

# **SOUTHERN QUALITY PRODUCE CO-OPERATIVE LIMITED**

**ABN 80 640 561 490**

## **ANNUAL REPORT 2009**

### **CONTENTS**

<b>Chairman's Report</b>	<b>Page 2 - 3</b>
<b>Operations Report</b>	<b>Page 4 - 5</b>
<b>SQP Pty Ltd Report</b>	<b>Page 6-7</b>
<b>Audited Financial Report</b>	<b>Page 8 - 25</b>

## **SQP Co-operative Ltd: Chairman's Report**

I am pleased to be able to report to you on the 2008/09 financial year of SQP Co-op after a term as Chairman. Your Board has been actively consolidating the position of the Co-op during this time, while also laying the foundations for both a wider membership base and developing new income streams and services for our Members. The key to our success in this has been the employment of Michael Porter as Executive Officer of SQP Co-op in December 2008. Michael has brought many skills to this role which have enabled him to both evaluate the existing business and visualise the way forward for the Co-op. He has effectively implemented a communication program to keep both the Board and you well informed. Michael is very approachable and always interested in the issues facing Members. Please make sure that you use Michael as your point of contact with any relevant queries.

For the 2008/09 financial year SQP Co-op posted a profit before tax of \$144,532. While this is well down on the previous corresponding period, it reflects the allocating of funds to new ventures and services. I won't dwell too much on the financials as they will be examined in more depth by the Executive Officer, but will say that it is pleasing for the Board to have our total equity increase by 21% to \$861,642. The sound financial result of 2008/09 has allowed your Directors to declare a 5 cent per share unfranked dividend. This represents a competitive 10% return on your investment before tax – a creditable effort in the prevailing economic conditions. A dividend reinvestment scheme will be again offered and encouraged so that this business can continue to grow its total equity. Membership fees are to remain at \$605 (GST inc) for this year which I think offers great value for money for your services. Currently the share register is being reviewed as we deal with Members leaving agriculture for various reasons.

The Co-op Board met in Horsham in July in conjunction with a SQP Pty Ltd marketing brief. At this meeting we were pleased to be able to get to know both prospective and our new members from this area. We have undertaken a measured approach to Co-op growth in this region, with an emphasis on being able to supply relevant services and inputs to our new members. Initially Aaron Matheson and now Russell Coates have given SQP Pty Ltd a great start to our grain marketing service in the Wimmera as well as raising the profile of the Co-op, while managing to accrue 45000 tonnes of grain for the 2008/09 period. Total Member numbers now stand at 187 with 20 new members for the year - 10 of our new members being welcomed from north of the divide.

Ben and his team in the Ballarat office have continued to provide a grain marketing service of high quality to our Members. Both the electronic information, along with personal service, has helped the Ballarat office to accumulate 145,000 tonnes of grain. This was a solid result for Pty Ltd given the patchy to poor seasonal conditions of the South West. You as Members are credited with delivering 140,000 tonnes of this grain - a terrific reflection of your loyalty to the business.

Our investment in the seed industry, which was very capably developed by Col Hacking, has moved to the next stage with a merger of our business with GrainSearch (GS). This has given the combined entity a greater chance of success in this industry with a wider suite of seeds available to a larger grower group.

GrainSearch has some very promising barley varieties in the production, bulk up and trial stage. The quality of GS1234 in the malt house is high and along with some other key agronomic traits such as high head retention, good grain size and a shorter straw, make it potentially a great variety for the Western District and southern Wimmera. The close relationship with domestic maltsters is also contributing to GS being able to fully understand their needs so that varieties can be developed to suit different malt types. These

relationships also give the SQP investment group a chance of being involved throughout the supply chain for barley.

'Revenue' and 'Beaufort' are complimentary, dual purpose, high yielding wheat varieties with different seasonal requirements. 'Revenue' thrives on an early sowing date and provides sound disease resistance and great recovery from grazing, while 'Beaufort' can tolerate a much later sowing with good agronomic traits. Both will be available next season in good volumes if we have an average finish to the season. The promotion of our seeds has begun and will ramp-up in the spring. Please check their credentials as we will again be relying on our Members' support to reach the full potential of these varieties.

The strength of the management team will help build a successful future for GS. Michael Porter will oversee the business as General Manager, Denis McGrath with this wealth of industry experience heads up Network Management, while Col Hacking is doing a great job with the trial work and as the Production Quality Manager. They, along with the new Board, are currently planning the future directions and goals of the business. Again any member input would be well received as we move along this path.

The Co-op has continued with its agenda of educating its members during the year. Kerry Miles was able to present to our grower meetings in early April with regard to on farm grain storage issues. As more grain is held on farm for later delivery into high value markets, Kerry's advice will be invaluable. He will remain available to the group as a consultant. We were also able to hear from Jimmy Connor in August with a presentation on the soft commodity futures markets and the impact of changes to the regulations governing these markets. Lachie Stevens was then able to give a more domestic outlook of the markets, using his oilseed background and Profarmer knowledge. We are keen to keep up a regular program of information sessions which are relevant to the issues that your business' face.

Chris Cooper from the Co-operative College in the UK recently hosted a workshop attended by this Board and a number of Members in Ballarat. We were again able to assess the strengths of the Co-op model and re-focus on our overall goals, while still concentrating on remaining a profitable business. We also spent time planning both Director education and how we might implement a Director renewal process. To this end we have started a Register of interested Members who consider that they have the time, skill and inclination to serve on our various Boards in the future. This register certainly has no gender bias, so please consider forwarding your name so that we can invite candidates to our Board training days and workshops.

Thank you to all our Board Members for their continued effort and support during the year. This group has worked well together over a number of years to give the Co-op stable and capable governance. I would also like to note Rod Laidlaw's skills and efforts as our past Chairman. He capably led us through the formation of SQP Pty Ltd and through the period of renewal following this. Well done!

With a continuation of current seasonal conditions and a stabilising of soft commodity prices, I am confident that with your support we can continue to profitably grow this business.



Mr Douglas (Doug) Laidlaw  
Chairman  
SQP Co-operative Ltd

## SQP Co-operative Ltd: Operations Report

It gives me great pleasure to submit this, my first, operations report for SQP Co-operative Ltd. Over FY09 SQP Co-op has built on its strong position in the Victorian market as a leading provider of grain industry products.

### Financial Year Summary

Overall, the performance of SQP Co-op was sound, especially when considering our investment in the SQP Seeds venture, which led to the purchase of a majority stake in GrainSearch Pty Ltd; and the increased overheads such as new employees, new offices, greater commitment to member education (Profarmer), and for the first time payment of Directors. Net Profit after Tax (NPAT) was \$113 354 (07/08: \$344 892); this is after a provision for a 10% unfranked dividend.

What makes this result particularly pleasing was the contribution from major input sales and insurance. Support of these products from members is heartening as increased volume means SQP Co-op can continue to push the retail-market price down.

Of course, the performance of SQP Co-op is still predominantly underpinned by the performance of SQP P/L, now entering its third season as a Joint Venture between SQP Co-op and the Emerald Group. This entity continues to perform extremely well in a competitive market. The security of this business is still reliant on support from Members, and this support has been rewarded with a \$316 800 (07/08: \$229 104) dividend payment. This represents a return on investment (ROI) of 70.4% and a two year ROI of 121%. This is a fantastic result especially given the poor 2008/09 harvest.

A summary of key performance areas is presented below:

Performance Indicator	2008/09 (\$)	2007/08 (\$)	Change
<b>NPAT</b>	113 354	344 892	↓ 67%
<b>Total Equity</b>	861 642	711 519	↑ 21%
<b>Final Members' Div</b>	66 172	111 600	↓ 41%
<b>SQP P/L Dividend</b>	316 800	229 104	↑ 38%
<b>Commission Income</b>	42 847	22 870	↑ 87%

### FY 09 Operational Highlights and Future Ambitions

Since my arrival at SQP Co-op I have been impressed by a number of milestones that all contribute to delivering against our Core Philosophy:

'Adding value to every member, every day through every season'

Overtime we intend to add more functions, services and programs that deliver against this statement. All of these will be underpinned by our 'Sow – Grow – Harvest' policy, as endorsed by the SQP Co-op Board in the 2009 SQP Co-operative Business Plan. In turn, all will fit in with our co-operative principles, being:

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training and Information
- Co-operation among Co-operatives
- Concern for Community

The most significant change to the SQP Co-op investments during FY09 was the transfer of our seed venture assets to GrainSearch Pty Ltd. In return, SQP Co-op now has close to a 70% ownership stake in GrainSearch Pty Ltd. This is a great outcome for the Co-op as it removed a competitor in the marketplace and allowed SQP Co-op to access a range of expertise in the seed industry that we previously did not possess. In turn, this investment has lowered the Co-op's planned expenditure into the seed venture for FY10. To ensure success, this business unit will require the support of members, particularly during the 2010 sowing season.

Other highlights include:

- The ongoing success of the SQP P/L business, especially the growth in the tonnage purchased through the Horsham office.
- The retention of current SQP Co-op members and the growth of new members predominately in the Horsham area.
- The successful introduction of the Profarmer newsletter and its retention into FY10.
- The fantastic support from members for Fertiliser/Urea sales.
- The wide spread uptake of after harvest crop insurance through AgriRisk.

The season to date is working out well and this allows SQP Co-op to plan for the future with confidence. Throughout FY10 SQP Co-op will continue to deliver against its core philosophy, this will include:

- The production of quality seed and its delivery to the marketplace. Varieties include wheat such as Revenue (95102) and Beaufort, and Barley including Fairview and GS1234.
- The expansion of major crop inputs to include a broader range of products and payment options.
- The introduction of a Co-operative Personal and Professional Assistance Program (CPAP). The CPAP service will be open to all members and their families. It includes an online research subscription, and a 24-hour a day help line for both professional (eg: employee relations, superannuation, and management problems) and personal (eg: finances, depression, stop smoking) issues. In addition, this service includes up to eight free counselling sessions aimed at short term resolution of these and any other issues.
- The continued offering of market leading insurance products.
- The continued support of SQP P/L, as this business continues to offer service that is second to none and products that lead the market.
- The continued development and enhancement of member education services.
- The investigation and movement towards designated SQP Co-op storage and logistic assets.

Finally, on a personal note I have been consistently impressed by the enthusiasm of our members and dedication of the SQP Co-op Board. These two items alone allow me to lay a foundation for growth of our Co-operative.

Kind Regards,



M.R. Porter  
Executive Officer  
SQP Co-operative Ltd

## SQP Pty Ltd Report

The second season of operation for SQP Pty Ltd (SQP) was again a successful one; in excess of 190,000mt of grain was accumulated from Victorian growers and 140,000mt of this grain originated from the Co-operative membership base. This represents 25% of total Western Victorian grain production.

Over the past year, SQP has continued to grow revenue, reduced variable costs, managed its capital position and finance requirements, and increased profitability. In an extremely volatile year on a global, national and regional level, the SQP Board have overseen these achievements, with the Company now placed in an excellent position ahead of the 2009/10 season. This position can be attributed to the hard work of the SQP Board and staff, along with the excellent support of Co-operative members and other growers.

The Ballarat office has consolidated over the past twelve months, with Andrew Hillier responsible for a large component of the SQP wheat and barley sales program, along with providing a reliable service to Co-operative members. Andrew & I are ably supported by Kathryn Smith in her role in contract administration and logistics along with the recently-appointed Georgie Allen who has taken the reigns in a newly-created Corporate Administration role. As Co-operative members, you will see this flow through in a more streamlined and efficient grower service model.

As you would be aware, SQP opened a Horsham office in September 2009, employing Aaron Matheson to service the Wimmera region with pleasing results last harvest. Due to strong demand for our products and services, Russell Coates has now joined Aaron in Horsham - this is in the face of the deteriorating services being provided by the more established grain companies in regional areas, many of whom have closed offices and moved to a hotline in Melbourne or interstate.

With our focus now on the 2009/10 Financial Year, SQP are actively working on a range of key items including:

- Increased funding lines to \$50M with the NAB, and further access to finance through the Emerald Group if required. These strong banking relationships have been built over the past seven years which enable SQP to confidently provide finance to a large supply of grain this harvest;
- Development of an industry-first onfarm accreditation program – a joint initiative between SQP and Grain Storage Services (GSS). This service will assist growers to develop and implement cutting edge storage procedures and management of grain stored onfarm. It will also open up a number of innovative marketing opportunities such as onfarm pools and price later contracts for accredited growers;
- Development of the unique NewGeneration canola pool, which is the first of many co-managed pools between SQP and grower clients. This is the first of its kind in Australia.

SQP has been required to manage not only deteriorating global economic conditions but also drought, affecting many of our growers. While the global economic environment remains difficult, the agricultural sector is characterised by sound fundamentals and a generally positive outlook. Demand for food, fibre and the land remains strong and should continue to grow. We are excited about the long term growth of the agricultural sector and the opportunities we have identified for the future.

We recognise that our achievements are only possible through the combined efforts of our people and those who support us. On behalf of the SQP Board, we thank them for their commitment and performance and look forward to working together to take our company forward in the coming years.

Regards,

A handwritten signature in black ink, appearing to read 'Ben Fleay', written in a cursive style.

Ben Fleay  
Managing Director  
SQP Pty Ltd

# **SOUTHERN QUALITY PRODUCE CO-OPERATIVE LIMITED**

**ABN 80 640 561 490**

## **FINANCIAL REPORT 2009**

### **CONTENTS**

<b>Directors' Report</b>	<b>Page 9 - 10</b>
<b>Auditor's Independence Declaration</b>	<b>Page 11</b>
<b>Income Statement</b>	<b>Page 12</b>
<b>Balance Sheet</b>	<b>Page 13</b>
<b>Statement of Changes in Equity</b>	<b>Page 14</b>
<b>Cash Flow Statement</b>	<b>Page 15</b>
<b>Notes to and forming part of the Accounts</b>	<b>Page 16 - 22</b>
<b>Directors Declaration</b>	<b>Page 23</b>
<b>Independent Auditor's Report</b>	<b>Page 24 - 25</b>

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**DIRECTORS' REPORT**

Your directors submit their report of the co-operative for the year ended 30 June, 2009.

The names of the directors in office at any time during or since the end of the year are:

Mr Doug Laidlaw (Chairman)	Mr Adam Walton (Deputy Chairman)
Mr David Blackburn	Mr George Burdett
Mr Roderick Laidlaw	Mr James Leishman
Mr Garry Meek	Mr Warwick Read

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

The principal activities of the co-operative during the financial year were the provision of grain marketing products and information to grower members, through its 45% owned agent, Southern Quality Produce Pty Ltd.

The profit for the financial year after providing for income tax amounted to \$113,354 (2008: \$344,892).

The co-operative purchased a 68.9% interest in Grainsearch Pty Ltd during the financial year. No other significant changes in the co-operative's state of affairs occurred during the financial year.

The following dividends were paid or recommended for payment:

- a) No fully franked dividends were declared and paid during the year.
- b) Since the end of the financial year the co-operative has provided for an unfranked dividend of \$66,172 in relation to the year ended 30 June 2009.

Likely developments in the operations of the co-operative and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the co-operative.

The co-operative's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

No options to shares in the co-operative have been granted during the financial year and there were no options outstanding at the date of this report.

Directors and Officers have traded with the co-operative during the financial year. Any trading with the co-operative in these instances has been made on normal commercial terms and conditions.

The co-operative had not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the co-operative or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings. During the financial year the co-operative paid premiums to insure Directors against liabilities incurred by them arising out of their conduct while acting in the capacity of officer of the co-operative, other than conduct involving a wilful breach of duty in relation to the co-operative.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**


**DIRECTORS' REPORT**


No person has applied for leave of Court to bring proceedings on behalf of the co-operative or intervene in any proceedings to which the co-operative is a party for the purpose of taking responsibility on behalf of the co-operative for all or any part of those proceedings. The co-operative was not a party to any such proceedings during the year.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

Signed in accordance with a resolution of the board of Directors:

Director   
\_\_\_\_\_  
Mr Doug Laidlaw (Chairman)

Director   
\_\_\_\_\_  
Mr Adam Walton (Deputy Chairman)

Dated this 17<sup>th</sup> day of September, 2009

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

- i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Signed this 14<sup>th</sup> day of September, 2009

**PROWSE, PERRIN & TWOMEY**  
**Certified Practising Accountants**  
20 Lydiard Street South  
Ballarat Vic 3350



---

Tim S. Bunning (Partner)

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE, 2009**

	Note	2009 \$	2008 \$
<b>SALES</b>			
Sales – Grain		27,273	1,409,591
Sales – Fertiliser		-	202,314
		27,273	1,611,905
<b>LESS COST OF GOODS SOLD</b>			
Purchases – Grain		24,447	1,409,591
Purchases – Fertiliser		-	234,330
		24,447	1,643,921
<b>GROSS PROFIT/(LOSS)</b>		2,826	(32,016)
<b>OTHER INCOME</b>			
Agency fees		26,196	26,118
Commissions received		42,847	22,870
Hire income		4,150	11,115
Interest received		11,413	3,429
Decrease in provision for doubtful debts		-	42,000
Dividends/Distributions received		316,800	229,104
Members' subscriptions		102,620	67,950
Members' entrance fees		10,500	3,500
Pool management fees		-	156,541
Profit on sale of assets		-	3,648
Sundry income		573	363
		515,099	566,638
<b>LESS OVERHEADS</b>			
Administration	2	105,085	63,634
Borrowing costs	3	2,746	4,381
Motor vehicle expenses	4	5,009	402
Operating	5	260,553	102,543
		373,393	170,960
<b>NET OPERATING PROFIT BEFORE INCOME TAX</b>		144,532	363,662
Income tax expense		31,178	18,770
<b>OPERATING PROFIT AFTER INCOME TAX</b>		113,354	344,892

The accompanying notes form part of these financial statements.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**BALANCE SHEET**  
**AS AT 30 JUNE, 2009**

	Note	2009 \$	2008 \$
<b>CURRENT ASSETS</b>			
Cash assets	6	177,839	141,366
Receivables	7	<u>326,823</u>	<u>244,810</u>
Total Current Assets		<u>504,662</u>	<u>386,176</u>
<b>NON-CURRENT ASSETS</b>			
Other financial assets	8	485,055	455,045
Property, plant & equipment	9	<u>41,175</u>	<u>2,622</u>
Total Non-Current Assets		<u>526,230</u>	<u>457,667</u>
TOTAL ASSETS		<u>1,030,892</u>	<u>843,843</u>
<b>CURRENT LIABILITIES</b>			
Payables	10	34,708	1,268
Interest bearing liabilities	11	34,476	-
Tax liabilities	12	30,086	19,456
Provisions	13	<u>69,980</u>	<u>111,600</u>
Total Current Liabilities		<u>169,250</u>	<u>132,324</u>
TOTAL LIABILITIES		<u>169,250</u>	<u>132,324</u>
NET ASSETS		<u>861,642</u>	<u>711,519</u>
<b>EQUITY</b>			
Contributed Equity	14	661,724	558,000
Retained Profits		<u>199,918</u>	<u>153,519</u>
TOTAL EQUITY		<u>861,642</u>	<u>711,519</u>

The accompanying notes form part of these financial statements.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE, 2009**

	<b>Contributed Equity</b>	<b>Retained Profits</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2007</b>	554,500	(79,773)	474,727
Net profit attributable to members of the co-operative	-	344,892	364,823
Shares issued	3,500	-	3,500
Dividends paid or provided for	-	(111,600)	-
<b>Balance at 30 June 2008</b>	<u>558,000</u>	<u>153,519</u>	<u>711,519</u>
Net profit attributable to members of the co-operative	-	113,354	113,354
Shares issued	103,724	-	103,724
Dividends paid or provided for	-	(66,955)	(66,955)
<b>Balance at 30 June 2009</b>	<u>661,724</u>	<u>199,918</u>	<u>861,642</u>

The accompanying notes form part of these financial statements.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE, 2009**

	Note	2009 \$	2008 \$
<b>Cash Flows from Operating Activities</b>			
Cash receipts in the course of operations		448,124	2,744,735
Payments to suppliers and employees		(353,681)	(2,138,849)
Interest received		11,413	3,429
Interest paid		(1,240)	(2,835)
Income tax		(20,726)	686
		<u>84,890</u>	<u>607,166</u>
Net cash from operating activities	15(b)	<u>84,890</u>	<u>607,166</u>
<b>Cash Flows from Investing Activities</b>			
Payments for property, plant & equipment		(44,224)	-
Proceeds from sale of property, plant & equipment		-	9,158
Net movement in investments		(30,010)	(186)
		<u>(74,234)</u>	<u>8,972</u>
Net cash provided by/(used in) investing activities		<u>(74,234)</u>	<u>8,972</u>
<b>Cash Flows from Financing Activities</b>			
Dividends paid		(19,159)	-
Proceeds from borrowings		39,637	-
Repayment of borrowings		(5,161)	(563,030)
New capital		10,500	3,500
		<u>25,817</u>	<u>(559,530)</u>
Net cash provided by/(used in) financing activities		<u>25,817</u>	<u>(559,530)</u>
Net increase in cash held		36,473	56,608
Add opening cash at beginning of the financial year		141,366	84,758
		<u>177,839</u>	<u>141,366</u>
Cash at the end of the financial year	15(a)	<u>177,839</u>	<u>141,366</u>

The accompanying notes form part of these financial statements.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

**NOTE 1: STATEMENT OF ACCOUNTING POLICIES**

This financial report is a special purpose financial report prepared to satisfy the financial report preparation requirements of the Corporations Act 2001. The directors have determined that the co-operative is not a reporting entity.

Southern Quality Produce Co-operative Limited is a co-operative limited by shares, incorporated and domiciled in Australia.

**Basis of Preparation**

The report has been prepared in accordance with the requirements of the Corporations Act 2001, and the following applicable Australian Accounting Standards and Australian Accounting Interpretations:

AASB 101:	Presentation of Financial Statements;
AASB 107:	Cash Flow Statements;
AASB 108:	Accounting Policies, Changes in Accounting Estimates and Errors;
AASB 110:	Events after the Balance Sheet Date;
AASB 117:	Leases;
AASB 1031:	Materiality;
AASB 1048:	Interpretation and Application of Standards.

No other Accounting Standards, Australian Accounting Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

**Reporting Basis and Conventions**

This financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the co-operative in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Accounting Policies**

a) **Inventories**

Inventories are measured at the lower of cost and net realisable value. The co-operative held no inventory at 30 June 2009.

b) **Income Tax**

The co-operative adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit adjusted for permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision of deferred income tax or as a deferred tax asset the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

c) **Income Tax (Cont'd)**

Deferred Tax Assets are brought to account unless realisation of the asset is assured beyond any reasonable doubt. Any deferred tax assets in relation to tax losses are not brought to account unless there is virtual certainty of the realization of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the club will derive sufficient future assessable income and comply with the conditions of deductibility imposed by law.

d) **Employee Entitlements**

The provision for annual leave is accrued annually using current rates of pay and is classified as a current liability.

Contributions are made by the co-operative to an employee superannuation fund and are charged as expenses when incurred.

e) **Comparative Figures**

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

f) **Property, Plant & Equipment**

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

**Plant & Equipment**

Plant & equipment are measured on the cost basis.

**Depreciation**

All fixed assets, excluding freehold land, are depreciated on a prime cost basis over their useful lives to the co-operative. The depreciation rates applicable to each class of asset are set out below:

Motor Vehicles	25%
Office Equipment	25-40%

g) **Investments**

Non current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations.

During the 2009 financial year, the co-operative purchased a 68.9% interest in Grainsearch Pty Ltd which is recorded as a non-current investment in the co-operative's Balance Sheet. The trading results and financial position of Grainsearch Pty Ltd have not been consolidated into the financial statements of the co-operative as at 30 June 2009.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 2: ADMINISTRATION EXPENSES</b>		
Advertising	1,738	3,177
Auditor's remuneration – auditing the financial statements	3,250	4,500
Auditor's remuneration – other services	16,530	8,750
Bookkeeping	1,400	240
Computer expenses	107	-
Conferences and seminars	2,200	2,075
Consultancy fees	9,642	23,844
Internet fees	315	676
Legal costs	22,716	4,774
Meeting expenses	3,979	6,277
Postage	366	788
Printing and stationery	2,249	742
Professional development and training	82	-
Subscriptions and licences	26,682	218
Sponsorships	4,000	5,530
Telephone	2,523	-
Travelling expenses	5,182	1,793
Website	2,124	-
	<u>105,085</u>	<u>63,634</u>
<b>NOTE 3: BORROWING COSTS</b>		
Bank charges	1,506	1,546
Interest – Bank	1,240	2,835
	<u>2,746</u>	<u>4,381</u>
<b>NOTE 4: MOTOR VEHICLE EXPENSES</b>		
Fuel	3,364	402
Repairs and maintenance	1,125	-
Registration and insurance	520	-
	<u>5,009</u>	<u>402</u>

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 5: OPERATING EXPENSES</b>		
Bad Debts	1,191	-
Co-operative Management Service Fees (1)	30,420	30,330
Depreciation	5,671	8,535
Director's fees, allowances and superannuation	74,000	25,446
Grain Marketing Member Service Fees	26,196	26,118
Grainsmart expenses	-	2,320
Increase in provision for annual leave	3,808	-
Increase in provision for long service leave	-	2,429
Insurance	5,328	5,994
Motor vehicle – hire purchase charges	-	116
Recruitment expenses	2,520	-
Rental – office equipment	100	-
Research and development – agronomy trials	5,040	-
Staff amenities	-	245
Sundry expenses	-	943
Superannuation contributions	8,630	-
Salaries and wages	97,232	-
WorkCover	417	67
	<u>260,553</u>	<u>102,543</u>

(1) Occupancy expenses including rent of \$1,000 per month were paid by the co-operative to SQP Unit Trust and are included in Co-operative Management Service Fees.

**NOTE 6: CASH ASSETS**

Term deposit	5,000	5,000
Cash at bank – trading account	172,839	135,453
Macquarie Bank – office bond	-	913
	<u>177,839</u>	<u>141,366</u>

**NOTE 7: RECEIVABLES**

Trade debtors	9,847	15,706
Sundry debtors	176	-
Distribution receivable	316,800	229,104
	<u>326,823</u>	<u>244,810</u>

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

	2009 \$	2008 \$
<b>NOTE 8: OTHER FINANCIAL ASSETS</b>		
Loan – SQP Unit Trust	45	45
Shares in unlisted companies:		
Lake Bolac/Willaura Community Bank	5,000	5,000
Co-operative Federation of Victoria	10	-
Shares in subsidiaries:		
Grainsearch Pty Ltd	30,000	-
Units in unlisted trusts:		
SQP Unit Trust	450,000	450,000
	<u>485,055</u>	<u>455,045</u>
<b>NOTE 9: PROPERTY, PLANT AND EQUIPMENT</b>		
Motor vehicles	36,125	-
Less accumulated depreciation	<u>(2,511)</u>	<u>-</u>
	<u>33,614</u>	<u>-</u>
Office furniture and equipment	29,213	21,114
Less accumulated depreciation	<u>(21,652)</u>	<u>(18,492)</u>
	<u>7,561</u>	<u>2,622</u>
Total property, plant and equipment	<u>41,175</u>	<u>2,622</u>
<b>NOTE 10: PAYABLES</b>		
<b>Current</b>		
Goods and services tax	3,589	(1,003)
PAYG Withholding	10,081	-
Superannuation liability	9,034	63
Trade creditors	10,033	2,208
Mastercard	1,971	-
	<u>34,708</u>	<u>1,268</u>

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 11: INTEREST BEARING LIABILITIES</b>		
<b>Current</b>		
Car loan (1)	38,409	-
Less unexpired charges	<u>(3,933)</u>	<u>-</u>
	<u>34,476</u>	<u>-</u>
 (1) Loan secured by a goods mortgage over the vehicle		
<b>NOTE 12: TAX LIABILITIES</b>		
<b>Current</b>		
Provision for income tax	<u>30,086</u>	<u>19,456</u>
<b>NOTE 13: PROVISIONS</b>		
<b>Current</b>		
Provision for annual leave	3,808	-
Provision for dividends	<u>66,172</u>	<u>111,600</u>
	<u>69,980</u>	<u>111,600</u>
<b>NOTE 14: CONTRIBUTED EQUITY</b>		
1,323,447 (2008: 1,116,000) ordinary shares issued at \$0.50 each	<u>661,724</u>	<u>558,000</u>

**Fully paid ordinary shares**

Ordinary shares participate in dividends and the proceeds on winding up of the co-operative in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

During the year ended 30 June 2009, 207,447 (2008: 7,000) shares were issued.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 15: NOTES TO THE STATEMENT OF CASHFLOWS</b>		
<b>(a) Reconciliation of cash</b>		
Cash at Bank	172,839	135,453
Short term deposits	<u>5,000</u>	<u>5,913</u>
	<u>177,839</u>	<u>141,366</u>
 <b>(b) Reconciliation of operating profit to cash flows from operations</b>		
Operating profit after tax	113,354	344,892
Add (deduct) non cash items		
Depreciation	5,671	8,535
(Profit)/Loss on sale of non-current assets	-	(3,648)
Changes in assets and liabilities:		
(Increase)/Decrease in receivables	(82,013)	552,863
(Increase)/Decrease in inventories	-	738,110
Increase/(Decrease) in payables	33,440	(789,845)
Increase/(Decrease) in provisions	<u>14,438</u>	<u>(22,891)</u>
Net cash flows from operating activities	<u>84,890</u>	<u>607,166</u>

**NOTE 16: CONTINGENT LIABILITIES**

The co-operative has guaranteed the bank overdraft facility of \$100,000 of a related entity, Grainsearch Pty Ltd. As at 30 June 2009 none of the facility was in use by Grainsearch Pty Ltd.

**NOTE 17: CO-OPERATIVE DETAILS**

The registered office of the co-operative is:  
72B Mair Street East  
Ballarat Vic 3350

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**


**DIRECTORS DECLARATION**


The Directors have determined that the co-operative is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The directors of the co-operative declare that:

1. The financial statements and notes, as set out on pages 12 to 22, are in accordance with the Co-operatives Act 1996:
  - a) comply with Accounting Standards as described in Note 1 to the financial statements and the Corporations Regulations 2001; and
  - b) give a true and fair view of the co-operative's financial position as at 30 June 2009 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. In the directors' opinion there are reasonable grounds to believe that the co-operative will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director   
\_\_\_\_\_  
Mr Doug Laidlaw (Chairman)

Director   
\_\_\_\_\_  
Mr Adam Walton (Deputy Chairman)

Dated this 17<sup>th</sup> day of September, 2009

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS  
OF SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**

We have audited the accompanying financial report, being a special purpose financial report, of Southern Quality Produce Co-operative Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

*Directors' responsibility for the financial report*

The directors of the co-operative are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibilities also include establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an audit opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**  
**ABN 80 640 561 490**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS  
OF SOUTHERN QUALITY PRODUCE CO-OPERATIVE LTD**

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Southern Quality Produce Co-operative Ltd on 14 September 2009, would be in the same terms if provided to the directors at the date of this auditor's report.

*Auditor's Opinion*

In our opinion, the financial report of Southern Quality Produce Co-operative Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the co-operative's financial position as at 30 June 2009 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
- (b) complying with Accounting Standards in Australia to the extent described in Note 1 and the Corporations Regulations 2001.

Dated this 18<sup>th</sup> day of September, 2009

**PROWSE, PERRIN & TWOMEY**  
**Certified Practising Accountants**  
20 Lydiard Street South  
BALLARAT VIC 3353



---

Tim S. Bunning (Partner)