



ABN 81 001 014 562

Appendix 4D

**Financial Report for the Half-Year Ended
30 June 2005**

Tandou Limited

Results for Announcement to the Market

				\$'000
Revenues	Down	28 %	to	10,839
Profit/(loss) for the period after tax attributable to members	down	120 %	to	(8,113)
Profit/(loss) for the period attributable to members	down	120 %	to	(8,113)
<p><i>* A review of the operations of the consolidated entity during the half-year and the results of those operations is disclosed in the 'Directors' Review of Operations' attached to this Report.</i></p>				
<p>Dividends (distributions)</p> <p>The Directors have not declared a dividend in respect of the six months ended 30 June 2005 (year ended 31 December 2004: nil).</p>				
NTA backing		6 months ended 30 June 2005	6 months ended 30 June 2004	
Net tangible asset backing per ordinary security		\$ 1.20	\$ 1.84	

Tandou Limited

Directors' Report

The Directors of Tandou Limited submit herewith the financial report for the half-year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the company during or since the end of the half year are:

R.F. Warburton, AO (Appointed April 2004)	Chairman, Non-Executive Director
R.W. Smith (Appointed June 1972)	Managing Director
I.M. Taylor (Appointed June 1972)	Non-Executive Director
W.A. Locher (Appointed November 1994)	Non-Executive Director
J.R. Kennedy (Appointed September 2000)	Non-Executive Director

The above named Directors held office during and since the end of the financial period.

Mr Locher retired from the Board at the annual general meeting held on 23 May 2005.

Review of Operations

A review of the operations of the consolidated entity during the half-year and the results of those operations is disclosed in the 'Directors' Review of Operations' attached to this Report.

Lead Auditor's independence declaration under Section 307C of the Corporations Act 2001

The auditor's independence declaration is included on page 3 of the half-year financial report.

Rounding off of Amounts

The company is of the kind referred to in ASIC Class Order 98/100, dated 10th July 1998 and in accordance with that Class Order, amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.



R.W. Smith

Director

Mildura, 13 September 2005



Lead auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Tandou Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2005 there have been :

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review ;
and
- no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Tony Batsakis
Partner

Melbourne

13 September 2005





INDEPENDENT REVIEW REPORT TO THE MEMBERS OF TANDOU LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim statements of income, balance sheet, changes in recognised income and expense, cash flows, accompanying notes 1 to 9 to the financial statements, and the directors' declaration set out on pages 6 to 27 for Tandou Limited Consolidated Entity ("the consolidated entity"), for the half-year ended 30 June 2005. The consolidated entity comprises Tandou Limited ("the company") and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.





INDEPENDENT REVIEW REPORT TO THE MEMBERS OF TANDOU LIMITED (CONTINUED)

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Tandou Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 8, there is significant uncertainty whether the Company and consolidated entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Tony Batsakis
Partner

Melbourne,

13 September 2005

Tandou Limited

Directors' Declaration

In the opinion of the directors of Tandou Limited:

1. the financial statements and notes set out on pages 7 to 27, are in accordance with the Corporations Act 2001 including:
 - a. giving a true and fair view of the financial position of the consolidated entity as at 30 June 2005 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



R.W. Smith

Director

Mildura, 13 September 2005

Tandou Limited

Condensed Consolidated Interim Income Statement for the Half Year Ended 30 June 2005

	Consolidated	
	30 June 2005	30 June 2004
	\$'000	\$'000
Revenue	10,404	14,354
Net operating income/(loss) derived from biological assets	(402)	(2,952)
Cost of sales	(8,433)	(9,446)
Gross Profit	1,569	1,956
Other operating income	435	755
Administration expenses	(2,792)	(1,521)
Marketing expenses	(655)	(440)
Farm care and maintenance expenses	(2,711)	(3,180)
Research and development expenses	-	(1,082)
Biological assets write-down	(1,533)	-
Inventory write-down	(3,165)	-
Operating Loss before Financing Costs	(8,852)	(3,512)
Financial income	9	28
Financial expenses	(2,350)	(1,774)
Net Financing Costs	(2,341)	(1,746)
(Loss) / Profit Before Tax	(11,193)	(5,258)
Income tax benefit	3,080	1,578
(Loss) / Profit for the Period	(8,113)	(3,680)
Earnings Per Share		
- Basic (cents per share)	(36.4)	(16.6)
- Diluted (cents per share)	(36.3)	(16.5)

Notes to the financial statements are included on pages 11 to 27.

Tandou Limited

Condensed Consolidated Balance Sheet as at 30 June 2005

	Consolidated	
	30 June 2005 \$'000	31 Dec 2004 \$'000
<i>Current Assets</i>		
Cash and cash equivalents	1,130	336
Trade and other receivables	3,217	5,317
Biological assets	1,234	2,066
Inventories	18,728	13,665
Other investments	116	52
Assets classified as held for sale	8,545	-
Other	732	3,457
<i>Total Current Assets</i>	33,702	24,893
<i>Non-Current Assets</i>		
Biological assets	3,738	12,291
Property, plant and equipment	60,383	56,503
Intangible assets	4,061	5,301
Other	9	3,542
<i>Total Non-Current Assets</i>	68,191	77,637
<i>Total Assets</i>	101,893	102,530
<i>Current Liabilities</i>		
Trade and other payables	4,339	2,994
Interest-bearing loans and borrowings	40,673	34,642
Employee benefits	627	801
<i>Total Current Liabilities</i>	45,639	38,437
<i>Non-Current Liabilities</i>		
Interest-bearing loans and borrowings	23,659	20,556
Deferred tax liabilities	-	3,140
Employee benefits	693	511
<i>Total Non-Current Liabilities</i>	24,352	24,207
<i>Total Liabilities</i>	69,991	62,644
<i>Net Assets</i>	31,902	39,886
<i>Equity</i>		
Issued capital	24,279	24,255
Reserve for prepaid shares	250	-
Reserves	44	-
Retained earnings	7,329	15,631
<i>Total Equity</i>	31,902	39,886

Notes to the financial statements are included on pages 11 to 27.

Tandou Limited

Condensed Consolidated Interim Statement of Recognised Income and Expense for the Half Year Ended 30 June 2005

	<u>Consolidated</u> <u>30 June 2005</u> <u>\$'000</u>	<u>Consolidated</u> <u>30 June 2004</u> <u>\$'000</u>
Valuation loss taken to equity on available-for-sale investments	(5)	-
<i>Net Income Recognised Directly in Equity</i>	(5)	-
Loss for the period	(8,113)	(3,680)
<i>Total Recognised Income and Expense for the Period</i>	<u>(8,118)</u>	<u>(3,680)</u>

Notes to the financial statements are included on pages 11 to 27.

Tandou Limited

Condensed Consolidated Interim Cashflow Statement for the Half Year Ended 30 June 2005

	Consolidated Inflows/(Outflows)	
	30 June 2005 \$'000	30 June 2004 \$'000
<i>Cashflows from Operating Activities</i>		
Receipts from customers	14,113	21,457
Payments to suppliers and employees	(17,397)	(21,707)
Cash generated by/(used in) operations	(3,284)	(250)
Interest and bill discounts received	9	28
Dividends received	-	1
Interest and other costs of finance paid	(2,096)	(1,678)
Net cash provided by/(used in) operating activities	(5,371)	(1,899)
<i>Cashflows from Investing Activities</i>		
Payments for property, plant and equipment	(3,356)	(1,735)
Proceeds from sale of property, plant and equipment	112	4,111
Net cash provided by/(used in) investing activities	(3,244)	2,376
<i>Cashflows from Financial Activities</i>		
Proceeds from issues of equity securities	274	10
Proceeds from borrowings	14,796	7,118
Repayment of borrowings	(5,378)	(8,484)
Net cash provided by/(used in) financial activities	9,692	(1,356)
<i>Net Increase/(Decrease) in Cash and Cash equivalents</i>	1,077	(879)
<i>Cash and Cash equivalents at the Beginning of the Half-Year</i>	53	2,754
<i>Cash and Cash equivalents at the End of the Half-Year</i>	1,130	1,875

Notes to the financial statements are included on pages 11 to 27.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Summary of Accounting Policies

Tandou Limited (the "Company") is a company domiciled in Australia. The condensed interim financial report of the Company for the six months ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS (AIFRS).

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Tandou Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 9. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on a going concern basis. Refer to note 8 for further discussion relating to the going concern assumption. The financial report is also prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, biological assets and investment property.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 31 December 2005. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(b) Basis of preparation (cont'd)

be adopted (accounting policies) when the first AIFRS annual financial report is prepared for the year-ended 31 December 2005. The entity has elected to early adopt revised accounting standard AASB 119 *Employee Entitlements* in these interim financial statements.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 31 December 2005 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 31 December 2005.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 January 2004 for the purposes of the transition to Australian Accounting Standards - AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 9.

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

(c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(f) Employee benefits (cont'd)

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

The directors have elected to early adopt the revised Accounting Standard AASB 119 *Employee Benefits* in these interim financial statements.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(g) Financial assets

Available-for-sale financial assets

Shares held by the consolidated entity are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve except for impairment losses, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

The fair value of financial instruments classified as available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell their investments. Securities held to maturity are recognised/derecognised on the day they are transferred to/by the consolidated entity.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at their cost less impairment losses.

(h) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(i) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

(k) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Water licences with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired, and a recoverable amount determined.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 January 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss other than for goodwill, is recognised in profit or loss immediately.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price 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. 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.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(l) Payables

Trade payables and other accounts payable are stated at cost and are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(n) Intangible assets

Water licences

Water licences are stated at cost less impairment. The cost is not amortised as the water licences are considered to have indefinite useful lives.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are able to be demonstrated:

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

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Biological assets related to agricultural activity and agricultural produce at the point of harvest are measured at fair value less cost to sell.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(p) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(c).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intragroup balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(r) Property, plant and equipment

Property, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost or deemed cost, less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(r) Property, plant and equipment (cont'd)

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

Depreciation is provided on property, plant and equipment including buildings and fixed structures but excluding land and land improvements, and is calculated on diminishing value and straight line bases so as to write off the net cost of each asset during its expected economic life. The following estimated useful lives are used in calculating depreciation:

Buildings and improvements	8 – 40 years
Plant and equipment	3 – 20 years
Equipment under finance lease	2 – 7 years

The residual value, if not insignificant is reassessed annually.

Land improvements – Fallow Fields

Expenditure incurred to prepare and maintain fallow land for future crops are initially capitalised. The consolidated entity maintains records of fallow field costs on a field by field basis.

On planting of crops, capitalised fallow field costs relating to that field are expensed and the crops in progress are valued at their expected net market value less costs of harvesting having regard to the stage of development of crop, in accordance with note 1 (u), and classified as a biological asset.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

(t) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Dividend and interest revenue

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(u) Biological Assets

Trees and vines are measured at fair value less estimated point of sale costs at each reporting date. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market. The best representation of fair value is the costs incurred in establishing the trees and vines to a stage where the yields are commercially viable. All costs associated with trees and vines are expensed when incurred. If the trees and vines have not reached commercial viability, the value of the trees and vines are increased by the amount of expenses incurred during the period, by way of a credit to revenue. Once the trees and/or vines reach a stage where the yields are commercially viable, Directors determine the fair value as the net present value of cash flows attributable to the trees and vines, discounted at a rate which reflects the risks associated with applicable cash flow streams less estimated point-of-sale costs. Net increases or decreases in fair value of the trees and/or vines less the costs associated with the maintenance and enhancement of the trees and/or vines are recognised as revenue or expenses in the financial year.

The fair value of fruit and grapes picked during the year and recognised as revenue is determined as the fair value of fruit and grapes immediately after picking less costs of picking.

The fair value of crops harvested during the year and recognised as revenue, is determined as the fair value of crops immediately after harvesting less point of sale costs. Crops in progress are valued at their expected net market value less costs of harvesting having regard to the stage of development of crop.

The fair value of livestock held for sale is based on the market price of livestock of similar age, breed and genetic merit.

(v) Non-Current assets held for sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

(w) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(x) *Change in Accounting Policy: Comparative information – financial instruments*

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, as permitted on the first-time adoption of A-IFRS. The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity and fair value reserve at 1 January 2005. The effect of changes in the accounting policies for financial instruments on the Consolidated Balance Sheet as at 1 January 2005 is shown below:

	Note	Consolidated		
		31 Dec 2004 \$'000	Effect of adoption \$'000	1 Jan 2005 \$'000
Current Assets				
Cash and cash equivalents		336	-	336
Trade and other receivables		5,317	-	5,317
Biological assets		2,066	-	2,066
Inventories		13,665	-	13,665
Other investments	(a)	52	69	121
Other		3,457	-	3,457
Total Current Assets		24,893	69	24,962
Non-Current Assets				
Biological assets		12,291	-	12,291
Property, plant and equipment		56,503	-	56,503
Intangible assets		5,301	-	5,301
Deferred tax assets		-	-	-
Other		3,542	-	3,542
Total Non-Current Assets		77,637	-	77,637
Total Assets		102,530	69	102,599
Current Liabilities				
Trade and other payables		2,994	-	2,994
Interest-bearing liabilities and borrowings		34,642	-	34,642
Employee benefits		801	-	801
Other financial liabilities	(b)	-	270	270
Total Current Liabilities		38,437	270	38,707
Non-Current Liabilities				
Interest-bearing liabilities and borrowings		20,556	-	20,556
Deferred tax liabilities	(c)	3,140	(61)	3,079
Employee benefits		511	-	511
Total Non-Current Liabilities		24,207	(61)	24,146
Total Liabilities		62,644	209	62,853
Net Assets		39,886	(140)	39,746
Equity				
Issued capital		24,255	-	24,255
Reserves		-	49	49
Retained earnings		15,631	(189)	15,442
Total Equity		39,886	(140)	39,746

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

1. Significant Accounting Policies (cont'd)

(x) *Change in Accounting Policy: Comparative information – financial instruments (cont'd)*

Notes to the reconciliation of financial instruments as if AASB 139 was applied at 1 January 2005:

- (a) The following financial assets were designated as available-for-sale on adoption of AASB 139. These financial assets were previously measured at cost:

	Consolidated	
	Fair value at 1 Jan 2005 \$'000	Carrying amount at 31 Dec 2004 \$'000
<u>Non-current financial assets</u>		
Investments	121	52

- (b) Derivative financial instruments were recognised at fair value on the adoption of AASB 139.

- (c) Adjustment represents the net effect of the above adjustments on the deferred tax balances.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 January 2005 to restate the opening financial position of the consolidated entity to a position consistent with the accounting policies specified in note 1:

- i. the measurement of loans and receivables at amortised cost, rather than at cost or fair value in accordance with the superseded policy
- ii. the measurement of financial assets designated available-for-sale at fair value, with changes in fair value recognised in profit or loss or equity as appropriate, rather than at cost in accordance with the superseded policy
- iii. the measurement of financial liabilities at amortised cost, rather than at cost in accordance with the superseded policy
- iv. the recognition in profit or loss of the movement in the fair value of derivatives which did not qualify for hedge accounting or were not designated as hedging instruments
- v. the derecognition of other deferred hedging gains and losses recognised as assets and liabilities
- vi. the recognition of any current or deferred taxes in relation to the adjustments described above

(y) *Change in Accounting Policy: Comparative information – property, plant & equipment*

Fallow Fields assets recorded at \$4,578,671 have been re-classified as property, plant & equipment from 1 January 2005. These assets were previously classified as "other current assets" of \$1,122,594 and "other non current assets" of \$3,456,077. Application of this change in the prior period would have resulted in an increase in property, plant & equipment of \$4,578,671 and a decrease of "other current assets" of \$576,236 and "other non current assets" of \$4,002,435.

2. Material Items

Included in the operating results for six months ended 30 June 2005 are the following material items:

	Consolidated	
	30 June 2005 \$'000	30 June 2004 \$'000
Write-down of bulk wine inventory	3,165	-
Write-down of biological assets	1,533	-

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

3. Current Assets Held For Sale

The Millewa vineyard is presented as held for sale following the decision of the board to sell the related assets which include biological assets, property, plant and equipment and water licences. The sale negotiations have progressed to an advanced stage with a proposed settlement anticipated during November 2005.

Carrying Values of assets:	\$'000
Biological assets	5,477
Property, plant & equipment	1,828
Water rights	1,240

4. Write-down of Inventory & Biological Assets

During the six months ended 30 June 2005 the consolidated entity recorded a write-down of bulk wine inventory of \$3,165,000 to meet projected market values. There were no write-downs of inventory during the six months ended 30 June 2004.

During the six months ended 30 June 2005 the consolidated entity recorded a write-down of \$1,533,000 as a result of an impairment review and changes in the market value of vineyard and orchard biological assets. There were no write-downs of biological assets during six months ended 30 June 2004.

5. Segment Reporting

Segment revenues for the half year ended 30 June 2005

	External Sales		Other		Total	
	30 June 2005 \$'000	30 June 2004 \$'000	30 June 2005 \$'000	30 June 2004 \$'000	30 June 2005 \$'000	30 June 2004 \$'000
Crops	3,137	6,601	-	-	3,137	6,601
Horticulture	76	69	-	-	76	69
Viticulture	1,019	-	-	-	1,019	-
Winery	6,172	7,684	-	-	6,172	7,684
Total of all segments					10,404	14,354
Unallocated					435	755
Consolidated					10,839	15,109

Segment results for the half year ended 30 June 2005

	30 June 2005 \$'000	30 June 2004 \$'000
Crops	(1,140)	(1,124)
Horticulture	(898)	(695)
Viticulture	(2,589)	(509)
Winery	(5,771)	(2,331)
Total of all segments	(10,398)	(4,659)
Unallocated	(795)	(599)
Loss before tax	(11,193)	(5,258)
Income tax benefit	3,080	1,578
Loss for the period	(8,113)	(3,680)

6. Contingent Liabilities or Contingent Assets

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date.

7. Subsequent Events

After reporting date, the Company made arrangements for a private placement of 3,332,263 fully paid ordinary shares, to be issued at \$1.50 per share. The placement was with a single investor and the transaction was settled on 12 July 2005. The placement resulted in an increase in cash assets and issued capital of \$4,998,000.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

8. Going Concern

At 30 June 2005, the consolidated entity's current liabilities exceeded its current assets by \$11,937,000 (31 December 2004: \$13,544,000 current asset deficiency). In addition, the consolidated entity incurred an operating loss after tax of \$8,113,000 for the six months ended 30 June 2005 (six months ended 30 June 2004: \$3,680,000) and an operating cash outflow for the same period of \$5,371,000 (outflow for the six months ended 30 June 2004: \$1,899,000).

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

- The consolidated entity's cash flow forecast for the period from 1 July 2005 to 30 June 2006 indicates that its ongoing financing requirements will not exceed the combined amount of its own cash resources and the maximum limit of the facilities available under its present banking arrangements.
- The consolidated entity's cash flow forecast is dependant upon the disposal of business assets and the ability of the Company to utilise proceeds for working capital. The Directors are confident that arrangements with the Company's bankers will permit the use of sufficient proceeds as working capital as to allow the consolidated entity's cash flow forecasts to be met. As at the date of this report, the Company is significantly advanced in negotiations to sell the Millewa vineyard with the proposed settlement anticipated during November 2005.
- Under the Company's present banking arrangements, facilities totalling \$30,000,000 have a termination date of 1 January 2006 and \$9,000,000 have a termination date of 14 March 2006. The Directors believe that the Company will successfully extend these facilities to January 2007 or beyond following renegotiation of its banking arrangements which is due to be completed in November 2005.
- The Directors are also satisfied that the consolidated entity's operating performance will return to profitability in the medium term, enabling it to continue to meet its financial obligations.
- After reporting date, the Company made arrangements for a private placement of 3,332,263 fully paid ordinary shares, to be issued at \$1.50 per share. The placement was with a single investor and the transaction was settled on 12 July 2005. The placement resulted in an increase in cash assets and issued capital of \$4,998,000, which is included in the Company's cashflow forecast.

Notwithstanding the above, there are a number of uncertainties relating to the ability of the Company to continue as a going concern, as set out below.

(i) *Forecast cashflow performance.*

The Directors emphasise that the present cash flow forecast is based on the assumption that the Millewa vineyard will be sold during the forecast period. The sale has not been completed at the date of this report.

(ii) *Ability to renegotiate external financing facilities.*

While the consolidated entity's present external financing facilities are fully utilised as at 30 June 2005, based on current forecasts following the share placement referred to in note 7, the Company has adequate facilities in place until the normal review of facilities at the end of this calendar year. Given the Company's present banking arrangements and established review process, at the date of this report, the Company has not secured an extension of, or increases to, its present external financing facilities. With these facilities falling due within the current operating year, much of the external debt has been re-classified as current in these accounts. Any extension of, or increases to, its present facilities during the forecast period is dependant on the facilities' credit review criteria being met and the timely disposal of the Millewa vineyard, including the ability to use part of these proceeds for working capital. Should this not occur, the Company is likely to require alternative financing and/or capital initiatives, the execution of which are uncertain at the date of this report. The continued support of the Company's bankers is required to enable the Company to be able to pay its debts as and when they fall due.

In the event that the forecast financial performance is not met as anticipated, the Millewa vineyard sale does not occur, and/or the Company is unable to renegotiate its external financing facilities during the forecast period, significant uncertainty exists as to whether the Company may be able to continue as a going concern, and it may therefore be required to realise its assets and extinguish its liabilities other than in the normal course of business, and at amounts different to those stated in the financial report.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

9. Explanation of Transition to A-IFRS

The consolidated entity changed its accounting policies on 1 January 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 January 2005 (refer note 1x). In preparing its opening A-IFRS balance sheet, comparative information for the six months ended 30 June 2004 and financial statements for the year ended 31 December 2004, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of A-IFRS on the balance sheet as at 1 January 2004

	Note	Consolidated		
		Super-seded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
Current Assets				
Cash and cash equivalents		2,754	-	2,754
Trade and other receivables		3,984	-	3,984
Biological assets		346	-	346
Inventories		16,258	-	16,258
Other financial assets		3,027	-	3,027
Other		3,004	-	3,004
Total Current Assets		29,373	-	29,373
Non-Current Assets				
Biological assets		10,486	-	10,486
Property, plant and equipment	4	60,540	(5,301)	55,239
Intangible assets	4	-	5,301	5,301
Other	1	3,425	(225)	3,200
Total Non-Current Assets		74,451	(225)	74,226
Total Assets		103,824	(225)	103,599
Current Liabilities				
Trade and other payables		2,489	-	2,489
Interest-bearing liabilities and borrowings	3	1,742	40,810	42,552
Employee benefits		575	-	575
Other		2,385	-	2,385
Total Current Liabilities		7,191	40,810	48,001
Non-Current Liabilities				
Interest-bearing liabilities and borrowings	3	44,562	(40,810)	3,752
Deferred tax liabilities	5	5,794	1,723	7,517
Employee benefits		642	-	642
Total Non-Current Liabilities		50,998	(39,087)	11,911
Total Liabilities		58,189	1,723	59,912
Net Assets		45,635	(1,948)	43,687
Equity				
Issued capital		24,200	-	24,200
Retained earnings		21,435	(1,948)	19,487
Total Equity		45,635	(1,948)	43,687

* Reported financial position for the financial year ended 31 December 2003

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

9. Explanation of Transition to A-IFRS (cont'd)

Effect of A-IFRS on the income statement for the half-year ended 30 June 2004 and the financial year ended 31 December 2004

	Note	Consolidated Half-year ended 30 June 2004			Consolidated Financial year ended 31 December 2004		
		Super- seded policies*	Effect of transition to A-IFRS	A-IFRS	Super- seded policies*	Effect of transition to A- IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue & net biological assets income	2	16,268	(4,866)	11,402	30,815	(5,050)	25,765
Cost of sales		(9,446)	-	(9,446)	(21,034)	-	(21,034)
Gross Profit		6,822	(4,866)	1,956	9,781	(5,050)	4,731
Other income	2	-	755	755	-	948	948
Administration expenses		(1,521)	-	(1,521)	(2,781)	30	(2,751)
Marketing expenses		(440)	-	(440)	(663)	-	(663)
Farm care and maintenance expenses		(3,180)	-	(3,180)	(5,165)	-	(5,165)
Research and development expenses	1	-	(1,082)	(1,082)	-	(1,827)	(1,827)
Book value of assets sold	2	(4,111)	4,111	-	(4,102)	4,102	-
Operating Loss before Financing Costs		(2,430)	(1,082)	(3,512)	(2,930)	(1,797)	(4,727)
Financial income		28	-	28	53	-	53
Financial expenses		(1,774)	-	(1,774)	(3,560)	-	(3,560)
Net Financing Costs		(1,746)	-	(1,746)	(3,507)	-	(3,507)
(Loss) / Profit Before Tax		(4,176)	(1,082)	(5,258)	(6,437)	(1,797)	(8,234)
Income tax benefit	5	1,253	325	1,578	2,439	1,583	4,022
(Loss) / Profit for the Period		(2,923)	(757)	(3,680)	(3,998)	(214)	(4,212)

Effect of A-IFRS on the balance sheet as at 30 June 2004 and 31 December 2004

	Note	Consolidated 30 June 2004			Consolidated 31 December 2004		
		Super- seded policies*	Effect of transition to A-IFRS	A-IFRS	Super- seded policies*	Effect of transition to AIFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current Assets							
Cash and cash equivalents		1,875	-	1,875	336	-	336
Trade and other receivables		5,058	-	5,058	5,317	-	5,317
Biological assets		1,049	-	1,049	2,066	-	2,066
Inventories		19,564	-	19,564	13,665	-	13,665
Other investments		593	-	593	52	-	52
Other		1,902	-	1,902	3,457	-	3,457
Total Current Assets		30,041	-	30,041	24,893	-	24,893

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

9. Explanation of Transition to A-IFRS (cont'd)

Effect of A-IFRS on the balance sheet as at 30 June 2004 and 31 December 2004 (cont'd)

	Note	Consolidated 30 June 2004			Consolidated 31 December 2004		
		Super- seded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000	Super- seded policies* \$'000	Effect of transition to AIFRS \$'000	A-IFRS \$'000
Non-Current Assets							
Biological assets		10,118	-	10,118	12,291	-	12,291
Property, plant and equipment	4	61,731	(5,301)	56,430	61,804	(5,301)	56,503
Intangible assets	4	-	5,301	5,301	-	5,301	5,301
Other	1	4,507	(1,307)	3,200	5,564	(2,022)	3,542
Total Non-Current Assets		76,356	(1,307)	75,049	79,659	(2,022)	77,637
Total Assets		106,397	(1,307)	105,090	104,552	(2,022)	102,530
Current Liabilities							
Trade and other payables		5,657	-	5,657	2,994	-	2,994
Interest-bearing liabilities and borrowings	3	2,218	27,215	29,433	3,427	31,215	34,642
Employee benefits		604	-	604	801	-	801
Other		1,740	-	1,740	-	-	-
Total Current Liabilities		10,219	27,215	37,434	7,222	31,215	38,437
Non-Current Liabilities							
Interest-bearing liabilities and borrowings	3	48,260	(27,215)	21,045	51,771	(31,215)	20,556
Deferred tax liabilities	5	4,542	1,398	5,940	3,356	(216)	3,140
Employee benefits		654	-	654	511	-	511
Total Non-Current Liabilities		53,456	(25,817)	27,639	55,638	(31,431)	24,207
Total Liabilities		63,675	1,398	65,073	62,860	(216)	62,644
Net Assets		42,722	(2,705)	40,017	41,692	(1,806)	39,886
Equity							
Issued capital		24,210	-	24,210	24,255	-	24,255
Retained earnings		18,512	(2,705)	15,807	17,437	(1,806)	15,631
Total Equity		42,722	(2,705)	40,017	41,692	(1,806)	39,886

* Reported financial results under previous Australian GAAP.

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2004

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under the superseded policies other than the reclassification of payments for research and development from cashflows from investing activities to cashflow from operating activities. The effect is to decrease net cash used in investing activities and increase net cash used in operating activities by \$1,082,000.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

9. Explanation of Transition to A-IFRS (cont'd)

Notes to the reconciliations of income and equity

(1) Research and Development

Under superseded policies, research and development expenditure was capitalised. This expenditure does not qualify for recognition as an intangible asset under A-IFRS. The effect is to decrease other non-current assets by \$225,000 at 1 January 2004, by \$1,307,000 at 30 June 2004 and \$2,022,000 at 31 December 2004; to increase research and development expenses for the six months ended 30 June 2004 by \$1,082,000 and by \$1,827,000 for the year ended 31 December 2004.

(2) Revenue

Under superseded policies, the consolidated entity recognised the gain or loss on disposal of property, plant and equipment on a 'gross' basis by recognising the proceeds from sale as revenue, and the carrying amount of the property, plant and equipment disposed as an expense. Under A-IFRS, the gain or loss on disposal is recognised on a 'net' basis, and is classified as income, rather than revenue. Accordingly, the 'gross' amounts have been reclassified within the income statement for A-IFRS reporting purposes.

(3) Interest-bearing liabilities and borrowings

Under A-IFRS any refinancing which occurred after the reporting date must not be taken into account in classifying liabilities as between current and non-current. Previous GAAP allowed such liabilities to be classified as 'non-current' if the refinancing was completed by the time the financial statements were signed. The effect is to decrease non-current interest-bearing liabilities and borrowings and increase current interest-bearing liabilities and borrowings by \$40,810,000 at 1 January 2004, by \$27,215,000 at 30 June 2004 and by \$31,215,000 at 31 December 2004.

(4) Intangibles

Under superseded policies, water licences were previously classified as property, plant and equipment. Under A-IFRS, water licences qualify for recognition as an intangible asset. The effect is to decrease other property, plant and equipment and increase intangible assets by \$5,301,000 at 1 January 2004, 30 June 2004 and 31 December 2004.

(5) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above adjustments on the deferred tax balances are as follows:

	Consolidated		
	1 Jan 2004 \$'000	30 June 2004 \$'000	31 Dec 2004 \$'000
Capitalised research & development written off	68	393	607
Deferred tax not recognised under previous GAAP	(1,791)	(1,791)	(391)
Net increase/(decrease) in deferred tax balances	(1,723)	(1,398)	216

The effect on consolidated profit for the half-year ended 30 June 2004 and the financial year ended 31 December 2004 was to increase previously reported income tax benefit by \$325,000 and \$1,583,000 respectively.

Tandou Limited

Notes to the Financial Statements For the Half Year Ended 30 June 2005

9. Explanation of Transition to A-IFRS (cont'd)

Retained earnings

The effect of the above adjustments on retained earnings is as follows:

		Consolidated		
		1 Jan	30 June	31 Dec
		2004	2004	2004
	Note	\$'000	\$'000	\$'000
Capitalised research & development written off	1	(225)	(1,307)	(2,022)
Adjustments to tax balances	5	(1,723)	(1,398)	216
Total adjustment to retained earnings		<u>(1,948)</u>	<u>(2,705)</u>	<u>(1,806)</u>

Tandou Limited

Directors' Review of Operations

Attaching to and forming part of the report to the ASX for the six months ended 30 June 2005

With the continued decline in bulk wine prices and the compounding effect on grape prices, the impact on our half-year earnings result has been disappointing. While the Board and management had been forecasting the effect of minimal cotton production, the post tax loss of \$8.113m for the half year ended 30 June exceeded our worst-case projections.

The drought has had a significant impact on Tandou, resulting in minimal cotton plantings over the past three seasons. Including the projected area to be planted this Spring, the average annual crop size over this period has been 850 hectares. This compares to the average for the preceding three years of 5,500 hectares, representing a reduction of approximately 85%.

Despite this prolonged reduction in cotton plantings, the Company has continued its commitment to the farming operations with irrigation fields, plant and equipment maintained in excellent condition. This expense, along with retaining key staff, has been significant but necessary to ensure the operations can quickly capitalise on any improvement in water availability.

Coinciding with the drought has been a serious downturn in the wine industry, and more specifically, a recent and rapid decline in bulk wine prices. A major activity of the Company is the integrated growing of wine grapes and wine production, with some 290 hectares of vineyards and a winery facility capable of crushing more than 20,000 tonnes per vintage.

Under the first time adoption of Australian International Reporting Standards (A-IFRS), the down-grading of prices has subsequently resulted in a \$1.176m write-down of the carrying value of our Menindee vineyard, and a write-down of bulk wine inventory values of \$3.165m.

Water Situation

Menindee Lakes currently hold 492,000 megalitres (25% of capacity) with 100% allocations available for general security licences for the fiscal year ending June 2006.

At these levels, storages need to rise a further 148,000 megalitres (8%) to 640,000, for control to revert to the Murray Darling Basin Committee (MDBC), resulting in the re-commencement of inter-valley transfer availability. Under these circumstances this would allow Tandou to transfer entitlements on the Murrumbidgee and Murray Rivers, and to also acquire additional temporary water from external sources, providing for an increase in planting areas.

In response to the recently released Environmental Impact Statement (EIS) into improving the Menindee Lakes infrastructure, Tandou has submitted proposed changes that we believe are necessary to maximise water savings opportunities. Our ideas are consistent with those of other interested corporate organisations, as well as the NSW State Water department, who have also lodged submissions.

The desired outcomes if achieved should lead to an increase in water security during dry times such as we are currently experiencing. Important to the economic returns from these investments, for both State and private bodies, is the security of a 100% base supply in the Lower Darling every year.

Cotton & Cereal Crops

While the 2005 cotton crop was minimal (720 hectares) Directors are pleased to report that Tandou achieved its highest recorded average cotton yields of 11.6 bales per hectare.

On present known water availability, our 2006 cotton area to be planted in the coming month is expected to be approximately 1,860 hectares. With 9,000 bales forward sold at an average of \$570 per bale, this provides favourable cover for more than 50% of current expected production.

Current cereal crops (1,330 hectares) have been established with optimum early growth and look set for another positive yield result.

Horticulture

Our Apricot operations continue to increase as replacement plantings reach commercial production.

Tandou Limited

Directors' Review of Operations (cont'd)

Although it is still too early to comment on yield expectations compared to budget, the presentation of the Orchard is as promising as ever and hopes remain high for another excellent result from the Apricot harvest.

Apple trees have continued to be removed during the six months, making way for more viable opportunities. An initial 5 hectares of citrus varieties has been planted, with further areas of stone fruit and citrus plantings committed for the near term.

Wine Grapes

With deteriorating wine grape prices, both our Millewa and Menindee vineyards are being managed to minimise costs wherever possible.

Although both properties achieved excellent yield and quality for the 2005 vintage, these enterprises face a difficult task to achieve profitability in the current climate and require a reversal in wine grape pricing to contribute to earnings in a positive way.

Tandou Wines

The 2005 vintage was completed in April and resulted in a total crush of approximately 21,000 tonnes, inclusive of 3,400 tonnes crushed on contract. This amount was slightly higher than projections as a result of the above average yields experienced by our growers.

While the overall quality of the fruit received was considered to be good the over-supply in the wine industry has resulted in lower than projected returns from this enterprise.

Branded Wine Sales

While the timing of our branded sales has continued to delay achievement of forecasts, we have now confirmed our USA importer and distributor networks.

Following our launch in the United States during June, significant interest was received and follow up shipments have commenced.

Wine Recovery Project

This project continues in the trialling phase and while we successfully completed plant improvements in March, difficulties were experienced in achieving a commercial rate of throughput.

Further trials have continued post vintage and the Board remains confident that modifications made can improve performance to the point of full production status during the 2006 vintage.

While such problems are expected during any research and development project, the delays caused by the project have also impacted unfavourably on current period earnings.

Finance

Based on current forecasts the Company has adequate facilities in place until the review of facilities at the end of this calendar year.

With facilities falling due within the current operating year, much of the external debt has been re-classified as "current" under A-IFRS accounting. This has significantly impacted the working capital ratio to the extent that current assets are now exceeded by current liabilities. Under A-GAAP classification as at 31 December 2004 this was not the case. The extension of present facilities will be reviewed closer to year end, in line with established banking arrangements.

Tandou Limited

Directors' Review of Operations (cont'd)

Negotiations for the sale of the Millewa vineyard are in an advanced stage and will assist in reducing current debt levels. Current arrangements involve Tandou remaining as the Manager of the property on a fee-for-service basis. Further details will be provided to shareholders as they become available.

In June the Company announced a 15% private placement, which subsequently settled on 12 July 2005. This has strengthened our immediate cashflow position and demonstrates confidence in the value of the Company's asset base.

Under A-IFRS accounting, the net tangible asset backing has been reduced to \$1.20 per share, which excludes the value of the Company's water rights.

Outlook for the current year

The forecast for the remainder of this financial year is heavily dependant on our bulk wine sales being successfully placed in the market without further price deterioration.

Agricultural risk obviously still applies to our farming and horticultural operations, however the confidence in the management of these enterprises to achieve better than budget results continues to provide a base for our projected performance levels.

Despite the current difficult circumstances the Board is continuing to look for synergistic opportunities that can grow the profitability of the company and reduce the risk of future earning fluctuations.

While the majority of our enterprises are currently suffering depressed trading environments, we remain positive in the knowledge that we have been able to maintain our core Company assets and quality staff.

This will ensure we are prepared for a timely and full recovery on the eventual turning point in water availability and improved commodity prices.

The Board was pleased to welcome Mr Guy Kingwill who joined the Company in June as Chief Financial Officer. Guy has relocated from Pittsburgh to take this key role and provides a wealth of corporate finance and business experience from his time with Bayer Corporation in the United States.

Directors would also like to acknowledge the contributions to the Company of Mr Walter Locher. Walter retired at the annual general meeting in May 2005 and the Board wishes to formally thank Walter for his time and commitment as a Director of Tandou over the past decade.

On behalf of the Board of Directors



R.W. Smith
Managing Director
13 September 2005