



Annual Report 2004



### ***Our Vision***

*To be a dynamic and profitable agribusiness, producing and marketing diverse products of outstanding quality and value.*

*To be acknowledged as an innovative, market leader in agribusiness, by initiating and adopting well researched strategies that deliver positive economic, social and environmental outcomes.*



**Notice of AGM** The Annual General Meeting of Tandou Limited will be held at Tandou Wines, Nixon Road, Monash, South Australia on Monday 23 May 2005 at 4.00pm CST.



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**Tandou Limited**  
**Annual Report for the year**  
**ending 31 December 2004**

Consolidating:  
TANDOU LIMITED  
ABN 81 001 014 562

TANDOU WINES PTY LIMITED  
ABN 79 001 014 553

MILLEWA COUNTY FARMS PTY LIMITED  
ABN 78 059 755 010

TANDOU PACIFIC MARKETING PTY LTD  
ACN 102 976 161

## Chairman's Letter to Shareholders

In January 2004, I first visited the Company's sites and saw first hand the problems associated with a year of no cotton production and also the permanent crops at Menindee suffering with poor quality water.

There was however some relief in sight for this position with a small fresh from December rains in the catchment making its way down the 2,000 km Darling River, expected to reach Menindee mid February.

Having been suitably impressed with the Company's diversification strategy and its high tech irrigation infrastructure, its low cost winery acquisition, commitment to innovation with its investment in the wine recovery process and the enthusiasm and calibre of staff, it is history now that I joined the Board in April 2004 as Chairman.

Given the history of Darling River flows, I believed that history would remain true and that the drought would break with a flood. I saw that Tandou maintained readiness to capitalise on any increase in water availability. That remains the position today with the retention of experienced staff, and fields and equipment which are in a state of readiness for the turn around that must eventually come.

The small flow referred to above raised the nil allocation in April 2004 to 30% and enabled 1,323 hectares of wheat and barley to be planted after a significant portion of water was used to recharge the water supply system.

So far we have had only limited relief with a 30% base allocation announced last July for the 04/05 water accounting year. To the governments' credit, they recognised our need for a higher allocation as we demonstrated that savings could be made by reducing flows so that only minimal quantities reached the Murray River compared to those modelled to arrive at the 30% allocation. This resulted in increased allocation to 50%, which at least enabled us to plant our smallest cotton crop since commercial production in 1991. This allowed 720 hectares to be established for this year with harvest to commence the end of April with yields expected to exceed budget.

We projected that our branded wine sales and wine recovery project would help us through the poor 04 cotton year. However, it became clear that our US distribution would not be finalised before the end of 04. In addition, the wine recovery operation - while resulting in some encouraging product - had greater than expected teething problems which resulted in the requirement for further development capital to ensure the production of fully compliant label integrity product for varietal wine, rather than a non-varietal dry red or dry white wine.

All of the above led to our announcement in early May last year of our forecast results moving from breakeven to a \$3.5 m to \$4m after tax loss.

With the support of our bankers, the Board authorised the additional capital expenditure for the wine recovery project in mid November and I'm pleased to report that while our budgeted start time was delayed two weeks, early indications are that this enterprise will be profitable on a full vintage basis and very profitable when higher wine prices eventuate.

The equipment will allow additional contract business to be developed modifying wines for other wine companies post vintage, as well as other opportunities being evaluated, such as juice recovery from orange peel and bio actives from other products.

I wish to acknowledge here that our plant manager Bill Grills worked extremely diligently over the past 12 months to see the plant upgraded and improved to become an additional profit centre for Tandou with opportunities for further growth.

So much for the 04 year.

For 2005 there was some relief in the water situation with a further minor inflow in February. We currently believe we should be able to nearly double last years cotton plantings this spring but the actual area will depend on any further inflows prior to planting and the announced allocation for 05-06 due 1st July.

It is worth mentioning here that while Tandou has been affected by low water availability, the Lower Darling is currently the only river in NSW with 100% allocation. Unfortunately, storage levels do not allow us to transfer our other water from the Murrumbidgee or Murray, or use temporary trade acquisitions, until Menindee Lakes are approximately 25% capacity or store above 480,000 megalitres.

The increase to 100% allocation (04/05) secures cereal plantings for this year in May / June. The area planted will depend upon price expectations and the level of allocation expected for 05/06 at planting.

We remain confident of our continual growing success with apricots at Menindee. We have now replaced the apples, worst affected by the previous years poor water quality, with citrus. Branded wine sales are budgeted to grow in the latter half of the year as a result of an aggressive distributor appointed in the USA, and with a full launch in June.

The bulk wine market, and hence grape prices, are expected to remain depressed for two to four years. Thus our market based contract with growers will reflect lower prices being paid to our growers.



So far the big drought breaking rains have eluded us, but it has made us focus on the possible improvements that can be made for all stakeholders on the Lower Darling, including the city of Broken Hill. To this end, the recent formation and appointment of the Federal National water commission with a \$2 billion fund, should ensure that we will see the eventual improvements to Menindee Infrastructure for which we have lobbied so strongly.

We are also in negotiation to examine the scope for private/public partnerships, which would enable private sector access to a portion of the saved water resulting from these improvements.

### **Markets**

The upholding of an appeal by Brazil to the WTO on USA cotton subsidies is encouraging but no immediate benefits are forecast - we expect some pull back on USA and European subsidies in the longer term.

Our high dollar imposes the largest impact on both cotton and wine. World record cotton consumption is helping to reduce last year's record production. Forward cotton prices will be very dependant on final plantings in the northern hemisphere this March – May as well as any major weather events post planting.

In summary we will always be impacted by weather and market prices varying our cotton and cereal prices. The challenge is to come through this present record dry with growing branded wine sales, a successful wine recovery project and a growing profitable impact from \$A priced horticulture, enabling the Company to better withstand the variables that can be mitigated, but not controlled, in our cotton and cereal production.

The area to be planted to cotton this spring is still unknown, but is underpinned by 9,000 bales forward sold at \$570/bale. The combination of cotton area, price of the uncontracted portion and the level of branded wine sales achieved to end December, will all have a major impact on our results to the end of this year and into 2006.

We remain confident that the wine recovery project will make a positive contribution to the Company's results.

As a shareholder in a production based agricultural enterprise, it is vital that one fully understands the risks, the variability and the long term nature of the investment, and that some part of your return lies in the appreciation of the assets of this Company, in particular water-based assets.

We seek that understanding given our share price is substantially below asset backing, but has held up well despite difficult production circumstances.

To our shareholders, we acknowledge your support and invite you to our AGM, which this year will be held at the winery and provide an opportunity for you to tour this site and see the investment in the new wine recovery process.

Finally I would like to acknowledge our employees who have remained so positive through this record breaking drought, and our bankers, Rabo and ANZ, who not only have supported our continuous seasonal finance requirements, but have approved additional capital expenditure to complete the wine recovery project and increase our proven horticultural plantings.

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R.F.E. Warburton  
Chairman

Tandou Limited Directors report a year end after tax loss of \$3.998m, in line with forecasts as reported in May 2004.

The main reason for this result is an unprecedented lack of irrigation water due to drought, a zero allocation at planting time resulting in the first year in which a 100% allocation was not achieved prior to planting. Gains made in cereals, apricots and cottonseed, were offset by slower than expected wine sales.

As a result of the drought, the cost of keeping the Company farming assets in a fully productive condition has been expensed during the year, amounting to \$5.2m. These costs include maintaining the developed land and equipment, along with retaining experienced key personnel, to immediately capitalise on improved water availability.

This expenditure has been the dominant factor impacting this year's result, but has been incurred to enhance the future viability of the cotton and cereal operations.

Fortunately, a 30% allocation for 2003/04, following February rains in the catchment, allowed the establishment of 1,323 hectares of cereal. A 50% allocation for 2004/05 enabled the finishing of cereal irrigations and allowed cotton plantings of 720 hectares in October 2004.

Rains in the Moree/Narrabri area in early December have since resulted in flows which have raised our 2004/05 allocations from 50% to 100% (the only river in NSW with 100% general security allocation ) and should allow for an increased cereal planting in May/June of this year.

As a result of these inflows, the Menindee Lakes system currently holds approximately 430,000 megalitres, or 25% of storage capacity.

It is still too early to estimate the likely extent of allocations for 2005/06, however, even providing for no further inflows, permanent plantings should now be assured of 100% allocation.

### **Production for the six months ended 31 December 2004**

Despite the drought, the Farm was kept in a condition ready to capitalise immediately on changed circumstances if water became available.

Unfortunately, what little water was available for our permanent crops was of such poor quality that increased maintenance and chemical additions were required to combat this effect. Accessing residual water also increased costs.

Despite the above factors, our management team has produced our best recorded yields in cereal, apricots and chardonnay.

### **Winter Cereals**

Our durum wheat and malting barley crops were harvested in November/December producing our highest ever average yields of 6.0 tonnes per hectare (750 hectares) and 5.3 tonnes per hectare (573 hectares) respectively.

### **Cotton**

For the first time, results show no harvest of cotton for the 2004 season.

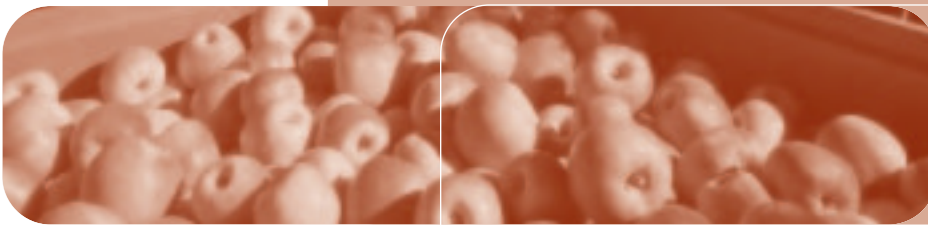
A small area of 720 hectares of upland cotton was planted in October, on sub-surface drip, and our farm management team has now established an excellent stand on over 95% of the area.

A review of the yield potential in mid January confirmed expectations of a yield of over 10 bales per hectare, exceeding our budget of 8.7 bales per hectare.

### **Apricots**

As forecast, increased yields have resulted in apricot revenues rising approximately 40% to \$1.1 million. Yield increases are the result of further plantings now reaching maturity and continued improvements by management.

We now have the confidence to gradually increase plantings to the maximum area that we believe can be harvested, packed and distributed to market, while preserving profitable margins for this time period.



### **Apples**

As reported, these plantings suffered from the poor water quality of the previous year. While the remaining Royal Gala produced good colour and some adequately sized fruit, the reduced yield rendered picking the total crop uneconomic.

Our new high density planting trial of Granny Smith and other coloured varieties will be monitored.

Management remains confident that production systems can be developed so that select varieties of apples will be profitable in this environment.

Consideration is being given to replacing those apples most affected by the poor water quality with navel orange trees this autumn.

### **Wine Grapes Menindee**

A much cooler ripening period delayed maturity with harvest finishing mid February delivering yields exceeding budget.

### **Wine Grapes Millewa**

Vine recovery from hail damage the previous year has been excellent.

We expect that only contracted minimum tonnes will be received by our contract parties with the remainder supplied to our own winery.

At today's price levels, direct costs can be recovered in full but a substantial improvement is needed in price for most varieties to achieve profitability.

### **Tandou Wines Monash**

Since the half year report, finishing and delivering of 2004 bulk wine stocks to customers has continued, with further improvements made at the site to increase efficiency.

A recent restructure of the winemaking/production area has seen the appointment of an experienced winemaker and production manager. This experience and expertise should significantly enhance our ability to improve production efficiencies and quality of wines.

The current over-supply in most varieties and the strengthening of the Australian dollar is delivering increasing price pressures on both bulk and branded wine, and will ultimately lower the prices growers receive for their grapes from the 2005 vintage.

The final price paid to Tandou growers for grape supply is based on the final selling price of the bulk wine. This type of market-based contract recognises the risk of fixing prices in a volatile bulk wine market.

Due to the highly competitive nature of the wine market, export sales of branded wine have been slower than anticipated, however, sales to our USA distributor commenced in February 2005 with the placement of our first significant order.

Both our distributors and Sales & Marketing Manager project substantial increases in sales this year to a level where brand building costs are recovered.

On a regional basis, where the Company and brand is better recognised, sales have been gradually growing with the Broken Earth Café and Restaurant fulfilling its intended role of increasing sales and brand recognition with local, interstate and international visitors.

### **Wine Recovery Project**

Despite a tight budget this year the Board has approved the capital funding required to complete the plant, enabling it to produce wine of 100% varietal integrity from grape marc.

This project is currently on track for start-up by the middle of March this year.

At current wine prices, profitability is low but would increase substantially if bulk wine prices increase in the future as expected.

To further enhance the profitability of this project we are looking at the extraction of juice from orange peel in the counter-season.

The plant may also be used in the future to create new wine-based products.

The Food Industry Grant has been important in providing scientific verification of the product quality and operational settings, and continues into the second year of a three year program.

### **Our Employees**

Our Farm employees have again assisted at our other sites with the gin manager supervising Wine Recovery improvements and operations.

Training has been conducted at the Orchard and Winery with staff having greater awareness of their various strengths and the benefits of understanding what each brings to the team.

Directors are proud of the positive attitude maintained by all our employees during these challenging times.

### **Environmental Management Systems**

On site committees are now having a beneficial visual effect as a result of tree planting and landscaping at all our sites, along with the development of a waste disposal and recycling area at the Farm.

It is very pleasing to note that some of the changes and improvements developed by these committees have been innovative, with major improvements achieved at little cost.

At the winery an EPA approved effluent disposal system has also created operational savings.

### **Occupational Health and Safety**

Our statistics, as periodically reviewed by the Board, continue a positive downward trend with employees challenged to improve on performances.

The value of a full time OH&S/EMS facilitator, along with our developed systems, has been demonstrated.

### **Property Valuations**

On a Net Tangible Asset basis, our cover of market valuation to book values has increased from 23% to 26%, as per the independent valuation dated August 2003.

It is apparent from recent cotton property sales, despite limited water availability and low cotton prices, that property values have been maintained as a result of ever increasing water values.

Directors consider that the valuation undertaken in August 2003 remains an accurate reflection of current market values.

### **Finance Facilities**

The Company has continued its syndicated finance arrangements with the ANZ and Rabobank, and both continue to support Tandou's diversification efforts.



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## Outlook for 2005

While our cotton area planted on a 50% base allocation in October 2004 is our smallest crop on record (excluding nil planting for the previous year), the total production has been forward sold at \$553 per bale, around \$200 per bale above current spot prices.

The forecast for 2005 remains dependent upon the extent of our branded wine sales, in particular, and the future availability of water and subsequent area to be planted to cotton. Both of these factors provide for a wide range of possibilities.

As also indicated, the Wine Recovery project is dependent upon volume processed and prices achieved.

The outlook for our apricots is for increasing yield and gross revenue.

Unfortunately, wine grape prices appear likely to remain poor in the near future.

While the world supply of cotton is at record levels it is encouraging to see consumption also increasing. It will, however, require a substantial reduction in Northern Hemisphere plantings, or reduced yields, to see a turnaround in short term cotton prices.

It is pleasing to report that the environmental impact statements into the Anabranche water supply (saving approximately 47 GL of water) and Menindee Infrastructure (saving an average 6-10 GL and up to 100 GL in some years) are finally nearing completion.

Tandou is working with our advisors and Government in order to best capture additional benefits for the Lower Darling Western Division of NSW.

While the bulk of the funding for these projects is expected to come from the Federal government sponsored National Water Initiative, greater benefits may also be possible should private sector involvement be included in the proposals.

Directors believe the Company's assets are strong and unique, and remain confident in the continuing diversification strategy.

The effect of this year's loss, combined with capital expenditure requirements, is expected to limit the Company's ability to make dividend payments in the short term.

We wish to thank shareholders for their support in these current times and their belief in our long term plans.

We are working diligently to maximise the use of our land and water assets by continuous research, development, and monitoring of our results.

Shareholders will be updated as the water position, branded wine sales and wine recovery project results come to hand.

On behalf of the Board of Directors,



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R.W. Smith  
Managing Director  
23 February 2005

### **Richard F.E. Warburton – 64** **Chairman**

Mr Warburton was appointed as Chairman of the Tandou Board at the annual general meeting in May 2004. He currently also serves as Chairman of Caltex Australia Ltd and The Board of Taxation, and as a Director of Note Printing Australia Ltd, Nufarm Ltd and Tabcorp Holdings Ltd. He was previously the Chairman of David Jones Ltd and Aurion Gold Ltd and recently served as a Board member of the Reserve Bank of Australia and as a Director of Southcorp Ltd. Prior to becoming a professional Director, Mr Warburton was the Chairman and Chief Executive Officer of Du Pont Australia and New Zealand.

### **Ian M. Taylor – 66** **Non-Executive Director (Deputy Chairman)**

Mr Taylor was a co-founder of Tandou and has been a Director since 1972, associated with all aspects of the Company's development. He has extensive personal agricultural and pastoral interests in New South Wales and has been involved in irrigation farming and pastoral properties since 1962. Mr Taylor was the Acting Chairman of Tandou for the period October 2003 to May 2004, when Mr Warburton was appointed to the position of Chairman.

### **Robert W. Smith – 64** **Managing Director**

Mr Smith has been involved in irrigation farming since 1961 and on a full-time basis with Tandou as Managing Director since 1972, when he jointly founded the Company with Ian Taylor. He is responsible for the oversight of company operations and commodity marketing. He was awarded the BHP Pursuit of Excellence Award in the Rural Development Category, 1988, and is a former Director of Cotton Australia Ltd.

### **Walter A. Locher - 61** **Non-Executive Director**

Mr Locher was, until 1997, Chief Executive Officer of Anderson Clayton Corp., the largest privately held cotton processor in the USA, and is currently a Board member of, or advisor to, a number of US and European companies. He is a principal in the private equity fund managed by the SAM Sustainability Group, Switzerland. Mr Locher joined the Board of Tandou in 1994.

### **Jim R. Kennedy – 57** **Non-Executive Director**

Mr Kennedy is a Director of Queensland Sugar Ltd, BRI Ltd, Craig Moyston Ltd and Food Science Australia. He has extensive experience in the food industry, having been the Executive Director of the Prime Minister's Supermarket to Asia Council, and a member of the Trade Policy Advisory Council. Previously, he spent 19 years with the Ricegrowers Co-operative Ltd, being Managing Director/Chief Executive Officer for 14 years. Mr Kennedy joined the Tandou Board in September 2000.

The Directors of Tandou Limited submit herewith the financial report for the financial year ended 31 December 2004 ("financial year"). In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names and particulars of the Directors of the Company during the financial year are:

R.F.E. Warburton	Chairman
I.M. Taylor	Non-Executive Chairman
R.W. Smith	Managing Director
W.A. Locher	Non-Executive Director
J.R. Kennedy	Non-Executive Director

All of the above named Directors held office during and since the end of the financial year. Particulars and further information on Directors are shown elsewhere in this report.

### Principal Activities

The principal activities of the consolidated entity constituted by the Company and the entities it controlled during the financial year were:

- Production of irrigated cotton and cereal crops and ginning of cotton at TANDOU FARM, via Menindee, NSW and livestock on the surrounding Company property;
- The continuing establishment and production of tree fruits and white wine grapes at TANDOU ORCHARD AND VINEYARD, Menindee, NSW;
- The establishment and production of red and white wine grape varieties at TANDOU MILLEWA VINEYARDS, Cullulleraine, Vic and
- The processing of grapes into wine at TANDOU WINES, Monash, SA.

### Review of Operations

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

### Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

### Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, or in this Report, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### Environmental Regulations

The consolidated entity holds leases in perpetuity from the Western Lands Commission of NSW, for its principal properties in far western NSW. Victorian and South Australian land is held as freehold title. Water Licences are granted to the consolidated entity by the Department of Land and Water Conservation in NSW and the Sunraysia Rural Water Authority in Victoria. Regulatory bodies consulted include the Department of Sustainability and Environment, Victoria, the National Parks and Wildlife Service of NSW, the Environment Protection Agency of South Australia, as well as relevant local government bodies.

Development of all properties has been carried out under approvals granted by appropriate local and/or State authorities and statutory bodies governing land and water resource use. Particular attention is given to compliance with licensing requirements as they pertain to protection of native fauna, flora and natural resources within, and bordering upon, the consolidated entity's properties. This extends to lands and waterways accessed for the purposes of utilising and/or exercising rights under licences granted.

The Australian cotton industry has developed a Best Management Practice manual for sustainable cotton production. During the year an independent audit was completed from which Tandou has now been granted full accreditation under the Best Management Practice criteria. Management expects this to ultimately lead to ISO 14000 accreditation.

### Dividends

The Directors have not declared a dividend in respect of the financial year ended 31 December 2004 and no interim dividends have been declared or paid. In respect of the 12 months ended 31 December 2003, the Directors did not declare a dividend.

### Rounding Off of Amounts

The Company is of the kind referred to in ASIC Class Order 98/0100, 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.

### Share Options

The Company has an Employee and Directors Options Plan, established in 1988 and amended at the Annual General Meeting in November 2002. During and since the end of the financial year, no share options were granted to Directors and executives of the company.

During the financial year no options were exercised under the provisions of the Employee and Directors Options Plan. Further details of the Employee and Directors Options Plan are disclosed in Note 6 to the financial statements.

### Indemnification of Officers and Auditors

During or since the financial year, the Company has paid premiums to insure the previously named Directors, the Company Secretary and all Executive Officers, against liabilities for costs and expenses incurred by them while acting in the capacity of a Director or an officer of the Company, to the extent permitted by the Corporations Act 2001. Conditions of the relevant contract prevent disclosure of the details of indemnity and/or the premiums paid.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### Directors' Meetings

The following table sets out the number of Directors' meetings (including Remuneration and Audit Committee meetings) held during the financial year and the number of meetings attended by each Director. During the financial year, nine Board meetings, two Remuneration Committee meetings and two Audit Committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit Committee	
	Held	Attended	Held	Attended	Held	Attended
R.F.E. Warburton	6	6	1	1	1	1
I.M. Taylor	9	8	2	2	2	2
R.W. Smith	9	9	-	-	2	1
W.A. Locher	9	9	2	2	2	2
J.R. Kennedy	9	9	2	2	2	2

### Directors Shareholdings

The following table sets out each Director's relevant interest in shares of the Company or a related body corporate as at the date of this report.

Directors	Fully Paid Ordinary Shares	Indirect Interest	Total
R.F.E. Warburton	-	-	-
I.M. Taylor	-	2,055,709	2,055,709
R.W. Smith	303,670	1,057,556	1,361,226
W.A. Locher	5,000	-	5,000
J.R. Kennedy	-	17,621	17,621

### Directors and Executives remuneration

The remuneration committee reviews the remuneration packages of all Directors and Executive Officers on an annual basis and makes recommendations to the board. Remuneration packages are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the remuneration committee seeks the advice of external advisers in connection with the structure of remuneration packages.

Remuneration packages contain the following key elements:

- Primary benefits - salary/fees, bonuses and non monetary benefits including the provision of motor vehicles and health benefits;
- Post-employment benefits – including superannuation.

The following table discloses the remuneration of the Directors of the Company:

	Primary		Post Employment		Total
	Salary & Fees	Bonus	Non-monetary	Superannuation	
	\$	\$	\$	\$	\$
<b>Executive Directors</b>					
R.W. Smith	170,700	-	28,259	86,041	285,000
<b>Non-Executive Directors</b>					
R.F.E. Warburton	48,165	-	-	4,335	52,500
I.M. Taylor	34,717	-	-	2,787	37,504
W.A. Locher	24,908	-	-	-	24,908
J.R. Kennedy	24,908	-	-	2,242	27,150

The following table discloses the remuneration of the highest remunerated executives of the Company and the consolidated entity:

Executives	Primary		Post Employment		Total
	Salary & Fees	Bonus	Non-monetary	Superannuation	
	\$	\$	\$	\$	\$
G.T. Buckley	167,246	-	19,875	15,052	202,173
B.F. Woollard	117,349	-	2,446	10,561	130,356

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**Other Information**

The following other information attached to this Report shall be deemed to be incorporated herein:

- Particulars of the Directors of the Company in office at the date of this Report;
- The Directors' Review of Operations;
- Information regarding the likely developments in the operations of the consolidated entity and the expected results of those operations.

Signed in accordance with a resolution of Directors made pursuant to section 298(2) of the Corporations Act 2001.



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R.W. Smith  
Managing Director

Mildura, 22 March 2005



## Directors' Declaration

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The Directors declare that:

- a) the attached financial statements and notes thereto comply with Accounting Standards;
- b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;
- c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. 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.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 31 to the financial statements will, as a group be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors



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R.W. Smith  
Managing Director

Mildura, 22 March 2005

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TANDOU LIMITED

Deloitte House  
190 Flinders Street  
Adelaide SA 5000  
GPO Box 1969  
Adelaide SA 5001 Australia

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Tandou Limited (the company) and the consolidated entity, for the financial year ended 31 December 2004 as set out on pages 13 and 16 to 51. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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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.

#### *Audit approach*

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

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

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

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

The audit opinion expressed in this report has been formed on the above basis.

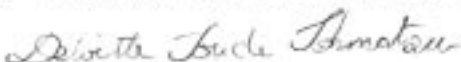
### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### Audit Opinion

In our opinion, the financial report of Tandou Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

  
DELOITTE TOUCHE TOHMATSU



Stephen Harvey  
Partner  
Chartered Accountants  
Adelaide, 22 March 2005

Member of  
Deloitte Touche Tohmatsu

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).



Financials 2004

# Statement of Financial Performance for the Financial Year Ended 31 December 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Sales revenue (sales of goods)		24,806	39,942	9,506	33,821
Cost of sales		(21,034)	(32,907)	(6,833)	(25,971)
<b>Gross Profit</b>		<b>3,772</b>	<b>7,035</b>	<b>2,673</b>	<b>7,850</b>
Other revenue		6,062	2,660	2,175	1,541
Administration expenses		(2,781)	(2,856)	(3,094)	(2,293)
Farm care and maintenance expenses		(5,165)	-	(5,165)	-
Marketing expenses		(663)	(562)	-	-
Book value of assets sold		(4,102)	(285)	(328)	(216)
Borrowing costs		(3,560)	(3,311)	(2,234)	(2,188)
<b>(Loss)/Profit from Ordinary Activities Before Income Tax Expense</b>	2	<b>(6,437)</b>	<b>2,681</b>	<b>(5,973)</b>	<b>4,694</b>
Income tax benefit/(expense) relating to ordinary activities	4	2,439	(739)	1,630	(1,085)
<b>Net (Loss)/Profit</b>	26	<b>(3,998)</b>	<b>1,942</b>	<b>(4,343)</b>	<b>3,609</b>
<b>Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directory in Equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Changes in Equity other than those Resulting from Transactions with Owners as Owners</b>		<b>(3,998)</b>	<b>1,942</b>	<b>(4,343)</b>	<b>3,609</b>
Earnings Per Share					
- Basic (cents per share)	27	(18.0)	8.8		
- Diluted (cents per share)	27	(18.0)	8.7		

Notes to the financial statements are included on pages 19 to 51

## Statement of Financial Position for the Financial Year Ended 31 December 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash assets		336	2,754	-	2,928
Receivables	8	5,317	3,984	3,639	2,018
Self-generating and regenerating assets	9	2,066	346	2,066	346
Inventories	10	13,665	16,258	1,146	7,433
Other financial assets	11	52	3,027	52	3,027
Other	12	3,457	3,004	1,745	1,756
<b>Total Current Assets</b>		<b>24,893</b>	<b>29,373</b>	<b>8,648</b>	<b>17,508</b>
<b>Non-Current Assets</b>					
Self-generating and regenerating assets	13	12,291	10,486	5,676	5,134
Property, plant and equipment	14	61,804	60,540	44,740	46,704
Deferred tax assets	15	-	674	-	599
Other financial assets	16	-	-	13,589	16,892
Other	17	5,564	3,425	3,737	3,425
<b>Total Non-Current Assets</b>		<b>79,659</b>	<b>75,125</b>	<b>67,742</b>	<b>72,754</b>
<b>Total Assets</b>		<b>104,552</b>	<b>104,498</b>	<b>76,390</b>	<b>90,262</b>
<b>Current Liabilities</b>					
Payables	18	2,994	2,489	1,676	1,609
Interest bearing liabilities	19	3,427	1,742	1,983	1,504
Provisions	20	801	575	653	513
Other	21	-	2,385	-	2,385
<b>Total Current Liabilities</b>		<b>7,222</b>	<b>7,191</b>	<b>4,312</b>	<b>6,011</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	22	51,771	44,562	26,573	31,410
Deferred tax liabilities	23	3,356	6,468	3,356	6,265
Provisions	24	511	642	457	596
<b>Total Non-Current Liabilities</b>		<b>55,638</b>	<b>51,672</b>	<b>30,386</b>	<b>38,271</b>
<b>Total Liabilities</b>		<b>62,860</b>	<b>58,863</b>	<b>34,698</b>	<b>44,282</b>
<b>Net Assets</b>		<b>41,692</b>	<b>45,635</b>	<b>41,692</b>	<b>45,980</b>
<b>Equity</b>					
Contributed equity	25	24,255	24,200	24,255	24,200
Retained profits	26	17,437	21,435	17,437	21,780
<b>Total Equity</b>		<b>41,692</b>	<b>45,635</b>	<b>41,692</b>	<b>45,980</b>

Notes to the financial statements are included on pages 19 to 51

# Statement of Cashflows for the Financial Year Ended 31 December 2004

	Note	Consolidated Inflows / (Outflows)		Company Inflows / (Outflows)	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b><i>Cashflows from Operating Activities</i></b>					
Receipts from customers		30,746	55,396	14,073	44,811
Payments to suppliers and employees		(30,757)	(37,332)	(11,124)	(26,373)
Dividends Received		5	-	5	-
Interest and bill discounts received		48	45	48	45
Interest and other costs of finance paid		(4,040)	(3,348)	(2,534)	(2,172)
Net cash (used in)/provided by operating activities	34(d)	(3,998)	14,761	468	16,311
<b><i>Cashflows from Investing Activities</i></b>					
Proceeds from sale of investment securities		-	69	-	69
Payments for property, plant and equipment		(3,503)	(5,086)	(586)	(553)
Proceeds from sale of property, plant and equipment		4,281	286	421	228
Payments for research and development		(2,209)	-	-	-
Proceeds from research and development grant		700	-	-	-
Payment for non-current asset		-	(9)	-	(9)
Payments for self-generating and regenerating assets		(741)	(302)	(661)	(142)
Net cash used in investing activities		(1,472)	(5,042)	(826)	(407)
<b><i>Cashflows from Financing Activities</i></b>					
Proceeds from issues of equity securities		55	40	55	40
Dividend paid		-	(665)	-	(665)
Funding of controlled entity		-	-	2,293	(4,668)
Proceeds from borrowings		13,058	7,700	4,000	3,100
Repayment of borrowings		(10,344)	(15,821)	(9,201)	(12,648)
Net cash provided by/(used in) financing activities		2,769	(8,746)	(2,853)	(14,841)
<b><i>Net (Decrease)/Increase in Cash Held</i></b>		<b>(2,701)</b>	<b>973</b>	<b>(3,211)</b>	<b>1,063</b>
<b><i>Cash at the Beginning of the Financial Year</i></b>		<b>2,754</b>	<b>1,781</b>	<b>2,928</b>	<b>1,865</b>
<b><i>Cash at the End of the Financial Year</i></b>	34(a)	<b>53</b>	<b>2,754</b>	<b>(283)</b>	<b>2,928</b>

Notes to the financial statements are included on pages 19 to 51

## 1. Summary of Accounting Policies

### ***Financial Reporting Framework***

The financial report is a general purpose financial report, which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

### ***Significant Accounting Policies***

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### ***(a) Accounts Payable***

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

#### ***(b) Capitalisation of Borrowing Costs***

Interest and other borrowing costs associated with financing development programmes are capitalised as part of the cost of those assets.

#### ***(c) Depreciation***

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, land improvements and water licences, 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

#### ***(d) Derivative Financial Instruments***

The consolidated entity enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, forward interest rate contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 35 to the financial statements.

#### Foreign Exchange Contracts

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

## 1. Summary of Accounting Policies (cont'd)

### *(d) Derivative Financial Instruments (cont'd)*

#### Foreign Exchange Contracts (cont'd)

In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or
- recognised in the profit and loss at the date of termination, if the anticipated transaction is no longer expected to occur.

#### Interest Rate Swaps

Gains and losses on interest rate swaps are included in the determination of interest expense.

### *(e) Employee Benefits*

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

Provisions made in respect of wages and salaries, annual leave and long service leave, expected to be settled within 12 months, are measured on a nominal basis using remuneration rates expected when the obligations are settled.

Provisions made in respect of long service leave 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 the reporting date.

### *(f) Financial Instruments Issued by the Company*

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instrument.

### *(g) Foreign Currency*

All foreign currency transactions during the financial year have been brought to account using the exchange rate in effect at the date of the transaction. Exchange differences are brought to account in the statement of financial performance in the period in which they arise except that exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods are deferred and included in the measurement of the purchase or sale.

### *(h) Goods and Services Tax*

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

- 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
- 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 statement of cash flows 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.



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***(i) Income Tax***

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting results after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

During the financial year, the Directors elected that the company and all its wholly-owned Australian resident entities would join a tax-consolidated group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidated group are recognised in the financial statements of the parent entity.

Due to the existence of a tax sharing agreement between the entities in the tax-consolidated group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement. Further information about the tax sharing agreement is detailed in Note 4 to the financial statements.

The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to subsidiary entities in accordance with the tax sharing agreement as these amounts are recognised as inter-company receivables and payables.

***(j) Interest-Bearing Liabilities***

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

***(k) Inventories***

Inventories are valued 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.

***(l) Investments***

Investments are recorded at the lower of cost or net realisable value. Dividend revenue is recognised when received. Interest revenue is recognised on an accrual basis.

***(m) Leased Assets***

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the assets, but not the legal ownership, are transferred to entities within the consolidated entity, are classified as finance leases. Finance leases are capitalised and amortised on a straight line basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are charged as an expense in the period in which they are incurred.

***(n) 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 controlled entities as defined in accounting standard AASB 1024 "Consolidated Accounts". A list of controlled entities appears in Note 31 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity 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 intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

## 1. Summary of Accounting Policies (cont'd)

### *(o) Receivables*

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

### *(p) Recoverable amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount.

Recoverable amount is determined as the present value of the amount expected to be recovered through the net cash inflows and cash outflows arising from the continued use and subsequent disposal of the non-current asset.

### *(q) Research and Development Costs*

Research and development costs are expensed as incurred, except to the extent that such costs, together with unamortised deferred costs in relation to the projects, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred research and development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial production of the product.

The unamortised balance of research and development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written-off as an expense in net profit or loss.

### *(r) Revenue Recognition*

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

#### Sale of Goods and Disposal of Assets

Control of the goods or other assets has passed to the buyer.

#### Rendering of Services

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

### *(s) Self Generating and Regenerating Assets*

Trees and vines are measured at net market value at each reporting date. The best representation of net market 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 net market 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. Net increases or decreases in net market 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 net market value of fruit and grapes picked during the year and recognised as revenue is determined as the net market value of fruit and grapes immediately after picking less costs of picking.

The net market value of crops harvested during the year and recognised as revenue, is determined as the net market value of crops immediately after harvesting less costs of harvesting.

Crops in progress are valued at their expected net market value less costs of harvesting having regard to the stage of development of crop.



	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>2. (Loss)/Profit from Ordinary Activities</b>				
(Loss)/Profit from ordinary activities before income tax includes the following items of revenue and expense:				
(a) Operating Revenue				
Sales revenue:				
Farming (Note 38)	10,927	34,272	9,479	33,788
Wine	13,188	5,016	-	-
Contracting	665	621	-	-
Other	26	33	26	33
	<b>24,806</b>	<b>39,942</b>	<b>9,506</b>	<b>33,821</b>
Rental revenue	311	595	33	79
Water sales	648	-	648	-
Dividend revenue:				
- Other entities	5	-	5	-
Management fee:				
- Controlled entities	-	-	500	500
Interest revenue:				
- Other entities	48	45	48	45
	<b>25,818</b>	<b>40,582</b>	<b>10,739</b>	<b>34,445</b>
(b) Non-Operating Revenue				
Proceeds from the sale of assets:				
- Property, plant and equipment	4,281	286	421	228
- Other financial assets	-	69	-	69
Other	769	642	521	620
- Insurance claim	-	1,023	-	-
	<b>5,050</b>	<b>2,020</b>	<b>942</b>	<b>917</b>
	<b>30,868</b>	<b>42,602</b>	<b>11,681</b>	<b>35,362</b>

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>2. (Loss)/Profit from Ordinary Activities (cont'd)</b>				
(c) Expenses				
Borrowing costs:				
Interest	3,114	2,973	1,958	1,864
Finance lease and hire purchase finance charges	446	338	276	324
	<u>3,560</u>	<u>3,311</u>	<u>2,234</u>	<u>2,188</u>
Depreciation of non-current assets:				
Property, plant and equipment	2,793	2,882	1,976	2,255
Amortisation of non-current assets:				
Leased assets	1,240	1,063	805	897
Research and development costs	30	30	30	30
Net bad and doubtful debts arising from:				
Wholly-owned controlled entities	-	-	1,010	-
Operating lease rental expenses:				
Minimum lease payments	19	40	19	17
Book value of property, plant and equipment sold	4,102	291	328	227
Book value of other financial assets sold	-	32	-	32

## (d) Significant Items

During the year the following significant items were incurred :

Farm care and maintenance expenses	5,165	-	5,165	-
Less Income tax benefit attributable	(1,549)	-	(1,549)	-
	<u>3,616</u>	<u>-</u>	<u>3,616</u>	<u>-</u>

As a result of the drought, the cost of keeping the Company farming assets in a fully productive condition despite the relatively small area of land planted to crop has been expensed in the financial report as a significant item. These costs include maintaining the developed land and equipment, along with retaining experienced key personnel, to immediately capitalise on improved water availability.

	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
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## 3. Sales of Assets

Sales of assets in the ordinary course of business have given rise to the following profits and losses:

### Net Profits

Other financial assets	-	37	-	37
Property, plant and equipment	93	-	93	-
	<u>93</u>	<u>37</u>	<u>93</u>	<u>37</u>

### Net Losses

Property, plant and equipment	-	4	-	-
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	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>4. Income Tax</b>				
The prima facie income tax expense on pre-tax accounting (loss)/profit reconciles to the income tax expense in the financial statements as follows:				
<b><i>(Loss)/Profit from Ordinary Activities</i></b>	<b>(6,436)</b>	2,681	<b>(5,973)</b>	4,694
Income tax (benefit)/expense calculated at 30% of operating (loss)/profit	(1,931)	804	(1,782)	1,408
<b><i>Permanent Differences:</i></b>				
Non deductible items	(2)	(54)	-	(16)
Allowance for doubtful debts	-	-	303	-
Research and development claim	(344)	-	-	-
Tax losses transferred from subsidiary company for no consideration	-	-	-	(306)
Under provision of income tax in the previous financial year	(162)	(11)	(151)	(1)
<b><i>Impact of the Tax Consolidation System:</i></b>				
Initial recognition of deferred tax balances of subsidiaries on implementation of the tax consolidation system	-	-	(128)	-
Consideration paid or payable to/from subsidiaries in respect of transferred deferred tax balances	-	-	128	-
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiaries in the tax consolidated group	-	-	1,087	-
Net income tax expense/(benefit) arising under tax sharing agreements with subsidiaries in the tax consolidated group	-	-	(1,087)	-
Income tax (benefit)/expense attributable to operating profit	<b>(2,439)</b>	739	<b>(1,630)</b>	1,085

#### ***Tax Consolidation System***

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

The Company and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 January 2004. The head entity within the tax-consolidated group for the purposes of the tax consolidation system is Tandou Limited.

Entities within the tax-consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of this agreement, Tandou Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the net accounting profit or loss of the entity and the current tax rate. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

## 5. Directors' and Executives' Remuneration

The specified Directors of Tandou Limited during the year were:

R.F.E. Warburton (Chairman)  
I.M. Taylor (Non – Executive Director)  
R.W. Smith (Managing Director)  
W.A. Locher (Non – Executive Director)  
J.R. Kennedy (Non – Executive Director)

The specified Executives of Tandou Limited during the year were:

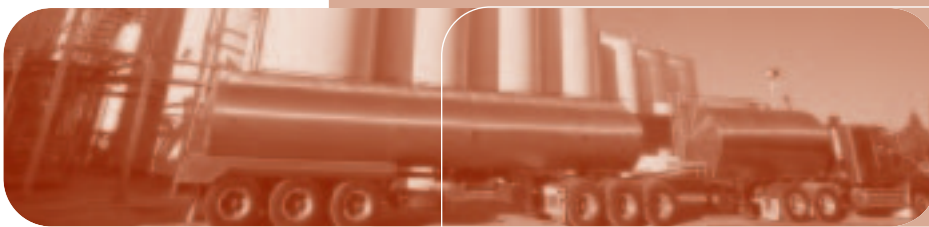
G.T. Buckley (Tandou Wines General Manager)  
B.F. Woollard (Financial Controller / Company Secretary)

The Executive Committee of the Company is the Committee which is involved in, concerned in, or takes part in the management of the affairs of Tandou Limited. During the year the active members of the Executive Committee of the Company was comprised of the Managing Director, the Company Secretary and Tandou Wines General Manager. The number of Specified Executives is deemed to be two. There were no other senior executives who are considered a specified executive.

### *Specified Directors' and Specified Executives' Remuneration*

The remuneration committee reviews the remuneration packages of all Specified Directors and Specified Executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the Company.

	Primary		Post Employment		Total \$
	Salary & Fees \$	Bonus \$	Non-monetary \$	Superannuation \$	
<b><i>Specified Directors</i></b>					
R.F.E. Warburton	48,165	-	-	4,335	52,500
I.M. Taylor	34,717	-	-	2,787	37,504
R.W. Smith	170,700	-	28,259	86,041	285,000
W.A. Locher	24,908	-	-	-	24,908
J.R. Kennedy	24,908	-	-	2,242	27,150
<b><i>Specified Executives</i></b>					
G.T. Buckley	167,246	-	19,875	15,052	202,173
B.F. Woollard	117,349	-	2,446	10,561	130,356



## 6. Ownership Based Remuneration Schemes

### Employees and Directors Option Plan

The Company has an ownership-based remuneration scheme for employees and Directors, as approved by shareholders at previous annual general meetings. Details about the Employee and Directors Option Plan are set out below:

a) Accounting policy for equity-based compensation arrangements

All amounts received from employees and/or Directors in respect of the grant or exercise of options and shares are recognised in contributed equity. Any difference between the total market value, as at grant date, of options and shares issued during the financial year and the total amount received from employees and Directors is not recognised in the financial statements.

b) Amounts recognised during the current financial year

During the current financial year no options were granted to employees and/or Directors and no options were exercised by employees and/or Directors.

c) Options outstanding as at 31 December 2004

As at 31 December 2004 there are no outstanding options (31 December 2003: nil).

d) Partly paid shares paid to 1 cent

The partly paid shares paid to 1 cent were issued on 7 February 1988 as a result the exercise of options that were granted to employees on 12 February 1989. The exercise price of the options was \$1.00. The partly paid ordinary shares carry both the right to vote and the right to dividends on a basis of the amount paid per share proportionate to its issue price. The table below shows details of movements during the financial year of the number of partly paid shares paid to 1 cent.

	2004 Number	2003 Number
Balance as at beginning of financial year	74,318	74,318
Conversion to fully paid up shares	(24,318)	-
Balance as at end of financial year	50,000	74,318

The conversion of the shares to fully paid ordinary shares is at the discretion of the shareholder and can be made at any time. However the Company may make a call on the partly paid shares by giving notice to all holders on who the call is made at least 30 business days and not more than 40 business days before the due date for payment, or on the event of liquidation of the Company. As at year end, 25,000 (2003: 49,318) partly paid shares paid to 1 cent are held by current employees of the consolidated entity.

## 6. Ownership Based Remuneration Schemes (cont'd)

### e) Partly paid shares paid to 20 cents

The partly paid shares paid to 20 cents were issued on 24 June 2002, as a result the exercise of options that were granted to employees on 22 July 1997. The exercise price of the options was \$1.00. The partly paid ordinary shares carry both the right to vote and the right to dividends on a basis of the amount paid per share proportionate to its issue price. The table below shows details of movements during the financial year of the number of partly paid shares paid to 20 cents.

	2004 Number	2003 Number
Balance as at beginning of financial year	195,000	245,000
Conversion to fully paid up shares	(40,000)	(50,000)
Balance as at end of financial year	155,000	195,000

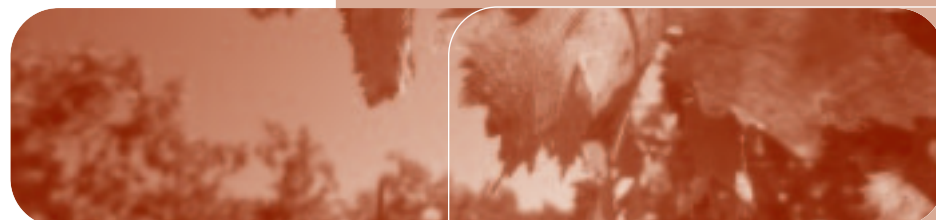
The conversion of the shares to fully paid ordinary shares is at the discretion of the shareholder and can be made at any time. However the Company may make a call on the partly paid shares by giving notice to all holders on who the call is made at least 30 business days and not more than 40 business days before the due date for payment, or on the event of liquidation of the Company. As at year end, 25,000 (2003: 25,000) partly paid shares paid to 20 cents are held by current employees of the consolidated entity.

Consolidated		Company	
2004 \$	2003 \$	2004 \$	2003 \$

## 7. Remuneration of Auditors

Amounts received or due and receivable by the Auditors of the Company from the Company and any related body corporate:

	2004	2003	2004	2003
Auditing the financial statements	102,250	96,500	77,250	77,000
Other services	47,647	41,500	47,646	41,500



	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>8. Current Receivables</b>				
Trade receivables	4,800	2,992	1,312	1,356
Allowance for doubtful debts	(441)	(387)	(357)	(357)
	<b>4,359</b>	<b>2,605</b>	<b>955</b>	<b>999</b>
Amount owing by controlled entities	-	-	2,298	931
Net goods and services tax (GST) recoverable	45	-	-	-
Other	913	1,379	386	88
	<b>5,317</b>	<b>3,984</b>	<b>3,639</b>	<b>2,018</b>
<b>9. Current Self-generating and Regenerating Assets</b>				
Livestock – sheep	334	346	334	346
Crops	1,732	-	1,732	-
	<b>2,066</b>	<b>346</b>	<b>2,066</b>	<b>346</b>
<b>10. Current Inventories</b>				
<i>At Cost</i>				
Cotton	-	5,245	-	5,245
Bulk and bottled wine	12,007	8,737	-	-
Cotton seed	207	1,239	207	1,239
Spare parts	312	320	312	320
Consumable stores	1,075	626	563	538
Other	64	91	64	91
	<b>13,665</b>	<b>16,258</b>	<b>1,146</b>	<b>7,433</b>
<b>11. Other Financial Assets</b>				
Foreign exchange contracts	-	2,975	-	2,975
Investments – at cost	52	52	52	52
	<b>52</b>	<b>3,027</b>	<b>52</b>	<b>3,027</b>

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>12. Other Current Assets</b>				
Prepayments	2,411	1,617	699	369
Fallow fields	1,046	1,387	1,046	1,387
	<b>3,457</b>	<b>3,004</b>	<b>1,745</b>	<b>1,756</b>
<b>13. Non-Current Self Generating and Regenerating Assets</b>				
Vines	10,266	8,443	3,651	3,091
Trees	2,025	2,043	2,025	2,043
	<b>12,291</b>	<b>10,486</b>	<b>5,676</b>	<b>5,134</b>
<b>(i) Physical quantities</b>				
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Vines	391,907	327,752	152,907	121,256
Trees	39,947	49,078	39,947	49,078
	<b>Hectares</b>	<b>Hectares</b>	<b>Hectares</b>	<b>Hectares</b>
Vines	281	235	109	84
Trees	35	43	35	43

### **(ii) Nature of Assets**

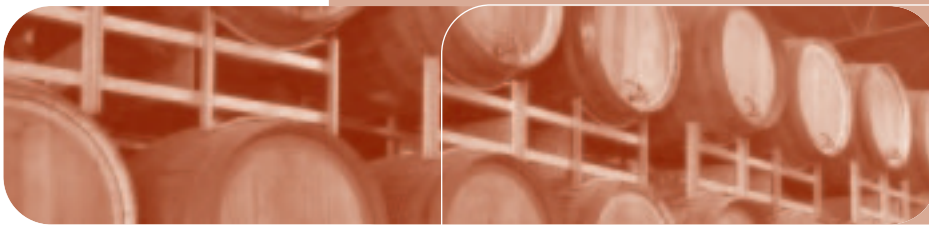
Tandou Limited has 316 hectares (2003: 278 hectares) of land used to grow wine grapes and fruit trees.

### **(iii) Net Market Value**

As the vines have reached a stage where the yields are commercially viable, Directors have determined the net market value as the net present value of cash flows attributable to the vines, discounted at a rate which reflects the risks associated with applicable cash flow streams.

The significant assumptions used in determining the net present value of the vines are:

- Average yields used
- Market prices and costs in accordance with current industry trends
- Discount rate of 11%
- 20 year projections with a 3% terminal value



## Consolidated

	Leasehold & Freehold Land & Water Licences (i) \$'000	Improvements, Structures & Buildings (i) \$'000	Plant & Equipment \$'000	Equipment Under Finance Lease \$'000	Total \$'000
<b>14. Property, Plant and Equipment</b>					
<b>Gross Carrying Amount</b>					
Balance as at beginning of financial year	18,414	30,800	25,979	7,794	82,987
Additions	-	826	2,677	5,896	9,399
Disposals	-	-	(4,688)	(508)	(5,196)
Transfers	-	-	465	(465)	-
Balance as at end of the financial year	18,414	31,626	24,433	12,717	87,190
<b>Accumulated Depreciation/Amortisation</b>					
Balance as at beginning of financial year	-	(9,312)	(10,145)	(2,990)	(22,447)
Depreciation expenses	-	(1,338)	(1,455)	(1,240)	(4,033)
Disposals	-	-	618	476	1,094
Transfers	-	-	(427)	427	-
Balance as at end of the financial year	-	(10,650)	(11,409)	(3,327)	(25,386)
<b>Net Book Value</b>					
As at 31 December 2004	18,414	20,976	13,024	9,390	61,804
As at 31 December 2003	18,414	21,488	15,834	4,804	60,540

## Company

	Leasehold & Freehold Land & Water Licences (i) \$'000	Improvements, Structures & Buildings (i) \$'000	Plant & Equipment \$'000	Equipment Under Finance Lease \$'000	Total \$'000
<b>Gross Carrying Amount</b>					
Balance as at beginning of financial year	16,530	27,059	17,527	6,148	67,264
Additions	-	215	370	560	1,145
Disposals	-	-	(859)	(458)	(1,317)
Transfers	-	-	771	(771)	-
Balance as at end of the financial year	16,530	27,274	17,809	5,479	67,092
<b>Accumulated Depreciation/Amortisation</b>					
Balance as at beginning of financial year	-	(8,140)	(9,616)	(2,804)	(20,560)
Depreciation expenses	-	(981)	(995)	(805)	(2,781)
Disposals	-	-	531	458	989
Transfers	-	-	(426)	426	-
Balance as at end of the financial year	-	(9,121)	(10,506)	(2,725)	(22,352)
<b>Net Book Value</b>					
As at 31 December 2004	16,530	18,153	7,303	2,754	44,740
As at 31 December 2003	16,530	18,919	7,911	3,344	46,704

(i) The current value of leasehold and freehold land, water licences, improvements, fixed structures and buildings were determined by the Directors to be \$76 million for the consolidated entity and \$58 million for the Company as at 31 December 2004 based on an independent valuation determined on a "going concern" basis, performed as at 1 July 2003.

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>15. Deferred Tax Assets</b>				
Future income tax benefit:				
Timing differences	-	674	-	599
<b>16. Other Non-Current Financial Assets</b>				
Amount owing by controlled entities	-	-	14,599	16,892
Allowance for doubtful debts	-	-	(1,010)	-
	-	-	13,589	16,892
<b>17. Other Non-Current Assets</b>				
Deferred research and development costs	2,127	300	300	300
Accumulated amortisation	(105)	(75)	(105)	(75)
	2,022	225	195	225
Copyright licence	9	9	9	9
Fallow fields	3,533	3,191	3,533	3,191
	5,564	3,425	3,737	3,425
<b>18. Current Payables</b>				
Trade payables	1,672	1,181	820	502
Accrued expenses	1,322	980	787	788
Net goods and services tax payable	-	328	69	319
	2,994	2,489	1,676	1,609
<b>19. Current Interest-Bearing Liabilities</b>				
<i>Unsecured:</i>				
Bills of Exchange	606	-	-	-
<i>Secured:</i>				
Bank overdraft (i)	283	-	283	-
Finance lease liabilities (ii) (Note 30)	2,273	1,485	1,435	1,247
Hire purchase liabilities (ii) (Note 30)	265	257	265	257
	3,427	1,742	1,983	1,504

(i) Secured by the first mortgage over all of the consolidated entity's Western Lands Leases held in perpetuity, freehold land and by equitable charge over operating plant and equipment, buildings, cash, growing crops, inventory and trade debtors.

(ii) Secured over the relevant assets.

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

## 20. Current Provisions

Employee entitlements (Note 28)	801	575	653	513
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## 21. Other Current Liabilities

Deferred foreign exchange gain	-	2,296	-	2,296
Revenue received in advance	-	89	-	89
	-	2,385	-	2,385

## 22. Non-Current Interest-Bearing Liabilities

### Secured

Bank loans (i)	44,225	40,810	24,900	28,900
Finance lease liabilities (ii) (Note 30)	7,358	3,516	1,485	2,274
Hire purchase liabilities (ii) (Note 30)	188	236	188	236
	51,771	44,562	26,573	31,410

(i) Secured by the first mortgage over all of the consolidated entity's Western Lands Leases held in perpetuity, freehold land and by equitable charge over operating plant and equipment, buildings, cash, growing crops, inventory and trade debtors.

(ii) Secured over the relevant assets.

	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
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## 23. Deferred Tax Liabilities

Provision for deferred income tax attributable to timing differences:

Parent entity	5,530	6,265	5,530	6,265
Entities in the tax consolidated group	2,698	2,288	2,698	-
	8,228	8,553	8,228	6,265
Less tax losses	(4,872)	(2,085)	(4,872)	-
	3,356	6,468	3,356	6,265

## 24. Non-Current Provisions

Employee entitlements (Note 28)	511	642	457	596
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# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>25. Contributed Equity</b>				
22,185,091 fully paid ordinary shares (31 December 2003: 22,120,773)	24,223	24,160	24,223	24,160
155,000 partly paid ordinary shares paid to 20 cents (31 December 2003: 195,000)	31	39	31	39
50,000 partly paid ordinary shares paid to 1 cent (31 December 2003: 74,318)	1	1	1	1
	<b>24,255</b>	<b>24,200</b>	<b>24,255</b>	<b>24,200</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Partly paid ordinary shares carry both the right to vote and the right to dividends on a basis of the amount paid per share proportionate to its issue price.

In respect of partly paid ordinary shares on issue at the reporting date:

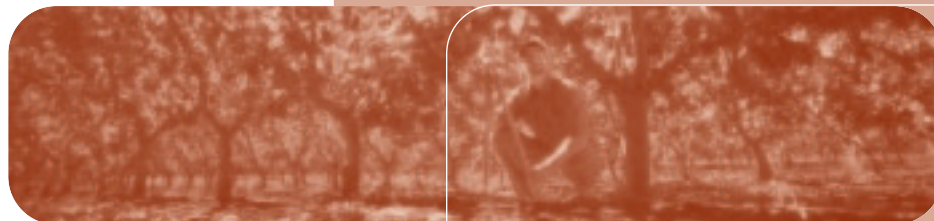
- a - there are no calls in arrears; and
- b - a total of \$173,500 may be called up in the event of winding up of the Company.

*Movements in contributed equity during the financial year are set out below:*

	2004		2003	
	Number '000	\$'000	Number '000	\$'000
<b>Fully Paid Ordinary Shares</b>				
Balance as at beginning of financial year	22,120	24,160	22,070	24,110
Conversion of partly paid shares	65	63	50	50
Balance as at end of financial year	<b>22,185</b>	<b>24,223</b>	<b>22,120</b>	<b>24,160</b>
<b>Partly Paid Ordinary Share Capital to 20c</b>				
Balance as at beginning of financial year	195	39	245	49
Issue of shares under Employee and Directors Option Plan	-	-	-	-
Less partly paid shares converted to fully paid shares	(40)	(8)	(50)	(10)
Balance as at end of financial year	<b>155</b>	<b>31</b>	<b>195</b>	<b>39</b>
<b>Partly Paid Ordinary Share Capital to 1c</b>				
Balance as at beginning of financial year	74	1	74	1
Issue of shares under Employee and Directors Option Plan	-	-	-	-
Less partly paid shares converted to fully paid shares	(24)	-	-	-
Balance as at end of financial year	<b>50</b>	<b>1</b>	<b>74</b>	<b>1</b>
	<b>2004 \$'000</b>	<b>2003 \$'000</b>	<b>2004 \$'000</b>	<b>2003 \$'000</b>

## 26. Retained Profits

Balance as at beginning of financial year	21,435	20,158	21,780	18,836
Net (loss)/profit	(3,998)	1,942	(4,343)	3,609
Dividends provided for or paid	-	(665)	-	(665)
Balance as at end of financial year	<b>17,437</b>	<b>21,435</b>	<b>17,437</b>	<b>21,780</b>



	2004 Cents per Share	2003 Cents per Share
<b>27. Earnings Per Share</b>		
Basic earnings per share	(18.0)	8.8
Diluted earnings per share	(18.0)	8.7
<b><i>Basis Earnings per Share</i></b>		
The earnings and weighted average number of ordinary shares used in the calculation of basis earnings per share are as follows:		
	\$'000	\$'000
Earnings	(3,998)	1,942
Earnings used in the calculation of basis earnings per share reconciles directly to net profit in the statement of financial performance.		
	Number	Number
Weighted average number of ordinary shares	22,172,223	22,147,848
The converting partly paid ordinary shares are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. When dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).		
<b><i>Diluted Earnings per Share</i></b>		
The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:		
	\$'000	\$'000
Earnings	(3,998)	1,942
Earnings used in the calculation of diluted earnings per share reconciles directly to net profit in the statement of financial performance.		
	Number	Number
Weighted average number of ordinary and potential ordinary shares	22,253,085	22,238,477
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of ordinary shares used in the calculation of basis EPS	22,172,223	22,147,848
Shares deemed to be issued for no consideration in respect of:		
Partly paid ordinary shares	80,862	90,629
Employee options converted	-	-
Employee options expired	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	22,253,085	22,238,477
Weighted average number of converted, lapsed or cancelled potential ordinary shares used in the calculation of diluted earnings per share:		
Conversion of partly paid shares	3,126	5,316

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

## 28. Employee Liabilities

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:

Provision for employee entitlements

Current (Note 20)	801	575	653	513
Non-current (Note 24)	511	642	457	596
Accrued wages and salaries (i)	168	122	107	91
	<b>1,480</b>	<b>1,339</b>	<b>1,217</b>	<b>1,200</b>

(i) Accrued wages and salaries are included in the current trade payables balance as disclosed in Note 18 to the financial report.

	Number	Number	Number	Number
Number of employees at end of financial year	140	128	90	93

	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
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## 29. Commitments for Expenditure

### (a) Capital Expenditure Commitments

The following expenditure commitments are all due within one year

Property, plant and equipment	1,895	844	-	-
Trees and vines	104	275	104	275
	<b>1,999</b>	<b>1,119</b>	<b>104</b>	<b>275</b>

### (b) Operating Lease Commitments

Not longer than 1 year	134	126	105	103
Longer than 1 year and not longer than 5 years	190	209	154	157
Longer than 5 years	118	95	118	95
	<b>442</b>	<b>430</b>	<b>377</b>	<b>355</b>

### Operating Leasing Arrangements

Operating leases relate to NSW Western Land leases with lease terms in perpetuity with a rental review each 5 years and a lease on land from the Mildura Rural City Council with a 15 year term and an option to extend another 6 years. Winery leases are for minor items of plant and equipment.



	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>30. Leases</b>				
<b>Finance Leases</b>				
Leasing Arrangements				
Finance leases relate to plant and equipment with lease terms of between 1 and 7 years. The consolidated entity has options to purchase the related item for a nominal amount at the conclusion of the lease arrangement.				
Finance Lease Liabilities				
No later than 1 year	2,855	1,785	1,609	1,461
Later than 1 year and not later than 5 years	6,348	3,899	1,610	2,490
Later than 5 years	2,321	-	-	-
Minimum future lease payments	11,524	5,684	3,219	3,951
Less future finance charges	(1,893)	(683)	(299)	(430)
Finance lease liabilities	9,631	5,001	2,920	3,521
Included in the financial statements are:				
Current interest bearing liabilities (Note 19)	2,273	1,485	1,435	1,247
Non-current interest bearing liabilities (Note 22)	7,358	3,516	1,485	2,274
	9,631	5,001	2,920	3,521
<b>Hire Purchase</b>				
No later than 1 year	291	288	291	288
Later than 1 year and not later than 5 years	210	255	210	255
Later than 5 years	-	-	-	-
Minimum future lease payments	501	543	501	543
Less future finance charges	(48)	(50)	(48)	(50)
Finance lease liabilities	453	493	453	493
Included in the financial statements are:				
Current interest bearing liabilities (Note 19)	265	257	265	257
Non-current interest bearing liabilities (Note 22)	188	236	188	236
	453	493	453	493

### 31. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2004 %	2003 %
<b>Parent Entity</b>			
Tandou Limited (iii)	Australia		
<b>Controlled Entities</b>			
Tandou Wines Pty Ltd (i)(ii)(iv)	Australia	100	100
Millewa County Farms Pty Ltd (i)(ii)(iv)	Australia	100	100
Tandou Pacific Marketing Pty Ltd (i)(iv)	Australia	100	100

(i) These wholly-owned controlled entities have entered into a deed of cross guarantee with Tandou Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge audited financial report.

Tandou Wines Pty Ltd, Millewa County Farms Pty Ltd and Tandou Pacific Marketing Pty Ltd became a party to the deed of cross guarantee on 2 December 2003.

The consolidated statement of financial performance and statement of financial position of entities which are party to the deed of cross guarantee is the same as the consolidated statement of financial performance and consolidated statement of financial position disclosed in this financial report.

(ii) Tandou Wines Pty Limited and Millewa County Farms Pty Limited are bound by a deed of guarantee to Rabo Australia Limited and Australia and New Zealand Banking Group Limited in respect of the obligations of the parent entity under security arrangements referred to in Notes 19 and 22.

(iii) Tandou Limited is the head entity within the tax consolidated group.

(iv) These companies are members of the tax consolidated group.

## 32. Segment Information

### Information on Business Segments (primary reporting format)

#### Segment Revenues

	External Sales		Other		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Crops	10,564	32,048	(4,522)	(1,541)	6,042	30,507
Horticulture	1,118	1,039	(18)	188	1,100	1,227
Viticulture	1,778	2,967	1,823	(769)	3,601	2,198
Winery	14,380	6,152	-	-	14,380	6,152
Total of all segments					25,123	40,084
Unallocated					5,745	2,518
Consolidated					30,868	42,602

#### Segment Results

	2004 \$'000	2003 \$'000
Crops	(2,460)	6,575
Horticulture	(1,290)	(625)
Viticulture	(484)	(637)
Winery	(1,780)	(1,504)
Total of all segments	(6,014)	3,809
Unallocated	(423)	(1,128)
(Loss)/Profit from ordinary activities before income tax expense	(6,437)	2,681
Income tax benefit/(expense) relating to ordinary activities	2,439	(739)
Net (Loss)/Profit	(3,998)	1,942

#### Segments Assets and Liabilities

	Assets		Liabilities	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Crops	48,317	52,929	2,215	506
Horticulture	6,725	5,669	619	10
Viticulture	15,908	14,724	357	122
Winery	34,845	22,163	36,028	22,324
Total of all segments	105,795	95,485	39,219	22,962
Elimination	(7,360)	(8,405)	(7,360)	(8,405)
Unallocated	6,117	17,418	31,001	44,306
Consolidated	104,552	104,498	62,860	58,863

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

## 32. Segment Information (cont'd)

### Other Segment Information

	Crops		Horticulture		Viticulture		Winery	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Acquisition of segments assets	686	421	655	398	992	140	5,143	5,748
Depreciation and amortisation of segment assets	1,788	2,739	558	413	630	340	851	453
Other non-cash expenses	(2,164)	(7,493)	(747)	14	3,721	(678)	2,968	8,534

### Products and Services within each Business Segment

For management purposes, the consolidated entity is organised into four major operating divisions, namely crops, horticulture, viticulture and the winery. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal products and services of each of these divisions are as follows:

- Crops – the plantation and processing of upland and Pima cotton for sale in Australian and international markets and the plantation of cereal crops for sale in the Australia market.
- Horticulture – the growing of fruit for sale in the Australian market.
- Viticulture – the growing of grapes for wine for sale in the Australian market.
- Winery – the processing of grapes into wine for sale in the Australian and international markets.

### Information on Geographical Segments (secondary reporting format)

The consolidated entity operates in Australia and sells its products to customers located in Australia, Europe, Asia, South America and the United States of America. The table below shows breakdown of revenue from external customers by geographical segment.

	Revenue from External Customers	
	2004 \$'000	2003 \$'000
Australia	17,489	31,523
Europe	3,960	5,200
Asia	3,848	3,105
United States of America	2,543	991
South America	-	1,387

### 33. Related party and specified executive disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 31 to the financial statements.

(b) Specified Directors' and Specified Executives' remuneration

Details of Specified Directors' and Specified Executives' remuneration are disclosed in Note 6 to the financial statements.

(c) Details of Specified Directors' and Specified Executives' equity holdings in fully paid shares of Tandou Limited are set out below:

	Balance at 1 January 2004 Number	Net other change Number	Balance at 31 December 2004 Number	Balance held nominally Number
<b>Specified Directors</b>				
R.F.E. Warburton	-	-	-	-
I.M. Taylor	2,055,709	-	2,055,709	-
R.W. Smith	1,361,226	-	1,361,226	-
W.A. Locher	5,000	-	5,000	-
J.R. Kennedy	17,621	-	17,621	-
<b>Specified Executives</b>				
G.T. Buckley	-	-	-	-
B.F. Woollard	-	-	-	-

(d) Transactions within the wholly-owned group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group.

The ultimate parent entity in the wholly-owned group is Tandou Limited.

Details of management fees derived by the entity from entities in the wholly-owned group are disclosed in Note 2 to the financial statements.

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in Note 8 to the financial statements.

During the financial year Tandou Limited provided accounting and administration services, at cost, to entities in the wholly-owned group.

During the financial year, the directors elected for wholly-owned Australian entities within the group to be taxed as a single entity from

1 January 2004. Tandou Limited has recognised all tax balances and expenses in relation to those entities, and a corresponding payable has been recognised in those entities to compensate Tandou Limited for tax paid on their behalf.

Other transactions that occurred during the financial year between entities in the wholly-owned group were:

- advancement of loans interest free
- sale and purchase of goods at normal commercial rates.

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>34. Notes to the Statement of Cash Flows</b>				
(a) Reconciliation of Cash				
For the purposes of the statement of cash flows, cash includes cash on hand and in the bank net of outstanding bank overdraft. Cash at reporting date as shown in the statement is reconciled to the related items in the statement of financial position as follows:				
Bank Overdraft	(283)	-	(283)	-
Cash	336	2,754	-	2,928
	<b>53</b>	<b>2,754</b>	<b>(283)</b>	<b>2,928</b>

## (b) Financing Facilities

Firmly committed financing facilities available at reporting date (all secured, refer Note 19 and 22).

Bank reviews of the seasonal cropping facilities are conducted annually in January and September.

The January review has resulted in the bank extending the seasonal cropping facilities until January 2006.

Seasonal cropping facilities	-	available	30,000	43,800	15,000	33,000
	-	used	26,800	27,800	14,000	18,000

Facilities established with expiry 28 Feb 2006:

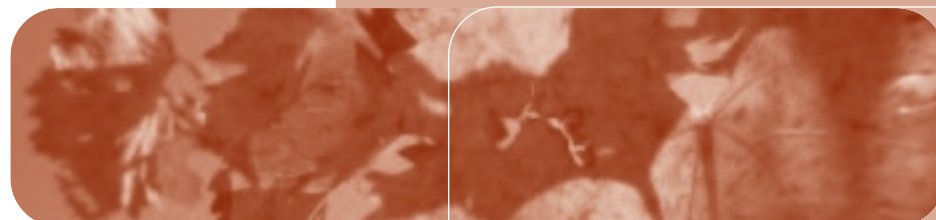
Core debt capital funding	-	available	5,200	-	-	-
	-	used	5,000	-	-	-

Facilities established with expiry 28 Feb 2007:

Core debt capital funding	-	available	20,500	16,010	13,600	13,900
	-	used	12,425	13,010	10,900	10,900

## (c) Non-Cash Financing and Investing Activities

During the financial year, the consolidated entity acquired plant and equipment with an aggregate value of \$5.9 million (12 months ended 31 December 2003: \$1.6 million) by way of finance leases. These additions are not reflected in cash flows.



	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(d) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating (loss)/profit after Income Tax	(3,998)	1,942	(4,343)	3,609
Non-cash flows in operating profit / (loss)				
Net profit on sale of non-current assets	(93)	(32)	(93)	(38)
Depreciation	2,793	2,882	1,976	2,255
Lease amortisation	1,240	1,063	805	897
Research and development amortisation	30	30	30	30
Allowance for doubtful debts	-	-	1,010	-
Changes in net assets and liabilities:				
(Increase)/decrease in assets				
Current receivables	(1,419)	5,917	(1,621)	475
Current other assets	(793)	(420)	(331)	(13)
Current inventories	2,593	(4,984)	6,287	1,331
Self-generating and regenerating assets	(2,784)	9,760	(1,601)	8,845
Foreign exchange receivable	2,976	(825)	2,976	(825)
Future income tax benefit	674	174	599	221
Increase/(decrease) in liabilities:				
Current payables and accruals	98	(1,484)	(22)	(1,447)
Provisions	94	28	1	(39)
Deferred foreign exchange gain	(2,296)	146	(2,296)	146
Provision for deferred income tax	(3,113)	564	(2,909)	864
Net cash from operating activities	(3,998)	14,761	468	16,311

## 35. Financial Instruments

Terms, conditions and accounting policies

(a) Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

### (b) Financial Assets

Trade Receivables are carried at nominal amounts due, less any allowance for doubtful debts. Credit sales are on 30 or 60 day terms, following delivery.

### (c) Financial Liabilities

(i) Cash advances are carried in the financial statements at their principal amount. They have a maturity of 30 to 182 days with effective interest rates of 5.54% to 6.76% (31 December 2003: 4.74% to 6.31%).

(ii) Trade Payables and accruals are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade liabilities are normally settled on 30 day terms except for certain contracted farm activities such as harvest costs, which are settled according to the contract terms.

(iii) Lease Liabilities. Finance lease liabilities are accounted for in accordance with AASB 1008. Hire purchase liabilities are disclosed as the principal amount owing. As at balance date, the consolidated entity had finance leases with an average lease term of 24 months (31 December 2003: 28 months). The average interest rate implicit in the leases is 6.87% (31 December 2003: 7.24%). Hire purchase liabilities have an average term remaining of 19 months (31 December 2003 : 18 months) with an implicit interest rate of 5.75% (31 December 2003: 10.02%).

### (d) Forward Foreign Exchange Contracts

The consolidated entity enters into forward exchange contracts where it agrees to sell specified amounts of US\$ in future at predetermined exchange rates. The objective is to match the contracts with anticipated future cash flows from sales in US\$ to protect the consolidated entity from possible losses due to exchange rate fluctuations. Contracts are usually for periods up to 24 months. Up to 100% of significant exposures are covered. Exchange gains or losses are charged to the statement of financial performance except for those relating to hedge of specific commitments, which are deferred and included in the measurement of the sale.

### (e) Foreign Exchange Risk

The contracts listed below have been entered into hedge contracted sales denominated in US\$.

	31 Dec 2004	31 Dec 2003
Contracts outstanding maturing within 12 months	-	US\$5m
Average exchange rate	-	\$0.51732

The net unrecognised gain on the above contracts at 31 December 2004 is \$ nil (31 December 2003: \$2.296 million gain).



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(f) Interest Rate Swaps

The consolidated entity has entered into interest rate swap agreements to convert the variable interest rate of a proportion of its long-term borrowings to fixed interest rates. It is the policy of the consolidated entity not to recognise interest rate swaps in the financial statements. Net receipts and payments recognised as an adjustment to interest rate expense.

At balance date, the consolidated entity had an interest rate swap agreement with a notional amount of \$15 million, on which it pays 7.02% interest and receives Bank Bill Swap Rate ("BBSR") calculated on the notional amount (31 December 2003: \$15 million and 6.2%). Settlement occurs every 90 days. The swap is used to protect approximately 48.1% (31 December 2003: 53.9%) of bank borrowings (variable rates) outstanding as at balance date, from exposure to increasing interest rates. The agreement expires on 31 March 2005. This agreement has been extended by the consolidated entity to 31 March 2006 and 31 March 2007 and it will pay 5.99% and 6.85% respectively for those additional years.

In addition, at balance date the consolidated entity had three forward interest rate contracts with notional amounts of \$15 million, \$15 million and \$3 million, for the period 1 April 2007 to 31 March 2008, 1 April 2008 to 31 March 2009, and 1 April 2004 to 31 March 2009 respectively, and it will pay 5.26%, 6.43% and 5.09% interest respectively and receive BBSR calculated on the notional amounts (31 December 2003: 5.26%, nil% and 5.09%). The contract for the period 1 April 2008 to 31 March 2009 was entered into during the year.

The estimated amount, which the consolidated entity would be expected to pay if the interest rate swaps, which are not recorded in the statement of financial position, were closed out at balance date, would be \$0.284 million (31 December 2003: pay \$0.117 million).

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

## 35. Financial Instruments (cont'd)

### (g) Interest Rate Risk

The consolidated entity's exposure to interest rate risk at 31 December 2004 and 31 December 2003 are shown in the following tables. All other financial assets and liabilities are non-interest bearing.

#### 31 December 2004

	Fixed Interest Rate Maturing In:			Total Carrying Value per Statement of Financial Position	Weighted Average Effective Interest Rate
	Variable Interest Rate	1 Year or Less	Over 1 to 5 Years		
	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>					
Cash	336	-	-	336	4.25
Total Financial Assets	336	-	-	336	
<b>Financial Liabilities</b>					
Bank overdraft	283	-	-	283	9.10
Bill of exchange	606	-	-	606	7.24
Cash advances	31,215	-	13,010	44,225	6.24
Interest rate contracts	(15,000)	15,000	-	-	7.02
Finance leases	-	2,273	5,200	9,631	6.87
Hire purchases	-	265	188	453	5.75
Total Financial Liabilities	17,104	17,538	18,398	55,198	

#### 31 December 2003

	Fixed Interest Rate Maturing In:			Total Carrying Value per Statement of Financial Position	Weighted Average Effective Interest Rate
	Variable Interest Rate	1 Year or Less	Over 1 to 5 Years		
	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>					
Cash	964	-	-	964	4.25
Total Financial Assets	964	-	-	964	
<b>Financial Liabilities</b>					
Cash advances	27,800	-	13,010	40,810	5.87
Interest rate contracts	(15,000)	15,000	-	-	6.20
Finance leases	-	1,485	3,516	5,001	7.24
Hire purchases	-	257	236	493	10.02
Total Financial Liabilities	12,800	16,742	16,762	46,304	

#### (h) Net Fair Values

The carrying amount of all financial assets and liabilities recorded on the statement of financial position represent their respective fair values.

If the consolidated entity was to close out their derivative financial instruments relating to foreign currency amounts and interest rate swaps currently not recorded on the statement of financial position, as these are hedging anticipated future transactions, at their fair market value at 31 December 2004, they would expect to pay \$0.284 million in respect of interest rate swaps (2003: receive \$2.296 million in respect of foreign currency hedges and pay \$0.117 million in respect of interest rate swaps). All foreign exchange contracts were closed out during the year.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than forward exchange contracts and interest rate swaps.

#### (i) Credit Rate Risk

Credit risk refers to the risk that the counterparty or customer will default on its contractual obligations resulting in a financial loss to the consolidated entity.

The credit risk on the financial assets of the consolidated entity, which have been recognised on the statement of financial performance, is generally the carrying amount, net of any allowance for doubtful debts. The consolidated entity has adopted the policy of dealing with creditworthy customers.

The consolidated entity has significant credit risk exposure to the following groups, having similar characteristics:

	2004 \$'000	2003 \$'000
Customers in the grain industry	959	428
Customers in the wine industry	3,931	1,635

The credit risk on derivative financial instruments contracts is minimised, as counterparties are recognised financial intermediaries with acceptable credit ratings by a recognised agency.

### 36. Dividends

No dividends have been paid during the year ended 31 December 2004 and Directors do not recommend the payment of a dividend for the year ended 31 December 2004.

During the year ended 31 December 2003, the Directors declared an unfranked dividend of 3 cents per share on 5 August 2003 and the dividend of \$664,575 was paid on 27 August 2003.

Franking account balance is nil (2003: nil)

### 37. Contingent Liabilities

As detailed in Note 31, the company has entered into a deed of cross guarantee with its wholly-owned controlled entities. As at 31 December 2004, the Company has a contingent liability of \$28.2 million representing the total liabilities of the wholly-owned controlled entities.

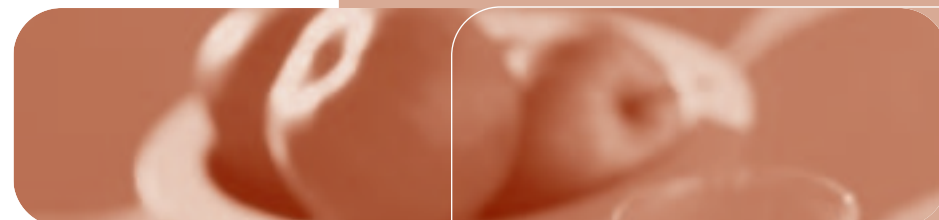
## Notes to the Financial Statements for the Financial Year Ended 31 December 2004

### 38. Farming Sales Revenue

12 months ended 31 December 2004 Consolidated	Grapes & Vines \$'000	Fruit & Trees \$'000	Cereal Crops \$'000	Cotton \$'000	Livestock \$'000	Total \$'000
Revenue from sale of	1,778	1,118	1,832	8,732	196	13,656
Net market value of items sold	(1,778)	(1,118)	(1,832)	(6,254)	(196)	(11,178)
Net revenue from sale of	-	-	-	2,478	-	2,478
Net increment in net market value of vines	1,823	-	-	-	-	1,823
Net increment in net market value of fruit and trees	-	(18)	-	-	-	(18)
Net increment in net market value of crops in progress	-	-	15	1,717	-	1,732
Net increment in net market value of livestock	-	-	-	-	(12)	(12)
Net market value of items harvested/picked	1,778	1,118	1,832	-	-	4,728
Net market value of livestock sold	-	-	-	-	196	196
Net revenue from farming activities	3,601	1,100	1,847	4,195	184	10,927

12 months ended 31 December 2003 Consolidated	Grapes & Vines \$'000	Fruit & Trees \$'000	Cereal Crops \$'000	Cotton \$'000	Livestock \$'000	Total \$'000
Revenue from sale of	2,967	1,039	1,224	30,824	300	36,354
Net market value of items sold	(2,967)	(1,039)	(1,224)	(26,126)	(300)	(31,656)
Net revenue from sale of	-	-	-	4,698	-	4,698
Net increment in net market value of vines	(769)	-	-	-	-	(769)
Net increment in net market value of fruit and trees	-	188	-	-	-	188
Net increment in net market value of crops in progress	-	-	-	-	-	-
Net increment in net market value of livestock	-	-	-	-	40	40
Net market value of items harvested/picked	2,967	1,039	1,224	24,585	-	29,815
Net market value of livestock sold	-	-	-	-	300	300
Net revenue from farming activities	2,198	1,227	1,224	29,283	340	34,272



<b>12 months ended 31 December 2004 Company</b>	<b>Grapes &amp; Vines \$'000</b>	<b>Fruit &amp; Trees \$'000</b>	<b>Cereal Crops \$'000</b>	<b>Cotton \$'000</b>	<b>Livestock \$'000</b>	<b>Total \$'000</b>
Revenue from sale of	1,592	1,118	1,832	8,732	196	13,470
Net market value of items sold	(1,592)	(1,118)	(1,832)	(6,254)	(196)	(10,992)
Net revenue from sale of	-	-	-	2,478	-	2,478
Net increment in net market value of vines	561	-	-	-	-	561
Net increment in net market value of fruit and trees	-	(18)	-	-	-	(18)
Net increment in net market value of crops in progress	-	-	15	1,717	-	1,732
Net increment in net market value of livestock	-	-	-	-	(12)	(12)
Net market value of items harvested/picked	1,592	1,118	1,832	-	-	4,542
Net market value of livestock sold	-	-	-	-	196	196
Net revenue from farming activities	2,153	1,100	1,847	4,195	184	9,479

<b>12 months ended 31 December 2003 Company</b>	<b>Grapes &amp; Vines \$'000</b>	<b>Fruit &amp; Trees \$'000</b>	<b>Cereal Crops \$'000</b>	<b>Cotton \$'000</b>	<b>Livestock \$'000</b>	<b>Total \$'000</b>
Revenue from sale of	1,728	1,039	1,224	30,824	300	35,115
Net market value of items sold	(1,728)	(1,039)	(1,224)	(26,126)	(300)	(30,417)
Net revenue from sale of	-	-	-	4,698	-	4,698
Net increment in net market value of vines	(14)	-	-	-	-	(14)
Net increment in net market value of fruit and trees	-	188	-	-	-	188
Net increment in net market value of crops in progress	-	-	-	-	-	-
Net increment in net market value of livestock	-	-	-	-	40	40
Net market value of items harvested/picked	1,728	1,039	1,224	24,585	-	28,576
Net market value of livestock sold	-	-	-	-	300	300
Net revenue from farming activities	1,714	1,227	1,224	29,283	340	33,788

### 39. International Accounting Standards

#### Impact of adopting Australian Equivalent to International Financial Reporting Standards

The consolidated entity will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual financial years beginning on or after 1 January 2005. Accordingly, the consolidated entity's first half-year report prepared under A-IFRS will be for the half-year ending 30 June 2005, and its first annual financial report prepared under A-IFRS will be for the year ending 31 December 2005.

The consolidated entity has recently commenced the process of evaluating the high level impact of A-IFRS on the consolidated entity and consequently have not yet finalised how they are going to manage the transition to A-IFRS. The Directors expect to complete the impact study and commence a plan to prepare the consolidated entity to be A-IFRS compliant shortly.

While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the consolidated entity, the Directors have identified the following as being the key accounting policy differences expected to arise on transitioning to A-IFRS. This does not represent an exhaustive list of the differences that will arise, and further analysis may change the consolidated entity's assessment of the importance or otherwise of the various differences.

#### *(a) First-time adoption of A-IFRS*

On first-time adoption of A-IFRS, the consolidated entity will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that are presented in this financial report for the half-year ended 30 June 2004 may not be the balances that will be presented as comparative numbers in the financial report for the following half-year, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be de-recognised. Required adjustments on first-time adoption are to be made against opening retained earnings (1 January 2004).

#### *(b) Research and development*

Under the consolidated entity's current accounting policies, research and development costs are deferred to the extent that they are expected, beyond any reasonable doubt, to be recoverable. Under A-IFRS, research costs will no longer be permitted to be deferred and will be immediately expensed. While development costs may still be deferred, more stringent recognition requirements will apply. Accordingly, opening retained earnings will be decreased to the extent of any deferred research costs and any development costs that may need to be de-recognised. On an ongoing basis, the effect of the change is that it may be more difficult to capitalise such costs, resulting in a lower net asset balance sheet position when compared with current Australian GAAP, and creating volatility in the profit and loss as more costs will have to be expensed as incurred.

#### *(c) Impairment testing*

Under A-IFRS both current and non-current assets will be subject to impairment testing. The consolidated entity will be required to test the values attributed to assets where impairment is indicated. Such testing will require the consolidated entity to identify the smallest group of assets generating independent cash inflows, called cash generating units ("CGUs"), and determine the recoverable amount for each CGU. Recoverable amounts are determined using the higher of either value in use calculated using reliable estimates of future discounted cash flows, or fair values.

Where the carrying amount of a CGU exceeds the recoverable amount, an impairment loss exists which will be recognised in the statement of income. The consolidated entity has not yet determined the impact, if any, of any impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.

#### **(d) Income tax**

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amount and tax base of assets and liabilities recognised in the balance sheet. As A-IFRS has a wider scope than the entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase.

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

#### **(e) Off-balance sheet financial assets and liabilities**

A-IFRS requires the recognition of all financial assets and financial liabilities, including all derivatives and embedded derivatives, some of which may not be recognised under current Australian GAAP. Accordingly, recognition of these financial assets and financial liabilities may significantly change the net asset position of the consolidated entity, but the impact of the change will not be known until all financial instruments, including any embedded derivatives, are identified, measured and recognised in accordance with the new requirements.

An embedded derivative will have to be separately recognised at fair value from its host contract unless certain conditions are met. Changes in the fair value of the derivative are to be recognised in the income statement unless specific hedging criteria are met. The process of reviewing all contracts (for example lease and grape purchase contracts) for the existence of such derivatives is time-consuming, and whether any such derivatives exist and the value attaching to them, can only be determined subsequent to the review.

#### **(f) Financial assets and financial liabilities**

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the consolidated entity will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement – at amortised cost using the effective interest rate method, fair value with movements recognised through equity or fair value recognised through the profit and loss. The consolidated entity is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

#### **(g) Hedge accounting**

The consolidated entity enters into forward exchange contracts for its sales in order to hedge its exposure to fluctuations in exchange rates. Under A-IFRS, hedges are designated as fair value hedges or cash flow hedges, and the accounting differs depending on the designation. Where a hedge is designated as a fair value hedge, changes in the fair value of the hedged item and hedging instrument to the extent of the risk hedged are recognised in profit or loss. Changes in the fair value of hedging instruments classified as cash flow hedges are recognised in equity to the extent they are effective and are recycled to the income statement when the hedged transaction affects the profit or loss. Any movement in fair value of the hedge instrument that is not effective is recognised immediately in profit or loss. The designation, documentation and effectiveness requirements under A-IFRS may result in some hedges no longer qualifying for hedge accounting. It is not possible to determine the impact of the change in hedging requirements until a full analysis of the impact of the standard (including no longer accounting for hedging instruments under hedge accounting) has been conducted.

The Tandou Board is committed to best practice in corporate governance where these practices are appropriate and add value to Tandou Limited.

This statement is provided to outline the Company's current corporate governance practices and the steps being taken at Tandou to implement the Best Practice Recommendations as outlined by the ASX Corporate Governance Council.

## (1) LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's role is to govern the Company rather than to manage it. In governing the Company, the directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Charter setting out the functions and responsibilities of the Board in order to facilitate Board and management accountability for the Company's performance and strategic direction. The Board Charter will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au))

## (2) STRUCTURE THE BOARD TO ADD VALUE

### Board Composition

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated in the Directors Report along with the term of office held by each of the Directors. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision-making and judgment.

### Director Independence

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr Warburton, Mr Taylor, Mr Locher and Mr Kennedy are all Non-Executive Directors. In addition to being Non-Executive Directors, Mr Warburton, Mr Locher and Mr Kennedy also meet the following criteria for independence as adopted by the Company.

The Board reviews its assessment of independence as disclosures of new interests or conflicts are made.

### Disclosure of Interests and Conflicts

At each Board meeting Directors are required to disclose details of any interests or conflicts that have arisen since the previous board meeting. Also, a related interests questionnaire is sent to Directors on an annual basis where Directors are asked to provide details of any related party transactions with Tandou during the year.

### Period of Office

A Non-Executive Director is elected for a period of up to three years or until the third Annual General Meeting after the Directors' election (whichever is longer). As the ASX Listing Rules require Tandou to hold an election of Directors each year, Directors may be subject to re-election before the expiration of this term.

Any Director who is appointed to the Board as a casual vacancy during a year, holds office until the end of the next Annual General meeting, but is eligible for election by shareholders at that meeting.



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### Independent Professional Advice

Directors may obtain independent professional legal advice at Tandou's expense, subject to making a request to, and obtaining the prior authorisation of, the Chairman. Where the Chairman wishes to obtain independent professional advice, the Chairman is required to make a request to, and obtain the prior authorisation of, the Managing Director.

### (3) PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole.

Tandou's Vision and Mission Statement will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)).

#### Share Trading Guidelines

The Board has formally adopted a Share Trading Policy in relation to dealings in Tandou shares by Directors, senior executives and employees. The new policy replaces the previous guidelines endorsed by the Board in relation to dealings in shares by Tandou employees.

The Tandou Share Trading Policy is a recommended code of practice that is designed to:

- set out clear guidelines for Directors, senior executives and other designated officers as to the expectations that Tandou has in relation to dealings in Tandou shares; and
- minimise the potential for insider trading under the law by Directors, senior executives and other designated officers.

The Tandou Share Trading Policy will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)).

### (4) SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

#### Sign-off by Managing Director and Chief Financial Officer

In August 2004 (for the statutory half year report) and in February 2005 (for the statutory full year report) the Managing Director and the Chief Financial Officer provided the Board with statements about Tandou's financial reports and compliance with the Corporations Act and accounting standards. The statements reflected the declarations required to be made by Directors for the half year and full year.

#### Audit & Corporate Governance Committee

The Board's Audit & Corporate Governance Committee is an advisory body to the Board in relation to:

- Tandou's draft external financial reports, including the statutory half year and full year financial reports, and ASX half year and full year reports;
- in so far as they affect Tandou's financial reporting, risk management and internal control structures, and compliance with laws and regulations;
- external audit activities, the terms of engagement (including fees) for the external audit, the independence of Tandou's external auditor, and the appointment and removal of the external auditor;
- the role of the internal audit function at Tandou and the appointment of an Internal Audit Manager; and
- review and update the Company's corporate governance policy's in relation to the ASX Corporate Governance Council recommendations

The Board has adopted a formal Charter for the Audit & Corporate Governance Committee and will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)).

### (5) MAKE TIMELY AND BALANCED DISCLOSURE

The Board is committed to ensuring that information that is expected to have a material effect on the price or value of Tandou shares is immediately notified to the ASX for dissemination to the market in accordance with the ASX Listing Rules.

The Board has adopted the Tandou Continuous Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that Tandou complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act.

The Tandou Continuous Disclosure Policy recognises that the continuous disclosure regime involves a high degree of judgement to determine when a disclosure is required and the information that must be disclosed. As a general rule, and in accordance with the ASX Listing Rules, Tandou will take a principle-based approach to disclosure to meet the letter and spirit of the continuous disclosure regime in a manner that is consistent with Tandou's Statement of Corporate Goals.

The Tandou Continuous Disclosure Policy will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)).

### (6) RESPECT THE RIGHTS OF SHAREHOLDERS

#### Communications Strategy

Tandou Board and management recognises the importance of continuous communications with shareholders and potential investors, and to encourage the effective participation at shareholder meetings.

The Internet is an important communication tool for the dissemination of market information, with the following information made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)) for access by all interested stakeholders:

- Tandou's annual reports and half year reports;
- ASX releases (including announcements on profit guidance);
- notices of meeting and explanatory material for shareholder meetings; and
- corporate information about Tandou.

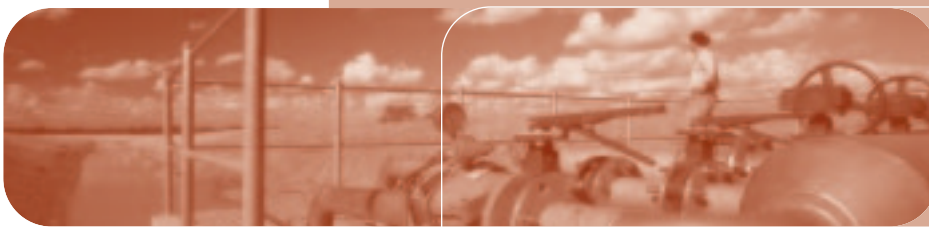
In addition, all announcements made to the ASX containing important shareholder information are mailed out to shareholders immediately following the announcement. This information is also made available by hard copy and/or email to all relevant media outlets and other stakeholders.

#### Annual General Meeting

The Annual General Meeting is a forum for shareholders to ask questions about, or make comments on, Tandou's performance and management.

The Board has requested that representatives of Deloitte Touché Tohmatsu, Tandou's external auditor, attend the 2005 Annual General meeting. It is also requested that Deloitte be available to answer any questions that shareholders may have about the conduct of the external audit and the preparation and content of the audit report.

Representatives of Deloitte have attended Annual General Meetings in previous years to answer shareholder questions.



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## **(7) RECOGNISE AND MANAGE RISK**

### **Risk Management**

Tandou has policies relating to interest rate management, foreign exchange risk management, credit risk management and commodity price hedging to minimise the risks that arise through its activities.

The Board also has approved practices that are designed to ensure that:

- capital expenditure and revenue commitments above approved levels are brought to the Board for decision; and
- financial exposures, including the use of derivatives, are minimised.

Tandou's Risk Management schedule is tabled for consideration by Directors at Board meetings and is also reviewed by senior management on a periodic basis to ensure it remains relevant.

### **Internal Controls**

Tandou has established controls at the Board, executive and business unit levels that are designed to safeguard Tandou's interests and ensure the integrity of reporting (including accounting, financial reporting, environment, health and safety, and other internal control policies and procedures). These controls are designed to ensure that Tandou complies with regulatory requirements and community standards.

## **(8) ENCOURAGE ENHANCED PERFORMANCE**

### **Performance Review**

The Board has established a process whereby the performance of all Directors is reviewed on an annual basis, as well as the performance of the overall Board. A Director shall be expected to resign if requested to do so by the Nominating and Review Committee in the exercise of its duties and responsibilities to the Board.

Board performance is also monitored on an ongoing basis through the assessment of Board key performance indicators, which identify established benchmark performance levels for the Board as a group to quantify actual results against.

### **Director Education**

The Company has an informal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. Directors also have the opportunity to visit the Company's facilities and meet with management to gain a better understanding of business operations. On a regular basis, Board meetings are held at business sites to increase Director awareness of operational issues.

### (9) REMUNERATE FAIRLY AND RESPONSIBLY

Details of the classification and amount of each element of the emoluments of the Directors of Tandou limited for 2004 are set out in the Directors Report and the Notes to the Financial Statements.

#### Directors Fees

Fees paid to Non-Executive Directors are currently subject to a maximum pool of \$200,000 per annum. The Board's remuneration pool was approved by shareholders of Tandou Limited at the Annual General Meeting held in May 2004 and has not been increased since that time.

The allocation of fees to Non-Executive Directors out of the total Board remuneration pool is a matter for the Board. The Board reviews fees on an annual basis and, as part of the review process, considers external data, the time commitment of Directors, the size and scale of Tandou's operations, market capitalisation and other factors.

#### Remuneration Policy

The remuneration policy for senior executives of Tandou is designed to ensure that remuneration is:

- commensurate with an executive's duties, responsibilities and accountabilities;
- market competitive so that Tandou is able to attract, motivate and retain exceptional performers.

The Board has adopted a Remuneration Committee and its role is documented in an approved Charter. The role of the Committee is to review and recommend to the Board:

- remuneration policies and packages and terms of employment contracts in relation to certain senior executives and Directors;
- proposals for share plans and incentive programs; and
- policies on retirement and termination payments for Directors.

The Tandou Remuneration Committee Charter will be made available from our web site ([www.tandou.com.au](http://www.tandou.com.au)).

### (10) RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Board is aware of the interests of all stakeholders and seeks to balance these interests with a view to achieving long term value for Tandou shareholders in a socially responsible manner.

Tandou's Vision and Mission Statement, and Statement of Corporate Goals were endorsed by the Board in November 2004 and will be made available from our website ([www.tandou.com.au](http://www.tandou.com.au)).

The Board has also adopted a Code of Conduct to formally establish expected values relevant to the Company's compliance with its legal and other obligations to legitimate stakeholders.

The Tandou Code of Conduct will be made available from our website ([www.tandou.com.au](http://www.tandou.com.au)).

## Shareholder Information

As at 31 March, 2005

### Ordinary Share Capital

The number of issued ordinary fully paid shares of \$1.00 in the Company total 22,215,091 held by 517 individual shareholders.

The number of issued ordinary shares of \$1.00 partly paid to \$0.20 (20 cents) total 125,000 held by three individual shareholders.

The number of issued ordinary shares of \$1.00 partly paid to \$0.01 (1 cent) total 50,000 held by five individual shareholders.

There are no issued convertible securities, i.e., options convertible to ordinary shares (see Note 25), currently on issue.

All shares issued are ordinary shares. Each fully paid share carries one vote on a poll.

### Distribution of Shareholdings

Class	Ordinary Fully Paid	20 cents Partly Paid	1 cent Partly Paid
1 - 1,000	179	-	-
1,001 - 5,000	196	-	3
5,001 - 10,000	57	-	1
10,001 - 100,000	70	3	1
100,001 - over	15	-	-
	517	3	5
The number of shareholders holding less than a marketable parcel	29	Not quoted	Not quoted

### Twenty Largest Holders of Quoted Fully Paid Securities

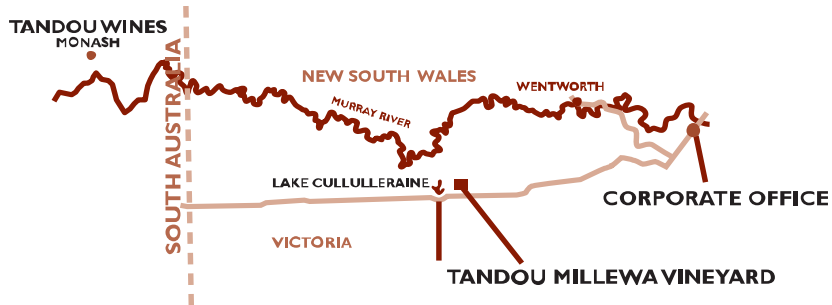
Shareholders	Number	% held
Volcot Holding AG	8,984,645	40.44
ANZ Nominees Ltd	3,672,900	16.53
Scolari Comerford Nominees Pty Ltd	2,036,528	9.17
Rubicon Nominees Pty Ltd	1,518,116	6.83
Mrs Colleen Faye Smith	1,044,163	4.70
Brazil Farming Pty Ltd	490,593	2.21
Mr Robert Walter Smith	303,670	1.37
Mr James Raymond Michell	297,322	1.34
Mr Andrew Roy Newbery Sisson	207,000	0.93
Consolo Limited	165,000	0.74
UBS Private Clients Aust. Nom. Pty Ltd	143,950	0.65
Melbourne Corporation of Aust. Pty Ltd	115,000	0.52
Alpine Pty Ltd	114,950	0.52
Parkes Holdings Pty Ltd	110,000	0.50
Mr David Laurence O'Donnell	109,175	0.49
Eric Ross Yuncken	100,000	0.45
Coralco Pty Ltd	87,387	0.39
Kosata Pty Limited	84,700	0.38
Mr Robert James Kenrick	75,000	0.34
Norita Pty Ltd	70,000	0.32
	19,730,099	88.81

# Tandou Location Map

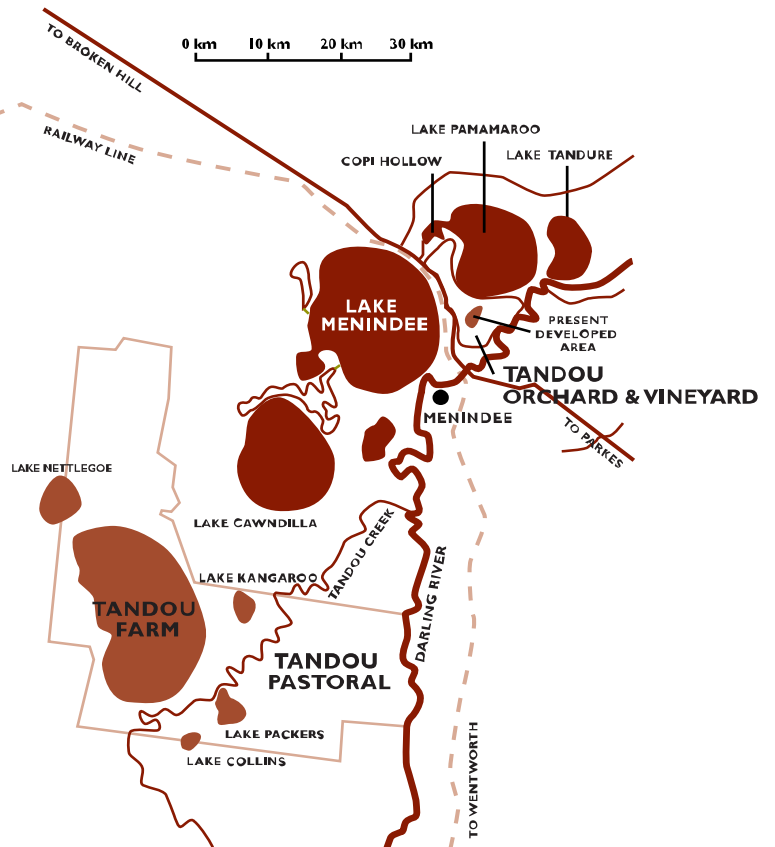
As at 31 March, 2005

## Substantial Shareholders, Fully Paid Ordinary Shares

Shareholder	Number
Volcot Holding AG	8,984,645
ANZ Nominees Ltd	3,672,900
Mr I.M. Taylor and associated entities	2,055,709
Rubicon Nominees Pty Ltd	1,518,116
Mr R.W. Smith and associated persons including Mrs C.F. Smith	1,361,226



## THE MENINDEE LAKES SCHEME

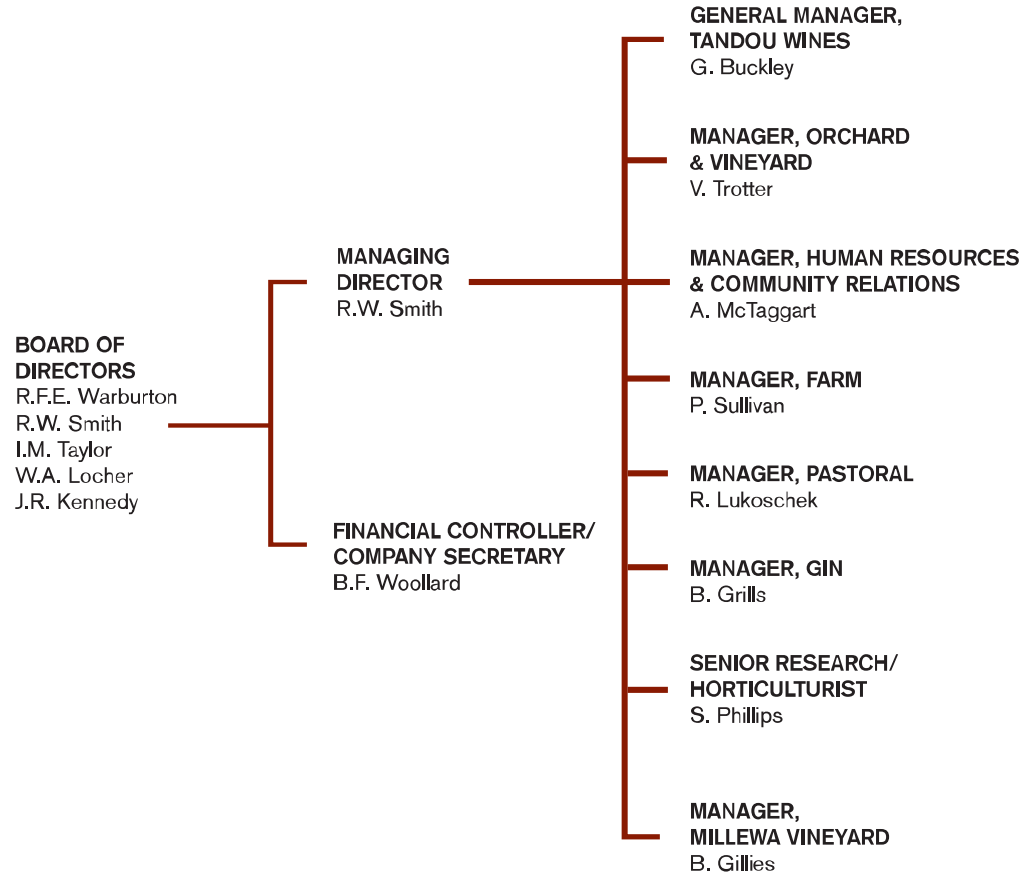




## Tandou Management Charts

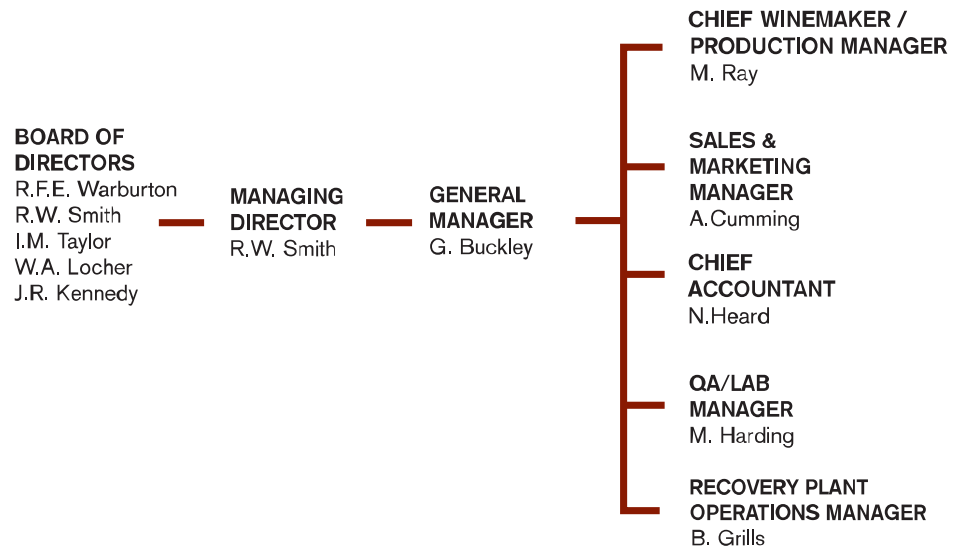
### Tandou Limited Senior Management Chart

As at 7 April 2005



### Tandou Wines Senior Management Chart

As at 7 April 2005







## Corporate Appointments

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<b>COMPANY SECRETARY</b>	<b>Bernie Woollard</b>
<b>AUDITORS</b>	<b>Deloitte Touche Tohmatsu, Chartered Accountants</b> 190 Flinders Street, ADELAIDE, S.A. 5000
<b>BANKERS</b>	<b>Rabo Australia Limited</b> 115 Pitt Street, SYDNEY, N.S.W. 2000 <b>ANZ Banking Group Limited</b> Level 1, 20 Martin Place, SYDNEY, NSW 2000
<b>REGISTERED AND ADMINISTRATION OFFICE</b>	31 Alan Mathews Drive, Mildura Airport, MILDURA, VIC 3500 Telephone: (03) 5018 6500 Facsimile: (03) 5018 6599 Email: cosec@tandou.com.au Website: www.tandou.com.au
<b>SHARE REGISTRAR</b>	<b>Computershare Investor Services Pty Ltd</b> 115 Grenfell Street, ADELAIDE, S.A. 5000 Telephone: (08) 8236 2300
<b>STOCK EXCHANGE LISTING</b>	TANDOU LIMITED shares are listed on the Australian Stock Exchange (ADELAIDE, SA).



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