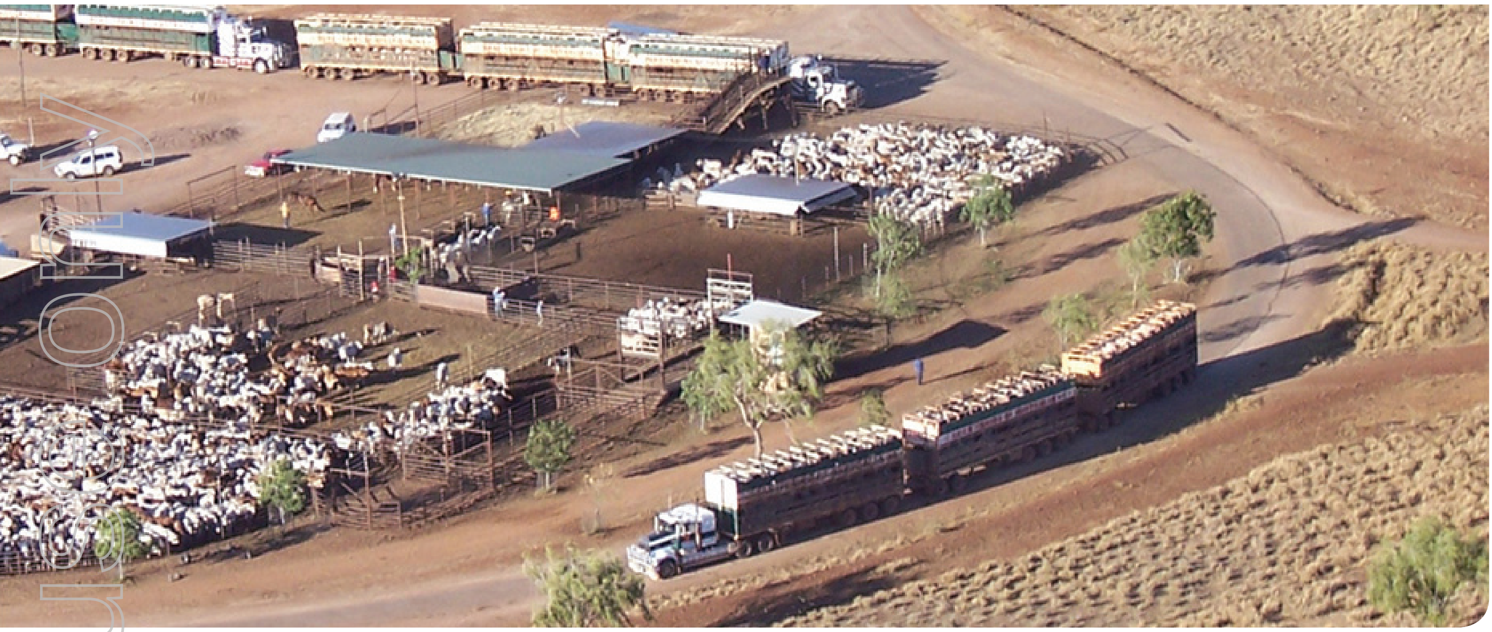
The 2010 herd management program has established a new genetic horizon for the next decade. A significant change has been achieved in composition of the bull herd, with improvements in fertility, rebreeding and marketable Meat Standards Australia (MSA) gradable genetics.

Strategic investment was made to expand the herd and take advantage of the good seasonal conditions available.

Cattle Prices Achieved Record Highs in December 2010



Source: MLA's NLRS



Research and development

A number of research projects are underway to increase the yield and productive capacity of the Company's assets. One such project is designed to predict cattle nutritional requirements so that feed supplements can be provided in advance, maintaining cattle on the correct cycle of nutrition.

In conjunction with CSIRO, the Company is working to quantify nutritional knowledge of paddock conditions as the season develops, to maximise the productive capability of the pasture.

AAco is committed to reducing on-station diesel usage and is researching the installation of solar panels in conjunction with reviewing the efficiency and configuration of its existing diesel generators. Conversion to solar is a sound decision environmentally, financially and as a risk mitigation against future fuel price increases and the Company is well advanced in determining how best to harness this technology in its operations.

Investment in communications infrastructure at all stations is underway to enable the Company to maximise knowledge transfer and harness the benefits of these research and development projects across the breadth of the Company's operations.

Competent management

During the year the senior management team was further strengthened. As reported at AAco's half year, Mr Troy Setter was appointed as Chief Operating Officer and is now responsible for overseeing AAco's operations. Mr Phil Beale was appointed as Chief Financial Officer.

Both Troy and Phil bring strong backgrounds in their respective fields and are great additions to the team at AAco.

The management team is highly committed and motivated to delivering on the turnaround strategy. With the formation of the senior management team now complete, a program of sharing of knowledge, training and succession planning has commenced. This extensive program provides both on-the-job and formal training to all levels of management. It is fundamental to achieving the successful transformation of the Company from a pastoral company to a successful agribusiness.

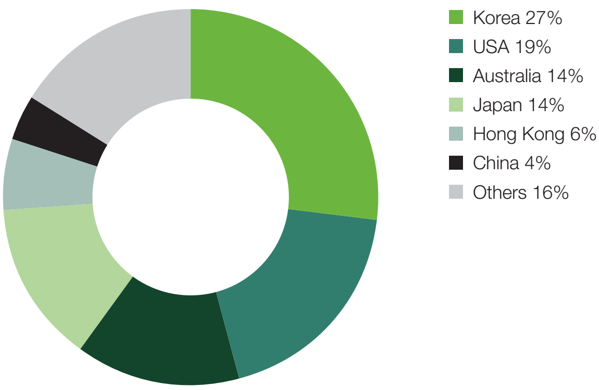
Beef prices

Global demand for protein escalated the price of beef during the year. The demand is being driven largely by the increasing global GDP and personal incomes in the developing world, allowing many people the opportunity to enjoy a higher meat protein diet.

Supply was impacted during the year by a number of global events, including droughts in China and Russia, flooding in Pakistan, the outbreak of foot and mouth disease in Japan and Korea, and the extremely high corn prices, which have diverted land use from pasture to arable cropping.

Beef prices are expected to stabilise at their current levels during the year ahead, although over the medium to long term the supply-demand imbalance in beef production is expected to drive upward movement in prices.

2010 Wagyu Sales by Destination



Darwin meat processing facility

AAco is in the advanced stages of assessing options to develop a meat processing facility in the Northern Territory. The objective of the meat processing facility is to provide a new platform for AAco's boxed beef business and it is an important part of AAco's strategy of vertical integration along the beef value chain. AAco's cattle are currently processed through abattoirs on the East Coast of Australia, necessitating long transport and considerable freight costs, with additional losses incurred due to natural shrinkage of cattle weights during transport.

The benefits of a new facility near Darwin are extremely compelling. A facility located closer to AAco's northern herd will dramatically reduce freight costs and improve animal yields. AAco will achieve better control over product quality and prices given that abattoirs are currently the gateway in the supply chain to the international market place.

Plans for the meat processing facility will progress during 2011 and AAco will provide further updates to shareholders in due course.

Outlook

In 2010 AAco embarked on a three year turnaround program for the Company. One year into that program, the return to bottom line profitability is an important and historical milestone. AAco successfully faced many challenges during 2010; 2011 will be equally challenging, as the Company delivers on its strategy of increased vertical integration and improving its financial performance.

I am confident that, with the right strategies and management team now in place, AAco will continue to meet these challenges and continue to drive profitable growth in operations.

AAco's goals for 2011 include delivering profit growth, improving resilience through improved risk management, and driving superior pastoral performance through better weight gains, fertility performance, genetics, and cost reductions. Through the planned meat processing facility in Darwin AAco is aiming to maximise the productivity of each animal via vertical integration.

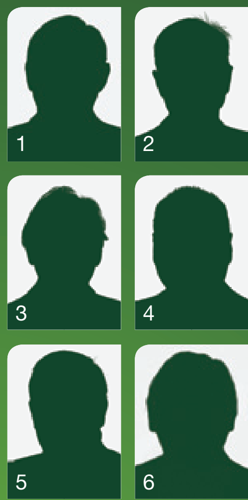
The Board and management team are determined to make AAco's ambitions a reality; to be revered, to be profitable, and to create long term sustainable shareholder value. In short, to deliver on our potential.

In closing I would like to thank management and staff of AAco for their dedicated and hard work during the year.

I look forward to the year ahead with confidence.

David Farley
Managing Director/Chief Executive Officer

Board of Directors



1. Donald McGauchie (Chairman)
2. Nick Burton Taylor
3. Chris Roberts
4. Arunas Paliulis
5. David Farley
6. Dato' Sabri Ahmad (effective from 4 April 2011)

The Directors' profiles are found on pages 19-21 of the Directors' Report.

Remuneration Summary

The Company's remuneration philosophy reflects the reality that 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.

The Company has an approved remuneration policy to meet its recruitment and retention requirements. It also has a base Total Financial Reward structure coupled with an incentive structure.

All salaried employees have ability to achieve an annual performance incentive that is based on the overall performance of the Group and the achievement of personal performance against agreed KPI's. Certain senior employees are also eligible to receive an additional short term incentive in that performance rights will be granted to them that vest over the following two years at the rate of 50% for each subsequent year provided they are still employed by the Group.

The Chief Executive Officer has in addition to Total Financial Reward structure, an annual bonus capped at $200,000 and a Long Term Equity incentive set at 50% of fixed remuneration, i.e. $300,000 pa for the 2010 year. The annual bonus component is assessed against agreed performance measures set each year. The Long Term Incentive is granted each year and the longer term strategic performance is assessed annually but vesting of these tranches does not occur until after three years have passed. The amount of vesting depends on the Group's performance and the Board assessment of the Chief Executive Officers performance.

Financial Statements

Directors' Report

Your Directors submit their report for the year ended 31 December 2010.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out in the following section. All of the Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Donald McGauchie AO, FAICD (Non-executive Chairman) *(appointed 19 May 2010)*

Mr. McGauchie was appointed a Director on 19 May 2010 and subsequently Chairman on 24 August 2010. Mr. McGauchie is the Chairman of the Nomination Committee, and a member of the Audit Committee and the Staff and Remuneration Committee.

Mr. McGauchie is currently a Director of James Hardie SE, Chairman of Nufarm Limited and Director of GrainCorp Limited. Mr McGauchie retired from the Reserve Bank Board on 29 March 2011. His previous roles with public companies include Chairman of Telstra Corporation Limited, Deputy Chairman of Ridley Corporation Limited, Director of National Foods Limited, Chairman of the Rural Finance Corporation, a Victorian statutory corporation, and also President of the National Farmers Federation. In 2001 Mr. McGauchie was named the Rabobank Agribusiness Leader of the Year, was later awarded the Centenary Medal for services to Australian society through agriculture and business and in 2004 was appointed an Officer of the Order of Australia.

During the past three years, Mr. McGauchie has served as a Director of the following listed companies:

- James Hardie SE* – Appointed August 2003;
- Nufarm Ltd* – Appointed December 2003;
- Graincorp Ltd* – Appointed December 2009; and
- Telstra Corporation Ltd – Appointed 6 November 1998; Retired 8 May 2009.

*Denotes current Directorship

David Farley (Managing Director/Chief Executive Officer)

Mr. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009. Mr. Farley sits on all Board Committees by invitation.

Mr. Farley has held a number of senior leadership and Board roles at high profile Australian and international agribusinesses, across a variety of agricultural commodities with a career spanning more than 35 years.

Mr. Farley was formerly Managing Director and CEO of Colly Cotton Limited, Australia's largest cotton producer, a position he held for more than 16 years. During this time he was instrumental in improving the company's asset base, debt structure and profitability. Mr. Farley's executive leadership roles also include President/CEO of Calcot, a US cotton warehousing and marketing co-operative and Farms and Development Manager at F S Falkiner & Sons.

Mr. Farley is the Principal and Executive Chairman of Matrix Commodities and previously sat on the Boards of Tandou Limited, Wool International, Rural Industries Research and Development. Mr. Farley commenced his career as a Jackeroo on sheep and cattle stations in Queensland and the NSW Riverina.

During the past three years, Mr. Farley has served as a Director of the following listed company:

- Tandou Limited – Appointed November 2007; Resigned March 2010.

Nick Burton Taylor AM B.Ec (Syd), F Fin, FCA, FAICD

Mr. Burton Taylor was first appointed to the Board of the Company in April 2001 and was Chairman from August 2003 until 21 May 2008. He was subsequently elected a Director on 12 June 2009. Mr. Burton Taylor is Chairman of the Audit Committee and a member of the Nomination Committee and Staff and Remuneration Committee.

Mr. Burton Taylor is currently a Director of CSR Limited and Rabobank Advisory Board and Chairman of Delta Agribusiness. He is the past Chairman of Airservices Australia and Australian Topmaking Services Limited. He is a past Director of Rural Press Limited, Hazelton Airlines Limited, GrainCorp Limited, Federal Airports Corporation and Sydney Airport Corporation Limited. Mr. Burton Taylor owns Hillgrove Pastoral Pty Ltd and Kenny's Creek Angus, producers of beef, wool and grain. He is a Past President of the Institute of Chartered Accountants and current Chairman of the Country Education Foundation of Australia.

During the past three years, Mr. Burton Taylor has served as a Director of the following listed companies:

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

*Denotes current Directorship.

Directors' Report (continued)

DIRECTORS (continued)

Chris Roberts B.Comm

Mr. Roberts was first appointed to the Board in June 2001. Prior to his resignation on 21 May 2008, he was Chairman of the Audit Committee. He was subsequently elected a Director on 12 June 2009. He is currently Chairman of the Staff and Remuneration Committee and a member of the Nomination Committee. On 4 February 2011 Mr. Roberts was appointed a member of the Audit Committee.

Mr. Roberts is currently the Chairman of Amcor Limited, Deputy Chairman of The Centre for Independent Studies and a Director of Control Risks Group Holdings Limited. His prior experience includes 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 Mr. Roberts has served as a Director of the following listed companies:

- Amcor Limited – Appointed February 1999.

Arunas Paliulis BA

Mr. Paliulis was appointed a Director on 12 June 2009. Mr. Paliulis is the CEO of Felda IFFCO North America. He is a member of the Staff and Remuneration Committee and the Nomination Committee.

Mr. Paliulis is a graduate of Harvard College, Cambridge, Massachusetts. He has over 35 years of experience in the global trading of grains, oilseeds and feedstuffs and in devising risk management strategies for several organisations, including Cargill Inc. (USA), Louis Dreyfus Corporation (USA and France), Woodhouse, Drake & Carey (UK) and Emirates Grain Products Co LLC (UAE). Mr. Paliulis is a member of the Board of F.I.N.A. based in Cincinnati, Ohio, USA.

Datuk* Dr. Abdul Samad bin Haji Alias (Datuk Abdul Samad) B.Comm, FCA, MIA, MICPA *(appointed 13 April 2010, re-elected 19 May 2010, resigned 26 January 2011)*

Datuk Abdul Samad was appointed a Director on 13 April 2010 and resigned on medical grounds on 26 January 2011. Datuk Abdul Samad was a member of the Audit Committee and Nomination Committee.

Datuk Abdul Samad holds a Bachelor Degree in Commerce from the University of Western Australia. Datuk Abdul Samad is a Fellow of the Institute of Chartered Accountants, Australia, a member of the Malaysian Institute of Accountants ("MIA") and a member of the Malaysian Institute of Certified Public Accountants ("MICPA"). Datuk Abdul Samad was the President of MICPA from 1999 to 2002 and has served as a member of the Malaysian Accounting Standards Board and the Financial Reporting Foundation. From September 2000 to August 2005, Datuk Abdul Samad was the President of MIA. Datuk Abdul Samad was also elected to the Board of the International Federation of Accountants.

Currently, Datuk Abdul Samad sits on the Board of Lembaga Tabung Haji, Perbadanan Kemajuan Iktisad Negeri Kelantan, Malaysian Communications and Multimedia Commission, and Felda Holdings Bhd, and is the Chairman of Malaysian Venture Capital Management Bhd, Malaysia Debt Ventures Bhd and Bank Pembangunan Malaysia Berhad.

* 'Datuk' is an honorific title awarded by the Federal/State Governments in Malaysia to recognise those who have made a significant contribution to the Federal/State or community.

Stephen Lonie B.Com, MBA, F Fin, CA, FAICD (Non-executive Chairman) *(resigned 13 April 2010)*

Mr. Lonie was appointed a Director on 28 April 2009 and subsequently Chairman on 12 June 2009. Mr. Lonie was also appointed Executive Chairman from 14 August 2009 to 1 December 2009, for the period between the termination of the former Chief Executive Officer's contract, Mr. Stephen Toms, and the appointment of Mr. David Farley as Managing Director/Chief Executive Officer on 1 December 2009. Mr. Lonie reverted to the role of Non-Executive Chairman on 1 December 2009. Mr. Lonie was Chairman of the Nomination Committee and a member of the Audit Committee and the Staff and Remuneration Committee.

During the past three years, Mr. Lonie has served as a Director of the following listed company:

- FTD Ltd (formerly Fig Tree Developments Ltd) – Appointed October 2005; Resigned October 2010.

Peter Hughes *(appointed 28 April 2009, re-elected 12 June 2009, retired 19 May 2010)*

Mr. Hughes was appointed a Director on 28 April 2009 and retired 19 May 2010. Mr. Hughes is the Managing Director of Hughes Pastoral Company and the founder and Chairman of Georgina Pastoral Company. Previously, he was a Director of Stanbroke Pastoral Company Pty Ltd for 15 years. Mr. Hughes has also served for 28 years on the Nebo Shire Council. Mr. Hughes was a member of the Audit Committee and the Nomination Committee.

DIRECTORS (continued)

Irfan Allana (alternate Director for A. Paliulis)

Mr. Irfan Allana is the Chairman of Allanasons Limited, India. Mr. Irfan Allana pioneered processing and export of frozen Buffalo meat. The Allana Group is the world's largest processor of frozen Buffalo meat, exporting to over 60 countries. Mr. Irfan Allana also pioneered processing of various fruits and vegetables in several parts of India resulting in Allanasons Limited being the leading exporter of processed and frozen mango and guava from India. Mr. Irfan Allana joined the Board to act as an alternate Director for Arunas Paliulis from 22 November 2010.

Dato' Sabri Ahmad (alternate Director for Datuk Abdul Samad)

Dato' Sabri Ahmad is the Director of Felda Global Ventures Group of Companies and is the Group President/Chief Executive Director of Felda Global Ventures Holdings Sdn. Bhd. Dato' Sabri Ahmad joined the Board to act as an alternate Director for Datuk Abdul Samad from 22 November 2010 and resigned on 26 January 2011.

COMPANY SECRETARY

Bruce Bennett BCom, LLB, F Fin, ACIS, MAICD

Mr. Bennett was appointed Company Secretary and General Counsel in November 2006. Before joining the Company, he was Special Counsel for a leading law firm, where he specialised in company and property law, mergers and acquisitions and other commercial contracts. He has over 19 years' experience in legal practice, having practised in both Queensland and New South Wales. Mr. Bennett is a Chartered Secretary and a member of the Australian 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 the Australian Agricultural Company Limited were:

	Ordinary Shares	Options over Ordinary Shares
Current Directors		
D. McGauchie	37,000	Nil
D. Farley	212,500	Nil
N. Burton Taylor	6,274,113	Nil
A. Paliulis	Nil	Nil
C. Roberts	50,000	Nil
I. Allana (alternate)	Nil	Nil
Former Directors[1]		
Datuk Abdul Samad	10,000	Nil
Dato' Sabri Ahmad (alternate)	Nil	Nil
S. Lonie	93,750	Nil
P. Hughes	100,000	Nil

[1] *Shareholding as at the date of resignation or retirement*

DIVIDENDS AND EARNINGS PER SHARE

Earnings Per Share	2010 Cents	2009 Cents
Basic earnings/(loss) per share	0.3	(20.3)
Diluted earnings/(loss) per share	0.3	(20.3)

No final or interim dividends were declared and paid during the year (2009: Nil).

CORPORATE INFORMATION

Nature of Operations and Principal Activities

The principal activities of entities within the Group during the year were:

- Operation of grazing and farming properties;
- Beef cattle breeding, growing, feedlotting and trading; and
- Beef value-add businesses relating to wholesale meat marketing.

Employees

The Group employed 391 employees as at 31 December 2010 (2009: 381 employees).

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Group Overview

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

Today the Company is currently considered to be the largest beef cattle producer in Australia and runs a herd of around 577,144 (2009: 507,676) head of beef cattle.

The Company operates an integrated cattle production system across 18 cattle stations (plus 2 feedlots and 2 farms) located throughout Queensland and the Northern Territory covering approximately 7 million hectares.

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.

Live Cattle Group

The Live Cattle Group includes a pastoral business, which operates cattle stations across the Northern Territory and North and Central Queensland, and a feedlot business, producing grain finished cattle and farming operations which supply cattle feed for internal consumption. The pastoral and feedlot units seek to supply a premium, traceable beef product, which may be sold through the Company's established pathways including beef export, live export and domestic meat processors.

Cattle represent 39% (2009: 33%) of the gross assets of the business and are the primary source of income and cash generation for the Company.

During 2010, the Company produced 64.2 million kilograms of beef (2009: 50.8 million kilograms) – an increase of 26.4% over the prior 12 months. Widespread rainfall on properties contributed to increased average daily weight gains and higher calving, and allowed rebuilding of the herd impacted by the 2009 flooding. The age profile of the herd was improved in 2010, with a shift towards younger more fertile cattle.

Flooding to properties was experienced in December 2010. While this impaired farm infrastructure and resulted in some crop losses, resulting in an expense of $2.4 million in 2010, herd losses were contained at 0.02% of the herd through the application of state-of-the-art early warning technology.

Cattle prices strengthened in 2010, with new highs being achieved in December 2010. During 2010, 165,935 head of cattle were sold (2009: 176,328 head). As the Company approached 2010 year end and the wet season, a high proportion of cattle were held on properties with easy bitumen road access, providing improved opportunity for timing each sale to benefit from good market conditions.

Overall Live Cattle segment revenue of $131.2 million in 2010 compares to $51.9 million in 2009, reflecting good seasonal conditions, improved herd management and strong demand.

Land, including buildings and improvements, represents 54% of the gross assets of the Group. The property market has softened since 2008 highs and this was reflected in property devaluations of $77.3 million, reversing previous revaluation increments. Of this balance, $76.7 million was applied against the asset revaluation reserve and $0.6m was expensed in the Consolidated Income Statement.

Wholesale Beef Group

The Wholesale Beef Group comprises a beef marketing unit and a value added portion control business. This division has delivered a profit contribution of $5.8 million (2009: $4.7 million). In 2010 an increased focus on food safety and quality increased demand for the Group's consistent and safe herd genetics, delivering sales growth and improved margins.

Performance Indicators

Management and the Board monitor the Company's overall performance against the financial budget and forecasts together with an ongoing focus on core operational activities.

OPERATING AND FINANCIAL REVIEW (continued)

Dynamics of the Business

The benefit from improved beef prices, despite the AUD remaining strong, and good seasonal conditions has seen a significant increase in the operating returns to the Group. The benefit of this has been offset by a decline in the value of property of 12% causing the Net Tangible Assets (NTA) to fall accordingly.

The herd profile has been strengthened as part of the overall operational improvements and this has positioned the Group to benefit further in the coming years.

Operating Results for the Year

Summarised operating results are as follows:

Operating Segments

	Revenues		Earnings before finance costs and income tax expense	
	2010 $M	**2009 $M**	**2010 $M**	**2009 $M**
Live Cattle	131.2	51.9	22.6	(66.0)
Wholesale Beef	131.4	104.4	5.8	4.7

Both segments delivered satisfactory growth at the Revenue and EBIT line reflecting the improved seasonal conditions and the improved beef prices.

Shareholder Returns

The Company derives its returns from its two main asset holdings, cattle and land. Cattle provide earnings/cash flow and land provides potential for capital growth. Underlying capital growth in land is not booked through the income statement but rather is recorded directly into equity in the statement of financial position.

	2006	**2007**	**2008**	**2009**	**2010**
Asset based returns					
Increase/(decrease) in land values (net of tax) represented in movements in the asset revaluation reserves as a percentage of property, plant and equipment	5%	18%	2%	(1)%	(9)%
EBITDA return on average herd value post valuation	8%	10%	3%	(12)%	11%
Combined return on gross assets after notional tax at 30%	4%	11%	(2)%	(6)%	(5)%
Profit based returns					
Return on sales (EBITDA)/revenue	16%	16%	6%	(30)%	16%
3 year compound total shareholder return (TSR)*	21%	30%	8%	(4)%	(23)%
3 year compound growth in S&P 300 accumulation index	25%	21%	(4)%	(1)%	(5)%
Per share statistics					
EPS	4 cents	1 cent	(15) cents	(20) cents	0.3 cents
Dividend paid during the year / share	7 cents	9 cents	7 cents	-	-
NTA per share	2.34	2.78	2.70	2.42	2.23
NTA per share growth compounded over 3 years	16%	11%	7%	1%	(7)%

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.

* This year the share price traded at a significant discount to net tangible assets per share. The three year compound total shareholder return (TSR) moved below the S&P 300 accumulation index average.

Directors' Report (continued)

REVIEW OF FINANCIAL CONDITION

Liquidity and Capital Resources

The Group's debt facilities are adequate to address working capital requirements and stay in business capital expenditure for 2011.

The Group has total term debt facilities of $355 million, of which $85 million is subject to annual review. The balance of $270 million is subject to a three year term ending 30 November 2012.

Asset and Capital Structure

	2010 $000	2009 $000
Debts:		
Trade and other payables	28,601	18,621
Current interest-bearing loans and liabilities	86,626	27,523
Non-current interest-bearing loans and borrowings	270,723	269,177
Cash and short-term deposits	(17,045)	(9,579)
Net debt	**368,905**	**305,742**
Total equity	**592,634**	**645,109**
Total capital employed	**961,539**	**950,851**
Gearing (debt/debt+equity)	**38%**	**32%**

Dividend Reinvestment Plan

There were no dividends declared or paid in 2010 and therefore the Company's Dividend Reinvestment Plan (DRP) was inactive throughout the year.

Treasury Policies

Interest rates: Management's policies for determining the mix of fixed and floating interest rates are influenced by the undertakings within the banking facilities that stipulate a minimum 50% of the total term debt facilities must be hedged in relation to interest rate movements. The Company does not apply hedge accounting.

Foreign currency: The Company undertakes forward sales in its Wholesale Beef Group in foreign currency, primarily the US dollar and Japanese yen. All committed forward sales are hedged with foreign exchange contracts to coincide with the expected receipt of foreign funds spread over the year. The Company does not apply hedge accounting.

Cash from Operations

The cash outflow from operating activities is $48.8 million (2009: $56.4 million cash outflow). The 2009 cash outflow from operating activities excludes the sale of cattle for the amount of $39.1 million that were sold with the Gulf properties. This $39.1 million is included in cash inflow from investing activities.

Risk Management and Compliance

The Board has ultimate responsibility for the oversight of risk management and compliance across the Company.

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.

REVIEW OF FINANCIAL CONDITION (continued)

The Managing Director/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 Chief Financial Officer and Company Secretary/General Counsel in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Board. Each General Manager is responsible for the management of risk.

The key risks identified in the Company's Risk Register are addressed through the Risk and Compliance Framework, 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 reviewed and submitted to the Board for approval. The Risk Register is reviewed and tested in line with changes to the Company's strategy by the Board and senior executive team.
- An Operating Plan is developed each year to translate the Company's long-term strategy into key operational objectives for the following twelve month period.
- Key Performance Indicators for the Managing Director/Chief Executive Officer and other key senior executives are based upon the Company's operational objectives.
- Performance against the Operating Plan is reported to the Board on a monthly basis. This report provides the Board with the basis to assess if the Company's strategy is being executed effectively and allows the Board to assess management's performance against objectives on a regular basis. A monthly Compliance Report informs the Board of any regulatory, legal or compliance related issues.

During the 2010 financial year the Board commissioned an independent review of the Group's risk management framework. The consultant's terms of reference included a re-assessment of the range of risks the Group is exposed to and the design of a new risk management framework. The Board has considered the results of this review and has resolved to proceed with the development of a new risk management framework in accordance with the recommendations contained in this review and has:

- Approved in principle to form a new Board Risk Management Committee to replace the current risk Review Committee;
- Approved a new risk management strategy; and
- Approved the recruitment of a Chief Risk Officer to assist in the implementation of a new risk management framework.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Group's debt facilities were refinanced during 2009. During 2010 a further two tranches totalling $25 million were negotiated with the club members. The debt structure now consists of three secured club loan facilities. The current portion of the club loan facility comprises a $60 million loan repayable on 30 November 2011 and a further tranche of $25 million (drawn to $20 million) which is currently repayable on 16 April 2011. The non-current loan facility is a $270 million loan repayable on 30 November 2012. It is intended that both loans will be renewed prior to maturity date. The facilities are provided on a secured basis, with security given over all fixed and floating assets. Financial covenants are in place including debt cover ratios and consolidated net worth targets.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Category 5 Cyclone Yasi which hit North Queensland in 2011 did not have any significant adverse impact on any of the Group's operations.

There have been no other significant events after the balance date which require disclosure in the financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

This report otherwise omits information on likely developments and expected future results, the supply of which in the opinion of the Directors, would prejudice the interests of the Group.

Directors' Report (continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE

Regulated areas of operation are as follows:

- The operations of Goonoo Feedlot and Aronui Feedlot are regulated by licences issued under the Environmental Protection Act 1994 and administered by the Queensland Department of Employment, Economic Development and Innovation (DEEDI). Each feedlot is required to report to the National Pollution Inventory each year with respect to water, air and soil quality. DEEDI conducts audits of compliance with licence requirements at regular intervals. The Company has notified DEEDI of damage caused to Goonoo station by the record floods in Central Queensland in December 2010. The Company has recorded no breaches of licence requirements in 2010.
- 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. Wylarah has a licence to harvest water from the Balonne River for irrigation purposes.
- The pumping of underground water for the prescribed purpose of 'Livestock Intensive' requires 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 are administered by local governments, guided by legislation and framework developed by the Queensland Department of Environment and Resource Management (DERM). Shared water facilities need to comply with revised registered Stock Route water agreement 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 Company continues to be involved in the consultation process for Water Resource Planning and implementation of Wild Rivers legislation in relevant areas (i.e. Channel Country).
- The Company must abide by environmental and other obligations contained in Queensland's State Rural Leasehold Land Strategy in respect of the Company's pastoral leasehold interests in Queensland. The State Rural Leasehold Land Strategy is a framework of legislation, policies and guidelines supporting the environmentally sustainable, productive use of rural leasehold land for agribusiness.

The Board considers 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 (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. Previously, the Company reported voluntarily under the 'Greenhouse Challenge Plus' (GHC) Program. This program ceased in June 2009, however, the Company continues to collect greenhouse emissions and energy consumption data using the GHC reporting structure.

The Company also continues to monitor the developments of a Carbon Pollution Reduction Scheme or similar Emissions Trading System, at the date of this report, which remains high on the political agenda in Australia.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 5,628,051 unissued ordinary shares under options (5,628,051 at reporting date). Please 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.

SHARE OPTIONS (continued)

Shares Issued as a Result of the Exercise of Options

During the financial year, employees and former employees who qualify for participation under the Company's share option plan have not exercised options to acquire shares in the Company. Since the end of the financial year, no options have been exercised.

The Board determined during 2010 to replace the option plan with a long term incentive plan that more adequately reflects the current practice in Australia for these types of incentive arrangements. There will be no further grants of options under the option plan in the future. The rights of the existing option holders will remain until such time as the options are either exercised or the rights lapse.

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 Directors and others 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.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2010 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of the Group, who 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 Managing Director/Chief Executive Officer, senior executives, general managers and secretaries of the Company and the Group.

The remuneration report is presented under the following sections:

1. Individual Key Management Personnel disclosures.
2. Remuneration at a glance.
3. Board oversight of remuneration.
4. Non-executive Director (NED) remuneration arrangements.
5. Executive remuneration arrangements.
6. Company performance and link to remuneration.
7. Executive contractual arrangements.
8. Equity instruments disclosures.

1. Individual Key Management Personnel disclosures

Details of KMP including the top five remunerated executives of the Company and Group are set out in the following sections.

(i) Directors

Mr. D. McGauchie (appointed 19 May 2010)	Chairman (non-executive)
Mr. D. Farley	Managing Director and Chief Executive Officer
Mr. A. Paliulis	Director (non-executive)
Mr. N. Burton Taylor	Director (non-executive)
Mr. C. Roberts	Director (non-executive)
Mr. I. Allana (appointed 22 November 2010)	Alternate Director

(ii) Directors who resigned or retired during the period

Datuk Dr. Abdul Samad bin Haji Alias (appointed 13 April 2010 and resigned 26 January 2011)	Director (non-executive)
Dato' Sabri Ahmad (appointed 22 November 2010 and resigned 26 January 2011)	Alternate Director
Mr. S. Lonie (resigned 13 April 2010)	Chairman (non-executive)
Mr. P. Hughes (resigned 19 May 2010)	Director (non-executive)

(iii) Executives

Mr. T. Setter	Chief Operating Officer
Ms. J. Sloman*	Interim Chief Financial Officer
Mr. B. Bennett	Company Secretary/General Counsel
Mr. G. Dober	General Manager People and Culture
Mr. P. Dempsey	General Manager – Beef Group

* Ms. J. Sloman was contracted to act as Interim Chief Financial Officer from 25 October 2010. Mr. P. Beale commenced as Chief Financial Officer on 19 January 2011.

(iv) Key Executives who resigned, retired or whose contracts were terminated during the period

Ms. K. Parker (resigned 12 November 2010)	Chief Financial Officer
Mr. T. Gallagher (resigned 17 August 2010)	General Manager – Breeding
Mr. A. Jones (resigned 10 December 2010)	General Manager – Business Development

Other than the resignation of Datuk Dr. Abdul Samad bin Haji Alias (Non-executive Director) and the appointment of Mr. P. Beale as Chief Financial Officer, there were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

REMUNERATION REPORT (AUDITED) (continued)

2. Remuneration at a glance

Remuneration strategy under review

During the 2010 financial year, the Company undertook a review of its executive remuneration strategy to ensure the approach reflects business needs, shareholder views and contemporary market practice.

The Company's remuneration philosophy remains basically unchanged, namely that 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.

3. Board oversight of remuneration

Staff and Remuneration Committee

The Staff and Remuneration Committee currently comprises three independent non-executive Directors (NEDs) (Mr. C. Roberts (Committee Chairman), Mr. D. McGauchie and Mr. N. Burton Taylor) and one non-independent Director (Mr. A. Paliulis).

The Staff and Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements of NEDs and executives.

The Staff and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives 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 performing Director and executive team. In determining the level and composition of executive remuneration, the Staff and Remuneration Committee may also engage external consultants to provide independent advice.

Nomination Committee

The members of this committee are Mr. D. McGauchie (Committee Chairman), Mr. N. Burton Taylor, Mr. A. Paliulis, and Mr. C. Roberts.

Remuneration approval process

The Board approves the remuneration arrangements for the Managing Director/Chief Executive Officer and executives and all awards made under any long-term incentive (LTI) plan, following recommendations from the Staff and Remuneration Committee. The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval.

The Staff and Remuneration Committee approves, having regard to the recommendations made by the Managing Director/Chief Executive Officer, the level of any Company short-term incentive (STI) payments to employees.

Remuneration strategy

The Company's strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Company.

To this end, the key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the Company's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and Company performance and rewards; and
- Align the interests of executives with shareholders through measuring total shareholder return (TSR).

Remuneration structure

In accordance with best practice corporate governance, the structure of NED and executive remuneration is separate and distinct.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

4. Non-executive Director (NED) remuneration arrangements

Remuneration policy

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

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of NEDs 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.

On 12 June 2009, in consideration of the Company's financial performance, the Board reduced its fees being paid to NEDs by 10%, effective from that date until such time as the Group returned to profitability. The Board has determined that since the Company has returned to profitability the fees will return to the normal levels from 1 January 2011.

Structure

The remuneration of NEDs consists of Directors' fees and committee fees. NED's do not receive retirement benefits other than superannuation, nor do they participate in any incentive programs.

Each NED receives a base fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits, with a higher fee paid if the Director is a Chairman of a Board committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on one or more committees.

NED's are encouraged to hold shares in the Company. Any shares purchased by the Directors are purchased on market, which is in line with the Group's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the years ended 31 December 2010 and 31 December 2009 is detailed in table 1 of this report.

5. Executive remuneration arrangements

Remuneration levels and mix

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice.

The Board's objectives are to:

- Ensure that executives are appropriately rewarded, having regard to their role and responsibilities within the Group;
- 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 executives with the shareholders.

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

The Chairman oversees the Managing Director/Chief Executive Officer's recommendations for remuneration of senior executives with the assistance of the Staff and Remuneration Committee and independent remuneration advice, where necessary.

During the 2010 financial year, the Company undertook a review of its executive remuneration strategy to ensure the approach reflects business needs, shareholder views and contemporary market practice.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Structure

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

In the 2010 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration; and
- Variable or 'at risk' remuneration comprising:
  - Short term incentives; and
  - Long term incentives.

The Board reviewed the incentive arrangements for executives, excluding the Managing Director/CEO who has his incentive arrangements set out in his contract. Subsequent to 31 December 2010 the Board approved new incentive arrangements for executives, excluding the Managing Director/CEO, that it believes more adequately link KPI performance for these executives to the outcomes of the Group and provide a medium term retention strategy. The new incentive arrangements are detailed below and are designed to maintain the current short term incentive arrangements and utilise Deferred Equity Award arrangements as a retention strategy.

The Company encourages its executives to own the Company's shares, to further align their interests with the interests of other shareholders.

The following table illustrates the structure of the Company's executive remuneration arrangements in 2010:

Remuneration Component	Vehicle	Purpose	Link to performance
Total fixed remuneration (TFR).	• Represented by total fixed employment cost (TFR). • Comprises base salary and superannuation contributions.	• Set with reference to role, market and experience. • Executives are given the opportunity to receive their fixed remuneration in a variety of forms, including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient, without creating additional cost for the Group.	• No link to Company performance.
Short term incentive (STI) component.	• Paid in cash and Deferred Equity Awards (refer detail below).	• Rewards executives for their contribution to achievement of Company and business unit outcomes, as well as individual key performance indicators (KPIs).	• STI is calculated based on 50% Company performance where Profit after Tax is the key financial metric. • The remaining 50% performance is linked to relevant performance across internal measures of Financial, Safety, Compliance, and Operational drivers.

Total fixed remuneration

Executive contracts of employment do not include any guaranteed base pay increases. Total fixed remuneration comprises cash and other benefits and entitlements to provide a base level of remuneration which is both appropriate to the role and responsibilities and reflects current market conditions.

Total 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 executives, 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 additional cost.

The fixed component of executives' base fixed remuneration is detailed in the tables 1 and 2.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration – short term incentive (STI)

The Company operates an annual STI program that is available to executives and employees and awards a cash bonus subject to the attainment of Company, business unit and individual measures.

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 executives and senior employees responsible for achieving those targets.

The total potential STI is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and at a cost to the Company that is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets prescribed in the performance agreement for a financial year are met. The targets consist of a number of key performance indicators covering both financial and non-financial, corporate and individual measures of performance. Individual key result areas include contribution to earnings and net profit after tax, safety and risk management, compliance, and business unit specific operational measures.

These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long-term value.

Under the arrangements approved by the Board the general principles that will apply are that the executive will receive a Short Term cash Incentive and be granted a Deferred Equity Award that is generally set at 50%, subject to existing contractual conditions, of the Short Term cash Incentive. The Short Term cash Incentive will be paid 3 months after the balance date on which the executive's performance is being measured.

The Deferred Equity Award will vest over the 2 years after the year the Short Term cash incentive is paid. The usual policy is that the Short Term cash Incentive will be determined and 50% of the Short Term cash Incentive will be granted as a Deferred Equity Award for which half vests 12 months after the payment of the Short Term cash incentive and the remaining half 24 months after the payment of the Short Term cash incentive. This vesting is subject to the executive still being employed by the Group.

The Company has a **Good Leaver** and a **Bad Leaver** Policy. If the executive was a **Bad Leaver**, then any unvested Deferred Equity Awards will be automatically forfeited. If the executive was a **Good Leaver**, then AACo Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some of all of the unvested Deferred Equity Awards to vest (and be exercised).

The Board assesses the performance of the Managing Director/Chief Executive Officer against his targets and determines his actual short term incentive payment based upon the recommendation of the Staff and Remuneration Committee. The Managing Director has a maximum STI of $200,000 in his existing contract.

The Managing Director/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 Staff and Remuneration Committee.

STI bonus for 2009 and for 2010

No accrual was taken up at 31 December 2009 for STI bonus payments and no bonus paid in 2010.

The Company's STI program was reviewed in 2010. An accrual has been taken up in these financial statements for the 2010 STI bonus that will vest and be paid in 2011. At 31 December 2010 the STI awards had not been determined at an individual executive level. In 2009 no STI payments were made. The 2009 STI amounts disclosed in Table 2 relate to 2008 STI payments.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration – long term incentive (LTI)

This component currently comprises options over shares in the Company and reflects the individual's performance in achieving various objectives over the prior 12 months. The aim of the long term incentive is to reward recipients in a manner which aligns this component of remuneration with the creation of shareholder wealth.

The Managing Director/Chief Executive Officer

Historically, the Managing Director/Chief Executive Officer's long term incentive comprised option entitlements, which were determined by the Board with the assistance of the Staff and Remuneration Committee and independent expert remuneration advice, where appropriate, and approved by shareholders, if necessary.

The long term incentive for Mr. D. Farley, Managing Director/Chief Executive Officer, is to be determined and will be finalised in the first quarter of 2011.

The Board has contractually determined a Long Term Incentive Plan (LTIP) for the Managing Director/Chief Executive Officer. Under the LTIP there are certain performance benchmarks which are required to be achieved over a 3 year period for the Managing Director/Chief Executive Officer to receive any benefit. These benchmarks and the vesting for each year's offer are set out below.

The first year of offer was 2010 with the Performance Rights for 2010 being granted in 2011. Each subsequent year will be granted at the commencement of that year following the issue of the Group's results to the shareholders and the markets.

1. External Performance Condition (TSR outperformance)

50% of the Performance Rights are subject to an external Performance Condition, namely, AAco's Total Shareholder Return (TSR) performance relative to the S&P/ASX Small Ordinaries Accumulation Index (ASX Code: XSOAI) measured over a three year Vesting Period.

Vesting of the Performance Rights subject to the TSR outperformance condition will be calculated based on the following percentile results in the table below:

AAco TSR Ranking versus S&P/ASX Small Ords Accumulation Index (XSOAI)	% of Performance Rights to vest.
Below the 50th percentile	0% vest
At the 50th percentile	50% vest
Between the 50th and 75th percentile	2% vesting on a straight line interpolation for each percentile ranking
At or above the 75th percentile	100% vest

The Company's TSR will be measured by an independent third party over the Vesting Period. The testing of the TSR outperformance condition will occur at the end of the Vesting Period.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration – long term incentive (LTI) (continued)

2. Internal Performance Condition (EPS)

50% of the Performance Rights are subject to an internal Performance Condition based on the Company's earnings per share (EPS).

EPS is defined as Adjusted Net after Tax Profit per Ordinary Share, where Adjusted Net after Tax Profit is calculated as follows:

- **Annual reported Net Profit after Tax Profit**
- **Less:** Valuation adjustments
- **Less:** any adjustment deemed fair and appropriate by the Board, in the Board's absolute discretion.

The Board in its absolute discretion may vary this formula from year to year to reflect the changing nature of the Group's operations and its operating environment.

Vesting of the Performance Rights subject to the EPS condition will be calculated based on the following compound % growth rates over the three financial years following the base year the Performance Rights are established.

EPS Compound Growth Rate	% of Performance Rights to vest.
Compound growth rate of less than 7.5% p.a.	0% vest
Compound growth rate of at least 7.5% p.a.	50% vest
Compound growth rate between 7.5% p.a. and 10% p.a.	2% vesting on a straight line interpolation for each 0.1% increment in EPS.
Compound growth rate of 10% p.a. or more	100% vest

Executive Option Plan

The Company had an Executive Option Plan (EOP) for the granting of non-transferable options to executives and middle management with more than twelve months' service at the grant date. There will be no further grants of options under the EOP.

The existing options under the EOP 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.

There will be no further grants under this scheme.

Termination and change in control provisions

Under the terms of the LTIP if the Managing Director/Chief Executive Officer ceases employment with the Company and holds Performance Rights, the ability of the Managing Director/Chief Executive Officer to retain their Performance Rights will depend on the circumstances in which the employment ceases. The Plan Rules define Bad Leavers and Good Leavers.

If the executive was a **Bad Leaver**, then the Performance Rights will be automatically forfeited. If the executive was a **Good Leaver**, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the Performance Rights to vest (and be exercised).

A change of control event occurs when any person, either alone or together with any "associate" (as defined in the Australian Corporations Act) who does not hold a relevant interest in more than 50% of the issued shares of the Company acquires a relevant interest in more than 50% of the issued shares, or the Board concludes that there has been a change in control of the Company then one of the following will occur in respect of all unvested Performance Rights or Deferred Equity Awards. The Performance Rights or Deferred Equity Awards will either vest:

(i) automatically; or
(ii) at the board's discretion; or
(iii) on a pro-rata basis.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration – long term incentive (LTI) (continued)

Under the EOP where a participant ceases employment prior to the vesting of their award, the options are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances.

In the event of a takeover or change in control of the Company:

(a) 50% of unvested options made within the last three years prior to the change in control, would vest, as soon as the Board forms the opinion that the takeover or change in control will occur, and

(b) all or part of the other 50% of the unvested options made within the last three years may be vested by the Board as determined in its absolute discretion.

LTI awards for 2010 financial year

There were no options granted in 2010 under the EOP and there will be no further grants.

Managing Director/Chief Executive Officer, Mr. D. Farley was appointed on 1 December 2009 and under the terms of his executive service agreement, he will be entitled to an LTI benefit up to a maximum of 50% of his fixed remuneration. This will be implemented during 2011 at which point the LTI benefit attributable to 2010 will be determined and disclosed.

Tax exempt share plan

All Company and Group employees paid under $50,000 are eligible to be issued fully paid shares to the value of $1,000 p.a. under the Tax-exempt Employee Share Plan (TESP). An employee must have been employed by the Group for 12 months to be eligible in the following year.

There were no shares issued under the TESP in 2010.

Hedging of equity rewards

The Company prohibits employees from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering 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 three month period or using forward contracts, without approval of the Chairman, or in the case of the Chairman, a Director chosen by the Board for that purpose.

6. Company performance and link to remuneration

Company performance and its link to long-term incentives

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

PER SHARE STATISTICS	2006	2007	2008	2009	2010
EPS (to the nearest cent)	4 cents	1.5 cents	(15.0) cents	(20.3) cents	0.3 cents

The financial performance measure driving LTI payment outcomes is total shareholder return (TSR). TSR for the Company is defined as share price growth plus dividends, assuming the dividends are reinvested into the Company's ordinary shares.

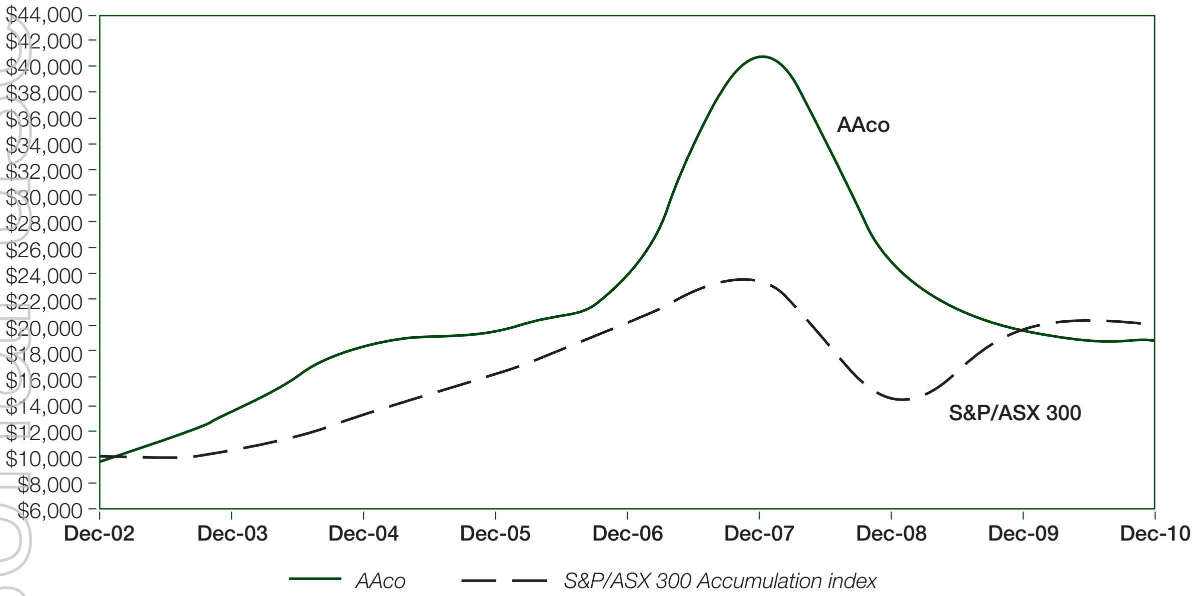
Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

6. Company performance and link to remuneration (continued)

As a guide to TSR, the graph below demonstrates the shareholder wealth created over the last five years, as compared with the benchmark S&P300 Accumulation Index.

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



Series 1 = The Company total shareholder return.
Series 2 = S&P ASX 300 accumulation index.

7. Executive contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

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

Managing Director/Chief Executive Officer

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

- The Managing Director/Chief Executive Officer may terminate his employment by giving six months written notice. No STI's or LTI's will apply to any financial year during which employment ceases and the treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may terminate the Managing Director/Chief Executive Officer's employment by six months written notice or provide payment in lieu of the notice period based on the Managing Director/Chief Executive Officer'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. The treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may summarily terminate the Managing Director/Chief Executive Officer's employment if serious misconduct has occurred.

REMUNERATION REPORT (AUDITED) (continued)

7. Executive contractual arrangements (continued)

Managing Director/Chief Executive Officer – Mr. D. Farley
Mr. D. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009.

Under the terms of the present contract as disclosed to the ASX on 4 December 2009:

- The Managing Director/Chief Executive Officer receives fixed remuneration of $600,000 per annum.
- The Managing Director/Chief Executive Officer's STI opportunity is a cash bonus up to a maximum of $200,000 per annum.
- The Managing Director/Chief Executive Officer will be entitled to an LTI benefit up to a maximum of 50% of fixed remuneration. The specific terms of the LTI benefit, including related performance hurdles, will be finalised after due consideration of the current legislative changes and a review of best practice guidelines.
- After cessation of employment the Managing Director/Chief Executive Officer will be restrained from participating in a business in competition with the Company, in the beef trade industry and soliciting Company staff for the 12 month period from termination date.
- For a period of twelve months after employment ends, the Managing Director/Chief Executive Officer may not engage in business dealings with a customer or supplier of the Group with whom the Managing Director/Chief Executive Officer has had work related dealings during the previous six months with a view to causing the person to cease doing business or reduce the amount of business which the person would normally do with the Group.

The Managing Director/Chief Executive Officer's termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates.
Termination for serious misconduct	Nil	Nil	Not eligible	Unvested portion terminates
Employee-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates

The Board has the discretion to determine that some or all of any unvested performance rights granted vest or cease to be restricted; or lapse or are deemed to be forfeited.

Other Key Management Personnel
The executive service agreement for other senior executives generally reflect that of the Managing Director/Chief Executive Officer.

Standard Key Management Personnel termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of unvested options granted under EOP upon termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	(Employer initiated other than redundancy) – Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Termination for serious misconduct	Nil	Nil	Not eligible	Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Employee-initiated termination	3 to 6 months	Part or all of 3 to 6 months	Not eligible	Vested Options may be exercised within 6 months. Unvested options lapse except at Board discretion

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel and the five highest paid Executives of the Company and the Group

Table 1: Directors

	Short Term			Post-Employment	Termination	Total	Performance Related
	Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Termination Benefits		
Directors	$	$	$	$	$	$	%
Non-executive Directors							
D. McGauchie[1]							
31/12/2010	79,451	-	1,980	7,086	-	88,517	-
31/12/2009	-	-	-	-	-	-	-
N. Burton Taylor[2]							
31/12/2010	119,138	-	-	10,723	-	129,861	-
31/12/2009	47,704	-	-	4,293	-	51,997	-
A.P. Paliulis[3]							
31/12/2010	70,474	-	-	6,342	-	76,816	-
31/12/2009	39,195	-	-	3,528	-	42,723	-
C.I. Roberts[2]							
31/12/2010	74,074	-	-	6,667	-	80,741	-
31/12/2009	41,197	-	-	3,708	-	44,905	-
I. Allana[6] (alternate)							
31/12/2010	-	-	-	-	-	-	-
31/12/2009	-	-	-	-	-	-	-
Executive Directors							
D. Farley[4]							
31/12/2010	550,458	-	-	49,542	-	600,000	-
31/12/2009	45,872	-	-	4,128	-	50,000	-
Former Directors							
Datuk Abdul Samad[5]							
31/12/2010	54,418	-	-	4,898	-	59,316	-
31/12/2009	-	-	-	-	-	-	-
Dato' Sabri Ahmad[6] (alternate)							
31/12/2010	-	-	-	-	-	-	-
31/12/2009	-	-	-	-	-	-	-
S.E. Lonie[7]							
31/12/2010	55,042	-	-	5,319	-	60,361	-
31/12/2009	109,040	-	-	4,334	-	113,374	-
C.E. Bright[9]							
31/12/2010	-	-	-	-	-	-	-
31/12/2009	76,655	-	-	6,899	-	83,554	-
B. Heading[10]							
31/12/2010	-	-	-	-	-	-	-
31/12/2009	85,703	-	-	-	-	85,703	-
P. Hughes[8]							
31/12/2010	29,782	-	-	2,680	-	32,462	-
31/12/2009	55,372	-	-	3,843	-	59,215	-
P. Toyne[10]							
31/12/2010	-	-	-	-	-	-	-
31/12/2009	75,375	-	-	-	-	75,375	-
Total Remuneration: Directors							
31/12/2010	1,032,837	-	1,980	93,257	-	1,128,074	
31/12/2009	576,113	-	-	30,733	-	606,846	-

1. D. McGauchie was appointed on 19 May 2010.
2. N. Burton Taylor and C. Roberts resigned as Directors on 21 May 2008 and were re-elected as Directors on 12 June 2009.
3. A.P.Paliulis was appointed on 12 June 2009.
4. D. Farley was appointed Managing Director/CEO on 1 December 2009. D. Farley replaced S. Toms (refer table 2) as CEO. Subsequent to 31 December 2010 the Board has approved an STI for the Managing Director/CEO of $200,000 and the final determination of his LTI terms will be finalised and advised at the AGM. The LTI award will not vest before 31 December 2012 in accordance with the terms of his contract.
5. Datuk Abdul Samad was appointed on 13 April 2010 and resigned on 26 January 2011.
6. L. Allana and Dato' Sabri Ahmad were appointed alternate Directors on 22 November 2010. Dato' Sabri Ahmad resigned on 26 January 2011.
7. S.E. Lonie was appointed on 28 April 2009 and resigned on 13 April 2010.
8. P. Hughes was appointed on 28 April 2009 and resigned on 19 May 2010.
9. C.E. Bright resigned on 17 May 2009.
10. B. Heading and P. Toyne resigned on 12 June 2009.

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel and the five highest paid Executives of the Company and the Group (continued)

Table 2: Other Key Management Personnel

Other Key Management Personnel	Short Term			Post-Employment	Long term benefits	Share-based payment	Termination	Total	Performance Related
	Salary & Fees	Cash Bonus	Non-Monetary Benefits	Superannuation	Long service leave	Options[12]	Termination Benefits		
	$	$	$	$	$	$	$	$	%
Current									
T. Setter[1]									
31/12/2010	162,360	-	9,901	15,495	-	-	-	187,756	-
31/12/2009	-	-	-	-	-	-	-	-	-
J. Sloman[2]									
31/12/2010	55,769	-	-	3,800	-	-	-	59,569	-
31/12/2009	-	-	-	-	-	-	-	-	-
B. Bennett									
31/12/2010	256,880	-	-	23,120	-	3,998	-	283,998	1.41
31/12/2009	256,880	29,220	-	25,749	-	10,310	-	322,159	12.27
P. Dempsey									
31/12/2010	195,286	-	-	48,314	-	4,882	-	248,482	1.96
31/12/2009	223,486	47,035	-	24,348	-	33,670	-	328,539	24.56
G. Dober[3]									
31/12/2010	118,448	-	-	10,660	-	-	-	129,108	-
31/12/2009	-	-	-	-	-	-	-	-	-
H. Burke[4]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	120,000	11,180	-	11,807	-	12,072	-	155,059	15.00
G. Gibbons[4]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	106,083	15,912	-	10,980	-	13,241	-	146,216	19.94
Former									
K. Parker[5]									
31/12/2010	250,193	-	-	21,563	-	-	-	271,756	-
31/12/2009	22,936	-	-	2,064	-	-	-	25,000	-
T. Gallagher[6]									
31/12/2010	129,904	-	11,866	16,254	44,875	(8,628)	44,177	238,448	(3.62)
31/12/2009	205,960	34,681	10,756	22,626	-	29,813	-	303,836	21.23
A. Jones[7]									
31/12/2010	215,068	-	2,073	26,293	-	(8,418)	156,969	391,985	(2.15)
31/12/2009	201,835	31,066	-	20,962	-	29,061	-	282,924	21.25
S.N. Toms[8]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	437,034	78,473	-	42,442	-	65,448	699,780	1,323,177	10.88
D. Connolly[9]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	202,568	34,712	-	17,414	-	(57,274)	165,000	362,420	(6.22)
S.Kenny[10]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	117,419	-	8,970	10,321	-	-	125,000	261,710	-
J. Whiteman[11]									
31/12/2010	-	-	-	-	-	-	-	-	-
31/12/2009	304,303	-	-	-	-	-	-	304,303	-
Total Remuneration: Other KMP									
31/12/2010	1,383,908	-	23,840	165,499	44,875	(8,166)	201,146	1,811,102	(0.45)
31/12/2009	2,198,504	282,279	19,726	188,713	-	136,341	989,780	3,815,343	10.97

1 T. Setter was appointed Chief Operating Officer on 7 April 2010.
2 J. Sloman was appointed interim CFO on 25 October 2010.
3 G. Dober was appointed General Manager People and Culture on 27 April 2010.
4 H. Burke and G. Gibbons did not meet the definition of key management personnel under AASB 124 for the 2010 financial year as a result of a management restructure.
5 K. Parker was appointed CFO on 1 December 2009 and resigned on 12 November 2010.
6 T. Gallagher resigned on 17 August 2010.
7 A. Jones resigned on 10 December 2010.
8 S. Toms was appointed to the position of CEO on 12 August 2008 and his employment ceased on 10 August 2009.
9 D. Connolly's employment ceased on 10 August 2009.
10 S. Kenny was appointed on 14 April 2008 and resigned on 30 June 2009.
11 J. Whiteman acted as interim CFO from 27 January 2009.
12 Negative option remuneration relates to options forfeited during the year.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

8. Equity instrument disclosures

There were no options granted during the period. For details of options issued in previous financial periods, including valuation and vesting conditions, please refer to note 29.

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

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

DIRECTORS' MEETINGS (UNAUDITED)

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:

	Directors' meetings		Audit Committee		Staff and Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
Mr. D. McGauchie (appointed 19 May 2010)	7	7	4	4	2	2	1	1
Mr. D. Farley	17	17	*	*	*	*	*	*
Mr. A. Paliulis	17	15	*	*	3	3	3	3
Mr. N. Burton Taylor	17	17	6	6	3	3	3	3
Mr. C. Roberts	17	14	*	*	3	1	3	2
Datuk Dr. Abdul Samad bin Haji Alias (appointed 13 April 2010 and resigned 26 January 2011)	8	6	4	3	*	*	1	0
Mr. S. Lonie (resigned 13 April 2010)	9	6	2	2	1	1	2	1
Mr. P. Hughes (resigned 19 May 2010)	10	10	2	2	*	*	2	2
Alternate Directors								
Mr. I. Allana (appointed 22 November 2010)	1	1	1	1	1	1	1	1
Dato' Sabri Ahmad (appointed 22 November 2010 and resigned 26 January 2011)	1	1	1	1	1	1	1	1

A = Number of meetings held during the time the Director held office or was a member of the committee during the year
B = Number of meetings attended

* Not a member of the relevant committee

Committee membership

As at the date of this report, the Company had an Audit Committee, Staff and Remuneration Committee and a Nomination Committee.

ROUNDING

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

AUDITOR INDEPENDENCE

We have obtained the following independence 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 2010, 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

Mike Reid

Mike Reid
Partner
Brisbane
10 February 2011

Directors' Report (continued)

NON AUDIT SERVICES

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

	2010	2009
	$	$
Assurance related	3,630	-
Risk advisory services	-	14,200
	3,630	14,200

Signed in accordance with a resolution of the Directors

Donald McGauchie
Chairman

Brisbane
10 February 2011

Corporate Governance Statement

The Board is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

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 Listing Rule (LR) /CGC 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 46	*ASX CGC 1.1*
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Refer to remuneration report	*ASX CGC 1.2*
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		*ASX CGC 1.3*

Recommendation		**Comply Yes / No**	**Reference / Explanation**	**ASX LR / Recommendation**
Principle 2 – Structure the Board to add value				
2.1	A majority of the Board should be independent Directors. ** Meaning as at the date of this report but not for the full year.*	Yes*	Page 47	*ASX CGC 2.1*
2.2	The chair should be an independent Director.	Yes	Page 48	*ASX CGC LR 2.2*
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 47	*ASX CGC 2.3*
2.4	The Board should establish a Nomination Committee.	Yes	Page 49	*ASX CGC 2.4*
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	Page 48	*ASX CGC 2.5*
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		*ASX CGC 2.6*

Corporate Governance Statement (continued)

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
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	Website	*ASX CGC 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 48	*ASX CGC 3.2*
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes		*ASX CGC 3.3*

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 4 – Safeguard integrity in financial reporting				
4.1	The Board should establish an Audit Committee.	Yes	Page 49	*ASX CGC 4.1*
4.2	The Audit Committee should be structured so that it: • 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. • Has at least three members.	Yes	Page 49	*ASX CGC 4.2* *ASX LR 12.7*
4.3	The Audit Committee should have a formal charter.	Yes	Page 49	*ASX CGC 4.3*
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website	*ASX CGC 4.4*

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
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	Website	*ASX CGC 5.1*
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes		*ASX CGC 5.2*

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
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 52	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		ASX CGC 6.2

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
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 49	ASX CGC 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 49	ASX CGC 7.2
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (CEO) [or equivalent] and the Chief Financial Officer (CFO) [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 51	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		ASX CGC 7.4

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 8 – Remunerate fairly and responsibly				
8.1	The Board should establish a Remuneration Committee.	Yes	Page 51	ASX CGC 8.1
8.2	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes	Refer to remuneration report	ASX CGC 8.2
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes		ASX CGC 8.3

Corporate Governance Statement (continued)

The Company's corporate governance practices were in place throughout the year ended 31 December 2010, except to the extent as may be noted in this statement.

Various corporate governance practices are discussed within this statement. For further information on the corporate governance policies adopted by the Company, refer to our website: www.aaco.com.au.

Board Functions

The Board is responsible to the Company's shareholders for the overall governance and performance of the Company.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operations of the Board.

The responsibility for the operation and administration of the Group is delegated, by the Board, to the Managing Director/CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of Board committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board. 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 three Board committees:

- Audit
- Staff and Remuneration
- Nomination

The roles and responsibilities of these committees are discussed throughout this corporate governance statement. On 22 November 2010 the Board approved in principle the creation of a risk management committee that will become operational during the 2011 financial year.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity.
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports.
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.

The matters which are reserved for the Board are contained in the Board's Charter, which is available on the Company's website.

Structure of the Board

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.

The Board is currently comprised of five Directors, three of whom are determined by the Board to be independent.

It is the Board's responsibility to assess and monitor the independence of Directors, as required under the ASX Corporate Governance Principles and Recommendations ('CGPR') published by the ASX Corporate Governance Council.

Under the Company's Board Charter, the Board will determine whether or not a Director is independent. For the purposes of making a determination as to whether a Director is independent the Board will consider, amongst other things, whether or not the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has been employed in an executive capacity by the Company or one of its subsidiary companies;
- Has been in the last three years, a principal of a material professional adviser or a material consultant to the Company or other member of the Group, or an employee materially associated with the service provided;
- Is affiliated with a material customer or supplier of the Company or other member of the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

In accordance with the guidelines above, the following Directors of the Company during the period were determined to be independent.

Mr. D. McGauchie	Chairman, Non-executive Director	Appointed 19 May 2010
Mr. N. Burton Taylor	Non-executive Director	Appointed 12 June 2009
Mr. C. Roberts	Non-executive Director	Appointed 12 June 2009
Mr. S. Lonie	Chairman, Non-executive Director	Resigned 13 April 2010
Mr. P. Hughes	Non-executive Director	Resigned 19 May 2010

The following Directors of the Company during the period were determined to be non-independent:

Mr. A .Paliulis	Mr. A. Paliulis who was appointed on 12 June 2009, is not considered independent as he is an employee of a related entity of major (19.9%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD.
Datuk Dr. Abdul Samad bin Haji Alias	Datuk Dr. Abdul Samad bin Haji Alias who was appointed 13 April 2010 is not considered independent as he is an officer of a related entity of major (19.9%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD. Datuk Dr. Abdul Samad bin Haji Alias resigned on 26 January 2011.
Mr. D. Farley	Mr. D. Farley who was appointed 1 December 2009 is not considered independent by virtue of his executive office as Managing Director and Chief Executive Officer.

Prior to the resignation of Datuk Dr. Abdul Samad bin Haji Alias on 26 January 2011, the Board did not have a majority of independent Directors. The Board was of the view that the Board's composition during the period prior to the resignation of Datuk Dr. Abdul Samad bin Haji Alias, served the interests of shareholders for the following reasons:

- The Board had a majority of non-executive Directors and the Chairman, Mr. D. McGauchie, is an independent, non-executive Director. Mr. D. McGauchie has a casting vote ensuring the balance of power at Board level is retained by independent non-executive representatives.
- Having regard to the size of IFFCO Poultry Co SDN BHD's investment and the absence of any other relationship between the Company and IFFCO Poultry Co SDN BHD, the Board believes IFFCO Poultry Co SDN BHD's interests are independent of management and are aligned with those of all shareholders.
- All Board committees are comprised only of non-executive Directors and each Chair of a committee is an independent Director.
- After considering the needs of the Company it was the view of the Board that it was not in the interests of shareholders to incur the expense of additional Directors at that time.

Corporate Governance Statement (continued)

Chair

The Board recognises the Corporate Governance Council's recommendation that the Chair should be an independent Director.

In 2010, the role of Chairman was held as follows:

Mr. S. Lonie (resigned 13 April 2010)	12 June 2009 to 13 April 2010
Mr. N. Burton Taylor (Interim only and resigned 24 August 2010)	13 April 2010 to 24 August 2010
Mr. D. McGauchie (appointed 24 August 2010)	Since 24 August 2010

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

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office	Total term (including broken periods)
Directors		
Mr. D. McGauchie	9 months	9 months
Mr. D. Farley	1 year 2 months	1 year 2 months
Mr. C. Roberts	1 year 8 months	9 years
Mr. A. Paliulis	1 year 8 months	1 year 8 months
Mr. N. Burton Taylor	1 year 8 months	9 years
Datuk Dr. Abdul Samad bin Haji Alias	10 months	10 months
Alternate Directors		
Irfan Allana	3 months	3 months
Dato' Sabri Ahmad	3 months	3 months

For additional details regarding Board appointments, please refer to our website.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. Toward the end of 2010, the Board initiated an independent performance evaluation of the Board, which is currently ongoing, and is expected to be completed in the first quarter of 2011.

Trading Policy

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 those securities.

Before commencing to trade, executives and employees must first notify and obtain the approval of the Company Secretary to do so and a Director must first obtain the approval of the Chairman.

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. This policy was updated during 2010 to align with the new listing rule ASX LR 12.9 which took effect from 1 January 2011.

Code of Conduct

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.

Nomination Committee

The Board has established a nomination committee, which is responsible for assessing the necessary and desirable competencies of Board members, reviewing Board succession plans and working with the Chairman in evaluating the Board's performance. The Nomination Committee comprises non-executive Directors and the following Directors were committee members in 2010:

Mr. D. McGauchie (Chair) (appointed 24 August 2010)
Mr. N. Burton Taylor (appointed 28 April 2010)
Mr. A. Paliulis
Mr. C. Roberts
Datuk Dr. Abdul Samad bin Haji Alias (appointed 24 August 2010 and resigned 26 January 2011)
Mr. S. Lonie (Chair) (resigned 13 April 2010)
Mr. P. Hughes (resigned 19 May 2010)

For details of Directors attendance at meetings of the Nomination Committee, refer to the Directors' Report.

For additional details regarding the Nomination Committee including its charter, please refer to our website.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and 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 responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The composition of the Audit Committee changed during the period due to resignations and new appointments of Board members. The members of the Audit Committee during the year were:

Mr. N. Burton Taylor (Chair)
Datuk Dr. Abdul Samad bin Haji Alias (appointed 28 April 2010 and resigned 26 January 2011)
Mr. D. McGauchie (appointed 25 June 2010)
Mr. S. Lonie (resigned 13 April 2010)
Mr. P. Hughes (resigned 19 May 2010)
Mr. C Roberts was appointed a member of the Audit Committee with effect from 4 February 2011.

The members of the Audit Committee and their qualifications are shown in this annual report on pages 19 to 21 of the Directors' Report.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Audit Committee including a copy of its charter, please refer to our website.

Independent Review Committee

The Board has established an independent review committee comprising independent Directors to oversee any matters where an actual or potential conflict between the interests of the Company and the interests of a Director or major shareholder of the Company may exist. The Independent Review Committee presently has no matters before it.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The task of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Managing Director/CEO, including responsibility for day to day design and implementation of the Company's risk management and internal control system. Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

Corporate Governance Statement (continued)

At least once a year, the Company carries out a formal risk review, including revision of insurance policies that the Company has in place. 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.

Management carries out risk specific management activities in five core areas; strategic risk, operational risk, reporting risk, compliance risk and environmental and sustainability risk.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

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 internally managed Quality Management System including a detailed set of policies and procedures for Company activities.

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 not exhaustive, and will be subject to change based on underlying market events. The key operational risks are:

- Workplace health and safety.
- Biosecurity threats.
- Food Safety threats.
- Cattle supply and costs of operation.
- Environmental issues including water and climate change.
- Market dynamics.

During the 2010 financial year the Board commissioned an independent review of the Group's Risk Management framework. The consultant's terms of reference included a re-assessment of the range of risks the Group is exposed to and the design of a new risk management framework. The Board has considered the results of this review and has resolved to proceed with the development of a new risk management framework in accordance with the recommendations contained in this review and has:

- Approved in principle to form a new Board risk management committee to replace the current Risk Review Committee;
- Approved a new risk management strategy; and
- Approved the recruitment of a Chief Risk Officer to assist in the implementation of a new risk management framework.

As a consequence of this review, the existing 5 core risk areas have been expanded to 6 core risk areas: strategic, production, financial, operational, legal and compliance, and people and culture. The new key operational risks include:

- Workplace health and safety.
- Food safety.
- Herd management (genetics, nutrition, fertility, etc.).
- Environmental impacts – weather, biosecurity, land management, sustainability and contamination.
- Processing, marketing and sales.
- Leasing and land tenure.

This is not an exhaustive list.

CEO and CFO Certification

In accordance with section 295A of the Corporations Act, the CEO and CFO have provided a written statement to the Board that:

- Their 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.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

Remuneration

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 employment market conditions. The nature and amount of the Managing Director's/CEO's and key executive's emoluments are linked to the Company's financial and operational performance. 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.

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.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves.

Staff and Remuneration Committee

The Board has a Staff and Remuneration Committee, usually comprising three non-executive Directors. Further information on the Committee's role, responsibilities and membership can be seen at www.aaco.com.au.

The composition of the Staff and Remuneration Committee changed during the period due to resignations and new appointments of Board members. The members of the Staff and Remuneration Committee during the year were:

Mr. C. Roberts (Chair)
Mr. A. Paliulis
Mr. N. Burton Taylor (appointed 24 August 2010)
Mr. D. McGauchie (appointed 24 August 2010)
Mr. S. Lonie (resigned 13 April 2010)

The members of the Staff and Remuneration Committee and their qualifications are shown in this annual report on pages 19 to 21 of the Directors' Report.

For details on the number of meetings of the Staff and Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Staff and Remuneration Committee including a copy of its charter, please refer to our website.

When considered appropriate, the Board obtains independent advice regarding non-executive Directors' emoluments.

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 (other than superannuation) to non-executive Directors.

Corporate Governance Statement (continued)

Shareholder Communication Policy

Pursuant to Principle 6, the Company's policy is 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.

A copy of the Company's Continuous Disclosure Policy is available on the Company's website, www.aaco.com.au.

The Company is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through release of information to the market via ASX.
- Through the distribution of the annual report and notices of annual general meeting.
- Through shareholder meetings and investor relations presentations.
- Through letters and other forms of communications directly to shareholders.
- By posting relevant information on the Company's website www.aaco.com.au.

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 executives attend the meeting.

The external auditors are required to attend the annual general meetings and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Index Financial Statements

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 $000	2009 $000
Revenue	6(a)	262,610	156,298
Other income	6(b)	4,581	2,507
		267,191	158,805
Administration and other costs		(10,853)	(15,010)
Business development and other non-station operating costs		(1,262)	(771)
Cattle agistment costs		(2,332)	(3,044)
Cattle expenses		(16,853)	(13,608)
Cost of goods sold of value-add businesses		(114,523)	(90,860)
Employee expenses	7(d)	(28,253)	(28,633)
Farming expenses		(3,247)	(2,697)
Feedlot cattle expenses		(28,347)	(31,124)
Fuel expenses		(7,243)	(6,528)
Lease and property related costs		(4,756)	(5,762)
Other station operating costs		(8,192)	(8,376)
Operating expenses		(225,861)	(206,413)
Profit/(loss) from continuing operations before finance costs, income tax, depreciation, amortisation and impairment		41,330	(47,608)
Depreciation, amortisation and impairment	7(a)	(12,902)	(13,672)
Profit/(loss) before finance costs and income tax expense		28,428	(61,280)
Net finance costs	7(b)	(26,610)	(15,529)
Profit/(loss) from continuing operations before income tax		1,818	(76,809)
Income tax (expense)/benefit	8	(914)	23,072
Profit/(loss) from continuing operations after related income tax expense		904	(53,737)
Basic earnings/(loss) per share (cents)	10	0.3	(20.3)
Diluted earnings/(loss) per share (cents)	10	0.3	(20.3)

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 $000	2009 $000
Profit/(loss) for the period		904	(53,737)
Other comprehensive income			
Fair value revaluation of land and buildings	16	(76,756)	(16,604)
Income tax	8	23,372	9,971
Other comprehensive loss for the period, net of tax		(53,384)	(6,633)
Total comprehensive loss for the period, net of tax		(52,480)	(60,370)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 $000	2009 $000
Current Assets			
Cash and cash equivalents	11	17,045	9,579
Trade and other receivables	12	15,016	8,252
Inventories	13	18,293	18,044
Biological assets – livestock	14	155,136	116,712
Derivative financial instruments	21	651	450
Other assets		364	592
Total Current Assets		206,505	153,629
Non-Current Assets			
Receivables	15	9	29
Biological assets – livestock	14	258,466	236,514
Property, plant and equipment	16	598,925	681,731
Deferred tax assets	8	4,394	4,196
Intangible assets and goodwill	17	4,428	6,030
Total Non-Current Assets		866,222	928,500
Total Assets		1,072,727	1,082,129
Current Liabilities			
Trade and other payables	18	28,601	18,621
Provisions	19	2,157	3,387
Interest bearing loans and borrowings	22	86,626	27,523
Derivative financial instruments	21	4,655	8,691
Current tax liabilities	8	819	-
Total Current Liabilities		122,858	58,222
Non-Current Liabilities			
Provisions	20	525	554
Interest bearing loans and borrowings	22	270,723	269,177
Deferred tax liabilities	8	85,987	109,067
Total Non-Current Liabilities		357,235	378,798
Total Liabilities		480,093	437,020
Net Assets		592,634	645,109
Equity			
Contributed equity	23	172,785	172,785
Reserves	24	347,682	401,061
Retained earnings	24	72,167	71,263
Total Equity		592,634	645,109

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Receipts from customers		277,136	230,747
Payments to suppliers, employees and others		(312,671)	(249,057)
Income tax received/(paid)		-	(5,387)
Interest received		293	988
Net GST received from ATO		11,822	6,630
Net operating cash flows before interest and finance costs		(23,420)	(16,079)
Payment of interest and finance costs		(25,418)	(40,289)
Net cash flows used in operating activities	25(a)	(48,838)	(56,368)
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		(4,685)	(4,395)
Proceeds from sale of property, plant and equipment		648	141,296
Proceeds from sale of livestock herds		-	39,145
Net cash flows (used in)/from investing activities		(4,037)	176,046
Cash flows from financing activities			
Proceeds from/(repayment of) borrowings		60,341	(130,146)
Net cash flows from/(used in) financing activities		60,341	(130,146)
Net increase/(decrease) in cash and cash equivalents held		7,466	(10,468)
Cash and cash equivalents at the beginning of the period		9,579	20,047
Cash and cash equivalents at the end of the period	11	17,045	9,579

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Contributed Equity (note 23) $000	Reserves (note 24) $000	Retained Earnings (note 24) $000	Total Equity $000
At 1 January 2009	172,785	518,297	14,173	705,255
Loss for the period	-	-	(53,737)	(53,737)
Other comprehensive income	-	(6,633)	-	(6,633)
Total comprehensive income for the period	-	(6,633)	(53,737)	(60,370)
Transactions with owners in their capacity as owners:				
Cost of share-based payment	-	224	-	224
Transfer of capital profits to retained earnings	-	(110,827)	110,827	-
At 31 December 2009	172,785	401,061	71,263	645,109
Profit for the period	-	-	904	904
Other comprehensive income	-	(53,384)	-	(53,384)
Total comprehensive income for the period	-	(53,384)	904	(52,480)
Transactions with owners in their capacity as owners:				
Cost of share-based payment	-	5	-	5
At 31 December 2010	172,785	347,682	72,167	592,634

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1 CORPORATE INFORMATION

The consolidated financial report of Australian Agricultural Company Limited (the Company) for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 10 February 2011.

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

The nature of the operations and principle activities of the Group are described in the Directors' Report.

2 SUMMARY 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 2010 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

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, crops and derivative financial instruments, which 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.

(a) Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB

Interpretations as of 1 January 2010. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]* effective 1 January 2010
- AASB 3 *Business Combinations (revised 2008)* effective 1 July 2009
- AASB 127 *Consolidated and Separate Financial Statements* (revised 2008) effective 1 July 2009
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective 1 July 2009
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]* effective 1 July 2009

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New accounting standards and interpretations (continued)

(i) Changes in accounting policy and disclosures (continued)

Annual Improvements Project

In May 2009 the AASB issued an omnibus of amendments to its standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 2 *Share-based Payments*
- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*
- AASB 8 *Operating Segments*
- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 117 *Leases*
- AASB 134 *Interim Financial Reporting*
- AASB 136 *Impairment of Assets*
- AASB 138 *Intangible Assets*
- AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB Interpretation 9 *Reassessment of Embedded Derivatives*
- AASB Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
- AASB Interpretation 17 *Distribution of Non-cash Assets to Owners*

(ii) Accounting Standards and Interpretations issued but not yet effective

There are a number of Standards and Interpretations that will be mandatory in future reporting periods. The Group 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 Group.

(c) Basis of consolidation

Subsequent to 1 January 2010

The consolidated financial statements comprise the financial statements of Australian Agricultural Company Limited, and its subsidiaries (as outlined in note 27) as at December each year (the Group).

Subsidiaries are all those entities over which the Group 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 a 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 fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Australian Agricultural Company Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(d)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-controlling interests are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate.

Prior to 1 January 2010

Certain of the above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

(d) Business combinations

Subsequent to 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Prior to 1 January 2010

In comparison to the above-mentioned requirements, the following difference applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision maker – being the Chief Executive Officer.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(h) Trade and other receivables

Trade receivables, which generally have 14 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered indicators that the trade receivable is impaired. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Inventories

Inventories held for use in the Group's operations, are valued at the lower of cost and 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Derivative financial instruments and hedging

The Group 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 initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

(i) Forward exchange contracts and currency options

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

Foreign exchange options are used in a similar manner to forward exchange contracts, as the Group has the option to buy specified foreign currencies in the future at a predetermined exchange rate. The objective of foreign exchange options is also to match a contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect against the possibility of loss from future exchange rate fluctuations. The foreign exchange options are usually for no longer than six months.

The Group does not apply hedge accounting, as it does not meet the strict requirements of the relevant accounting 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.

(ii) 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 Group does not apply hedge accounting, as it does not meet the strict requirements of the relevant accounting 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.

(k) 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 historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

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

Fixed Asset Type	Average Useful Life
Land	Not depreciated
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

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, plant and equipment (continued)

(i) 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 or cash generating unit.

(ii) Revaluations of land and buildings

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 statement of financial position. All initial lump sum payments in respect of pastoral and perpetual property leases have been classified as property, plant and equipment. The remaining lease payments are nominal and are therefore expensed to the income statement as incurred.

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

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.

Land and buildings are valued by external independent valuers on a rotational, but at least triennial basis to ensure that the carrying amount does not differ materially from the respective asset's fair value at each reporting date.

(iii) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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.

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

(i) Pastoral and Perpetual property leases

Pastoral and perpetual property leases have been included in Property, Plant and Equipment (Refer note 16).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases (continued)

(ii) Other leases

Finance leases, which transfer to the Group 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 asset 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 recognised in finance costs in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(m) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Goodwill and intangibles

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8. (Refer note 17.)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Further details on the methodology and assumptions used are outlined in note 17.

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

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an 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 manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and intangibles (continued)

(i) Goodwill (continued)

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 2(m) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(iii) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently, when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets is as follows:

	Agistment Rights	**Other Intangibles**
Useful lives	Finite	Indefinite
Amortisation method used	Straight line method over a period of 10 years	Impairment tested
Internally generated or acquired	Acquired	Acquired
Impairment testing	Annually and more frequently when an indication of impairment exists.	Annually and more frequently when an indication of impairment exists.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables are unsecured and are usually paid within 90 days of recognition.

(p) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Australian Agricultural Company Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(q) Provisions and employee benefits

Provisions are recognised when the Group 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.

When the Group expects some or all of a provision to be reimbursed the reimbursement 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.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share-based payment transactions

Equity settled transactions

The Group provides benefits to its employees (including key management personnel) in the form of share based payments, 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:

- The Executive Option Plan (EOP), which provides benefits to the Managing Director/Chief Executive Officer, senior executives and middle management. There will be no further grants under this plan; and
- 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).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- The grant date fair value of the award;
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Group, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 10).

(s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group 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 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:

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

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

(i) Livestock

Determination of net market value of livestock:

At 31 December 2010, the Group has approximately 295,856 breeding cattle (31 December 2009: 290,541) and 281,288 non-breeding cattle (31 December 2009: 217,135).

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 available for sale by the Group as at 31 December 2010 which are generally less than three years old.

The Group's herd profile is as follows:

	Number of Cattle	
	2010	**2009**
Breeding – Commercial and bull breeding herd	295,856	290,541
Non-breeding – Trading cattle	281,288	217,135
Total	577,144	507,676

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 Group's herd.

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

- Commercial breeding herd – prices for these cattle generally reflect a longer term view of the cattle market and, as such, are less volatile than movements in the spot cattle prices evident with trading cattle. The value of these cattle is determined by independent valuation and with reference to prices received for large representative sales of breeding cattle similar to the Group's herd;
- Trading cattle – prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators used only as general reference include Roma store cattle prices, Queensland Cattle Market Index, and actual spot cattle prices received/quoted for the Company's cattle in and around balance date; and
- Bull breeding herd – these bulls were independently valued at 31 December 2010.

Other Livestock balances include the fair value of the Group's goat and working horses herd. These biological assets are measured at net market value at balance date, in accordance with AASB 141 Agriculture.

(ii) Cropping operations

Revenue on cropping operations is accounted for in accordance with AASB 141 Agriculture, which requires that 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 is probable that the future economic benefits will be received by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition (continued)

(iii) Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the goods to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

(iv) Rendering of services

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

(v) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(vi) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(u) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement of the Group's financial assets

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement and the related assets are classified as current assets in the statement of financial position.

(ii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax and other taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting 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 except:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits 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 credits and unused tax losses can be utilised, except:

- When 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.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting 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.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) Tax consolidation legislation

Australian Agricultural Company Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation.

Income tax is recognised on a group allocation basis under which current and deferred tax amounts for the tax consolidated group are allocated among each entity in the Group. The head entity, Australian Agricultural Company Limited, is liable for the current income tax liabilities of the Group.

In addition to its own current and deferred tax amounts, Australian Agricultural Company Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax and other taxes (continued)

(ii) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When 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.
- Receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the statement of cash flows 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 part of operating cash flows.

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

(w) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses.
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits and derivatives.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The Group enters into derivative transactions, principally interest rate swap and forward currency contracts. The Group does not use or issue derivative or financial instruments for speculative or trading purposes. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Derivatives relating to forward currency contracts and interest rate swaps provide economic hedges, but do not qualify for hedge accounting and are based on limits set by the Board. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Group 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 six months.

The majority of the Group'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 Group does not currently hedge any of this indirect currency exposure.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks during the year rested with the Risk Review Committee under the authority of the Board. This responsibility will be transitioned to the new Risk Management Committee. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

(i) Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2010 $000	2009 $000
Financial Assets		
Cash assets	17,045	9,579
	17,045	9,579
Financial Liabilities		
Club loan facility:		
$25,000,000 bank loan	(20,000)	-
$60,000,000 bank loan	(50,000)	(16,000)
$270,000,000 bank loan	-	-
Interest rate swaps	(4,655)	(8,691)
	(74,655)	(24,691)
Net exposure	(57,610)	(15,112)

Interest rate swap contracts outlined in note 21, with a fair value of $4,655,000 (2009: $8,691,000) are exposed to fair value movements if interest rates change.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(i) Interest rate risk (continued)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. In accordance with its bank covenant obligations the Group maintains at least 50% of its borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 80% (2009: 95%) of the Group's borrowings are at a fixed rate of interest.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing 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:

	Post Tax Profit Higher/(lower)	
	2010	**2009**
	$000	**$000**
Judgements of reasonably possible movements:		
+1% (100 basis points)	2,003	4,897
-0.5% (50 basis points)	(1,001)	(2,449)

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.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(ii) Foreign currency risk

The Group also has transactional currency exposures. Such exposure arises from sales by the wholesale beef segment in currencies other than in Australian dollars.

The Group 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.

Forward currency contracts must be in the same currency as the sold item. It is the Group's policy not to enter into forward contracts or foreign exchange options until a firm commitment is in place.

At 31 December 2010, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	2010	**2009**
	$000	**$000**
Financial Assets		
Forward currency contracts	651	450
	651	450
Financial Liabilities		
Forward currency contracts	-	-
Net Exposure	651	450

At 31 December 2010 substantially all foreign currency receivables were covered by forward currency contracts or foreign exchange options.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(ii) Foreign currency risk (continued)

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

At 31 December 2010, 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)	
	2010 $000	2009 $000
Consolidated:		
AUD/USD +10%	1,221	949
AUD/USD -5%	(707)	(549)

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.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecaster's expectations.
- The reasonably possible movement was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the foreign currency into AUD with the "new spot rate". This methodology reflects the translation methodology undertaken by the Group.
- A price sensitivity of derivatives has been based on a reasonably possible movement of spot rates at balance dates not on forward rates.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

(iii) Price risk

The Group's exposure to commodity price risk is minimal.

The Group does not currently hedge its beef and cotton commodity price exposures 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 and a significant portion of its cotton production. These contracts are entered into and continue to be held for the purpose of delivery of feedlot cattle and cotton arising from the Group's expected sale requirements; and are classified as non-derivative, and are not fair valued.

The Group enters into forward purchase contracts for grain commodities. This practice mitigates the price risk for the Group. As at 31 December 2010 the Group had forward purchased approximately 89% (2009: 52%) of its expected grain usage for the coming 12 months.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(iv) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

With respect to receivables, the majority of the Group'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.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

There are no significant concentrations of credit risk within the Group.

(v) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

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

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. Australian Agricultural Company Limited has established comprehensive risk reporting covering its business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and derivatives as of 31 December 2010. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

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

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(v) Liquidity risk (continued)

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

Year ended 31 December 2010	Less than or equal to 6 months $000	6-12 Months $000	1-2 years $000	2-5 years $000	Total $000
Liquid financial assets					
Cash and cash equivalents	17,045	-	-	-	17,045
Trade and other receivables	15,667	-	-	-	15,667
	32,712	-	-	-	32,712
Financial liabilities					
Trade and other payables	28,601	-	-	-	28,601
Interest bearing loans and borrowings	37,103	76,721	297,321	1,314	412,459
Derivatives	2,683	1,385	786	-	4,854
	68,387	78,106	298,107	1,314	445,914
Net maturity	(35,675)	(78,106)	(298,107)	(1,314)	(413,202)
Year ended 31 December 2009					
Liquid financial assets					
Cash and cash equivalents	9,579	-	-	-	9,579
Trade and other receivables	8,702	-	-	-	8,702
	18,281	-	-	-	18,281
Financial liabilities					
Trade and other payables	18,621	-	-	-	18,621
Interest bearing loans and borrowings	6,962	36,982	18,901	288,434	351,279
Derivatives	3,273	3,273	6,546	2,123	15,215
	28,856	40,255	25,447	290,557	385,115
Net maturity	(10,575)	(40,255)	(25,447)	(290,557)	(366,834)

(vi) Fair Values

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – The fair value is calculated using quoted prices in active markets.
Level 2 – The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at 31 December 2010 and 2009, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a level 2 method.

The gain or loss from the mark to market valuation of interest rate swaps is disclosed on the face of the income statement. The gain or loss from the mark to market valuation of foreign currency contracts is disclosed in note 21.

The fair value of the financial instruments summarised in the table below have been estimated by applying the level 2 method described above.

	2010 $000	2009 $000
Financial assets		
Derivative instruments		
Foreign exchange contracts	651	450
	651	450
Financial liabilities		
Derivative instruments		
Interest rate swaps	4,655	8,691
	4,655	8,691

4 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 in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Management has identified the following accounting policies for which significant judgements, estimates and assumptions have been made:

- Classification of pastoral leases refer note 2(l);
- Fair value determination of land refer note 2(k);
- Fair value determination of livestock refer note 2(t); and
- Fair value determination of derivative financial instruments refer note 2(j).

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

5 OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the product produced and the reporting structure within the Group. Discrete financial information for each of the operating segments is reported to the Chief Executive Officer on at least a monthly basis.

Types of products

(i) Live Cattle

The Live Cattle Group operates an integrated cattle production system across 18 cattle stations, 2 feedlots and 2 farms, located throughout Queensland and the Northern Territory. The Live Cattle Group produces beef cattle that are processed for a range of uses from prime cuts typically sold in restaurants and supermarkets to manufacturing beef, which is typically used for hamburgers. As the only significant product produced for external sale is beef cattle, the operation of the Live Cattle Group is considered to be one reportable segment.

(ii) Wholesale Beef

The Wholesale Beef Group markets and distributes branded beef and other portion controlled meat products to restaurants and supermarkets, both internationally and domestically. The Wholesale Beef Group operates from a facility at Morningside in Brisbane. As the only significant product sold is branded meat, the operations of the Wholesale Beef Group are considered to be one reportable segment.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the accounts and in the prior period, except as follows:

- ***Inter-entity sales***
  Inter-entity sales are recognised based on an internally set transfer price. The price is set at least annually and aims to reflect what the business operation could achieve if they sold their output to external parties at arm's length.
- ***Corporate Charges***
  It is the Group's policy that items of revenue and expense that are not directly attributable to the Wholesale Beef Group are allocated to the Live Cattle Group. No reallocation of general corporate charges is performed between the segments, which is primarily due to the significantly greater asset base employed by the Live Cattle Group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

5 OPERATING SEGMENTS (continued)

Accounting policies and inter-segment transactions (continued)

The following table presents the revenue and profit information regarding operating segments for the years ended 31 December 2010 and 31 December 2009. Segment assets and liabilities are not reported to the Chief Executive Officer and therefore segment assets and liabilities are not disclosed.

	Continuing Operations		
	Live Cattle $'000	Wholesale Beef $'000	Total $'000
31 December 2010			
Segment revenue	131,255	131,355	262,610
Segment result	22,663	5,765	28,428
Unallocated finance costs			(26,610)
Profit/(loss) before income tax			1,818
31 December 2009			
Segment revenue	51,892	104,406	156,298
Segment result	(65,982)	4,702	(61,280)
Unallocated finance costs			(15,529)
Profit/(loss) before income tax			(76,809)

	2010 $000	2009 $000
6 REVENUE AND OTHER INCOME		
(a) Revenue		
Sales revenue		
Cattle revenue (including revaluation)*	126,224	46,868
Other livestock revenue (including revaluation)	(101)	(1,256)
Crop revenue	2,910	4,198
Revenue from sale of goods of value-add businesses	131,102	104,280
Total sales revenue	260,135	154,090
Other revenue		
Interest revenue – unrelated parties	293	988
Other revenue	2,182	1,220
Total other revenue	2,475	2,208
Total revenue	262,610	156,298

*Included in cattle revenue is a net increment in market value of livestock of $28,394,000 (2009: net decrement $21,337,000).

	2010 $000	2009 $000
(b) Other income		
Net gain on disposal of property, plant and equipment	343	1,251
Litigation settlement (refer note 31)	4,000	-
Net gain from mark to market valuation of foreign currency contracts	238	1,256
	4,581	2,507

	2010 $000	2009 $000
7 EXPENSES		
(a) Depreciation, amortisation and impairment		
Depreciation of:		
- Buildings and leasehold improvements	3,468	3,600
- Plant and equipment	4,914	5,961
Total depreciation	8,382	9,561
Amortisation of other intangibles (refer note 17)	-	4,111
Impairment of goodwill (refer note 17)	1,602	-
Net revaluation decrement recognised in income statement (refer note 16)	562	-
Impairment of property, plant and equipment (refer note 16)	2,356	-
Total depreciation, amortisation and impairment	12,902	13,672
(b) Net finance costs		
Bank loans and overdrafts	29,388	28,619
Other financing charges	996	808
Finance charges payable under finance leases and hire purchase contracts	261	245
Total finance costs	30,645	29,672
Mark to market valuation of interest rate swaps	(4,035)	(14,143)
Net finance costs	26,610	15,529
(c) Other expenses		
Provision for employee benefits		
- Annual leave	1,723	1,723
- Long service leave	(34)	260
Total provision for employee benefits	1,689	1,983
Minimum lease payments – operating leases	2,111	3,071
Research and development expenses charged directly to administration Expense	126	121
Reversal of provision for guarantees (refer note 19)	(980)	-
(d) Employee expenses		
Salaries and wages	23,468	23,118
Workers' compensation expense	1,010	872
Defined contribution superannuation expense	1,941	1,901
Post-employment benefits	639	1,177
Share-based payments expense	5	224
Payroll tax	1,190	1,341
	28,253	28,633
8 INCOME TAX		
(a) Income tax expense		
The major components of income tax expenses are:		
Income Statement		
Current income tax		
Current income tax charge	892	(873)
Deferred income tax		
Relating to origination and reversal of temporary differences	22	(22,199)
Income tax expense/(benefit) reported in the income statement	914	(23,072)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

	2010 $000	2009 $000
8 INCOME TAX (continued)		
(b) Amounts charged or credited directly to equity		
Deferred income tax		
Net loss on revaluation of land and buildings	23,372	9,971
Income tax benefit reported in equity	23,372	9,971

(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's Applicable income tax rate is as follows:

	2010 $000	2009 $000
Accounting profit/(loss) before tax from continuing operations	1,818	(76,809)
At the statutory income tax rate of 30% (2009: 30%)	545	(23,043)
Non-assessable capital gain	-	477
Amortisation of intangible assets	-	1,231
Building depreciation not deductible	1,040	1,899
Capital allowance on buildings	(763)	(1,980)
Other items (net)	92	(1,656)
Income tax expense/(benefit)	914	(23,072)

(d) Recognised deferred tax assets and liabilities

	Statement of financial position		Income statement	
	2010 $000	2009 $000	2010 $000	2009 $000
Deferred income tax at 31 December relates to the following:				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	183	127	(56)	46
Revaluations of land and buildings to fair value	(51,797)	(75,171)	-	(18,653)
Revaluations of trading stock for tax purposes	(34,373)	(34,023)	350	(7,785)
	(85,987)	(109,067)		
Deferred tax assets				
Accruals and other	999	951	(122)	(839)
Capitalised expenses accelerated for book purposes	85	88	3	6
Impairment of property, plant and equipment	876	-	(876)	-
Interest rate swaps	1,423	2,252	829	4,598
Investments	8	8	-	-
Leave entitlements	805	877	72	93
Other employee costs	198	20	(178)	313
	4,394	4,196	22	(22,221)

8 INCOME TAX (continued)

(e) Movements in tax balances

	Current Income tax 2010 $000	Deferred Income tax 2010 $000	Current Income tax 2009 $000	Deferred Income tax 2009 $000
Opening balance	-	(104,871)	(6,188)	(137,112)
(Charged)/credited to the income statement	(892)	(22)	873	22,199
Other	73	(72)	(72)	71
Credited to equity	-	23,372	-	9,971
Other payments	-	-	5,387	-
Closing balance	(819)	(81,593)	-	(104,871)

(f) 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.

9 DIVIDENDS PAID AND PROPOSED

Dividends declared and paid during the year

No final or interim dividends were declared and paid during the year (2009: nil).

Franking credits

There are no franking credits available for the subsequent financial year (2009: nil).

10 EARNINGS PER SHARE

The following reflects the income/(loss) used in the basic and diluted earnings per share computations:

	2010 $	2009 $
Earnings used in calculating basic and diluted earnings per share		
Net profit /(loss) attributable to ordinary equity holders of the parent	904,000	(53,737,000)

	Number	Number
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used as the denominator in calculating Basic earnings per share	264,264,459	264,264,459
Adjustments for calculation of diluted earnings per share:		
- Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the Denominator in calculating diluted earnings per share	264,264,459	264,264,459

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(a) Information concerning the classification of securities

Options

Options granted to employees (including KMP) as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

	2010 $000	2009 $000
11 CURRENT ASSETS – CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	15,208	1,686
Call deposits with banks	1,837	7,893
	17,045	9,579

(a) Reconciliation to statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise the amounts as disclosed above.

12 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2010 $000	2009 $000
Trade receivables	13,268	6,650
Other receivables	1,988	1,842
Allowance for impairment loss (a)	(240)	(240)
	1,748	1,602
Total trade and other receivables	15,016	8,252

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. In the current and prior years no impairment loss has been recognised by the Group.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities. Refer to note 3 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

(c) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 3.

13 CURRENT ASSETS – INVENTORIES

	2010 $000	2009 $000
Bulk stores (at cost)	5,099	6,496
Feedlot commodities (at cost)	7,547	8,996
Cotton crop	350	-
Other (at cost)	5,297	2,552
Total inventories at the lower of cost and net realisable value	18,293	18,044

	2010 $000	2009 $000
14 BIOLOGICAL ASSETS – LIVESTOCK		
Current		
Cattle at net market value		
(31 December 2010: 227,474 head, 31 December 2009: 174,727 head)	155,126	116,684
Other livestock at net market value	10	28
Total current livestock	155,136	116,712
Non-Current		
Cattle at net market value		
(31 December 2010: 349,670 head, 31 December 2009: 332,949 head)	256,466	234,410
Other livestock at net market value	2,000	2,104
Total non-current livestock	258,466	236,514
Total livestock	413,602	353,226
Livestock Movement		
Carrying amount at 1 January	353,226	421,805
Gain/(loss) from changes to fair value less estimated point of sale costs	106,385	34,458
Purchases of livestock	88,170	55,283
Sale of livestock	(134,179)	(158,320)
Carrying amount at 31 December	413,602	353,226
15 NON-CURRENT ASSETS – RECEIVABLES		
Other receivables	9	29
Total non-current receivables	9	29

All amounts are receivable in Australian Dollars and are not considered past due or impaired.

(a) Fair values

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

		2010 $000	2009 $000
16 NON-CURRENT ASSETS – PROPERTY PLANT AND EQUIPMENT			
(a) Reconciliation of carrying amounts at the beginning and end of the period			
Freehold Land			
Opening balance, at fair value		99,428	103,506
Disposals		-	(5,445)
Net revaluation (decrement)/increment		(14,998)	1,367
Closing balance, at fair value	(b)	84,430	99,428
Pastoral Leases			
Opening balance, at fair value		483,439	620,217
Disposals		-	(118,807)
Net revaluation decrement recognised in income statement	(e)	(562)	-
Net revaluation decrement recognised in asset revaluation reserve		(61,758)	(17,971)
Closing balance, at fair value	(c)	421,119	483,439
Buildings and Improvements			
Opening balance, at fair value		101,761	117,792
Additions		1,519	939
Disposals		(17)	(16,970)
Impairment	(d)	(2,356)	-
Closing balance, at fair value	(b)	100,907	101,761
Accumulated Depreciation			
Opening balance		(22,168)	(22,535)
Depreciation for the year		(3,468)	(3,600)
Disposals		-	3,967
Closing balance	(b)	(25,636)	(22,168)
Fair value		100,907	101,761
Accumulated depreciation and impairment		(25,636)	(22,168)
Net carrying amount		75,271	79,593
Net freehold land, pastoral leases, buildings and improvements		580,820	662,460
Plant and Equipment			
Opening balance, at cost		55,247	61,997
Additions		4,117	739
Disposals		(1,557)	(7,489)
Closing balance, at cost		57,807	55,247
Accumulated Depreciation			
Opening balance		(35,976)	(33,723)
Depreciation for the year		(4,914)	(5,961)
Disposals		1,188	3,708
Closing balance		(39,702)	(35,976)
Net plant and equipment		18,105	19,271
Total net carrying amount of property, plant and equipment		598,925	681,731

16 NON-CURRENT ASSETS – PROPERTY PLANT AND EQUIPMENT (continued)

(b) Revaluation of freehold land and freehold buildings

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 2010. Fair value was determined by reference to an open market basis, being the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. The Group 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. 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 2010.

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:

	2010 $000	2009 $000
Deemed cost	272,788	273,641
Accumulated depreciation	(25,636)	(22,168)
Net carrying amount	247,152	251,473

(c) Pastoral leases

The Group'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 Group 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 past practise by the Queensland Government.

(d) Impairment

During the period buildings and improvements were impaired to an amount of $2,356,000 (2009: nil) owing to flood damage.

(e) Net revaluation decrement recognised in income statement

Pastoral leases devaluation included a specific station where an amount of $562,000 (2009: nil) exceeded revaluations previously credited to the asset revaluation reserve. The excess has been expensed to the income statement.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

	2010 $000	2009 $000
17 NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL		
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Goodwill		
At 1 January (net of accumulated amortisation)	4,303	4,303
Impairment	(1,602)	-
At 31 December (net of accumulated amortisation)	2,701	4,303
Agistment rights		
At 1 January (net of accumulated amortisation)	-	4,100
Amortisation	-	(4,100)
At 31 December (net of accumulated amortisation)	-	-
Other intangibles		
At 1 January (net of accumulated amortisation)	1,727	1,727
At 31 December (net of accumulated amortisation)	1,727	1,727
Total		
At 1 January (net of accumulated amortisation)	6,030	10,130
Amortisation	-	(4,100)
Impairment	(1,602)	-
At 31 December (net of accumulated amortisation)	4,428	6,030
At 31 December		
Cost (gross) carrying amount		
Goodwill	9,932	9,932
Agistment rights	-	8,162
Other intangibles	2,619	2,619
Total cost	12,551	20,713
Accumulated amortisation and impairment		
Goodwill	(7,231)	(5,629)
Agistment rights	-	(8,162)
Other intangibles	(892)	(892)
Total accumulated amortisation and impairment	(8,123)	(14,683)
Net carrying amount	4,428	6,030

(b) Description of the Group's intangible assets and goodwill

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (c) of this note).

Agistment rights

For the year ended 31 December 2009, agistment rights were capitalised at cost. This intangible asset was assessed as having a finite life and was amortised using the straight line method over a period of ten years. During 2009 the lease was not renewed, therefore it was fully amortised at 31 December 2009.

(c) 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, including a terminal value, which is appropriate given the nature of the CGU. The pre-tax discount rate applied was 15.0% (2009: 15.0%). The growth rate used to extrapolate the cash flows was 5.0% (2009: 3.0%).

An impairment loss of $1,601,000 (2009: nil) on goodwill was recognised during the year. The impaired goodwill relates to Chefs Partner. The impairment loss has been included in the income statement in the line item "Depreciation, amortisation and impairment". The recoverable amount was based on a value in use discounted cash flow calculation.

	2010 $000	2009 $000
18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade payables	12,773	12,992
Other payables	15,828	5,629
	28,601	18,621

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

(a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Foreign exchange and liquidity risk

Information regarding foreign exchange and liquidity risk exposure is set out in note 3.

	2010 $000	2009 $000
19 CURRENT LIABILITIES – PROVISIONS		
Annual leave	1,599	1,662
Long service leave	558	707
Guarantees	-	1,018
	2,157	3,387

Guarantees

The parent entity had provided guarantees in respect of a property lease entered into by a former subsidiary. During the financial year ended 31 December 2010, $38,000 was utilised to settle the obligations arising from this guarantee and the unused amount of $980,000 was reversed and credited to expenses.

	2010 $000	2009 $000
20 NON-CURRENT LIABILITIES – PROVISIONS		
Long service leave	525	554

	2010 $000	2009 $000
21 DERIVATIVE FINANCIAL INSTRUMENTS		
Current assets		
Forward currency contracts	651	450
Current liabilities		
Interest rate swap contracts	4,655	8,691
	4,655	8,691

Forward currency contracts and currency options

The Group 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	
	2010 $000	2009 $000	2010 AUD/USD	2009 AUD/USD
Sell USD/Buy AUD				
Sell USD Maturity 0-12 Months	24,214	9,711	0.9635	0.8527
Sell JPY Maturity 0-12 Months	-	1,181	-	79.07
Buy USD/Sell AUD				
Buy USD Maturity 0-12 Months	10,098	-	0.9705	-

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 gain on foreign currency derivatives during the year was $238,000 (2009: $1,256,000).

Interest rate swaps

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

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

	2010 $000	2009 $000
0-1 years	-	-
1-3 years	280,000	280,000
3-5 years	-	-

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 profit on interest rate swaps during the year was $4,035,000 (2009: $14,143,000). Refer to note 3 for further information regarding interest rate and credit risk exposure.

22 INTEREST-BEARING LOANS AND BORROWINGS

	2010 $000	2009 $000
Current		
Obligations under finance leases	956	1,714
$25,000,000 bank loan	20,000	-
$60,000,000 bank loan	60,000	25,809
Other	5,670	-
	86,626	27,523
Non-current		
Obligations under finance leases	1,661	595
$270,000,000 bank loan	269,062	268,582
	270,723	269,177

$25,000,000 bank loan

This is a club loan facility which is secured. The loans are repayable on 16 April 2011. The effective interest rate is 8.65%. It is intended that this loan will be renewed prior to the maturity date.

$60,000,000 bank loan

This is a club loan facility which is secured. The loans are repayable on 30 November 2011. The effective interest rate is 8.65% (2009: 8.09%). It is intended that this loan will be renewed prior to the maturity date.

$270,000,000 bank loan

This is a club loan facility which is secured. The loans are repayable on 30 November 2012. The effective interest rate is 8.65% (2009: 8.09%). It is intended that this loan will be renewed prior to the maturity date.

Other

Other loans consist of an inventory funding facility that is secured against the related grain inventory.

(a) Fair values

The carrying amount of the Group's current and non-current borrowings approximates their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

22 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(c) Assets pledged as security

Financing facilities are provided on a secured basis, with security given over all fixed and floating assets.

(d) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

(e) Financing arrangements

The Group has access to the following financing facilities:	Accessible $000	Drawn-down $000	Unused $000
2010			
$25,000,000 bank loan	25,000	20,000	5,000
$60,000,000 bank loan	60,000	60,000	-
$270,000,000 bank loan	270,000	270,000	-
Guarantee facility	65	64	1
Total financing facilities	355,065	350,064	5,001
2009			
$60,000,000 bank loan	60,000	26,000	34,000
$270,000,000 bank loan	270,000	270,000	-
Guarantee facility	65	64	1
Total financing facilities	330,065	296,064	34,001

Financial covenants in place include debt cover ratios and consolidated net worth.

	2010 $000	2009 $000
23 CONTRIBUTED EQUITY		
Ordinary shares – issued and fully paid (a)	172,785	172,785
Total contributed equity	172,785	172,785

(a) Ordinary shares

Movement in ordinary shares on issue

There has been no movement in ordinary shares on issue in the current and prior period.

	Number	Number
Number of shares on issue	264,264,459	264,264,459

(b) 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.

Management monitor capital through the gearing ratio (net debt / total capital). The target for the Group's gearing ratio is between 30% to 40%. The gearing ratios based on continuing operations at 31 December 2010 and 2009 were as follows:

	2010 $000	2009 $000
Total borrowings	385,950	315,321
Less cash and cash equivalents	(17,045)	(9,579)
Net debt	368,905	305,742
Total equity	592,634	645,109
Total capital	961,539	950,851
	38%	32%

For the Group's financial risk management objectives and policies refer note 3.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

	2010 $000	2009 $000
24 RETAINED EARNINGS AND RESERVES		
Movements in retained earnings were as follows:		
At 1 January	71,263	14,173
Transfer of realised capital profits	-	110,827
Net profit /(loss)	904	(53,737)
At 31 December	72,167	71,263

(b) Other reserves

	Asset Revaluation Reserve $000	Capital Profits Reserve $000	Employee Equity Benefits Reserve $000	Total $000
At 1 January 2009	435,953	77,719	4,625	518,297
Revaluation of land and buildings	(11,276)	-	-	(11,276)
Adjustment to reset tax cost bases	4,643	-	-	4,643
Share based payment	-	-	224	224
Transfer of realised capital profits	(101,592)	101,592	-	-
Transfer of capital profits to retained earnings	-	(110,827)	-	(110,827)
At 31 December 2009	327,728	68,484	4,849	401,061
Revaluation of land and buildings	(53,384)	-	-	(53,384)
Share based payment	-	-	5	5
At 31 December 2010	274,344	68,484	4,854	347,682

(i) 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.

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.

	2010 $000	2009 $000
25 CASH FLOW STATEMENT RECONCILIATION		
(a) Reconciliation of net profit after tax to net cash flows from operations		
Net profit/(loss) after income tax	904	(53,737)
Adjustments for:		
Depreciation	8,382	9,561
Amortisation	-	4,111
Net revaluation decrement recognised in the income statement	562	-
Impairment of goodwill	1,602	-
Impairment of property, plant and equipment	2,356	-
Gain on sale of property, plant and equipment	(343)	(1,251)
(Increment)/decrement in net market value of livestock	(60,376)	29,434
Changes in assets and liabilities:		
(Increase)/decrease in inventories	(249)	4,786
(Increase)/decrease in trade and other receivables	(6,945)	2,773
(Increase)/decrease in prepayments and other assets	(334)	(152)
(Increase)/decrease in deferred tax assets	(198)	4,099
(Decrease)/increase in deferred tax liabilities	294	(26,370)
(Decrease)/increase in current tax liability	819	(6,188)
(Decrease)/increase in trade and other payables	9,979	(9,273)
(Decrease)/increase in interest rate swaps	(4,036)	(14,143)
(Decrease)/increase in provisions	(1,255)	(18)
Net cash used in operating activities	(48,838)	(56,368)
(b) Non-cash financing and investing activities		
Acquisition of assets by means of finance leases	2,224	-
Share-based payments (note 29)	5	224

(c) Cash flows from investing activities

In the prior period cashflows from investing activities included $39,145,000 for the sale of livestock herds as part of the disposal of three properties in the Queensland Gulf region during the period. No similar cashflows occurred in 2010.

In the prior period proceeds from sale of property plant and equipment and other assets of $141,296,000 includes proceeds from the sale of the aforementioned three gulf properties and for one property sold in the Barkly Tableland region of the Northern Territory. No similar cashflows occurred in 2010.

26 RELATED PARTY DISCLOSURES

(a) Other Director transactions

Directors of the Group and Directors of its related parties, or their Director-related entities, conduct transactions with entities within the Group 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.

Mr N. Burton Taylor is a Principal of Hillgrove Pastoral Company (Hillgrove). Hillgrove has entered into sale arrangements with the Group with respect to livestock on commercial terms and conditions no more favourable than those available to other suppliers.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

26 RELATED PARTY DISCLOSURES (continued)

(a) Other Director transactions (continued)

During the 31 December 2008 financial year the Group also entered into a livestock lease agreement whereby breeding cattle were leased to Hillgrove for a 12-month period resulting in lease payments in the 2009 financial year. This lease transaction was made both at market prices and on normal commercial terms.

Mr. P. Hughes was appointed as a Director of Australian Agricultural Company Limited on 28 April 2009 and retired on 19 May 2010. Mr. P. Hughes is a shareholder in Mort & Co. Limited, a management and marketing Company within the lot feeding industry. Mort & Co. Limited also act as a feeding and marketing agent for cattle produced by Mr. P. Hughes' pastoral interests. Subsidiaries of Australian Agricultural Company Limited have purchased cattle from Mort & Co. Limited during the prior period. Purchases from Mort & Co. Limited were made on commercial terms and conditions no more favourable than those available to other suppliers.

Mr. B. Heading was appointed as a Director of Australian Agricultural Company Limited on 17 June 2008 and retired on 2 June 2009. Mr. B. Heading is also Chairman of law firm McCullough Robertson Lawyers and wine producer Clovely Estate Limited. Australian Agricultural Company Limited engages McCullough Robertson Lawyers to provide legal advice in relation to commercial transactions. Clovely Estate Limited purchased meat products from the Group during the prior period, as disclosed in the following table.

The former Chairmen, Mr. C. Bright (resigned 17 May 2009) and Mr L. Wozniczka (resigned 15 October 2008) are Directors of the Futuris Group which owned 42.9% of Australian Agricultural Company Limited until February 2009. 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 Group (on a non-exclusive basis) and on either a fee per head or percentage of sale price basis (depending on the method of sale) on a contracted arm's length basis.

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

The following table provides the total amount of transactions that were entered into with related parties for the years ended 31 December 2010 and 2009. Amounts relevant to former Director related entities have been included up to the date of resignation/retirement.

Related party		Sales to Related Parties $	Purchases From Related Parties $	Lease Payments From Related Parties $	Amounts Owed by Related Parties $	Amounts Owed to Related Parties $
Mr. N. Burton Taylor and	2010	-	1,152,425	-	-	-
associated entities	2009	-	1,344,248	44,000	-	-
Mr. P. Hughes and associated entities[1]	2010	-	-	-	-	-
	2009	-	840,862	-	-	-
Mr. B. Heading and associated entities[2]	2010	-	-	-	-	-
	2009	-	523,047	-	N/A[4]	N/A[4]
Elders Limited (formally Futuris	2010	-	-	-	-	-
Corporation)[3]	2009	6,215,574	9,930,658	-	N/A[4]	N/A[4]

26 RELATED PARTY DISCLOSURES (continued)

(a) Other Director transactions (continued)

[1] Mr. P. Hughes was elected to the Board of Directors on 28 April 2009 and retired on 19 May 2010.
[2] Mr. B. Heading was a Director from 17 June 2008 to 12 June 2009.
[3] Elders Limited sold their remaining shareholding in the Company on 11 May 2009.
[4] Not applicable as no longer a related party at balance date.

(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 2009: nil). The parent entity does not expect to call these loans within the next 12 months.

(c) Transactions with other related parties

Loans

No loans were made with other related parties during the year ended 31 December 2010 (31 December 2009: nil).

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

(d) Ultimate parent entity

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

27 CONTROLLED ENTITIES

The consolidated financial statements at 31 December 2009 include the following controlled entities.

Name of controlled entity	Notes	Place of Incorporation	2010 % of shares held	2009 % 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 Brisbane Qld 4064

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

The Consolidated Income Statement and Consolidated Statement of Financial Position of all entities included in the class order "closed Group" are set out at footnote (b).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

	2010 $000	2009 $000
27 CONTROLLED ENTITIES (continued)		
(b) Financial information for class order Closed Group		
Current Assets		
Cash and cash equivalents	17,045	9,579
Trade and other receivables	17,843	11,079
Inventories	18,292	18,044
Biological assets – livestock	155,136	116,712
Derivatives	651	450
Other assets	365	592
Total Current Assets	209,332	156,456
Non-Current Assets		
Receivables	9	29
Biological assets – livestock	258,466	236,514
Property, plant and equipment	598,925	681,731
Investment – at cost	50	50
Deferred tax assets	3,519	4,196
Intangible assets	4,428	6,030
Total Non-Current Assets	865,397	928,550
Total Assets	1,074,729	1,085,006
Current Liabilities		
Trade and other payables	28,601	18,621
Provisions	2,157	3,387
Interest bearing liabilities	86,626	27,523
Derivatives	4,655	8,691
Current tax liabilities	819	-
Total Current Liabilities	122,858	58,222
Non-Current Liabilities		
Provisions	525	554
Interest bearing liabilities	270,723	269,177
Deferred tax liabilities	85,112	109,067
Total Non-Current Liabilities	356,360	378,798
Total Liabilities	479,218	437,020
Net Assets	595,511	647,986
Equity		
Contributed equity	172,785	172,785
Reserves	347,682	401,061
Retained earnings	75,044	74,140
Total Equity	595,511	647,986

	2010 $000	2009 $000

27 CONTROLLED ENTITIES (continued)

(b) Financial information for class order Closed Group (continued)

Income Statement of the Closed Group:

	2010 $000	2009 $000
Revenue and other income	267,191	158,805
Administration and other costs	(10,853)	(15,010)
Business development and other non-station operating costs	(1,262)	(771)
Cattle agistment costs	(2,332)	(3,044)
Cattle expenses	(16,853)	(13,608)
Cost of goods sold of value-add business	(114,523)	(90,860)
Employee expenses	(28,253)	(28,633)
Farming expenses	(3,247)	(2,697)
Feedlot cattle expenses	(28,347)	(31,124)
Fuel expenses	(7,243)	(6,528)
Lease and property related costs	(4,756)	(5,762)
Other station operating costs	(8,192)	(8,376)
Profit/(loss) before finance costs, income tax, depreciation, amortisation and impairment	41,330	(47,608)
Depreciation, amortisation and impairment	(12,902)	(13,672)
Finance costs	(26,610)	(15,529)
Profit/(loss) from continuing operations before income tax	1,818	(76,809)
Income tax (expense)/benefit	(914)	23,072
Profit/(loss) from continuing operations after related income tax expense	904	(53,737)

28 KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	2010	2009
Short-term employee benefits	2,442,565	3,076,622
Post-employment benefits	258,756	219,446
Other long-term benefits	44,875	-
Termination benefits	201,146	989,780
Share-based payment	(8,166)	136,341
Total compensation	2,939,176	4,422,189

(b) Option holdings of key management personnel

2010	Balance at beginning of period 1 Jan 10 Number	Granted as remuneration Number	Options forfeited Number	Options exercised Number	Balance at end of period 31 Dec 10 Number	Not vested and not exercisable Number	Vested and exercisable Number
Executives							
B. Bennett	227,896	-	-	-	227,896	47,980	179,916
H. Burke[1]	224,949	-	(100,000)	-	124,949	21,212	103,737
P. Dempsey	347,633	-	-	-	347,633	58,586	289,047
T. Gallagher[2]	407,647	-	(151,768)	-	255,879	-	255,879
G. Gibbons[1]	136,166	-	-	-	136,166	22,681	113,485
A. Jones[3]	299,953	-	(50,505)	-	249,448	-	249,448
Total	1,644,244	-	(302,273)	-	1,341,971	150,459	1,191,512

[1] H. Burke and G. Gibbons did not meet the definition of key management personnel under AASB 124 for the 2010 financial year as a result of a management restructure.
[2] T. Gallagher resigned on 17 August 2010
[3] A. Jones resigned on 10 December 2010.
No other Directors or executives held options during the period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

28 KEY MANAGEMENT PERSONNEL (continued)

(b) Option holdings of key management personnel (continued)

2009	Balance at beginning of period 1 Jan 09 Number	Granted as remuneration Number	Options forfeited Number	Options exercised Number	Balance at end of period 31 Dec 09 Number	Not vested and not exercisable Number	Vested and exercisable Number
Executives							
S. N Toms[1]	940,625	-	-	-	940,625	-	940,625
B. Bennett	227,896	-	-	-	227,896	98,613	129,283
H. Burke	224,949	-	-	-	224,949	62,862	162,087
D R Connolly[1]	555,326	-	(178,290)	-	377,036	-	377,036
P. Dempsey	347,633	-	-	-	347,633	174,464	173,169
T. Gallagher	407,647	-	-	-	407,647	154,318	253,329
G. Gibbons	136,166	-	-	-	136,166	68,070	68,096
A. Jones	299,953	-	-	-	299,953	150,490	149,463
Total	3,140,195	-	(178,290)	-	2,961,905	708,817	2,253,088

[1] S. N. Toms and D. R. Connolly's contracts were terminated on 10 August 2009.

(c) Share holdings of key management personnel

2010	Balance at beginning of period 1 Jan 10 Number	Granted as remuneration Number	Exercise of options Number	Net change other Number	Balance at end of period 31 Dec 10 Number
Directors					
D. McGauchie[1]	-	-	-	37,000	37,000
D. Farley	-			212,500	212,500
N. Burton Taylor	7,348,530	-	-	(1,074,417)	6,274,113
C. Roberts	50,000	-	-	-	50,000
Datuk Abdul Samad[1]	-	-	-	10,000	10,000
S. Lonie[2]	93,750	-	-	-	93,750
P. Hughes[3]	100,000	-	-	-	100,000
Executives					
P. Dempsey	161,705	-	-	-	161,705
Total	7,753,985	-	-	(814,917)	6,939,068

[1] D. McGauchie and Datuk Abdul Samad were appointed Directors on 19 May 2010 and 13 April 2010 respectively.
[2] S.E. Lonie resigned as a Director on 13 April 2010.
[3] P. Hughes resigned as a Director 19 May 2010.

2009	Balance at beginning of period 1 Jan 09 Number	Granted as remuneration Number	Exercise of options Number	Net change other Number	Balance at end of period 31 Dec 09 Number
Directors					
S. Lonie[1]	-	-	-	93,750	93,750
P. Hughes[1]	-	-	-	100,000	100,000
N. Burton Taylor[2]	7,348,530	-	-	-	7,348,530
C. Roberts[2]	-	-	-	50,000	50,000
Executives					
P. Dempsey	161,705	-	-	-	161,705
Total	7,510,235	-	-	243,750	7,753,985

[1] S. Lonie and P. Hughes were appointed Directors on 28 April 2009.
[2] N. Burton Taylor and C. Roberts were appointed Directors on 12 June 2009.

28 KEY MANAGEMENT PERSONNEL (continued)

(c) Share holdings of key management personnel (continued)

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.

29 SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

	2010 $000	2009 $000
Expense arising from equity-settled share-based payment transactions	5	224

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 and 2009.

(b) Executive Option Plan (EOP)

The Group 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. There will be no further grants under this Plan.

During the year the Board approved in principle a new performance rights plan (PRP) for long term senior executives' incentives (LTI). The PRP will replace the EOP and will become effective for the 2011 financial year.

Chief Executive Officer – Executive Options

No options were issued to Mr. D. Farley in 2010 and 2009.

Mr. D. Farley (CEO) was appointed on 1 December 2009 and under the terms of his executive service agreement he will be entitled to an LTI benefit up to a maximum of 50% of fixed remuneration.

Senior Executive – Executive Options

No options were granted to senior executives in 2010 and 2009.

Middle Management – Executive Options

No options were granted to middle management in 2010 and 2009.

During the period, no options were exercised over ordinary shares (2009: nil) and no cash consideration was received by the Group (2009: nil).

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

	2010 No.	2010 WAEP $	2009 No.	2009 WAEP $
Outstanding at the beginning of the year	9,634,840	1.97	10,788,194	2.04
Granted during the year	-	-	-	-
Forfeited during the year	(4,006,789)	1.53	(1,153,354)	2.66
Exercised during the year	-	-	-	-
Outstanding at the end of the year	5,628,051	2.29	9,634,840	1.97
Exercisable at the end of the year	5,211,243	2.21	7,634,681	1.72

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

29 SHARE-BASED PAYMENT PLANS (continued)

(b) Executive Option Plan (EOP) (continued)

The outstanding balance as at 31 December 2010 is represented by:

- 1,199,000 options over ordinary shares with an exercise price of $1.00 each;
- 350,000 options over ordinary shares with an exercise price of $1.39 each;
- 1,826,065 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
- 2,176,986 options over ordinary shares with an exercise price of $3.27 each

Included within this balance are options over 949,000 shares (2009: 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 ($)	2010 No.	2009 No.
31 March 2010	1.39	-	950,000
31 March 2010	1.50	-	360,001
31 March 2010	1.61	-	33,335
31 March 2011	1.39	-	500,000
06 August 2011	1.00	949,000	2,335,000
01 January 2013	2.09	1,535,440	1,891,905
01 January 2013	3.15	76,000	76,000
16 December 2013	1.00	250,000	250,000
01 January 2014	3.27	1,876,986	2,297,974
31 March 2015	1.39	350,000	350,000
01 January 2018	2.09	290,625	290,625
01 January 2019	3.27	300,000	300,000
Total		5,628,051	9,634,840

(c) Employee share plan (ESP)

On 12 September 2005 the Group 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.

No shares were issued to employees under the ESP in 2010 (2009: nil).

At 31 December 2010, the ESP holds 96,596 ordinary shares in Australian Agricultural Company Limited (31 December 2009: 96,596).

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

30 COMMITMENTS

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

	2010 $000	2009 $000
Leased land and buildings:		
Not later than one year	1,020	1,262
Later than one year but not later than five years	722	1,822
Total leased land and buildings	1,742	3,084
Leased plant and equipment:		
Not later than one year	990	1,082
Later than one year but not later than five years	-	1,082
Total leased plant and equipment	990	2,164

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 Group 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:

	2010 $000	2009 $000
Within one year	956	1,714
After one year but not more than five years	1,660	595
Total minimum lease payments	2,616	2,309

(c) Other commitments

The Group had entered into forward purchase contracts for $19,563,000 worth of grain commodities as at 31 December 2010 (2009: $3,033,000). The contracts are expected to be settled within 12 months from balance date.

The Group had entered into forward purchase contracts for $1,054,000 worth of cattle as at 31 December 2010 (2009: $1,954,000). The contracts are expected to be settled within 12 months from balance date.

The Group has entered into contracts to deliver 9,500 (2009: nil) bales of cotton between May 2011 and July 2011 with a contract value of $4,895,990 (2009: nil).

The Group has not entered into any commitments to purchase property, plant or equipment.

31 CONTINGENCIES

(a) Guarantees

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

	2010 $000	2009 $000
Bank guarantees provided in relation to premises	64	64

(b) Native title claims

At 31 December 2010 there are a number of native title claims over some of the Group'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 Group's rights and as such they do not expect any impact on the business to result from native title claims.

(c) Legal claim

In 2008, the Company commenced legal action against Elders Limited relating to the purchase of product during the period 2002 to 2005. During 2010 a settlement was reached with Elders Limited. The settlement amount of $4,000,000 comprises a cash component and a payment in kind component.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

32 AUDITORS' REMUNERATION

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

	2010 $	2009 $
An audit or review of the financial report of the entity and any other entity in the consolidated Group	457,570	426,381
Other services in relation to the entity and any other entity in the consolidated Group		
• Assurance services	3,630	-
• Risk advisory services	-	14,200
	461,200	440,581

33 SUPERANNUATION COMMITMENTS

The Group contributes on behalf of employees to superannuation funds covering substantially all of its employees, which provide benefits on a cash accumulation basis, for employees on retirement, resignation or disablement, or to their dependents on death.

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

34 INFORMATION RELATING TO THE PARENT ENTITY

Current assets	28	10
Non-current assets	726,136	691,068
Total assets	726,164	691,078
Current liabilities	91,574	35,405
Non-current liabilities	283,543	284,571
Total liabilities	375,117	319,976
Net assets	351,047	371,102
Issued capital	177,409	177,409
Retained earnings	13,224	29,900
Asset revaluation reserve	44,951	45,546
Capital profits reserve	110,777	113,566
Employee equity benefits reserve	4,686	4,681
Total equity	351,047	371,102
Loss of the parent entity	(16,676)	(9,862)
Total comprehensive loss of the parent entity	(20,061)	(10,146)

(a) Guarantees entered into by the parent entity

Australian Agricultural Company Ltd and the wholly owned entities listed in note 27 are parties to a deed of cross guarantee as described in note 27. The nature of the deed of cross guarantee is such that each Company which is party to the deed guarantees, to each creditor, payment in full of any debt in accordance with the deed of cross guarantee. No deficiency of net assets existed for the Group as at 31 December 2010.

No liability was recognised by Australian Agricultural Company Ltd in relation to these guarantees, as the fair value of the guarantees is immaterial.

34 INFORMATION RELATING TO THE PARENT ENTITY (continued)

(b) Contingent liabilities of the parent entity

	2010 $000	2009 $000
Guarantees and indemnities		
Bank guarantees provided in relation to premises	64	64

(c) Contractual commitments for the acquisition of property, plant or equipment

Australian Agricultural Company Ltd did not have any commitments for the acquisition of property, plant and equipment as at 31 December 2010 or 31 December 2009.

35 SUBSEQUENT EVENTS

Category 5 Cyclone Yasi which hit North Queensland in 2011 did not have any significant adverse impact on any of the Group's operations.

There have been no other significant events after the balance date which require disclosure in the financial report.

Directors' Declaration

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

1. In the opinion of the Directors:
   a) The financial statements and notes of Australian Agricultural Company Limited for the financial year ended 31 December 2010 are in accordance with the *Corporations Act 2001*, including:
      (i) Giving a true and fair view of its financial position as at 31 December 2010 and of its performance for the year ended on that date.
      (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
   b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).
   c) 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 2010.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 27 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

D. McGauchie
Chairman

Brisbane
10 February 2011

Independent Audit Report

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 statement of financial position as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 complied with 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.

Independent Audit Report (continued)

ERNST & YOUNG

Opinion

In our opinion:

a. 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 company's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 10 to 22 of the directors' report for the year ended 31 December 2010. 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.

Opinion

In our opinion, the Remuneration Report of Australian Agricultural Company Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Mike Reid

Mike Reid
Partner
Brisbane
10 February 2011

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in the annual report is as follows. The information is current as at 15 March 2011.

(a) Distribution of equity securities

(i) Ordinary share capital

All ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding are:

Number of Shares	Number of Shareholders
1 to 1,000	1,433
1,001 to 5,000	3,585
5,001 to 10,000	1,305
10,001 to 100,000	1,221
100,001 and Over	66
TOTAL	**7,610**

(b) Twenty largest holders of quoted equity securities

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

	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	60,478,177	22.89%
IFFCO POULTRY CO SDN BHD	52,849,668	20.00%
CITICORP NOMINEES PTY LIMITED	29,273,061	11.08%
J P MORGAN NOMINEES AUSTRALIA LIMITED	12,459,413	4.71%
NATIONAL NOMINEES LIMITED	10,872,237	4.11%
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	8,694,994	3.29%
HSBC CUSTODY NOMINEES(AUSTRALIA) LIMITED - A/C 2	5,975,145	2.26%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,283,654	2.00%
NBT PTY LIMITED<ASTOR SUPER FUND A/C>	3,394,078	1.28%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	3,284,138	1.24%
CHARLES STREET INTERNATIONAL HOLDINGS LIMITED	2,125,000	.80%
MIRRABOOKA INVESTMENTS LIMITED	1,750,000	.66%
NBT PTY LTD	1,532,405	.58%
ABBEY HOLDINGS PTY LTD <THE GLYNN FAMILY A/C>	1,514,685	.57%
BUTTONWOOD NOMINEES PTY LTD	1,173,651	.44%
WARRENGLEN NOMINEES PTY LTD	1,000,000	.38%
WARMAN (NOMINEES) PTY LTD <THE WARMAN INVEST A/C>	888,420	.34%
DICK SMITH INVESTMENTS PTY LTD	750,000	.28%
QUEENSLAND INVESTMENT CORPORATION	734,781	.28%
NBT PTY LIMITED	685,258	.26%

(c) Substantial shareholders

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

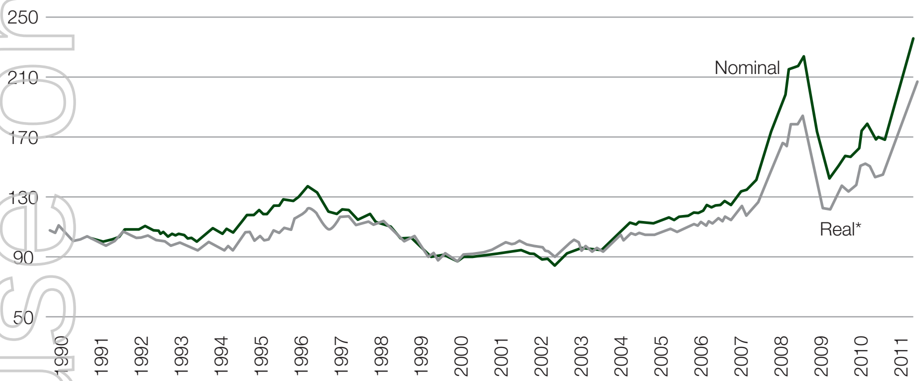
Ordinary shareholders	Number
IFFCO Poultry Co SDN BHD (and associated entities including the Felda Group)	52,849,668
Wellington Management Company, LLP, and its related bodies corporate	22,414,821
Deutsche Bank AG and its related bodies corporate	16,976,467
Dimensional Fund Advisors	13,329,974
Southeast Point Ltd and Wisemoor (PTC) Limited	13,216,927

(d) Marketable Shares

The number of security investors holding less than a marketable parcel of 313 securities ($1.600 on 15 March 2011) is 326 and they hold 37,667 securities.

Company Information

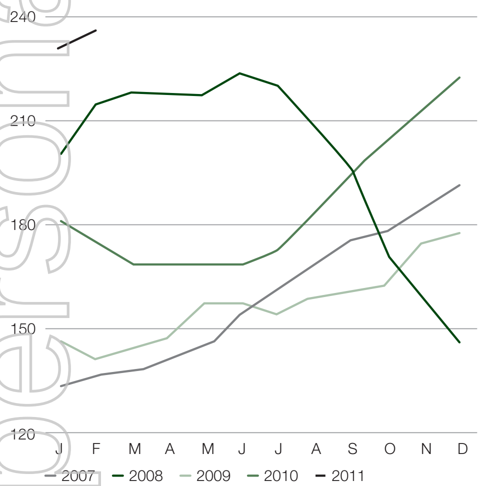
FAO Food Price Index



2002-2004 =100

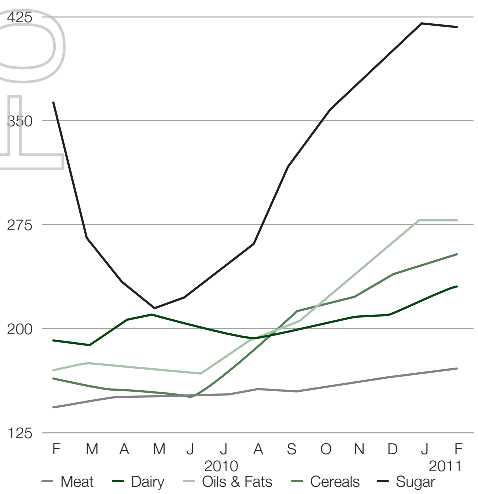
* The real price index is the nominal price index defalted by the World Bank Manufactures Unit Value Index (MUV)

FAO Food Price Index



2002-2004=100

Food Commodity Price Indices



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Principal Place of Business

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AACo shares are quoted on the Australian Securities Exchange under listing Code AAC.

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Auditors

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