

**AFF**  
**AUSTRALIAN**  
**FOOD & FIBRE**  
**LIMITED** ACN 077 983 370

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16 February 2004

The Announcements Officer  
Australian Stock Exchange Limited

Dear Sir

**APPENDIX 4D - HALF YEAR TO 31 DECEMBER 2003**

We enclose our half year announcement which has been subject to review.

The improvement in the actual result to that forecasted in our advice dated 23 December 2003 was due to final adjustments arising from the recognition of an income tax benefit on current period losses (\$494K), contribution from investments (\$183K) and a net market value adjustment from forests (\$250k).

Yours faithfully  
**AUSTRALIAN FOOD & FIBRE LIMITED**

***DC Mackenzie (signed)***

D C Mackenzie  
Company Secretary

# Appendix 4D

## Half Year Report to the Australian Stock Exchange

<b>Name of Entity</b>	<b>AUSTRALIAN FOOD &amp; FIBRE LIMITED</b>
<b>ABN</b>	<b>88 077 983 370</b>
<b>Reporting Period Ended</b>	<b>31 December 2003</b>
<b>Previous Corresponding Reporting Period</b>	<b>31 December 2002</b>

### Results for Announcement to the Market

		\$'000	Percentage increase /(decrease) over previous corresponding period
Revenue from ordinary activities		11,512	(23.47%)
Profit / (loss) from ordinary activities after tax attributable to members		(2,537)	(105.76%)
Net profit / (loss) for the period attributable to members		(2,537)	(105.76%)
Dividends (distributions)	Amount per security	Franked amount per security	
Final Dividend	NIL	NIL	
Interim Dividend	NIL	NIL	
Record date for determining entitlements to the dividends (if any)		N/A	
Brief explanation of any of the figures reported above necessary to enable the figures to be understood:			
Refer to Attachment 1: Chairman's Review of Operations			
Refer to Attachment 3: Statement of Financial Performance			

### **Dividends**

<b>Date the dividend is payable</b>	N/A
<b>Record date to determine entitlement to the dividend</b>	N/A
<b>Amount per security</b>	N/A
<b>Total dividend</b>	N/A
<b>Amount per security of foreign sourced dividend or distribution</b>	N/A
<b>Details of any dividend reinvestment plans in operation</b>	N/A
<b>The last date for receipt of an election notice for participation in any dividend reinvestment plans</b>	N/A

### **NTA Backing**

	<b>Current Period</b>	<b>Previous corresponding period</b>
<b>Net tangible asset backing per ordinary security</b>	52 cents	52 cents

### **Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position**

Refer to Attachment 1: Chairman's Review of Operations

## **Commentary on the Results for the Period**

### **The earnings per security and the nature of any dilution aspects :**

The basic and diluted earnings per share for the half year ended 31 December 2003 was (1.65) cents per share. This compares to the basic and diluted earnings of (0.82) cents per share for the half year ended 31 December 2002.

Basic earnings per share (EPS) have been calculated as the net profit (loss) after tax attributable to members adjusted to exclude costs of servicing equity (excluding dividends) divided by the weighted average number of ordinary shares.

### **Shareholder movements:**

In accordance with the shareholders resolution passed on 29<sup>th</sup> April 2003, the company issued 10,000,000 ordinary shares to Namcott Investments Pty Ltd (the nominee company of Namoi Cotton Co-operative Limited) on 5<sup>th</sup> September 2003 in consideration for AFF receiving a 49% interest in Ashley Ginning Services. No other shares were issued during the period.

No options were exercised during the current period leaving a balance of 5,280,265 options expiring 30 June 2006 exercisable at 32 cents.

### **Significant features of operating performance :**

Refer to Attachment 1: Chairman's Review of Operations

### **The results of segments that are significant to an understanding of the business as a whole:**

Refer to Attachment 6: Segment Reporting Note

### **Discussion of trends in performance :**

Refer to Attachment 1: Chairman's Review of Operations

### **Any other factor which has affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:**

Refer to Attachment 1: Chairman's Review of Operations

### Audit/Review Status

<b>This report is based on accounts to which one of the following applies:</b> (Tick one)			
The accounts have been audited	<input type="checkbox"/>	The accounts have been subject to review	<input checked="" type="checkbox"/>
The accounts are in the process of being audited or subject to review	<input type="checkbox"/>	The accounts have not yet been audited or reviewed	<input type="checkbox"/>
<b>If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:</b> N/A			
<b>If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:</b> N/A			

### Attachments Forming Part of Appendix 4D

Attachment #	Details
1	Chairman's Review of Operations
2	Statement of Financial Position
3	Statement of Financial Performance
4	Statement of Cash Flows
5	Notes to the Financial Statements
6	Segment Reporting
7	Directors Declaration

<b>Signed By Director</b>	<i>DW Robinson (signed)</i>
<b>Print Name</b>	<b>DAVID WILLIAM ROBINSON</b>
<b>Date</b>	16 February 2004

**Attachment 1**  
**Australian Food & Fibre Limited**  
**Chairman's Review**

**RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Cotton/cereal crops	(799)	(440)
Horticulture	(1,242)	(243)
Pine Forests	626	202
WA Properties	247	15
Contribution before corporate and borrowing costs	(1,168)	(466)
Corporate costs	(487)	(400)
Borrowing costs	(1,559)	(890)
Share of profit (loss) from joint venture operations	(125)	-
Share of profit (loss) from equity accounted investments	308	-
Net profit (loss) before tax	(3,031)	(1,756)
Income tax (expense) benefit	494	523
Net profit (loss) after tax	(2,537)	(1,233)

**OVERVIEW**

The significant factors contributing to the current result included:

- The flow on effect from drought and reduced cotton plantings impacted on profit recognition under SGARA accounting, and cereal crops profit was less than expected due to poor prices.
- While there was a satisfactory contribution from the recent grape harvest, poor prices affected the 2003 citrus season resulting in reduced income in the half year to 31 December 2003.
- Continuation of profitable pine logging operations at Oberon NSW.
- An increase in interest costs due to higher borrowings resulting from reduced cash flows and purchase of a new cotton property.

Other significant events in the period under review were:

- The settlement on 31 December 2003 of the "The Glen" a cotton farm adjoining "Milo."
- In accordance with the shareholders resolution passed on 29 April 2003, the company issued 10 million ordinary shares to Namcott Investments Pty Ltd (the nominee company of Namoi Cotton Co-operative Limited) on 5 September 2003 in consideration for AFF receiving a 49% interest in Ashley Ginning Services.
- The raising of \$12,584,644 with the issue of the 4% redeemable convertible notes on 5 December 2003.

## REVIEW OF OPERATIONS

### Cotton

#### General

The Company's properties in the Gwydir Valley have received very good rain over the past month, and greatly benefited the current season's cotton crop due for harvest in late March early April.

In addition to the immediate benefits noted above, farm water storages have been replenished to mostly satisfactory levels and good inflows to the Copeton Dam will now ensure that cotton plantings for the 2004/2005 season will be expanded significantly. Moderate additional inflow to Copeton Dam should ensure a return to normal plantings.

For comparative purposes, the table below sets out the current season and possible next season plantings for irrigated cotton based on current water availability which illustrates the situation described above.

	Ha
Average area available for plantings	<u>7,811</u>
Current area planted for 2003/2004 (excludes 1,200 ha dryland)	<u>2,166</u>
Likely plantings for 2004/2005 at this time	<u>5,500</u>

#### Future outlook for cotton operations

The impact of the drought, while producing declining revenues and profits, has resulted in a close examination by senior management of farming and water management practices. The recent rain events allow the Directors to expect a return to profit in the 2005 financial year.

#### Horticulture

The Golden Mile orchard currently produces citrus and mangos. The grape operations were partially sold to a joint venture in October 2002. That was then followed by the sale in December 2002 of the packing shed into a company where AFF retains a 40% interest. These divestments were strategic initiatives to both reduce the Company's exposure to the operation and at the same time to secure alliances with experienced horticulturalists to participate in the management of the residual operations and to provide agronomic advice to those operations.

Recent substantial rains together with adequate on farm water storages and good levels in the Mundubbera Weir ensure water supplies required for ongoing operations in the medium term.

The company continues to explore new strategic initiatives for the rationalisation of the horticulture division.

#### Pine Forests

The contribution to profit from this operation was satisfactory and although regarded as non-core, these activities will be continued in the short term.

### **Western Australia**

As previously reported, the Company's remaining properties in WA have been sold and settlement is scheduled for 31 March 2004.

### **STRATEGY**

The key elements of the Company strategy are:

- Major business undertakings will be based on intensive irrigated agriculture
- Business units will be expected to earn a long term rate of return greater than 12% pa on assets employed, before interest and tax.

It is the Board's intention, in accordance with the above strategy, to increase the size of the Company with a view to creating greater shareholder value and be recognised as a substantial and profitable participant in the agricultural industry in the longer term.

The Company continues to strive to keep gearing at an acceptable level thereby having a balance sheet that enables new opportunities to be undertaken as they arise.

DW Robinson  
Chairman  
16 February 2004

**ATTACHMENT 2**  
**Australian Food & Fibre Limited**  
**Statement of Financial Position**  
**at 31 December 2003**

		<b>Consolidated</b>		
	<b>Note</b>	<b>Dec 2003</b>	<b>June 2003</b>	<b>Dec 2002</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Current Assets</b>				
Cash assets		1,517	944	382
Receivables		4,464	9,626	8,083
Inventories		944	2,447	825
Self generating and regenerating assets		7,605	4,090	7,589
Other		1,665	1,258	1,285
<b>Total Current Assets</b>		<b>16,195</b>	<b>18,365</b>	<b>18,164</b>
<b>Non-Current Assets</b>				
Investments accounted for using the equity method	3	2,473	2,118	-
Other financial assets		91	97	2,250
Other property, plant and equipment		115,621	96,569	101,703
Self generating and regenerating assets		12,111	12,014	11,567
<b>Total Non-Current Assets</b>		<b>130,296</b>	<b>110,798</b>	<b>115,520</b>
<b>Total Assets</b>		<b>146,491</b>	<b>129,163</b>	<b>133,684</b>
<b>Current Liabilities</b>				
Payables		2,593	2,667	9,395
Interest-bearing liabilities		8,726	11,728	8,741
Provisions		181	178	228
Current tax liabilities		-	-	561
<b>Total Current Liabilities</b>		<b>11,500</b>	<b>14,573</b>	<b>18,925</b>
<b>Non-Current Liabilities</b>				
Interest-bearing liabilities		52,534	33,803	29,827
Provisions		143	102	121
Deferred tax liabilities		2,352	2,846	2,834
<b>Total Non-Current Liabilities</b>		<b>55,029</b>	<b>36,751</b>	<b>32,782</b>
<b>Total Liabilities</b>		<b>66,529</b>	<b>51,324</b>	<b>51,707</b>
<b>Net Assets</b>		<b>79,962</b>	<b>77,839</b>	<b>81,977</b>
<b>Equity</b>				
Contributed equity	6	62,475	57,815	62,243
Reserves		10,518	10,518	10,518
Retained profits	7	6,969	9,506	9,216
<b>Total Equity</b>		<b>79,962</b>	<b>77,839</b>	<b>81,977</b>

**ATTACHMENT 3**

**Australian Food & Fibre Limited  
Statement of Financial Performance  
half year ended 31 December 2003**

	<b>Consolidated</b>	
	<b>Dec 2003</b>	<b>Dec 2002</b>
	<b>\$000</b>	<b>\$000</b>
Sales revenue	5,115	3,740
Cost of sales	(5,115)	(3,740)
	-	-
Increase in net market value attributable to self generating and regenerating assets	8,932	10,236
Gross proceeds from sale of property, plant and equipment	2,047	4,529
Gross proceeds from sale of investments	127	-
Interest revenue	71	106
Rent	167	48
Other revenue	168	124
	11,512	15,043
Direct costs of production	(5,401)	(4,756)
Written down value of property plant and equipment sold	(1,734)	(4,383)
Cost of investments sold	(56)	-
Borrowing costs expense	(1,569)	(891)
Salaries and employee benefits expense	(1,773)	(3,173)
Repairs and maintenance	(572)	(791)
Packaging and packing expenses	(545)	(290)
Fuel, oil & gas	(97)	(270)
Depreciation and amortisation	(1,032)	(938)
Property leasing costs	(600)	(91)
Administrative expenses	(1,472)	(1,216)
	(14,851)	(16,799)
Share of net results of associate entities accounted for using the equity method	308	-
<b>Profit from ordinary activities before income tax expense</b>	<b>(3,031)</b>	<b>(1,756)</b>
<b>Income tax expense relating to ordinary activities</b>	<b>494</b>	<b>523</b>
<b>Net profit attributable to members of AFF Limited</b>	<b>(2,537)</b>	<b>(1,233)</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners attributable to members of AFF Limited</b>	<b>(2,537)</b>	<b>(1,233)</b>
<b>Basic Earnings per share</b>	<b>(1.65) cents</b>	<b>(0.82) cents</b>
<b>Diluted Earnings per share</b>	<b>(1.65) cents</b>	<b>(0.82) cents</b>

**ATTACHMENT 4**  
**Australian Food & Fibre Limited**  
**Statement of Cash Flows**  
**Half year ended 31 December 2003**

	<b>Consolidated</b>	
	<b>Dec 2003</b>	<b>Dec 2002</b>
	<b>\$000</b>	<b>\$000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	14,856	13,446
Payments to suppliers and employees	(12,875)	(12,946)
Dividends received	9	4
Interest received	71	106
Borrowing costs	(1,732)	(1,321)
Income tax paid	(31)	-
Rent	167	48
Net cash flows from/(used in) operating activities	465	(663)
<b>Cash flows from investing activities</b>		
Purchase of property plant and equipment	(15,920)	(11,272)
Proceeds from sale of property plant and equipment	67	100
Proceeds from sale of investments	127	-
Advances to associate	(525)	-
Purchase of self generating and regenerating assets	-	(808)
Incidental cost on acquisition of subsidiary	-	(342)
Purchase of consumable inventory	-	(1,206)
Purchase of shares in subsidiary	-	(5,500)
Net cash flows from/(used in) investing activities	(16,251)	(19,028)
<b>Cash flows from financing activities</b>		
Payment for share buyback	-	(4,747)
Proceeds from issue of ordinary shares	-	-
Proceeds from convertible notes	12,585	-
Repayments of borrowings	(475)	(921)
Proceeds from borrowings	9,000	17,000
Receipt (repayment) of loan	-	-
Dividends paid	-	(1,198)
Net cash flows from/(used in) financing activities	21,110	10,134
Net increase/(decrease) in cash held	5,324	(9,557)
Add opening cash brought forward	(3,807)	4,699
Closing cash carried forward	1,517	(4,858)
<i>Comprising:</i>		
Cash	1,517	382
Bank Overdraft	-	(5,240)
	1,517	(4,858)

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Summary of significant accounting policies</b>
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**(a) Basis of accounting**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements, (Urgent Issues Group Consensus Views) have also been complied with. The accounting policies used are consistent with those adopted in the previous financial year.

The financial report has been prepared in accordance with the historical cost convention, except for grapevines, citrus trees and forest plantations (which are self-generating and regenerating assets) measured at net market value and freehold land and buildings on freehold land, measured at fair value.

**(b) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Australian Food & Fibre Limited (the parent company) and all entities that Australian Food & Fibre Limited controlled from time to time during the year and at the reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

**(c) Trustee obligations**

A controlled entity, within the economic entity, acts as the trustee of the Rural Property Trust. At law, the trustee is liable for the obligations of this Trust and has a right of indemnity against the trust assets.

**(d) Borrowing costs**

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of commissioning or sale.

The costs associated with the establishment of the convertible notes have been capitalised and will be amortised over the life of these notes.

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**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Summary of significant accounting policies (continued)</b>
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**(e) Income tax**

The financial statements apply the principles of tax-effect accounting. The income tax expense in the Statement of Financial Performance represents the tax on the pre-tax accounting profit (loss) adjusted for income and expenses never to be assessed or allowed for taxation purposes.

The provision for deferred tax liability and the future income tax benefit include the tax effect of differences between income and expense items recognised in different accounting periods for book and tax purposes, calculated at the tax rates expected to apply when the differences reverse.

The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

**(f) Inventories**

Inventories, with the exception of consumable self generating and regenerating assets, are valued at the lower of cost or net realisable value. Cost is determined primarily on the basis of average cost. Consumable self generating and regenerating assets have been valued at net market value at the date of harvest in accordance with AASB 1037: "Self generating and Regenerating Assets".

**(g) Joint ventures**

Interest in unincorporated joint venture operations is recognised by including in the respective classifications, the share of individual assets employed and share of liability and expenses incurred.

**(h) Investments**

Interests in listed and unlisted securities, other than controlled entities in the consolidated accounts, are brought to account at cost and dividend income is recognised in the Statement of Financial Performance when the economic entity has the right to receive the dividend. Controlled entities are consolidated as set out in "Principles of Consolidation" above.

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report. All other non-current investments are carried at the lower of cost and recoverable amount.

**(i) Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Summary of significant accounting policies (continued)</b>
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**(j) Self generating and regenerating assets (SGARAs)**

Orchards, vineyards, livestock, planted crops and pine forest assets are stated at net market value. The valuation methodology as noted below and adopted at Golden Mile Farms and for AFF's pine forest assets is based on AASB 1037 "Self Generating and Regenerating Assets". This standard requires that self generating and regenerating assets be stated at net market value. Adjustments to the net market value of self generating and regenerating assets are recognised as revenues and expenses in the Statement of Financial Performance in the financial year in which they occur.

• **Golden Mile Farms (GMF) valuation methodology**

The valuation of the orchards and vineyard assets at GMF has been determined using a discounted cash flow approach which reflects assessment of (a) variety of fruit, (b) productive life and (c) forecast net income for each variety. Management's assessment of these factors is supported by independent advice from horticultural specialists and the value of these assets has been determined in accordance with the Directors' valuation.

In arriving at the net market value of the trees, net cash flows have been discounted at a rate which reflects the risks associated with maintaining these assets together with recognition of expected industry rates of return on assets of this type.

• **Pine forest valuation methodology**

The valuation of the pine forests is determined using a discounted cash flow approach based on anticipated earnings from timber sales less the expected management costs. The factors which were taken into consideration in determining the discount factor in the calculation of the discounted cash flow analysis included (a) only the current standing crop for a period of one rotation, (b) position of forest in relation to markets, (c) risks in connection with pests and fire, and (d) risks in connection with rainfall. The Directors undertake an assessment of these factors which is supported by regular independent valuation reports from a forestry expert prepared in accordance with the methodology.

• **Livestock**

Livestock are valued using a standard market value range for each livestock type less any costs to be incurred in the sale of livestock. The range is revised on a regular basis to reflect market conditions.

• **Planted crops**

A net market value adjustment has been recognised to match costs that have been incurred at balance date for planted crops that have not been harvested together with a pro rata profit recognition based on the estimated profitability of the emerging crop when harvested.

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Summary of significant accounting policies (continued)</b>
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**(k) Property, plant and equipment**

*Cost and Valuation*

Freehold land and buildings on freehold land are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not differ materially from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value as assessed by Directors in conjunction with independent valuations.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount. Where it is expected that a liability for capital gains tax will arise, this expected amount is disclosed by way of a note.

Where adjustments are required, any increment or decrement will be accounted for as follows:

- A revaluation increment will be credited directly to the asset revaluation reserve except that, to the extent that, the increment reverses a revaluation decrement previously recognised as an expense in respect of that same class of assets, will be recognised as revenue in the Statement of Financial Performance.
- A net revaluation decrement will be recognised immediately as an expense, except that, to the extent that, a credit balance exists in the asset revaluation reserve for that same class of asset, the revaluation decrement will be debited directly to the asset revaluation reserve.

Plant and equipment is measured at cost. The book value of plant and equipment is reviewed by Directors to determine whether their carrying amounts require write down to recoverable amount on a regular basis. In determining recoverable amount, the expected net cashflows have been discounted to their present value using a market determined risk adjusted discount rate.

**(l) Depreciation on buildings, plant & equipment**

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than freehold land. Buildings, plant and other equipment are depreciated over their useful economic lives at the respective rates as follows: buildings (2.5% pa), plant (7 to 30% pa) and other equipment (10 to 30% pa).

A provision for capital gains tax is only provided where there is a gain and it is known that the asset will be sold eventually.

**(m) Hire purchase assets**

Assets acquired under hire purchase agreements are capitalised. The initial amount of the hire purchase asset and corresponding liability are recorded at the present value of minimum repayments under the contract. Hire purchase assets are depreciated over the expected useful life of the asset.

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Statement of significant accounting policies (continued)</b>
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Hire purchase liabilities are reduced by the principal component of repayments. The interest component is charged against operating profit.

**(n) Provision for employee benefits**

Liabilities for employee benefits for wages, salaries, and annual leave expected to be settled within 12 months of the year-end represent obligations resulting from employee services provided to reporting date, calculated at the undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to be paid when the liability is settled.

The provision for employee benefits for long service leave represents the present value of estimated future cash outflows to be made resulting from employees services provided to reporting date. The provision is calculated using expected future increases in salary and wage rates including related on-costs and expected settlement dates and is discounted using the interest rate applicable to 10 year Commonwealth Government bonds.

**(o) Cash**

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

**(p) Financial instruments included in equity**

The carrying amount of the equity portion of the convertible note being the holder's option to convert to ordinary share is determined using an option pricing model.

Ordinary share capital is recorded at the fair value of the consideration received.

**(q) Financial instruments included in liabilities**

All loans are measured at principal amount. Interest is recognised as an expense as it accrues. Trade creditors are recorded at contract prices.

The carrying amount of the convertible note financial liability is determined by discounting the streams of future payments of interest and principal at the prevailing market rates for a similar liability that does not have an associated equity component.

**(r) Financial instruments included in assets**

Trade debtors are initially recorded at the amount of contracted sales proceeds.

**ATTACHMENT 5**

**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 1</b>	<b>Statement of significant accounting policies (continued)</b>
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**(s) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of good and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows arising from operating activities are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO, are classified as operating cash flows.

**(t) 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 is recognised:

- Sale of goods – revenue from sales of goods is recognised when control has passed to the buyer.
- Interest – interest revenue is recognised when the economic entity has the right to receive the interest payment.
- Dividends – dividend income is recognised when the economic entity has the right to receive the dividend payment.
- Distributions from the Rural Property Trust (a controlled entity of the Company) – distributions are recognised as income by the parent entity at year end. In accordance with the trust deed, the Rural Property Trust distributes taxable income to the parent entity.
- Self generating and re-generating asset net market value adjustments – adjustments to the net market value of self generating and re-generating assets are recognised as revenues and expenses in the Statement of Financial Performance in the financial year in which they occur.
- Insurance proceeds – revenue from insurance claims is brought to account when the terms of the insurance contract indicate that future economic benefits will flow to the group and the amount of the insurance proceeds can be reliably measured.

**(u) Cost of sales**

Cost of sales represents the market value of the non-living produce extracted from SGARA, excluding the costs of extraction determined immediately after it becomes non-living. Due to the short period of time between harvesting of crops and their sale, the cost of sales represents the market value of the non-living produce which is best estimated by sales value. Therefore sales and cost of sales are reported as the same amount. Cost of property sales reflects the book value of assets disposed plus costs incidental to disposal.

## ATTACHMENT 5

Australian Food & Fibre Limited

### Notes to the Financial Statements

<b>Note 1</b>	<b>Statement of significant accounting policies (continued)</b>
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#### (v) Share buy backs

The price paid for the repurchase of contributed equity is taken as a direct change to equity. The price paid is measured at fair value of consideration given. Any costs associated with the buy-back are taken as a direct cost to equity.

#### (w) Segment Reporting

Individual business segments have been identified on the basis of grouping individual products subject to similar risks and returns. The business segments reported are: cotton, horticulture, corporate and other.

#### (x) Comparatives

Where necessary comparatives have been reclassified and repositioned for consistency with current year disclosures.

<b>Note 2</b>	<b>Interim Report</b>
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This interim financial report is to be read in conjunction with the company's annual report in respect of the year ended 30 June 2003.

This interim financial report does not include notes of the type normally included in an annual financial report.

<b>Note 3</b>	<b>Investments accounted for using the equity method</b>
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		Consolidated		
		Dec 2003	June 2003	Dec 2002
		\$000	\$000	\$000
<b>Investment in associate</b>				
Sunshine Harvest	3(a)	2,213	1,681	-
Central Fruit Packers	3(b)	260	437	-
		<u>2,473</u>	<u>2,118</u>	<u>-</u>

ATTACHMENT 5

Australian Food & Fibre Limited

Notes to the Financial Statements

Note 3 Investments accounted for using the equity method - continued

(a) INTEREST IN ASSOCIATE

NAME	Balance Date	Ownership held by consolidated entity		
		Dec 2003 \$000	June 2003 \$000	Dec 2002 \$000
Sunshine Harvest Pty Limited atf Sunshine Harvest Unit Trust	30 June	50%	50%	50%

(i) Principal Activity

Sunshine Harvest Unit Trust grows and sells table grapes to the domestic market.

(ii) Share of associate's profits (losses)

	Dec 2003 \$000	Consolidated June 2003 \$000	Dec 2002 \$000
Share of associate's			
- net profit (loss) before income tax	734	(539)	-
- income tax attributable to net profit (loss)	-	-	-
Share of associate's net profit (losses) and extraordinary items after income tax	734	(539)	-
Adjusted for:			
Adoption of AASB 1037 Self Generating and Regenerating assets	(220)	220	-
Share of associates net profits (losses)	514	(319)	-

Tax in relation to the distribution of taxable income from Sunshine Harvest Unit Trust to unitholders will be determined at 30 June each year.

(iii) Carrying amount of investment in associate

Balance at the beginning of the financial year	1,681	-	-
- investment acquired during the course of the year	18	2,000	-
- share of associate's net profits (losses) for the period	514	(319)	-
Carrying amount of investment in associate	2,213	1,681	-

(iv) Share of associate's assets and liabilities

Current assets	1,476	344	-
Non-current assets	2,267	2,262	-
Current liabilities	(224)	(94)	-
Non-current liabilities	(1,324)	(831)	-
Net assets	2,195	1,681	-

(v) Retained profits of the consolidated entity attributable to the associate

Balance at the beginning of the financial year	(319)	-	-
Share of associate's net profits (losses)	514	(319)	-
Balance	195	(319)	-

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 3</b>	<b>Investments accounted for using the equity method (continued)</b>
---------------	--

**(b) INTEREST IN ASSOCIATE**

NAME	Balance Date	Ownership held by consolidated entity		
		Dec 2003 \$000	June 2003 \$000	Dec 2002 \$000
Central Fruit Packers Pty Limited	30 June	40%	40%	-

*(i) Principal Activity*

Central Fruit Packers Pty Limited owns and operates a packing facility located in Mundubbera, Queensland.

*(ii) Share of associate's profits (losses)*

	Dec 2003 \$000	Consolidated June 2003 \$000	Dec 2002 \$000
Share of associate's			
- net profit (loss) before income tax	(206)	(114)	-
- income tax attributable to net profit (loss)	-	(6)	-
Share of associate's net profit (losses) and extraordinary items after income tax	(206)	(120)	-

*(iii) Carrying amount of investment in associate*

Balance at the beginning of the financial year	437	-	-
- investment acquired during the course of the year	29	557	-
- share of associate's net profits (losses) for the period	(206)	(120)	-
Carrying amount of investment in associate	260	437	-

*(iv) Share of associate's assets and liabilities*

Current assets	213	550	-
Non-current assets	2,206	2,005	-
Current liabilities	(44)	(110)	-
Non-current liabilities	(2,144)	(2,008)	-
Net assets	231	437	-

*(v) Retained profits of the consolidated entity attributable to the associate*

Balance at the beginning of the financial year	(120)	-	-
Share of associate's net profits (losses)	(206)	(120)	-
Balance	(326)	(120)	-

**ATTACHMENT 5**  
**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 4</b>	<b>Interest in joint venture operation</b>
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NAME	Balance Date	Ownership held by consolidated entity		
		Dec 2003 \$000	June 2003 \$000	Dec 2002 \$000
Ashley Ginning Services	28 February	49%	-	-

*(i) Principal Activity*

Ashley Ginning Services, a joint venture, was established in September 2003 to acquire the Ashley Gin and provide independent ginning services to cotton growers throughout the Gwydir Valley, NSW.

*(ii) Share of joint venture operations profits (losses)*

	Dec 2003 \$000	Consolidated June 2003 \$000	Dec 2002 \$000
Share of joint venture operations			
- revenues	-	-	-
- expenses	(125)	-	-
- net profits (losses)	(125)	-	-

*(iii) Value of investment*

Purchase consideration (a)	3,500	-	-
Costs incidental to purchase	231	-	-
	3,731	-	-

(a) 10,000,000 fully paid shares at an issue price of \$0.35 in Australian Food & Fibre Limited were issued in consideration for 49% of the Ashley Ginning Services assets. These assets were independently valued at \$3.668 million by Colin Hannah and Ron Highman of PricewaterhouseCoopers Securities Limited and this value has been relied upon as reflecting the fair value of the company's 49% interest in the assets of Ashley Ginning Services. The Directors have not applied the market value of the shares as the fair value of the assets as the market value of the shares has consistently traded below the net asset value of the company. An Independent Experts Report was prepared in October 2002 and was relied upon for the purpose of this transaction. It valued AFF shares in the range \$0.37 to \$0.43. The difference between the fair value of the assets and the then current market price of the shares is \$600,000.

*(iv) Share of joint venture partnership's assets and liabilities included in the financial report are:*

Current assets	56	-	-
Non-current assets	3,710	-	-
Current liabilities	(25)	-	-
Non-current liabilities	(10)	-	-
Net assets	3,731	-	-

**ATTACHMENT 5**

**Australian Food & Fibre Limited**

**Notes to the Financial Statements**

<b>Note 5</b>	<b>Convertible Notes</b>
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During the half year the company issued a prospectus for a non-renounceable offer of convertible notes. On the 5 December 2003, 1,258,464 notes were issued raising \$12,584,644. In accordance with AASB 1033 Presentation and Disclosure of Financial Instruments, the company has classified \$11,424,718 as a financial liability and \$1,159,926 as the associated equity component. The carrying amount of the convertible note financial liability is determined by discounting the streams of future payments of interest and principal at the prevailing market rates for a similar liability that does not have an associated equity component.

The carrying amount of the equity portion of the convertible note, being the holder's option to convert to ordinary shares, is determined using an option pricing model.

<b>Note 6</b>	<b>Contributed Equity</b>
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	for the 6 months ended Dec 2003		for the 12 months ended June 2003		for the 6 months ended Dec 2002	
	Number of shares	\$000	Number of shares	\$000	Number of shares	\$000
Balance at the beginning of the year	144,069,827	57,815	155,944,602	60,508	155,944,602	60,508
Increases through issues	10,000,000	3,500	18,501,130	6,475	18,501,130	6,475
Share buyback scheme	-	-	(30,375,905)	(9,168)	(16,624,686)	(4,740)
Convertible Notes	-	1,160	-	-	-	-
Closing balance	154,069,827	62,475	144,069,827	57,815	157,821,046	62,243

<b>Note 7</b>	<b>Retained Profits</b>
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The movement in retained profits is set out below:

	<b>Dec 2003</b>	<b>Consolidated June 2003</b>	<b>Dec 2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at the beginning of the year	9,506	11,647	11,647
Net profit (loss) attributable to the members of AFF	(2,537)	(943)	(1,233)
Total available for appropriation	6,969	10,704	10,414
Dividends paid	-	(1,198)	(1,198)
Closing balance	6,969	9,506	9,216

Attachment 6  
Australian Food & Fibre Limited

Segment Information

Business Segments	Cotton		Horticulture		Corporate		Other		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Sales to customers outside the consolidated entity	3,495	488	1,377	2,703	-	-	243	548	5,115	3,739
Cost of sales	(3,495)	(488)	(1,377)	(2,703)	-	-	(243)	(548)	(5,115)	(3,739)
Net market value adjustment	6,936	4,375	1,304	4,828	-	-	442	292	8,682	9,495
Other external revenue	149	706	215	4,745	182	47	2,034	50	2,580	5,548
	7,085	5,081	1,519	9,573	182	47	2,476	342	11,262	15,043
Segment Result	(799)	(440)	(1,242)	(243)	(2,046)	(1,290)	748	217	(3,339)	(1,756)
Share of net profit (loss) / result of equity accounted investments									308	-
Profit from ordinary activities before income tax (expense) benefit									(3,031)	(1,756)
Income tax (expense) benefit									494	523
Profit from ordinary activities after income tax (expense) benefit									(2,537)	(1,233)
Extraordinary item									-	-
Net profit (loss)									(2,537)	(1,233)

Attachment 6  
Australian Food & Fibre Limited

Segment Information

Business Segments	Cotton		Horticulture		Corporate		Other		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Depreciation and amortisation	887	646	131	309	11	7	3	3	1,032	965
<b>Individually significant items</b>										
Acquisition of property plant and equipment	17,077	25,984	134	-	-	-	-	-	17,211	25,984
Carrying value of property sold	39	-	-	4,112	-	-	1,657	-	1,696	4,112
<b>Assets</b>										
Segment Assets	114,388	97,890	12,107	23,794	4,081	1,147	13,442	8,853	144,018	131,684
Equity Accounted Investments	-	-	-	-	2,473	2,000	-	-	2,473	2,000
									146,491	133,684
Segment Liabilities	3,865	4,635	610	801	61,902	46,264	152	7	66,529	51,707

The economic entity currently operates predominantly in two industries, horticulture and cotton. The horticultural operations, located in Queensland, comprise the growing, harvesting and marketing of citrus fruits. The cotton operations, located in New South Wales, comprise the growing, harvesting and marketing of cotton and rotation crops allied to cotton growing. Cattle are also grazed on undeveloped land. Non-core activities include pine forests assets and assets that have been identified for disposal. All debt, with the exception of hire purchase facilities, is allocated to the corporate segment which is responsible for the treasury function.

ATTACHMENT 7

**Australian Food & Fibre Limited**

**Directors' Declaration**

In accordance with a resolution of the directors of Australian Food & Fibre Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
  - (i) give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

*DW Robinson (Signed)*

DW Robinson  
Director  
16 February 2004

## Independent review report to members of Australian Food & Fibre Limited

### 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 Australian Food & Fibre Limited and its controlled entities (the consolidated entity), for the half-year ended 31 December 2003. The consolidated entity comprises both the company and the entities it controlled during that half-year.

The directors of the consolidated entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", 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.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the consolidated entity, and in order for the consolidated entity to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

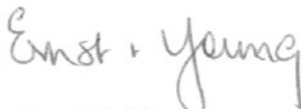
### Independence

We are independent of the consolidated entity, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our review of the financial report, we were engaged to undertake other non-audit services during the period. The provision of these services has not impaired our independence.

## Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Australian Food & Fibre Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Jennifer Parker  
Partner

Brisbane  
16 February 2004