PEANUT COMPANY OF AUSTRALIA

ANNUAL REPORT 2006

Contents

PCA growing the future.

Laser Sorter

MISSION STATEMENT

Our business is to process and market great tasting, healthy peanut and high oil seed products.

In doing this we will serve the best interests of:

- our Customers – by guaranteeing the best possible standards of quality, taste and service;
- our Growers – by constantly striving to improve quality, security of supply and efficiency, in addition to providing long-term competitive contractual arrangements;
- our Employees – by providing safe, rewarding and secure employment in an environment of equal opportunity for promotion, innovation and success;
- the Community – by ensuring a responsible attitude to the environment and the people who use our products.

Through continuous improvement and innovation, we will produce superior business results, giving our shareholders the best sustainable return whilst providing a strong cash flow for the development and expansion of the business.

STRATEGIC DIRECTION

PCA reviews its Strategic Plan annually to reflect changes in markets, varieties and technology.

PCA's current goals are to:

- develop and enhance the Australian market;
- extend the capabilities of our value-added range;
- look to process other crops where there may be synergies;
- grow overseas markets on the back of the excellent quality and shelf life of our products.
- introduce new technology to reduce costs and improve processing yields; and
- work with other organisations where a strategic fit is evident.

Highlights

RETURN TO PROFITABILITY

PCA returned to profitability despite the challenges faced by the Company in a less than favourable agronomic season for dryland farmers.

PCA achieved this recovery through a meticulous focus on key strategic programs including Hi Oleics, cost reduction, production region expansion and business diversification.

PCA continued to develop new markets during 2005-2006 despite the challenges created by the on-going drought on supply and quality.

Hi Oleic peanuts have solidified their position over the past 12 months as PCA partnered with domestic customers to promote the health benefits of Hi Oleic peanuts to consumers.

Growing interest in Hi Oleic peanuts was experienced in international markets, especially Japan and Korea, although the high value of the Australian dollar and strong domestic demand discouraged export sales.

PCA's risk mitigation strategy to ensure consistent supply of Hi Oleic peanuts was a key element in ensuring PCA's supply base was not crippled by drought in 2006. Part of this strategy was the continued expansion of peanut growing into irrigated coastal areas around Bundaberg, where record yields were experienced.

Supply chain management, cost savings from within the Company and the strength of our sales team enabled PCA to smooth out some of the bumps in a very tough year where the weather was our main foe.

SIGNIFICANT EVENTS 2005–2006

- An operating profit before tax of $1.6 million.
- Positive cash flow and debt reduction of $9 million.
- Revenue generation of $55.6 million.
- Market development continued to strengthen in Asia and Japan.
- Ongoing success of the Hi Oleic peanuts that offer increased health benefits and product performance.
- Production region expansion.
- Hi Oleic Virginia varieties fast tracked to seed scheme.
- 2005 intake 100% Hi Oleic Runners.

FINANCIAL HIGHLIGHTS

	2006	2005[1]	2004	2003	2002
Revenue ($000)	55,611	69,208	65,557	63,399	61,400
Operating profit (loss) before tax ($000)	1,585	(3,181)	(816)	1,699	5,000
Operating profit (loss) after tax ($000)	1,151	(2,151)	(705)	1,162	3,467
Total Assets ($000)	45,863	46,059	53,775	51,189	33,366
Earnings per share (cents)	27	-	-	28	80
Dividends paid per share (cents)	5	8	11	10	10
Issued shares	4,311,937	4,311,937	4,311,937	4,311,937	4,354,928

[1]Adjusted to Australian International Financial Reporting Standards (AIFRS) requirements.

Chairman's

Statement

"The primary objective of PCA remains to provide satisfactory returns to shareholders..."

Dear Shareholders

2006 has been a year of change for the board, with the retirement of three directors who had been instrumental in shaping the strategic direction of PCA over the last 8-10 years.

A conscious decision was made to take this opportunity to consolidate the Board into a smaller base of four, in line with our overall commitment to cost reduction and increased commercial focus across the business.

Change was not isolated to the boardroom. In March, shareholders were asked to support the removal of the 10% maximum shareholding rule in the Constitution, which was a carryover from our co-operative days. An overwhelming 86% of voting shareholders accepted the Directors' recommendations to adopt the changes, which will provide:

- increased flexibility when reviewing strategic business growth,
- an ASX compatible constitution, and
- greater liquidity for shareholders wishing to buy or sell shares.

The challenges and changes continued in the marketplace, too. Australia is not isolated from world market conditions and import competition is now a strong and permanent feature for PCA to deal with. While both the Company and suppliers are more than fortunate that management and previous boards have committed to the development of new plant varieties which give higher yields and better drought tolerance, the key to PCA's success in the next few years will be the product differentiation which the Hi Oleic varieties provide. To survive and succeed in the domestic market, PCA must maintain sound diversification in its products, for which such constant Research and Development (R&D) expenditure is critical.

Product differentiation will be one of only a small number of ways PCA can deliver anything but world prices to farmers. It follows that true commercial practices must be adopted by the Company to have a long term future, and to continue to be a means to market farmers' crops profitably. In combination, both PCA and farmers must meet the market and maximise their productive efficiencies.

Because of this necessary tension between the world market and domestic production and input cost, I regard it as extremely important that the Board include both someone who represents farmers' views (Niven Hancock) and someone who has extensive experience in bridging the gap between farmers and domestic consumption (Ian Langdon). I cannot over-emphasise the need for PCA to be able to deal profitably with the manufacturers and retailers in this country, as this is where our future, and that of our farmer suppliers, lies.

Going forward, our strategies other than continued R&D and product differentiation are to engage in downstream processing, to add value to the basic nut and to provide further product differentiation, and to diversify the mainstream business away from a sole reliance on the humble peanut. In the eight months I have been Chairman, Management and the Board have considered a number of specific opportunities in both of these areas, but as yet no suitable investments have been found. These strategies will continue to be actively pursued in 2006/7.

The primary objective of PCA remains to provide satisfactory returns to shareholders by:

- maximising reliable and ongoing business performance;
- achieving consistent profits to fund dividends, capital expenditure and growth.

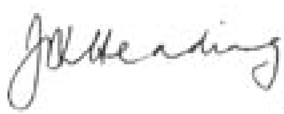
I am therefore very pleased to be able to confirm a return to profit in 2005/6. Earnings before interest and tax was $1.585 million, which was within the range of expectations previously advised.

In part because of changes in accounting policies made necessary by the national adoption of the new Australian International Financial Reporting Standards (AIFRS), net profit after tax is only $1.151 million.

Budget and planning for 2006/7 are for significantly improved earnings. There are of course many factors that may prevent achieving that target, the most important of which is the weather.

With this upward profit outlook, Directors approved a dividend of five cents a share in November 2005, and a final dividend of six cents per share to be paid shortly. At this stage, we expect to be able to maintain this level of total dividend in 2007.

Finally, I take this opportunity to thank both past and present Directors and the Management team at PCA for their dedication and efforts in what was a difficult year for the Company, but also one which secured a return to profitability.



Brett Heading
Chairman

Managing Director's
Statement

"PCA continues to review and challenge our systems to ensure we implement innovative solutions as we strive for world's best practice."

Dear Shareholders

PCA has faced many challenges over the last 12 months, as we experienced another dry season agronomically, coupled with decreased water availability in some irrigated areas.

The focus of 2006 was one of consolidation and cost reduction after the poor result in 2005, whilst maintaining quality, service and consistency of supply.

I am pleased that the hard work has paid off and PCA has returned to profitability despite the poor agronomic season. An operating profit before tax of $1.585 million has been achieved in 2006, as against a reported loss of $3.181 million in 2005.

In the financial year under review, PCA has achieved the following milestones:

- a focus on profitable business – the domestic market, where differentiation presented by the Hi Oleics is gaining momentum and in some markets is actively sought;
- a profit after tax of $1.151 million, a turnaround of $3 million on March 2005;
- generation of $12.9 million cash flow from operating activities which allowed a reduction of debt of $9 million. It is the first time in 3 years, PCA has the seasonal debt back to a level considered desirable; and
- a significant reduction in operational costs, improved production efficiencies and investment coupled with a decrease in distribution costs due to decreased export sales.

Major Factors and Impacts – Year to 31 March 2006

Drought

The dryland farming region was hit by severe drought conditions, with some farmers baling crops for hay. The season had a significant impact on dryland yields, with a region average of only 1 tonne per hectare.

The drought has additionally impacted PCA operational costs, with slower throughput and increased yield losses in order to maintain PCA's stringent quality requirements.

While the poor agronomic conditions also impacted on water availability for some irrigated farmers, average yields increased across the irrigated and Northern Queensland growing regions. Strong performance of the Hi Oleic varieties continued agronomically with both Wheeler and Middleton – Queensland Department of Primary Industries and Fisheries (QDPI&F) breeding lines – being fast-tracked into seed production.

Operations

Operations continued to focus on increasing both yield and processing efficiencies, whilst maintaining product quality and achieving short and long term cost reductions.

PCA continues to review and challenge our systems to ensure we implement innovative solutions as we strive for world's best practice. To achieve this, a project team is reviewing a vast range of systems and their potential application to peanuts. This research has resulted in the installation of a new ultra violet sorter to remove foreign material and improve yield recovery.

January 2006 saw PCA nearing the completion of our asbestos removal program that has been rolled out over nine years and has cost over $1 million.

Research and Development (R&D)

R&D continued as a strategic focus across the business, as PCA builds long term business sustainability, security and growth through:

- consolidation of PCA's Further Processing Plant pilot facility;
- streamlining processes and improving quality and efficiencies;
- Near Infra-Red (NIR) technology as part of PCA's quality assurance programs, with strong potential for both in-line and static analysis; and
- on going commitment to a cultivar program, which will not only provide benefits to the grower but demonstrate a competitive advantage in the market place.

Hi Oleics

PCA's strategy to be 100% Hi Oleic for the 2006 crop was set back by drought and decreased water availability, which inhibited a portion of our accelerated seed scheme program. I am confident we will be commercially 100% Hi Oleic by the end of 2006, for both Virginia and Runners, with Spanish options targeted for accelerated grow out. This will assist our marketing and education programs which continue to build interest for the Hi Oleic varieties with customers, supermarkets and consumers.

Outlook – March 2007

The outlook for the year to 31 March 2007 will see the realisation of a number of strategic programs:

- 100% commercial supply Hi Oleic peanuts, including Virginia varieties;
- rationalisation of PCA's sorting technology;
- on line NIR analysis; and
- diversification of business risk.

PCA's focus on continuous improvement of process, quality and service has further strengthened our position as a leading supplier of Hi Oleic peanuts. Continued focus on the improved efficiencies and cost reduction across the business has contributed to PCA returning to profitability and the expectation of an improved result in March 2007.

Bob Hansen
Managing Director

Hi Oleics

Positioning for the future

"Peanuts are good for you – Hi Oleic peanuts are even better!"

PCA's involvement in every aspect of peanut production, from seed sales through to value-added products, is the key to our building and maintaining business sustainability, security and growth. It is also the foundation upon which our move towards marketing 100% Hi Oleic peanuts has been made possible.

More than ten years ago, PCA identified that product differentiation was an essential component of our long-term business strategy of growth, security and financial returns to shareholders. PCA was vulnerable to cheaper Chinese imports within the Australian market and competing in a commodity market on the world stage.

Hi Oleic peanuts were first commercially introduced to Australia by PCA in 2001. Alone and in conjunction with the QDPI&F we have continued to commit significant resources to increase the number of Hi Oleic varieties we can offer to growers.

The unique chemical characteristics of Hi Oleic peanuts presents PCA with not only strong yielding varieties with superior processing performance, but products with an extended shelf life and an increased ratio of monounsaturated to polyunsaturated and saturated fatty acids.

PCA is actively working with all segments of the industry to build a strong future for Australian Hi Oleic peanuts – from seed breeders and technology companies through to customers and health professionals who are promoting the physical and health benefits of PCA Hi Oleic peanuts to consumers around the world.

PCA has developed a brand and trademarked a logo to assist in the direct promotion of PCA Hi Oleic peanuts in the marketplace. PCA is also working with key customers to bring this to the consumer through advertorials and positioning on packaging.

The Hi Oleic story complements PCA's reputation for quality, reliability, innovation and performance, and delivers:

Grower

- Increased yields;
- potential for 6-8 tonne per hectare yields in irrigated areas;
- disease resistance; and
- market and price stability.

Customers

- Improved oil stability;
- enhanced product performance;
- extended shelf life – 10 times greater than a normal peanut;
- improved flavour and mouth feel; and
- reduced packaging costs.

Consumer

- Oil profile – "Just like olive oil";
- great-tasting quality peanuts;
- healthy snacking choice;
- low Glycemic Index;
- strong satiety – keeps you feeling full longer; and
- heart healthy product.

The performance of the new Hi Oleic varieties has secured market loyalty and presented new opportunities for growth. We believe Hi Oleic peanuts offer a strong future for the Australian peanut industry both nationally and internationally.

We are proud to announce that all PCA products will be 100% Hi Oleic by the end of 2006. The availability of Hi Oleic Virginia and small amounts of Spanish style peanuts to the market during the next financial year will create sales opportunities both domestically and internationally.

PCA values our customer partnerships and continues to strive to exceed customer expectations by providing innovative solutions and opportunities for them to explore. PCA Hi Oleic peanuts are an exciting part of this process.

Hi Oleic
Peanuts by PCA

Hi Oleic
Peanuts by PCA

"We believe Hi Oleic peanuts offer a strong future for the Australian peanut industry both nationally and internationally."

Marketing

"PCA is also driving a co-operative advertising campaign to help educate consumers about the benefits of Hi Oleic peanuts over 'regular' peanuts."

PCA has been continuing to partner with customers over the past 12 months to build market recognition of our long-lasting, healthy Hi Oleic peanuts.

A Hi Oleic logo has been developed in two forms: one for international use which features a map of Australia, and one for use on the domestic market. These logos are being trademarked and PCA is looking to partner with key customers to include the logos on their packaging.

PCA is also driving a co-operative advertising campaign to help educate consumers about the benefits of Hi Oleic peanuts over "regular" peanuts. Advertising has been placed in key magazines targeting mothers, health and image-conscious men and the key purchasers in households.

Advertisements promoting customers' products have been run in conjunction with this campaign. To date, advertising has been placed in Family Circle, New Idea, Men's Health and Qantas *(featured right)* magazines, as well as in trade journals. The full range of these advertorials are located on PCA's website.

To further support the Hi Oleic story, a Hi Oleic website www.hioleicpeanuts.com.au has also been developed to complement this advertising campaign and provide concise nutritional information. This also provides a one-stop location on the Internet for more information about PCA's Hi Oleic peanuts and the products in which they can be enjoyed.

In 2006 PCA instigated a concentrated media release program to newspapers, radio and TV stations with a solid response experienced with radio. Senior staff also underwent media training to encourage them to participate with confidence when media opportunities arise. As a result, positive coverage has appeared on ABC-TV Landline, Totally Wild (Channel 10) and WIN-TV news in addition to Queensland Country Life, other Australian newspapers and Australian and New Zealand radio outlets.

To further encourage media interest and educate research and health professionals, PCA will be sponsoring a visit to Australia in July 2006 by leading US researcher Professor Penny M. Kris-Etherton, from the Department of Nutritional Sciences at Pennsylvania State University. Professor Kris-Etherton has conducted extensive research into the health benefits of peanuts and will be conducting nutritional workshops with health professionals in Queensland, New South Wales and Victoria.

Supply Chain Management

As part of PCA's efforts to forge even stronger partnerships and to increase our service to our customers both nationally and internationally, PCA surveyed customers in a bid to learn how we could better serve them through not only planning for future innovation and growth strategies, but be their first supplier of choice. One of the outcomes that was identified was the need to streamline the communication process. Customers valued the information that was being supplied, however in a busy work environment, communication needs to not only be dynamic but add value in an effective and efficient way.

As a direct result of this research E-newsletters have been developed to serve the needs of both customers and growers, supplying concise information on areas that impact upon them. These newsletters work in close conjunction with PCA's website www.pca.com.au which remains our key communication tool.

Sales

PCA Hi Oleics – "Just the best peanuts!"

Export partner locations for 2005/2006:

- New Zealand
- Japan
- Korea
- Malaysia,
- Indonesia
- United Kingdom
- Germany
- Poland
- Netherlands.

The strength of our partnerships with customers has been clearly demonstrated during 2005-2006 with PCA receiving excellent support from both major and minor customers. These relationships are being maintained and grown by providing innovative opportunities to new and existing customers.

Sales finished the financial year on a strong note. This strength of performance continued into the new financial year.

PCA remains the sole producer of guaranteed pure Hi Oleic Australian peanuts. The longer shelf life, healthier Hi Oleic peanuts were first introduced two years ago and are now widely requested throughout all market sectors, both nationally and internationally.

Growing recognition of the performance benefits of Hi Oleic peanuts coupled with a growing supermarket interest in Australian sourced product also assisted sales.

PCA is on target to provide 100% Hi Oleic products by the end of 2006.

Domestic sales

PCA continues to maintain its reputation as a reliable quality supplier of great-tasting Australian peanuts.

The effort to build awareness about Hi Oleic peanuts resulted in products featuring Hi Oleic peanuts experiencing strong growth in the cereal, peanut butter, snackfood and confectionery markets. This achievement was realised through focused effort on the development and maintenance of key partnerships within each category.

The dedicated work of our sales team in 2005 paid off with:

- an overall decrease in Chinese imported peanuts coming into Australia;
- increased success with supermarket suppliers;
- PCA securing sales to new areas of the domestic market after failures by other suppliers to meet demand;
- the development of a new value added market for PCA; and
- consistent demand for value added flavoured lines, with distribution through a major Queensland-based retail outlet and a number of smaller niche outlets within Australia.

Looking forward, forecast contracts for 2006 are set to continue to grow market share.

Export sales

Following 2004's strong yielding crop and export tonnage performance, export sales returned to historic levels after an agronomic season affected by drought and water availability.

Key export markets continue to be an important strategic platform even in years with decreased yield. PCA has continued to concentrate its resources on three main markets, New Zealand, Japan and Korea where quality and the performance benefits of Australian Hi Oleic lines are realised and acknowledged as a point of differentiation

The New Zealand market grew strongly in 2005-2006 following the successful launch of new muesli bar products by two of PCA's customers into both the New Zealand and Australian market. Healthy snack bars and the healthy snacking category continue to grow as consumers seek dietary options that promote lifestyle, choice and longevity.

Development, sustainability and growth were the major strategies focused on in Japan and Korea, with strong interest again being shown in Hi Oleic peanuts as a point of product differentiation.

Five Year Total Sales – Tonnes

	Domestic	International	Total
2002	37,749	4,344	42,093
2003	36,376	3,110	39,486
2004	32,258	3,880	36,138
2005	36,054	12,664	48,718
2006	**33,189**	**3,079**	**36,268**

PCA and the Community

Nutrition in a Nutshell

Kingaroy Peanut Festival

PCA continued its long-standing support of the Kingaroy Peanut Festival in 2005, where a record crowd gathered to enjoy the events staged in front of PCA's silos.

An estimated 10,000 people watched the street parade and enjoyed a performance by a RAAF Roulette aircraft before the annual Peanut Thresher Pull.

PCA has committed to support the 2006 Peanut Festival which will also mark the 90th anniversary of the Queensland Department of Primary Industries and Fisheries being established in Kingaroy.

The Kingaroy Peanut Festival builds agricultural awareness as well as providing both an opportunity to promote peanuts, and allows PCA to be heavily involved in a great community event.

Culinary Competition

For the fourth consecutive year PCA has sponsored the South Burnett Culinary Competition at the Kingaroy Wine and Food in the Park Festival.

This annual event always draws large crowds to the PCA marquee to watch chefs do battle preparing dishes and desserts which must include PCA's Hi Oleic peanuts. Guest judges in 2006 were Courier-Mail Good Life journalist Fiona Donnelly and Brisbane chef Alastair McLeod from Brett's Wharf and Channel 10's "Ready Steady Cook". The event receives strong media coverage including WIN-TV news.

Overall winner was Kingaroy restaurateur Paul Stoddart who prepared Pork and Peanut Claypot and a crispy peanut chicken entrée. All recipes from the event are available on PCA's website, www.pca.com.au

This annual competition provides PCA with a real opportunity to raise awareness of and encourage innovate use of Hi Oleic peanuts in the general community and the media.

Allergen Awareness

PCA has significantly expanded the allergen awareness section of its website to include the latest research being carried out internationally into the problems food allergies present. PCA believes this to be an important contribution to sufferers, customers and the community as a whole.

PCA recognises that food allergies are a serious issue which create real concerns in the community. We believe it is our responsibility to provide accurate and up-to-date information which will assist allergy sufferers, their families and support networks and build awareness in the community.

PCA also continued our support of the Food Allergen Resource Bureau in Australia, international research and Anaphylaxis Australia Incorporated (a non-profit support group who provides vital information to new and on going allergen sufferers).

"... provides PCA with a real opportunity to raise awareness of and encourage innovate use of Hi Oleic peanuts in the general community and the media."

PCA Online

"This communication tool is an integral part of our interface with farmers, shareholders and customers."

PCA's website www.pca.com.au remains our key communication resource to reach stakeholders, growers, consumers and potential customers all around the world.

Usage has shown steady growth since the website's relaunch in April 2003, with an average of 6850 visitors and 250,000 hits recorded each month during 2005-2006, almost twice the level from the previous year.

A corporate area was designed specifically to provide shareholder information, including updated details about share trading and corporate news in a concise and easily accessible format.

Information of interest to potential international customers is included in several languages. The Japanese section has grown considerably over the past year with more information available on food safety and Hi Oleic peanuts to support our export partnering strategies in Japan.

Popular with the public is our recipe collection which has now expanded to almost 60 and continues to perform well in the monthly statistics.

Peanut growers are catered for with a large amount of reference material, the latest agricultural news, reviews of meetings and newsletters which can be sourced at their convenience.

The usage of the password-protected **InSite** area, designed especially for farmers, has also increased over the past 12 months, with a good proportion of our farmers utilising this area to keep abreast of market price information, specialist agronomic advice and weather statistics. New features added this year include a peanut machinery trading area and the "7 Tonne Club" which is an honour roll of growers who have achieved yields of 7 tonne per hectare or more.

PCA has also recently launched a second website, www.hioleicpeanuts.com.au, a simple one-stop information source for consumers looking on the Internet for information about Hi Oleic peanuts. This website is part of the marketing campaign to raise awareness of Hi Oleic peanuts – "Peanuts are good for you, Hi Oleic peanuts are even better" - with links back to the main PCA website.

Farming

Services

The 2005 harvest was one of great contrasts for PCA growers with record high yields recorded in some growing areas and other areas severely hit by drought.

Severe drought in South-East Queensland impacted heavily on all dryland production areas with some growers being forced to bale their entire crop for hay. In contrast, peanut growers in North Queensland recorded some of their best yields with a district average of 4.4 tonnes per hectare payment weight, a new record for the region.

Irrigated production areas in Southern Queensland also enjoyed a solid year despite the drought conditions with average yields increasing overall. Some exceptional yields of between seven and eight tonnes per hectare were recorded in both the Bundaberg and Chinchilla areas, with one Bundaberg grower achieving a record-breaking 8.74 tonnes per hectare payment weight, growing the variety Menzies.

Results from PCA's farm at Katherine in the Northern Territory continued to improve, with strong yields that met expectations. PCA continues to focus on yield improvement strategies by working closely with the QDPI&F and the Northern Territory Department of Primary Industry, Fisheries and Mines on various research programs, including foliar disease resistance and seed production.

The Hi Oleic Virginia variety Middleton was fast-tracked into seed production, however the high demand for seed at the end of 2005 still outstripped supply. A full commercial planting of Middleton will occur this year, removing the last low oleic varieties from PCA's intake.

The Hi Oleic Virginia variety Wheeler has also been moved into seed production and will be available for commercial release this year. All Runner varieties planted were again Hi Oleic with Menzies and Holt being the major varieties favoured by growers.

For the first time, PCA established strip trials at farms in Kumbia, Wooroolin and Coalstoun Lakes to enable growers to compare new varieties. Field days and grower meetings were held in conjunction with visits to these trial sites.

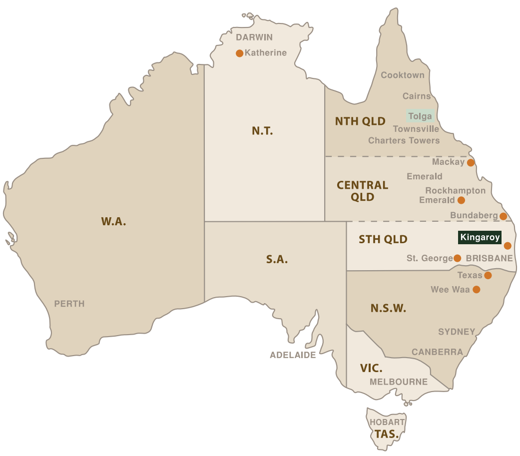
University of Florida peanut breeder Dr Dan Gorbet, the "father" of the first Hi Oleic peanut variety SO95R, also visited these trial sites at the invitation of PCA and spoke to farmers.

PCA is continuing to work closely with the QDPI&F peanut breeding program to develop and trial early-maturing Hi Oleic varieties suitable for dryland farming and disease-resistant varieties more suitable for irrigation and coastal regions. PCA is also undertaking contract seed production of these new cultivars on behalf of the QDPI&F.

PCA's strategic program to evaluate peanut cultivars sourced from overseas is on going, seeking varieties that combine Hi Oleic characteristics with high yields, disease resistance and early maturity.

As a result of the new Australian International Financial Reporting Standards (AIFRS), PCA has identified the value of its commitment to the development of the Peanut Cultivars program. PCA has engaged a consultant to review and value this asset and develop a system to identify and capture costs in the future.

PEANUT PRODUCTION AREAS IN AUSTRALIA

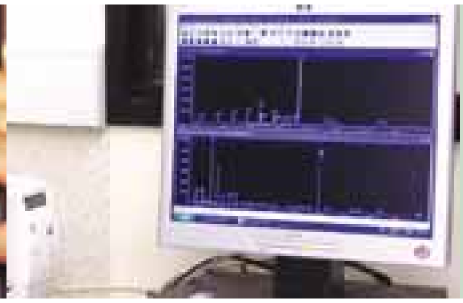


- **North Queensland high rainfall/ irrigated production –** average yields 4.4 tonnes per hectare
- **Irrigated production –** average yields 5 tonnes per hectare
- **Dryland –** average yields 1 tonne per hectare

Operational

Highlights





Operationally, the poor agronomic conditions experienced by some of our growers added an additional dimension to a challenging year as we focused on achieving increased yields and efficiencies whilst maintaining quality.

The achievements were attained through the dedication of staff who continue to look for innovative solutions to age-old industry specific problems.

Near Infra-Red Scanner (NIR)

PCA's relentless commitment to improving product quality saw a laboratory analysis methodology being introduced into the Blanching Plant in a world-first pilot project.

PCA's Innovation and Technical (IT) Centre has challenged existing analysis methods that are normally completed by wet chemistry in a laboratory environment, with dry chemistry technology on line.

A NIR scanner, normally restricted to laboratory bench analysis was installed on line in the Blanching Plant. The NIR scanner has the ability to measure moisture, protein, peroxide values, Hi Oleic acids and aflatoxin quality parameters. Although NIR scanners have been used in food processing plants before, this is the first time on line analysis has been achieved to this level.

Due to the success of the current project, PCA's aim is to fast-track NIR scanners into different locations throughout the Kingaroy plant as part of our long term cost reduction strategy.

These scanners will provide rapid and accurate result responses allowing production personnel more control of their processes.

Sorting Technology

One of PCA's continuous improvement projects has resulted in the formation of a Sorter Review team. This team is completing a major review of all sorter technology to ensure PCA continues to deliver world's best standards of quality, efficiency and food safety - free of contaminants and with uniform size and shape.

As part of this project, a new ultraviolet sorter designed to eliminate foreign matter and improve recovery yields is being trialled with the view to phase out the laser sorting system first implemented in 1994.

One of the key outcomes of this project team is to develop a five-year repurchasing program.

Value Added Products

The Further Processing Plant moved into a consolidation phase over the past 12 months producing flavoured peanuts to customers' specifications, and with some experimentation with pack sizes being undertaken to meet customer requirements. The strength and nature of the value added market has resulted in the facility being expanded.

Maintenance

As part of PCA's continuous improvement strategies, a number of maintenance projects have been completed:

Kingaroy

- A pilot computer program managing maintenance schedules in the Value Adding Plant has been extended across the whole Kingaroy complex, effective April 2006. This software will improve efficiency and help to reduce costs.
- Major maintenance work has been carried out on the coolrooms to save power, reduce costs and improve humidity control.
- A large climate control system has also been installed in the silo complex to maintain quality.

Tolga

- Improved loading and unloading at the drier was implemented.
- A new scalping sieve was installed to remove foreign material.
- All storage roofs were treated with heat-reducing paint to further enhance quality in storage; and
- An airlock installed to improve humidity control in both coolrooms.

Whilst Cyclone Larry had a devastating effect on some parts of Far North Queensland, only minimal damage was experienced at the Tolga plant.

Asbestos Removal

January 2006 saw PCA nearing the completion of our asbestos removal program that has been rolled out over nine years and cost over $1 million. The removal of asbestos roofing and sheeting on the silos was the major phase of this program. Completion of this portion of the project means that all major areas of asbestos products have now been removed from PCA's Kingaroy plant.

Training

Staff training remains a priority with employees taking part in a number of programs during the year including Certificate II in Food Processing and Certificate III in Business (Frontline Management), Annual Food Hygiene, Pest Control, Sampling and Probing, and VA Food Hygiene, Mass Management Loading for Trucks and Computer Systems.

Technical

Highlights

Continuing product development, the trialling of innovative scanning and sorting technology and the installation of new testing equipment have been the highlights at PCA's Innovation and Technical (IT) Centre during the past 12 months.

PCA's microbiological testing program is undergoing important changes under the direction of new microbiologist Dr Tracey Swan. Work is continuing to have the microbiological laboratory NATA accredited.

There is also continual development in PCA's pesticide laboratory to improve methods of detection, increasing the range of pesticides tested and the detection of pesticides below Australian and international maximum residue limits (MRLs). The increased sensitivities and range of pesticides tested further supports PCA's stringent quality control which commences with soil testing and progresses through to finished products.

The Agilent gas chromatograph / mass spectrometer (GC/MS) system installed in 2005 is providing greater flexibility in testing options and is currently being used in pesticide analysis and fatty acid profiling of oils. Fatty acid profiling of oils is an important validation step in PCA's Hi Oleic program.

The HACCP food quality assurance program has been reviewed with changes in document control and structure and a move to a computer-based system. This has increased efficiencies and will streamline the documentation process. PCA's HACCP accreditation is recognised internationally.

Halal and Kosher certification have been renewed and are key elements in PCA's positioning in both national and international markets.

New Technology

The origins of the research into NIR technology *(bench NIR Scanner right)* applications with peanuts commenced in the IT Centre, with PCA working in collaboration with Concept Evolution to develop the calibrations for measuring free fatty acid content, peroxide values, oil percentages, linoleic acid content, aflatoxin and moisture levels for peanuts.

The outcomes of the initial trials produced exciting results, which extended to additional research into the on line application and the justification of a pilot trial of near infra-red (NIR) scanning technology in the Blanching Plant.

On line NIR scanners will enable quicker and more representative testing results for all peanut products, eventually replacing much of the "wet chemistry" analysis that is currently performed in the laboratory.

NIR is an exciting application of existing technology, that will not only reduce both end point and on line testing time and cost but also has the potential to allow PCA to provide customers with more accurate data and service.

Cultivar Program

PCA's cultivar development program is an essential component of our continuous improvement strategies, impacting on farmers, customers and operational costs.

The use of new peanut cultivars and new agronomy has lead to significant improvements in yields per hectare *(table below)* for farmers. The impact has improved farmer's revenue and gross margin per hectare.

PCA believes the current improvement has been meritorious, and future yield improvements will be ongoing, with potential yields of 7 tonnes per hectare possible for irrigated farmers.

Cultivar program improvements - yields per hectare (tonnes)

Region	Five year average	2005 yields
Northern Territory	3.48	4.38
North Queensland	4.00	4.64
Irrigation	4.07	4.22
Rainfed Burnett	2.20	1.04

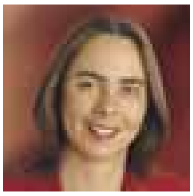
Management
Team

Bob Hansen
B.App.Sc (Hons), Grad.Dip.Man
Managing Director

See profile outlined in Board of Directors on page 15.

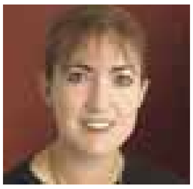
Kevin Norman
B.Agr.Sc (Hons), CPAg
Technical Manager

PCA continues to embrace new technology in all aspects of its business, from agricultural production through manufacturing, processing and quality assurance. As Technical Manager, Kevin is responsible for ensuring changes and continuous improvement systems are applied to PCA products. Kevin's role includes managing the laboratory and quality programs, updating customers on research outcomes, new varieties and systems development.



Tricia Freeman
21 Years Experience
Sales and Customer Services Manager

Tricia works closely with all customers developing new markets and maintaining close partnerships, by providing a continued supply and service to our valued customers. A key focus is placed on increasing the sales of PCA products with a major priority given to the supply of individual customer requirements through direct contact and liaison with agents, manufacturing, technical and despatch staff. Tricia is responsible for national sales, customer contracts, transport and logistics, and customer and agent liaison.



Juli Robertson
MBA (Operations Management),
B.App.Sc Food Technology,
Grad.Cert. (Manufacturing Management)
Grad. Dip (Operations Management)
Marketing Manager

As Marketing Manager, Juli is responsible for designing marketing strategies to create long-term demand for PCA peanuts, both nationally and internationally. While a primary focus is customer partnerships and sales, she also manages the dynamic PCA website and communications strategy for the Company. A qualified scientist, Juli is integral in the product development program.

Pat Harden
BApp.Sc. (Rural Tech)
Farming Services Manager

Farming Services covers all peanut-growing areas in Australia, including Kingaroy, Bundaberg, the Atherton Tableland and the Northern Territory. Leading a team of agronomists, Pat works closely with PCA growers providing services including a pure seed program, contract planting, harvesting and agronomic advice.

Lionel Wieck
B.Bus (CPA), Registered Tax Agent
Business Analyst

As market demand grows for PCA product and the Hi Oleic phenomenon continues, grower liaison and contracts are increasingly important. Lionel manages all PCA crop contracts, grower liaison, contract harvesting and new business opportunities. His background in agribusiness, retailing, transport and manufacturing give him the experience and expertise to ensure the best interests of farmers and PCA are always maintained.

David Clark
B.Comm,CA
Commercial Manager and Joint Company Secretary

With more than 30 years experience, including nine years in the accounting profession and 21 in commercial industries across contracting, retail and agriculture, David joined PCA in December 2003 as Financial Controller, and moved into the Commercial Managers role in December 2004. He is responsible for all financial systems and accounting records for the Company.

Member of Audit Working Group.

Stewart Mealy
B.App.Sc, Grad Dip
Operations Manager

As Operations Manager, Stewart focuses on maximising the efficiency of operations and plant logistics. He is responsible for manufacturing and intake plants at Kingaroy and Tolga, vital components in PCA's Paddock to Plate delivery philosophy. Stewart has 29 years experience in the food industry ranging from dairy, confectionery, value-added processes and aquaculture.

Steve Magnussen
B.Bus
Engineering Manager – Projects and Risk Manager.

Steve's role as Engineering Manager includes developing and costing capital works proposals as well as managing the engineering and installation of projects. As Risk Manager he also manages Occupational Health & Safety across the company , training and ensuring compliance with the Environmental Act. Steve has a long association with the peanut industry including many years as a large grower and almost 20 years with the company.

Board of
Directors

The Peanut Company of Australia is a traditional company committed to shareholders, growers and customers.

Brett Heading
B.Com.LLB (Hons)
Chairman (Non-Executive Director)
Age 50

Mr Heading is Chairman of Partners at McCullough Robertson Lawyers. He has been a partner since 1985 and he specialises in mergers and acquisitions, and capital raising.

He is a member of the Board of Taxation as well as the Takeovers Panel, both Federal Government appointments.

Mr Heading is presently Chairman of the dual-listed biotechnology company Chemgenex Pharmaceuticals Limited.

He has a particular interest in agribusiness as his family have been in the South Burnett for over 100 years. He is chairman of Burnett Valley Vineyards Pty Ltd, Burnett Valley Olives Pty Ltd and Clovely Estate Ltd, all of which are involved in operations in the South Burnett.

Niven Vaughan Hancock
Non-Executive Director
Age 59

Niven was appointed on 24 August 1992.

Niven was formerly a Director of Navy Bean Marketing Board and Bean Growers' Co-operative for thirteen years and conducts family farming operations at Kumbia, Queensland.

Mr Hancock is also involved in PCA's Harvest Contract Program, dealing directly with growers in the South Burnett, Bundaberg and Northern Territory regions.

Ian Langdon
B Comm, MBA, Dip Ed, CPA, CA, FAICD
Non-Executive Director
Age 62

Ian Langdon was appointed a Director on 31 March 2005 and is Chairman of the PCA Audit Committee. He has been Chairman of Australian Co-operative Foods Ltd (the Dairy Farmers Group) since 1989. He has had a distinguished career in tertiary education, and has until recently been a Board member of Delta Electricity and was a director of Rabo Bank Australia Limited between 1995 and 2005.

Member of Audit Working Group.

Robert Bruce Hansen
B.App.Sc (Hons), Grad.Dip.Man.
Managing Director (Executive Director)
Age 53

Bob was appointed on 1 November 1993.

Bob has been with PCA for 12 years, guiding the Company in embracing new technologies and the Hi Oleic development program. As Managing Director, he has taken PCA from being an agricultural commodity producer, to a world-class peanut manufacturer.

Bob was formerly General Manager (Victoria) Inghams Enterprises Pty Ltd for five years. He has had extensive experience in the poultry industry within Australia, New Zealand and Papua New Guinea. He is currently a Director of The South Burnett Community Private Hospital.

Don Mackenzie
FCA
Company Secretary
Age 61

Don was appointed as Company Secretary in November 2004. He is a Chartered Accountant and has held senior positions with public companies involved in the rural and manufacturing industries. In 1993 he commenced practice providing corporate services predominantly to public companies involved in the manufacturing, rural, mining and information technology. He is currently a Director and a member of the Audit Committee of Forest Place Group Limited and Occupational & Medical Innovations Limited and a member of the Audit Committee of Structural Systems Limited and alternate Director and member of Audit Committee of Silver Chef Limited.

Member of Audit Working Group.

On line NIR Scanner

FINANCIAL REPORT

Peanut Company of Australia Limited
and its Controlled Entities
For the financial year ended 31 March 2006

ABN 34 057 251 091

Corporate information

Peanut Company of Australia Limited
For the financial year ended 31 March 2006

PCA's Directors are committed to building the Company into a large, sustainable growing enterprise, balancing the needs of all stakeholders and good corporate governance.

KEY STAKEHOLDERS

When PCA became a public company in 1992 the Company had 1,300 shareholders, purchased peanuts from 400 growers and provided employment to 330 full-time equivalent employees. In 2006 these numbers have changed to 745 shareholders, 240 growers and 262 employees.

CONSTITUTION

In March 2006, shareholders approved a new Constitution under which PCA would operate in the future.

The principal purposes of adopting the new Constitution were to bring the Company's rules into a form that will:

- be much more conducive to the raising of new equity capital if or when that is desirable;
- provide a market for shares which will be uninhibited and therefore more liquid;
- enable the Company to list on the Australian Stock Exchange when it chooses to do so; and
- facilitate the issue of new shares as part consideration for an acquisition or similar, subject always to the provisions of the Corporations Act, without the delays and uncertainty incurred in obtaining specific shareholder approval.

The key change was the removal of the 10% maximum shareholding rule which was a carryover from the days when PCA was a co-operative. Instead, the Company will, like all other public companies, rely on the provisions of the Corporations Act which prevent any person acquiring more than 20% of the Company's equity without making an offer to buy all the shares in the Company.

Share ownership and trading

The Australian Securities and Investment Commission (ASIC) has admitted PCA to its Register of Low Volume Financial Markets, which allows PCA to facilitate the purchase and sale of its shares up to a maximum of 100 trades and a total value of $500,000 each year, under strict guidelines. Thus, through the Company, buyers and sellers are able to procure one another's contact details and reach agreement to conclude a transfer. Information pertaining to these transactions is available on the PCA website **www.pca.com.au**. The Board will approve transfers subject to the Constitution, and buyer and seller must deal directly with settlement and stamping of documents.

The average price of all shares traded in the year 31 March 2006 was $2.79 (2005: $2.83).

There are no restrictions on whom may be a shareholder. Shareholders who are not growers represent approximately 68% of the share register. Growers do not have to be shareholders in order to supply peanuts to PCA.

A share option scheme for employees was introduced in 2002. This scheme has a maximum limit of 5% of the issued capital. In 2002, 48,000 options (1.1% of issued capital) were granted to 12 employees and currently only 5 employees are eligible. No options have been granted since 2004.

Revolving levy

In 1992 and as part of the restructure that led to the creation of PCA, PCA assumed a liability that related to a revolving, non-interest paying debt to growers of $1,646,000. The Company is under no obligation to repay this debt but in 1998 the Board determined to extinguish this debt over time whilst accepting that normal dividend growth would be slower as a result.

Currently the debt has been reduced to $518,000 with further payments being restricted due to the continuing drought and its flow on effects.

Industry sustainability

A successful future for PCA and the peanut industry in Australia requires continued close co-operation between the Company and peanut growers.

PCA must balance the need to earn sustainable profits to fund research and development into new plant varieties, capital equipment improvement and operational efficiencies, market growth and returns to shareholders with the need to ensure that its farmer suppliers can also earn satisfactory returns and maintain viable farming practices.

Directors recognise that this dual responsibility to growers and shareholders is essential to industry sustainability.

Corporate information

Peanut Company of Australia Limited
For the financial year ended 31 March 2006

CORPORATE GOVERNANCE

PCA conducts its operations at a level similar to an ASX listed company, and in this regard has adapted for its own conduct, the Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange Corporate Governance Council (a code which is mandatory for listed companies); however, as an unlisted company there is no obligation for PCA to comply with such recommendations.

Role of the Board

The Board is responsible for ensuring there are appropriate corporate governance practices in place and the Board and Management operate according to those practices. These include the setting of the strategic direction of the Company, appointment of senior management, monitoring performance and ensuring internal control and reporting procedures are adequate and effective.

While responsibility for day to day activities is delegated to the Managing Director, issues of substance are considered by the full Board with advice from committees or external advisors as appropriate.

The Board requires the Company, its Directors and employees to fully comply with all legal requirements and apply high ethical, moral and professional standards in carrying out their duties.

Board Composition

The constitution of PCA allows for up to seven Non-Executive Directors plus the Managing Director. The Board currently comprises three independent, Non-Executive Directors and the Managing Director.

The Board continues to formalise its processes in relation to the future Board composition through implementing best practice to deal with the role of the Board, director independence, composition of the Board, director nomination (including succession planning), identifying suitable candidates for the Board and other related matters.

Retirement and Re-election of Directors

One third of Non-Executive Directors must stand for re-election by rotation each year. The Board must balance the needs of continuity and experience whilst rotating new people onto the Board. The Board does not have a nominations committee but the whole Board considers the appointment of new directors.

Board Performance Review

The Board has determined that every three years it will conduct a formal review of its performance with the assistance of a third party. The last review was undertaken in November 2004. Its recommendations have been considered and applied where appropriate. One of the recommendations was to observe best practices in relation to the performance of the Managing Director and key executives.

CORPORATE GOVERNANCE (CONT.)

Board committees

Since 1 November 2005, the Board due to its reduced numbers changed from the Committee process whereby Audit and Remuneration matters were dealt with by Board committees, to that where the full Board considers such matters.

For functions normally undertaken by an Audit Committee, a working group comprising Ian Langdon, David Clark and Don Mackenzie meet prior to Board meetings when required in a structured process, with Ian Langdon then reporting to the Board on issues discussed and proposals for consideration by the full Board.

The working group's role is to advise on the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company. The working group also advises on the application of accounting standards and policies, the identification and management of risk and the effectiveness of internal control systems, and provides assurance to the Board regarding the quality and reliability of financial information prepared for use by the Board.

For functions normally undertaken by a Remuneration Committee, the Managing Director presents to the Board his recommendations on remuneration packages and policies for Senior Executives. The Managing Director is responsible for advising the Board on all matters relating to remuneration issues including share option schemes, incentive payments, superannuation entitlements and fringe benefits policies.

The Chairman instigates the review of the Managing Director's remuneration package and conditions and makes recommendations to the Board, at which time the Managing Director is excluded from the meeting.

Independent professional advice and access to Company information

All Directors are permitted, with the approval of the Chairman, to obtain independent professional advice relating to their Board responsibilities at the expense of the Company. The Board encourages new Directors to attend appropriate training and education resources to broaden their skill base and contribution level to the governance process.

Share trading

Company policy prohibits Directors and Company officers dealing in Company shares while in possession of price sensitive information. As a matter of practice, the shares may only be dealt with under the following rules:

- no trading is permitted in the period of 30 days prior to the announcement of the Company's full year results. Trading, however is permitted for a period of 60 days after the announcement;
- prior approval of the Chairman, or in his absence the approval of two Directors, is required prior to any trading being undertaken outside this ninety day period; and
- guidelines are to be considered complimentary to and not replace the various sections of the Corporations Act 2001 dealing with Insider Trading.

Integrity in financial reporting

The Company has via its alternative to an Audit Committee (ie the Audit Working Group), a structure of review and authorisation designed to ensure the truthful and factual presentation of the Company's financial position.

The Board is responsible for the overall internal control framework and it also recognises that no effective internal control system will preclude all errors and irregularities.

Disclosure of all material matters concerning the Company

The Company has formalised a process where shareholders are advised of significant matters affecting the Company, as determined by the Board.

The Company, when releasing information to shareholders, also places the information on the Company's website – **www.pca.com.au**.

Respect the rights of shareholders

The Company respects the rights of shareholders and will facilitate the effective exercise of those rights through effective communication and provision of information about the Company.

Recognise and manage risk

The Company has a sound system of risk oversight, management and internal control which identifies, assesses, monitors and manages risk with a view to maintaining a status on the risk profile.

Remunerate fairly and responsibly

The Company has a formal process in place for determining remuneration levels for all staff.

The Directors' fees paid in the current year were determined having regard to the Company's operations.

Directors' report

Peanut Company of Australia Limited and its Controlled Entities
For the financial year ended 31 March 2006

The Directors present their report together with the financial report of Peanut Company of Australia Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 March 2006 and the auditor's report thereon.

Principal activities

The principal activities of the consolidated entity during the course of the financial year were the purchasing, shelling, grading, processing and marketing of peanuts.

Review and results of operations

In 2005/6, PCA earned profits after interest and tax of $1.151 million (2004/5: $2.151 million loss after restatement for AIFRS).

Revenues declined to $55.6 million (2004/5: $69.2 million) as a result of drought conditions for dryland farmers, decreased water availability for irrigated farmers and because 2005 included abnormally high export sales. The overall impact was a decrease in yield and quality. PCA returned to profitability by focusing on domestic markets, decreasing distribution costs and increasing operational efficiencies.

State of affairs

In the opinion of the Directors no significant changes in the state of affairs of the consolidated entity occurred during the financial year under review.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely developments

The operations of the consolidated entities continue to be affected by the seasonal nature of the products produced.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Type	Cents per share	Total amount	Date of payment	Tax rate for franking credit
In respect of the current financial year:				
• 2006 - Ordinary Share	5	$215,597	15/11/05	30%

All dividends paid by the Company since the end of the previous financial year were 100% franked.

Directors' report

Peanut Company of Australia Limited and its Controlled Entities

For the financial year ended 31 March 2006

Directors

The details of the Directors and the Company Secretaries are set out on pages 14 and 15.

Directors' meetings

The number of Directors' meetings (including meetings of Board committees to 31 October 2005) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Directors		Audit committee		Remuneration committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Brett Heading (Chairman)	6	6	-	-	-	-
Bob Hansen	13	13	-	-	-	-
Niven Hancock	9	13	-	-	-	-
Ian Langdon	13	13	-	-	-	-
Ray Magill	7	7	2	2	1	1
Dennis Howe	3	5	-	-	-	-
David Jeffries	7	8	2	2	1	1
Neil Lister	7	7	2	2	-	-
Findlay Andrews	2	2	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the year

With effect from 1 November 2005, and taking account of the size of the new Board, all functions of the Audit Committee and Remuneration Committee were transferred to the full Board. In the case of the Audit Committee functions, a Working Group was formed – see further notes under Board Committees on page 20 of this report.

Directors' interests

The relevant interest of each Director in the share capital of the Company as shown in the Register of Directors' Shareholdings as at the date of this report is as follows:

	Ordinary shares
Brett Heading	
- Held in name of Burnett Valley Vineyards Pty Ltd	266,211
Niven Hancock	
- Held jointly with Toni Hancock and trading as Candowie Farming Co	26,504
Bob Hansen	
- Held in own name	221,445
- Held in Hansen Pastoral Investments Pty Limited	142,104
- Held in name of Hanst Investment Pty Ltd	21,754
- Held in name of Robert Hansen and Julie Hansen <R & J Hansen Unit Account>	44,060

Since the end of the previous financial year no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration paid or payable to Directors shown in Note 29 to the consolidated financial report) because of a contract made by the Company or its controlled entities with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial interest, other than contracts in the normal course of business as stated in Note 29 (Key Management Personnel Disclosures) of the financial statements.

Directors' report

Peanut Company of Australia Limited and its Controlled Entities
For the financial year ended 31 March 2006

Indemnification and insurance of Officers

Indemnification of Officers

The Company has agreed to indemnify all current Directors of the Company and of its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and Officers' Liability insurance contracts, for current and former officers of the Company (including Directors and Secretary).

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts in this report, as such disclosure is prohibited under the terms of the contract.

Lead Auditor's independence declaration

The Lead Auditor's independence declaration is set out on page 24 and forms part of the Directors' Report for the financial year ended 31 March 2006.

Rounding off

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

Signed in accordance with a resolution of the Directors:

Dated at Brisbane this 23rd day of June 2006

Brett Heading
Chairman

Lead Auditor's independence declaration

Under Section 307C of the Corporations Act 2001

To: The Directors of Peanut Company of Australia Limited and its Controlled Entities

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2006 there have been:

(i) no contravention 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.

KPMG

S Crane
Partner

Brisbane

23 June 2006

Income statements

Peanut Company of Australia Limited and its Controlled Entities

For the financial year ended 31 March 2006

	Note	Company & Consolidated [1] 2006 $000	2005 $000
Revenue from the sale of goods		55,611	69,208
Cost of sales		(46,021)	(60,025)
Gross profit		9,590	9,183
Other income	4	306	107
Marketing expenses		(2,392)	(2,749)
Distribution expenses		(1,865)	(3,549)
Administrative expenses		(2,837)	(3,092)
Other expenses	5	(66)	(937)
Profit (loss) before financing costs		2,736	(1,037)
Financial income	8	159	45
Financial expenses	8	(1,310)	(2,189)
Net financing costs		(1,151)	(2,144)
Profit (loss) before tax		1,585	(3,181)
Income tax (expense) benefit	9	(434)	1,030
Profit (loss) for the period		1,151	(2,151)
Attributable to:			
Equity holders		1,151	(2,151)
Basic earnings (loss) per share	10	$0.27	$(0.50)
Diluted earnings (loss) per share	10	$0.27	$(0.50)
Dividends per share			
Ordinary shares			
- Interim dividend	22	$0.05	$0.04
- Proposed dividend	22	$0.06	-
- Final dividend	22	-	$0.04

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 25 to 62.

[1] Refer significant accounting policy 1(c)

Statements of recognised income & expense

Peanut Company of Australia Limited and its Controlled Entities
For the financial year ended 31 March 2006

	Company & Consolidated [1]	
	2006 $000	**2005 $000**
Profit (loss) for period	1,151	(2,151)
Revaluation of land & buildings	5,684	-
Loss on cash flow hedges	(29)	-
Net income (loss) recognised directly in equity	5,655	-
Total recognised income and expenses for the period	6,806	(2,151)
Attributable to:		
Equity holders	6,806	(2,151)

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 25 to 62.

[1] Refer significant accounting policy 1(c)

Balance sheets

Peanut Company of Australia Limited and its Controlled Entities
As at 31 March 2006

	Note	Company & Consolidated [1] 2006 $000	2005 $000
Assets			
Cash and cash equivalents	11	585	217
Trade and other receivables	12	6,244	8,803
Inventories	13	8,199	14,378
Income tax receivable	14	133	224
Total current assets		15,161	23,622
Property plant and equipment	17	27,282	19,105
Intangible assets	18	3,420	3,332
Total non-current assets		30,702	22,437
Total assets		45,863	46,059
Liabilities			
Trade and other payables	19	3,750	3,321
Interest-bearing loans and borrowings	20	603	9,840
Employee benefits	21	1,653	1,577
Total current liabilities		6,006	14,738
Interest-bearing loans and borrowings	20	11,041	11,828
Net deferred tax liabilities	16	3,904	1,154
Trade and other payables	19	518	533
Employee benefits	21	114	116
Total non-current liabilities		15,577	13,631
Total liabilities		21,583	28,369
Net assets		24,280	17,690
Equity			
Issued capital	22	4,209	4,209
Reserves	22	12,777	7,122
Retained earnings	22	7,294	6,359
Total equity		24,280	17,690

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 25 to 62.

[1] Refer significant accounting policy 1(c)

Statements of cash flows

Peanut Company of Australia Limited and its Controlled Entities

For the financial year ended 31 March 2006

	Note	Company & Consolidated [1] 2006 $000	2005 $000
Cash flows from operating activities			
Cash receipts from customers		61,417	72,043
Cash paid to suppliers and employees		(47,195)	(63,001)
Cash generated from operations		14,222	9,042
Interest paid		(1,328)	(1,637)
Income taxes paid		36	1,159
Recovery of legal fees		-	101
Net cash from operating activities	28	12,930	8,665
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		78	25
Interest received		47	45
Acquisition of property plant and equipment		(1,661)	(1,070)
Development expenditure		(771)	(902)
Net cash from investing activities		(2,307)	(1,902)
Cash flows from financing activities			
Repayment of borrowings		(9,015)	(5,000)
Payment of finance lease liabilities		(1,024)	(986)
Dividends paid	22	(216)	(345)
Net cash from financing activities		(10,255)	(6,331)
Net increase in cash and cash equivalents		368	432
Cash and cash equivalents at the beginning of the financial year		217	(215)
Cash and cash equivalents at the end of the financial year	11	585	217

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 25 to 62.

[1] Refer significant accounting policy 1(c)

Notes to the consolidated financial statements

Peanut Company of Australia Limited and its Controlled Entities
For the financial year ended 31 March 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Peanut Company of Australia Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 March 2006 comprises the Company and its controlled entities ("the consolidated entity").

The financial report was authorised for issue by the Directors on 23 June 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs"), Urgent Issues Group Interpretations ("UIGs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish from previous Australian Generally Accepted Accounting Principles (GAAP).

This is the consolidated entity's first financial report prepared in accordance with AIFRS and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 32.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: land and buildings, and derivative financial instruments.

The preparation of a financial report in conformity with AIFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies have been consistently applied by each entity in the consolidated entity.

(b) Basis of preparation (cont.)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AIFRS that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 April 2004 for the purposes of the transition to AIFRS.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

PMB Australia Pty Ltd and Stuneap Pty Ltd are wholly owned controlled entities, (2005: 100%) which were dormant during the year to 31 March 2006. The investments of $2 being two $1 ordinary shares in each controlled entity were eliminated when rounded to the nearest thousand dollars.

Accordingly only one set of figures has been incorporated in these financial statements in respect of the Company and the consolidated entities. As both controlled entities were dormant throughout the year there is no contribution to consolidated profit, and no dividends were paid.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(d) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

(e) Derivative financial instruments

Current accounting policy

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss is accounted for as described below.

Hedging

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they are designated.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Comparative period policy

The consolidated entity is exposed to changes in foreign exchange rates from its activities and accordingly the consolidated entity uses derivative financial instruments to hedge such risks. Derivative financial instruments are not held for speculative purposes.

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, or purchase of qualifying assets only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the income statement for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the income statement for the period.

Comparative period policy (cont.)

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the income statement.

The quantitative effect of the change in accounting policy is set out in Note 33.

(f) Property plant and equipment

(i) Owned assets

Freehold land, and buildings on freehold land, are measured on a fair value basis. At each reporting date, the Company assesses whether assets are impaired. Where necessary, the asset is revalued to reflect its fair value as assessed by Directors in conjunction with independent valuations.

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

- 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 the same asset, it will be recognised as revenue in the income statements.
- 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 asset, the revaluation decrement will be debited directly to the asset revaluation reserve.

Plant and equipment is measured at cost. Impairment testing of 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 cash-flows have been discounted to their present value using a market determined risk adjusted discount rate.

(ii) Leased assets

Leases of plant and equipment in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Lease payments are accounted for as described in accounting policy 1(r).

(iii) Subsequent costs

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

1. SIGNIFICANT ACCOUNTING POLICIES

(f) Property plant and equipment (cont.)

(iv) Depreciation

With the exception of freehold land, depreciation or amortisation is charged to the income statement for each part of an item of property, plant and equipment from the date of acquisition, or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The consolidated entity uses both the straight line and reducing balance methods of depreciation. The significant depreciation rates used for each class of asset in both the current and prior year are:

	Straight line %	Reducing balance %
Buildings	2.5 – 4.0	-
Plant and equipment	2.5 – 40.0	2.5 – 50
Leased plant and equipment	2.5 – 40.0	-

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(g) Intangible assets

(i) Seed research and development program

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1(k)).

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of capitalised development costs. The estimated useful life in the current and the comparative period for capitalised development costs are 5 to 7 years.

(h) Trade and other receivables

(i) Trade debtors

Trade debtors relate to goods sold on 30-day payment terms, are non-interest bearing and stated at cost less impairment losses (see accounting policy 1(k)).

(ii) Grower debtors

Grower debtors represent monies receivable for the supply of peanut seed, chemicals and equipment. Individual contracts are entered into with growers on varying terms and conditions. Grower debtors are stated at cost less impairment losses and collected either on 30 day payment terms or by set-off against payment due for the delivery of peanuts.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost

Cost is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and present location. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity.

Net realisable value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(k) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's assets is the greater of their carrying value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(l) Share capital

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Dividends declared are recognised as a liability in the periods in which they are declared.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government Bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting form employees services provided to the reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(o) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Trade and other payables

Trade and other payables are stated at cost.

(i) Trade creditors

Liabilities are recognised for amounts to be paid in the future for goods and services received. Amounts are normally settled within forty-five days.

(ii) Grower creditors

Grower creditors represent those monies payable to growers for the supply of peanuts. Individual contracts are entered into with growers based on varying terms and conditions. All payments are made progressively over a period not exceeding one year.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) Revenue

Sale of goods

Revenue from the sale of goods comprises revenue earned (net of returns, trade discounts and allowances) from the provision of products to entities outside the consolidated entities and is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred, cannot be measured reliably, there is a risk of return of the goods or there is continuing management involvement with the goods.

(r) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy 1(e)).

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statements except to the extent that it relates to items directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

(t) Segment reporting

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

(u) Goods and services tax

Revenue, 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. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the 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 balance sheet.

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

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Board the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates.

Critical accounting judgements in applying the consolidated entity's accounting policies

In the preparation of the financial statements, the Directors have considered the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period. Set out below is a summary of the areas where detailed examination has been undertaken.

Intangible assets – capitalised development costs

The carrying amount of the consolidated entity's intangible asset representing the development value of the pure seed cultivar program is $3.4 million. An impairment review was performed in accordance with the consolidated entity's accounting policies and no impairment was recorded at year end. Refer Note 1(k).

3. SEGMENT REPORTING

(a) Business segment

The consolidated entity operates in the food industry and processes and markets peanuts to resellers and value added processors.

(b) Geographical segment

The consolidated entity operates predominantly in Australia where 90% of the revenue, profit and segment assets relate to operations within Australia.

Due to the nature of the business and geographical segments described above, no additional information to that already provided in the financial report is provided.

4. OTHER INCOME

	Company & Consolidated	
	2006 $000	**2005 $000**
Release of unused provisions – bad debts	247	-
Net gain on disposal of property plant and equipment	59	6
Recovery of legal fees	-	101
	306	107

5. OTHER EXPENSES

	2006 $000	2005 $000
Research expensed as incurred	54	-
Bad debts provided for	-	357
Other expenses	12	580
	66	937

6. PERSONNEL EXPENSES

	Company & Consolidated	
	2006 $000	2005 $000
Wages, salaries and related on costs	8,975	10,374

7. AUDITOR'S REMUNERATION

	$	$
Audit services		
KPMG Australia:		
- audit of financial reports	65,500	62,500
Other services		
KPMG Australia:		
- other assurance services	3,950	1,900
- taxation services	23,045	45,500
	26,995	47,400

8. NET FINANCING COSTS

	$000	$000
Interest income	47	45
Net gain (loss) on foreign exchange – realised	80	-
Net gain (loss) on foreign exchange – unrealised	32	-
Financial income	159	45
Interest expense	(1,310)	(1,916)
Net gain (loss) on foreign exchange	-	(273)
Financial expenses	(1,310)	(2,189)
Net financing costs	(1,151)	(2,144)

9. INCOME TAX EXPENSE

	Company & Consolidated	
	2006 $000	**2005 $000**
Recognised in the income statement		
Current tax expense		
Adjustments prior year	53	(13)
	53	(13)
Deferred tax expense		
Origination and reversal of temporary differences	381	(1,017)
Total income tax expense (benefit) in income statement attributable to continuing operations	434	(1,030)

Numerical reconciliation between tax expense and pre-tax profit

	2006 $000	2005 $000
Profit (loss) before tax	1,585	(3,181)
Income tax thereon at 30% (2005: 30%)	476	(954)
Increase in income tax expense due to:		
• Non-deductible expenses	8	6
Income tax expense (benefit)	484	(948)
Under (over) provided in prior years	(50)	(82)
Income tax expense (benefit) on pre-tax net profit	434	(1,030)

Deferred tax recognised directly in equity

	2006 $000	2005 $000
Relating to revaluation of property	2,369	(55)

10. EARNINGS PER SHARE

The calculation of basic earnings per share at 31 March 2006 was based on the profit attributable to ordinary shareholders of $1.151 million (2005: Loss of $2.151 million). The number of shares on issue at 31 March 2006 was 4,311,937 and was unchanged to that in the previous year. There are no dilutive equity instruments on issue.

	Company & Consolidated	
	2006 $000	**2005 $000**
Profit (loss) for the period	1,151	(2,151)
Profit (loss) attributable to ordinary shareholders	1,151	(2,151)

11. CASH AND CASH EQUIVALENTS

	2006 $000	2005 $000
Bank balances	583	217
Cash floats	2	-
Cash and cash equivalents in the statement of cash flows	585	217

12. TRADE AND OTHER RECEIVABLES

	2006 $000	2005 $000
Current		
Trade receivables	3,995	5,917
Provision for doubtful debts	(109)	(355)
	3,886	5,562
Grower debtors	1,877	1,944
Other receivables and prepayments	481	1,297
Total	6,244	8,803

13. INVENTORIES

	Company & Consolidated	
	2006 $000	**2005 $000**
Raw materials and stores – at cost	1,672	2,124
Work in progress – at cost	1,230	4,297
Finished goods - at cost	5,297	7,957
Total	8,199	14,378

14. CURRENT TAX ASSETS AND LIABILITIES

The current tax asset for the consolidated entity and the Company of $133,000 (2005: $224,000) represents the amount of income taxes recoverable in respect of prior periods, that arise from the payment of tax in excess of the amounts due to the relevant tax authorities.

The current tax liability for the consolidated entity and the Company at 31 March 2006 was $nil (2005: nil).

15. INVESTMENTS

Non-current investments

Investments in controlled entities at cost	-	-

PMB Australia Pty Ltd and Stuneap Pty Ltd are wholly owned controlled entities (2005: 100%) which were dormant during the year to 31 March 2006. The investments of $2 being two $1 ordinary shares in each controlled entity were eliminated when rounded to the nearest thousand dollars.

16. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Company & Consolidated

	Assets		Liabilities		Net	
	2006 $000	2005 $000	2006 $000	2005 $000	2006 $000	2005 $000
Plant and equipment	473	234	-	-	473	234
Land & buildings	-	-	(4,128)	(1,818)	(4,128)	(1,818)
Intangible assets	-	-	(1,026)	(999)	(1,026)	(999)
Software	45	44	-	-	45	44
Inventory	38	48	-	-	38	48
Leases	-	59	(195)	-	(195)	59
Employee benefits	452	438	-	-	452	438
Doubtful debts	33	107	-	-	33	107
Provisions	63	122	-	-	63	122
Prepayments	-	-	(103)	(116)	(103)	(116)
Tax losses carry forwards recognised	444	727	-	-	444	727
Net tax assets (liabilities)	1,548	1,779	(5,452)	(2,933)	(3,904)	(1,154)

Movements in temporary difference during 2005 year

	Company & Consolidated			31 March 2005
	Balance at 1 April 2004 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 March 2005 $000
Plant and equipment	306	(72)	-	234
Land & buildings	(1,876)	58	-	(1,818)
Intangible assets	(1,006)	7	-	(999)
Software	39	5	-	44
Inventory	204	(156)	-	48
Leases	48	11	-	59
Employees	403	35	-	438
Doubtful debts	-	107	-	107
Provisions	68	54	-	122
Prepayments	(557)	441	-	(116)
Tax losses	200	527	-	727
	(2,171)	1,017	-	(1,154)

16. DEFERRED TAX ASSETS AND LIABILITIES (CONT.)

Movements in temporary difference during 2006 year

	Company & Consolidated			31 March 2006
	Balance at 1 April 2005 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 March 2006 $000
Plant and equipment	234	239	-	473
Land & buildings	(1,818)	59	(2,369)	(4,128)
Intangible assets	(999)	(27)	-	(1,026)
Software	44	1	-	45
Inventory	48	(10)	-	38
Leases	59	(254)	-	(195)
Employee benefits	438	14	-	452
Doubtful debts	107	(74)	-	33
Provisions	122	(59)	-	63
Prepayments	(116)	13	-	(103)
Tax gain (loss) of carry-forwards (recognised/derecognised)	727	(283)	-	444
	(1,154)	(381)	(2,369)	(3,904)

17. PROPERTY, PLANT AND EQUIPMENT

	Company & Consolidated					
	Freehold land	Buildings	Plant & equipment	Leased plant & equipment	Capital works in progress	Total
	$000	$000	$000	$000	$000	$000
Balance at 1 April 2004	1,072	11,020	21,256	7,159	432	40,939
Acquisitions	-	-	-	-	1,070	1,070
Disposals	-	-	(56)	-	-	(56)
Transfers	-	-	1,879	(718)	(1,161)	-
Balance at 31 March 2005	1,072	11,020	23,079	6,441	341	41,953
Balance at 1 April 2005	1,072	11,020	23,079	6,441	341	41,953
Acquisitions	-	-	-	150	1,511	1,661
Disposals	-	-	(4)	(118)	-	(122)
Transfers	-	1,110	607	(1,195)	(522)	-
Revaluation increment on adoption to fair value for land and buildings (Note 1)	1,466	5,756	-	-	-	7,222
Balance at 31 March 2006	2,538	17,886	23,682	5,278	1,330	50,714

Note 1: At 1 April 2004, freehold land and buildings were stated at fair value with all other property plant & equipment recorded at cost.

Depreciation and impairment losses

Balance at 1 April 2004	-	-	17,239	3,225	-	20,464
Depreciation charge for the year	-	349	1,039	1,025	-	2,413
Impairment losses	-	-	-	-	-	-
Disposals	-	-	(29)	-	-	(29)
Transfers	-	-	711	(711)		-
Balance 31 March 2005	-	349	18,960	3,539	-	22,848
Balance 1 April 2005	-	349	18,960	3,539	-	22,848
Depreciation charge for the year	-	349	859	314	-	1,522
Impairment losses	-	-	-	-	-	-
Disposals	-	-	(4)	(101)	-	(105)
Transfers	-	135	77	(212)	-	-
Written back on revaluation and adoption of fair value	-	(833)	-	-	-	(833)
Balance 31 March 2006	-	-	19,892	3,540	-	23,432

Carrying amounts

At 1 April 2004	1,072	11,020	4,017	3,934	432	20,475
At 31 March 2005	1,072	10,671	4,119	2,902	341	19,105
At 1 April 2005	1,072	10,671	4,119	2,902	341	19,105
At 31 March 2006	2,538	17,886	3,790	1,738	1,330	27,282

17. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Leased plant & equipment

The consolidated entity leased production equipment under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment. At 31 March 2006, the net carrying amount of leased plant and machinery was $1.738 million (2005: $2.902 million). The leased equipment secures lease obligations (see Note 20).

Valuations

An independent valuation of land and buildings was carried out with an effective date of 31 March 2006 by an independent valuer.

Land

The methods and significant assumptions applied in estimating the items' fair values was based on a direct comparison with recent market transactions.

In respect of land, the carrying amount that would have been recognised had the assets been carried under the cost model would have totalled $1.011 million.

Buildings

As it was determined that there was no depth of market to form a fair value, the depreciated replacement cost method, being the replacement cost of each item less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future benefit of the asset, was used.

In respect of buildings, the carrying amount that would have been recognised had the assets been carried under the cost model would have totalled $10.388 million.

In respect of the revaluation reserve, a revaluation increment was credited for land totalling $1.466 million and for buildings it was $5.756 million. There is no restriction in the distribution of reserves to shareholders.

Following adoption of the valuation model, buildings are depreciated on a straight line basis.

Security

At 31 March 2006, land and buildings with a carrying amount of $20.424 million (2005: $11.743 million) are subject to a registered debenture to secure bank loans (see Note 20).

18. INTANGIBLE ASSETS

Development costs

	Company & Consolidated
	$000
Cost	
Balance at 1 April 2004	5,272
Acquisitions – internally developed	902
Balance at 31 March 2005	6,174
Balance at 1 April 2005	6,174
Acquisitions – internally developed	770
Balance at 31 March 2006	6,944
Amortisation and impairment losses	
Balance at 1 April 2004	1,918
Amortisation for the year	924
Balance 31 March 2005	2,842
Balance 1 April 2005	2,842
Amortisation for the year	682
Balance 31 March 2006	3,524
Carrying amounts	
At 1 April 2004	3,354
At 31 March 2005	3,332
At 1 April 2005	3,332
At 31 March 2006	3,420

Seed research and development program

PCA has undertaken an extensive assessment of its peanut cultivar development activity and the Directors have adopted, based on the advice of an independent consultant and due recognition of AASB 138 : Intangible Assets, a net value of $3,420,000. The accounting standard was adopted with effect from 1 April 2004.

Amortisation and impairment charge

The amortisation, and impairment charge when relevant, is recognised in the income statement under cost of sales.

19. TRADE AND OTHER PAYABLES

	Company & Consolidated 2006 $000	Company & Consolidated 2005 $000
Current		
Trade payables	1,866	1,902
Grower creditors	1,855	1,182
Hedge payable	29	237
	3,750	3,321
Non-current		
Revolving levy	518	533

The revolving levy is an unsecured, non-interest bearing loan with no fixed repayment date.

20. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

Current liabilities		
Bills payable – secured	-	8,500
Finance lease liabilities	603	1,340
	603	9,840
Non-current liabilities		
Bills payable – secured	9,500	10,000
Finance lease liabilities	1,541	1,828
	11,041	11,828
Financing facilites		
Bank overdraft	-	500
Bills payable – secured	10,000	29,500
Finance lease liabilities	3,391	5,965
	13,391	35,965
Facilities utilised at reporting date		
Bank overdraft	-	-
Bills payable – secured	9,500	18,500
Finance lease liabilities	2,144	3,168
	11,644	21,668
Facilities not utilised at reporting date		
Bank overdraft	-	500
Bills payable – secured	500	11,000
Finance lease liabilities	1,247	2,797
	1,747	14,297

20. INTEREST-BEARING LOANS AND BORROWINGS (CONT.)

FINANCING ARRANGEMENTS

Bank overdraft

The bank overdraft of the Company is secured by a registered first mortgage over certain of the Company's land and buildings and an equitable charge over the assets of the Company. The bank overdraft is payable on demand and is subject to annual review.

There was no bank overdraft at 31 March 2006. At 31 March 2005, the effective interest rate for the overdraft was 8.85%.

Bills payable

Bills payable are secured by a registered first mortgage over certain of the Company's land and buildings and an equitable charge over the assets of the Company. All bills are denominated in Australian dollars and are subject to annual review. Bills payable are carried on the balance sheets at their principal amount. The weighted average interest rate on the bills is 6.59% (2005: 5.66%).

The bill facility allows for no repayments until April 2008.

Finance lease facility

The Company's lease liabilities are secured by the leased assets. In the event of default the assets revert to the lessor. The effective interest rate for the leased assets as at 31 March 2006 is 7.6% (2005: 8.0%).

Finance lease liabilities of the consolidated entity are payable as follows:

	At March 2006			At 31 March 2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	$000	$000	$000	$000	$000	$000
Less than one year	757	154	603	1,567	227	1,340
Between one and five years	1,654	113	1,541	2,045	217	1,828
More than five years	-	-	-	-	-	-
	2,411	267	2,144	3,612	444	3,168

Under the terms of the lease agreements, no contingent rents are payable. The consolidated entity leases production plant and equipment under finance leases expiring from one to five years.

Details of security

The carrying value of property plant and equipment pledged as security over the Company's financing facilities is $27.282 million as at 31 March 2006. (2005: $19.105 million (refer to Note 17).

The lease facilities provide for finance of individual assets up to five years.

21. EMPLOYEE BENEFITS

	Company & Consolidated	
	2006 $000	2005 $000
Current		
Liability for long service leave	768	682
Liability for annual leave	627	662
Salaries and wages accrued	258	233
	1,653	1,577
Non-current		
Liability for long service leave	114	116
Aggregate employee entitlement liabilities including on costs		
Current	1,653	1,577
Non- current	114	116
Total	1,767	1,693

Senior staff option plan

The Company has a Senior Staff Option Plan that was approved at the general meeting on 28 March 2002.

The plan provides for 5 (2005: 5) senior staff to receive a maximum of 6,000 options over ordinary shares. Each option is convertible to one ordinary share. The total number of options to be granted under the Senior Staff Option Plan will be restricted to 5% of the issued capital of the Company. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined by the Board of Directors in accordance with the Rules of the plan, is based on the earnings per share multiplied by a factor of six.

Exercise price = Earnings Per Share X 6

Earnings Per Share = The average after tax profit for the preceding 3 years ÷ Total Shares on issue

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the options are exercisable on the following terms:

a) Initial one third of the options, 1 year from the grant of the options.
b) Second one third of the options, 2 years from the grant of the options.
c) Final one third of the options, 3 years from the grant of the options.

Grant date	Expiry	Exercise price	No. of options at beginning of the year		Options granted during the year		No. of options at end of year	
			2006	2005	2006	2005	2006	2005
18/12/2002	18/12/2012	$3.40	30,000	30,000	-	-	30,000	30,000

No options were exercised and no options expired during the year ended 31 March 2006 (2005: nil).

The average price of all shares traded in the year 31 March 2006 was $2.79 (2005: $2.83).

22. CAPITAL AND RESERVES

Reconciliation of movements in capital and reserves

Company

	Share captial $000	Asset revaluation reserve $000	Hedge reserve $000	Retained earnings $000	Total $000
Balance at 1 April 2004	4,209	7,122	-	8,855	20,186
Dividends to shareholders	-	-	-	(345)	(345)
Total recognised income and expense	-	-	-	(2,151)	(2,151)
Balance at 31 March 2005	4,209	7,122	-	6,359	17,690
Balance at 1 April 2005	4,209	7,122	-	6,359	17,690
Total recognised as income and expense	-	-	(29)	1,151	1,122
Valuation increment	-	5,684	-	-	5,684
Dividends to shareholders	-	-	-	(216)	(216)
Balance at 31 March 2006	4,209	12,806	(29)	7,294	24,280

Share capital

	2006	2005
Number of shares on issue at 1 April	4,311,937	4,311,937
Number of shares on issue at 31 March	4,311,937	4,311,937

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are entitled to any surplus proceeds on liquidation.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative of all net changes in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Revaluation reserve

The revaluation reserve relates to land and buildings measured at fair value in accordance with applicable Australian Accounting Standards.

22. CAPITAL AND RESERVES (CONT.)

Dividends

2006

Dividends recognised in the current year by the Company are:

Company & Consolidated

	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit	Percentage franked
2005 – ordinary	5	216	15 November 2005	30%	100%

No unfranked dividends have been declared or paid during the year.

2005

	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit	Percentage franked
2004 – ordinary	4	172	14 May 2004	30%	100%
2005 – ordinary	4	172	15 November 2004	30%	100%
Total franked amount		344			

At the balance sheet dated, the following dividend was proposed by the Directors. The dividend has not been provided. The declaration and subsequent payment of the dividend have no income tax consequences.

	Cents per share	Total amount $000	Franked/ Unfranked	Date of payment
Proposed final dividend	6	259	Franked[1]	In the month following the Annual General Meeting

[1]Paid out of AIFRS profits

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 31 March 2006 and will be recognised in subsequent financial reports.

22. CAPITAL AND RESERVES (CONT.)

Dividend franking account

	2006 $000	2005 $000
30% franking credits available to shareholders of Peanut Company of Australia Limited for subsequent financial years	4,429	4,499

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

(a) franking credits that will arise from the payment of the payment of the current tax liabilities;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;
(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end; and
(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

23. FINANCIAL INSTRUMENTS

Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated Entity & Company — **YEAR ENDED 31 MARCH 2006 ($000)**

	Effective interest rate %	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	4.00	585	585	-	-	-	-
Secured bank loans	6.59	9,500	9,500	-	-	-	-
Finance lease liabilities	7.60	2,144	240	363	1,304	237	-
		12,229	10,325	363	1,304	237	-

Consolidated Entity & Company — **YEAR ENDED 31 MARCH 2005 ($000)**

	Effective interest rate %	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	4.00	217	217	-	-	-	
Secured bank loans	5.66	18,500	18,500	-	-	-	-
Finance lease liabilities	8.00	3,168	380	960	569	1,259	
		21,885	19,097	960	569	1,259	-

23. FINANCIAL INSTRUMENTS (CONT.)

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the Australian dollar. The currencies giving rise to this risk are primarily Pounds Sterling, Euro and US dollars.

The consolidated entity hedges up to 100% of all trade receivables and trade payables denominated in a foreign currency. Further, due to the vagaries (particularly due to seasonal factors) of the peanut growing industry, the consolidated entity determines on a rolling forecast its raw material requirements for 12 to 18 months ahead to balance raw material supply to its productive capacity. In either situation, as a net importer or net exporter of Farmers Stock peanuts, the consolidated entity uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than five months after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

Forecast transactions

The consolidated entity classifies its forward exchange contracts hedging forecast transactions as cash flow hedges and states them at fair value.

The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 March 2006 was $29,000 (2005 : $237,000), comprising liabilities $29,000 (2005 assets $237,000) that were recognised in fair value derivatives.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

Company & Consolidated

	Note	Carrying amount 2006 $000	Fair value 2006 $000	Carrying amount 2005 $000	Fair value 2005 $000
Cash and cash equivalents	11	585	585	217	217
Trade receivables	12	3,886	3,886	5,562	5,562
Grower debtors	12	1,877	1,877	1,944	1,944
Forward exchange contracts					
Assets		-	-	237	237
Liabilities	19	(29)	(29)	(237)	(237)
Trade payables	19	(1,866)	(1,866)	(1,902)	(1,902)
Grower creditors	19	(1,855)	(1,855)	(1,182)	(1,182)
Loan unsecured (revolving grower levy)	19	(518)	(518)	(533)	(533)
Bills payable secured	20	(9,500)	(9,500)	(18,500)	(18,500)
Finance lease liabilities	20	(2,144)	(2,210)	(3,168)	(3,272)
		(9,564)	(9,630)	(17,562)	(17,666)
Unrecognised (losses) gains		-	(66)	-	(104)

23. FINANCIAL INSTRUMENTS (CONT.)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Hedge payable / receivable

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward prices and deducting the current spot rate.

At 31 March 2006, hedge contract in place to buy $US 975,000 at a rate of 0.7048 in July/August 2006. At spot rate at 31 March 2006, a loss of $28,828 has arisen.

Interest-bearing loans and borrowings

Bills payable are carried at fair value based on their notional value. Bill maturity dates usualy range from 30 to 90 days.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Interest rates used for determining fair value

The nature of the short term derivatives and borrowings does not necessitate the consolidated to discount financial instruments.

24. OPERATING LEASES

Non-cancellable operating lease rentals are payable:

	Company & Consolidated	
	2006 $000	**2005 $000**
Less than one year	218	214
Between one and five years	203	243
More than five years	-	-
	421	457

The consolidated entity leases plant and equipment under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right to renewal at which times all terms are renegotiated.

During the year ended 31 March 2006, $230,000 was recognised as an expense in the income statement in respect of operating leases (2005: $231,000).

25. CAPITAL AND OTHER COMMITMENTS

Plant and equipment

	Company & Consolidated	
	2006 $000	**2005 $000**
Contracted, but not yet provided for and payable:		
Within one year	948	328

26. CONTINGENCIES

The Directors are of the opinion that provisions are not required in respect of the matter described below as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Contingent liabilities not considered remote

Notice of an intention to claim has been received from a customer for goods which were delivered over two years ago. At the time of supply, the goods met the specifications of the customer but are now subject to a claim. The Directors are strenuously defending the action and in any event, do not expect the outcome of the action to have a material effect on the consolidated entity's financial position.

27. CONSOLIDATED ENTITIES

			Ownership interest	
	Note	**Country of incorporation**	**2006 %**	**2005 %**
Parent entity				
Peanut Company of Australia Limited		Australia		
Subsidiaries				
PMB Australia Pty Ltd	1	Australia	100	100
Stuneap Pty Limited	2	United Kingdom	100	100

Note 1: Dormant for year (no change to previous year). Investment by parent of $2, being two one dollar shares is eliminated when rounded to nearest thousand shares.

Note 2: Dormant since incorporation. The investment by parent of $2 being two ordinary shares, is eliminated when rounded to the nearest thousand dollars.

28. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2006 $000	Consolidated 2005 $000
Profit (loss) for the period	1,151	(2,151)
Adjustments for:		
Depreciation	1,208	1,388
Amortisation	996	1,949
(Reversal of) impairment losses	(247)	355
Interest expense	1,310	1,916
Profit (loss) on sale of non-current assets	(60)	2
Interest received	(47)	(45)
Write-off of bad trade debts	3	2
Income tax expense (benefit)	434	(1,030)
Operating profit before changes in working capital and provisions	4,748	2,386
(Increase) decrease in trade and other receivables	2,584	(397)
(Increase) decrease in inventories	6,179	7,161
(Decrease) increase in trade and other payables	637	(185)
(Decrease) increase in employee benefits	74	178
Cash generated from the operations	14,222	9,143
Interest paid	(1,328)	(1,637)
Income tax (paid) refunded	36	1,159
Net cash from operating activities	**12,930**	**8,665**

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity during the entire reporting period unless otherwise indicated.

Non-executive Directors

Brett Heading, Chairman (appointed 10 October 2005)

Ian Langdon (appointed 31 March 2005)

Niven Hancock (appointed 24 August 1992)

Ray Magill (appointed 14 November 1996 resigned 10 October 2005)

Dennis Howe (appointed 24 August 1992 and not re-elected at the Annual General Meeting held on 29 July 2005)

David Jeffries (appointed 30 October 2003 resigned 2 November 2005)

Neil Lister (appointed 25 March 1997 resigned 27 September 2005)

Findlay Andrews (elected at the Annual General Meeting held on 29 July 2005 and resigned 27 September 2005)

Executive Director

Bob Hansen (Managing Director)

Executives

David Clark (Commercial Manager)

Kevin Norman (Technical Manager)

Transactions with key management personnel

The Non-Executive Directors are paid a fixed remuneration for their services. Additional fees are paid to the Chairman of the Audit Committee to recognise the additional responsibilities of this position.

In addition to their salaries, the consolidated entity also provides non-cash benefits to the executive Director and executives. Kevin Norman is the only executive who is eligible to participate in the consolidated entity's share option program.

The key management personnel compensation included in the income statement are:

	Consolidated	
	2006 $	**2005** $
Short-term employee benefits	743,720	726,334
Post-employment benefits	58,745	61,600
Termination benefits	-	44,607
	802,465	832,541

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

The aggregate amounts recognised during the year relating to key management personnel and their related parties

		Note	Consolidated 2006 $	Consolidated 2005 $
Director	**Transactions during the period**			
Niven Hancock	Purchase of peanuts (after seed payment offset)	1	47,400	101,252
	Contract harvesting, digging and drying provided	1	179,999	145,212
	Purchase of consumable supplies (offset against contracting harvesting)	2	12,231	23,619
Dennis Howe	Purchase of peanuts (after seed payment offset)	1	1,083,678	942,786
Brett Heading	Provision of legal services	3	24,433	-
	Purchase of peanuts	4	6,393	-

Notes

(1) Messrs Niven Hancock and Dennis Howe (not re-elected at AGM on 29 July 2005) are farmers and separately have interests in firms, partnerships and companies who supply the Company as growers with peanuts on normal commercial terms. In addition, Niven Hancock through a related entity, provides contract harvesting services to other peanut growers under contract to the Company. These contracting services are billed on normal market rates.

(2) Niven Hancock also purchases from the Company consumable supplies on commercial terms and conditions.

(3) The Company obtains legal advice from McCullough Robertson, a firm of which Brett Heading is a partner. The amounts billed were based on normal commercial terms. The payment reported relates to the period since his appointment as a Director on 27 September 2005.

(4) Entities in which Brett Heading has an interest purchased processed peanuts on commercial terms and conditions.

Transactions with related parties are not secured, no guarantees are given or received and no provisions for doubtful debts have arisen.

Amounts receivable from and payable to key management personnel and their related parties at reporting date arising from these transactions were:

	2006 $	2005 $
Included in debtors		
Niven Hancock	14,616	17,971
Dennis Howe	-	112,015
Brett Heading	6,393	-
Included in payables		
Niven Hancock	-	67,159
McCullough Robertson	10,914	-

All transactions with related parties are at arm's length and on normal terms and conditions. Transactions with related parties are not secured, no guarantees are given or received and no provisions for doubtful debts have arisen in the course of related party transactions.

30. ECONOMIC DEPENDENCY

The consolidated entity does not contract out tonnages to customers in significant quantities and for periods more than one year.

31. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

32. EXPLANATION OF TRANSITION TO AIFRSs

As stated in significant accounting policies Note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31March 2005 and in the in preparation an opening AIFRS balance sheet at 1 April 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial .statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

32. EXPLANATION OF TRANSITION TO AIFRSs (CONT.)

		Company & Consolidated					
		1 April 2004 ($000)			31 March 2005 ($000)		
	Notes	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition AIFRSs	AIFRSs
Assets							
Cash and cash equivalents		51	-	51	217	-	217
Trade and other receivables	(c)	8,874	300	9,174	8,858	(55)	8,803
Inventories	(a)	21,789	(250)	21,539	14,538	(160)	14,378
Income tax receivable		1,370	-	1,370	224	-	224
Total current assets		32,084	50	32,134	23,837	(215)	23,622
Deferred tax assets	(d)	1,244	(1,244)	-	1,670	(1,670)	-
Property plant and equipment	(b),(e)	20,447	28	20,475	19,153	(48)	19,105
Intangible assets	(a)	-	3,354	3,354	-	3,332	3,332
Total non-current assets		21,691	2,138	23,829	20,823	1,614	22,437
Total assets		53,775	2,188	55,963	44,660	1,399	46,059
Liabilities							
Trade and other payables	(g)	3,811	(173)	3,638	3,554	(233)	3,321
Interest-bearing loans and borrowings		15,053	-	15,053	9,840	-	9,840
Employee benefits	(g)	1,256	173	1,429	1,344	233	1,577
Total current liabilities		20,120	-	20,120	14,738	-	14,738
Trade and other payables		533	-	533	533	-	533
Interest-bearing loans and borrowings		12,867	-	12,867	11,828	-	11,828
Deferred tax liabilities	(a),(b),(c),(d),(e)	557	1,614	2,171	116	1,038	1,154
Employee benefits		86	-	86	116	-	116
Total non-current liabilities		14,043	1,614	15,657	12,593	1,038	13,631
Total liabilities		34,163	1,614	35,777	27,331	1,038	28,369
Net assets		19,612	574	20,186	17,329	361	17,690
Equity							
Issued capital		4,209	-	4,209	4,209	-	4,209
Reserves	(d),(e),(f)	8,322	(1,200)	7,122	8,322	(1,200)	7,122
Retained earnings	(a),(b),(c),(d),(e)	7,081	1,774	8,855	4,798	1,561	6,359
Total equity		19,612	574	20,186	17,329	361	17,690

32. EXPLANATION OF TRANSITION TO AIFRSs (CONT.)

Notes to the reconciliation of equity

(a) The consolidated entity has applied AASB 138: Intangible Assets and recognised the costs associated with the development of the gene pool for peanut cultivars at 1 April 2004 as intangibles. Under previous GAAP such costs were expensed. On initial recognition, net development costs of $3.35 million were recognised (comprising costs of $5.27 million less accumulated amortisation of $1.92 million). The recognition of the intangible asset resulted in an additional deferred tax liability of $0.93 million, the reduction in the carrying value of inventory of $0.25 million and an increase in retained earnings of $2.17 million.

For the financial year ended 31 March 2005, $0.9 million development costs have been capitalised from cost of sales, and amortisation of $0.92 million written off to cost of sales. The carrying value of inventory at 31 March 2005 has been reduced by $0.16 million. This has had the effect of increasing the deferred tax liability by $0.02 million and increasing retained earnings $0.05 million.

(b) Additionally under AASB 138 software development costs of $0.13 million, previously carried in capital work in progress, were written off as they did not qualify as intangibles under the standard. Net deferred tax liabilities increased by $0.04 million and retained earnings reduced by $0.09 million. A further $0.02 million incurred and capitalised in the year ended 31 March 2005 was written off to administrative expenses.

(c) In adopting AASB 137 Provisions, contingent liabilities and contingent assets at 1 April 2004, the non specific provision for doubtful debts recognised under previous GAAP was written back, increasing trade and other receivables by $0.3 million, increasing retained earnings by $0.21 million and increasing net deferred tax liabilities by $0.09 million.

At 31 March 2005 a specific provision for doubtful debts was recognised to administrative expenses, reducing the value of trade and other receivables by $0.36 million, reducing net deferred tax liabilities by $0.11 million and reducing retained earnings by $0.25 million.

(d) Consistent with AIFRSs the consolidated entity has adopted the balance sheet method of recognising deferred tax liabilities at 1 April 2004. On transition deferred tax liabilities have increased by $1.830 million, the revaluation reserve reduced by $1.890 million and increased retained earnings by $0.06 million. For the year ended 31 March 2005 the reversal of temporary differences of $0.05 million has been credited to the revaluation reserve, reducing the net deferred tax liability by $0.04 million and retained earnings by $0.1million.

The consolidated entity has elected to offset deferred tax assets against deferred tax liabilities on transition.

(e) Consistent with AIFRSs, the consolidated entity has elected to measure land and buildings at 1 April 2004 at their fair value and apply the valuation model. Under previous GAAP, land and buildings were carried at deemed cost. At the date of transition the carrying value of land and buildings was increased by $0.16 million, net deferred tax liabilities increased by $0.05 million, the revaluation reserve increased by $0.91 million and retained earnings reduced by $0.8 million.

For the year ended 31 March 2005 there was an increase in depreciation debited to cost of sales of $0.06 million.

(f) At 1 April 2004 and 31 March 2005 an amount of $0.23 million in the consolidated entity has been reclassified from the capital profits and the general reserve being the balances on those reserves at 1 April 2004 into retained earnings.

(g) Under previous GAAP accrued wages were classified under trade and other payables. Under AASB 119 Employee Benefits accrued wages have been reclassified to Employee Benefits.

32. EXPLANATION OF TRANSITION TO AIFRSs (CONT.)

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

	Company & Consolidated	
	1 April 2004 $000	**31 March 2005 $000**
Intangible assets	2,173	2,220
Software development costs	(90)	(101)
Provision for doubtful debts	210	(39)
Deferred tax	59	46
Fixed assets	(800)	(787)
Revaluation reserve	(978)	(978)
Total adjustment to equity	574	361
Attributable to :		
Equity holders	574	361

RECONILIATION OF PROFIT FOR 2005

	Notes	Previous GAAP $000	Company effect of transition to AIFRSs $000	AIFRSs $000
Revenue		69,208	-	69,208
Cost of sales	(a),(e)	(60,034)	9	(60,025)
Gross Profit		9,174	9	9,183
Other operating income		107	-	107
Marketing expenses		(2,749)	-	(2,749)
Distribution expenses		(3,549)	-	(3,549)
Administrative expenses	(b)	(3,075)	(17)	(3,092)
Other operating expenses	(c)	(582)	(355)	(937)
Profit (loss) before financing costs		**(674)**	**(363)**	**(1,037)**
Financial income		45	-	45
Financial expenses		(2,189)	-	(2,189)
Net financing costs		**(2,144)**	**-**	**(2,144)**
Profit (loss) before tax		**(2,818)**	**(363)**	**(3,181)**
Income tax (expense) benefit	(a),(b),(c),(e)	879	151	1,030
Profit (loss) for the period		**(1,939)**	**(212)**	**(2,151)**
Attributable to:				
Equity holders		(1,939)	(212)	(2,151)
Basic earnings (loss) per share		(0.45)	(0.05)	(0.50)
Diluted earnings (loss) per share		(0.45)	(0.05)	(0.50)

33. CHANGES IN ACCOUNTING POLICY

In the current financial year the Consolidated Entity adopted AASB 132: Financial Instruments: Disclosures & Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments with the scope of of AASB 132 and AASB 139.

Reconciliation of opening balances affected by AASB 132 and 139 at 1 April 2005

	Consolidated		
	Previous GAAP $000	**Effect of Transition to AIFRS $000**	**AIFRSs $000**
Fair value derivatives - asset	237	-	237
Deferred gain on hedges	(237)	237	-
Hedge reserve	-	(237)	(237)
Total impact on equity	-	-	-

In the prior year, the consolidated entity translated foreign exchange contracts in accordance with previous GAAP, giving rise to a deferred gain and hedge receivable of $237,000. At 1 April 2005, the consolidated entity has applied hedge accounting as described in Note 1(e). Accordingly, the effective part of any gain or loss on the derivative instrument has been recognised directly in equity.

Directors' declaration

Peanut Company of Australia Limited and its Controlled Entities

For the financial year ended 31 March 2006

In the opinion of the Directors of Peanut Company of Australia Limited ("the Company"):

a) the financial statements and notes set out on pages 25 to 62, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 March 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia 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.

Dated at Brisbane this 23rd day of June, 2006.

Signed in accordance with a resolution of the Directors:

Brett Heading
Chairman

KPMG

Independent audit report to the members of Peanut Company of Australia Limited and its Controlled Entities

Scope

The financial report and Director' responsibility

The financial report comprises the income statements, statements of recognized income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 33 to the financial statements, and the Director' declaration set out on pages 25 to 63 for both Peanut Company of Australia Limited (the "Company") and its Controlled Entities (the "Consolidated Entity"), for the year ended 31 March 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

Audit approach

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

We performed procedure to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of 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.

Audit opinion

In our opinion, the financial report of Peanut Company of Australia 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 March 2006 and of their performance for the financial year ended on that date; and

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

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

S Crane
Partner

Brisbane

23 June 2006

Shareholder information

Peanut Company of Australia Limited and its Controlled Entities

20 LARGEST SHAREHOLDERS (AS AT 24 MAY 2006)

	No. of ordinary share held	Percentage of capital held
James Heading Pastoral Pty Ltd	427,504	9.91
Appledore Holdings Pty Ltd	354,985	8.23
Burnett Valley Vineyards Pty Ltd	266,211	6.17
Robert Bruce Hansen	221,445	5.13
Hansen Pastoral Investments Pty Ltd <RB Hansen Super Fund>	142,104	3.30
Domenic Ferraro & Lynette Mary Ferraro	72,208	1.67
GCL, EJ & LJ Masasso <Masasso Super Fund A/C>	59,197	1.37
Anthony John Trimarchi	58,612	1.36
Howe Farming Co Pty Ltd	53,852	1.25
Pompey E Pezzelato & Tanya M Pezzelato	52,995	1.23
Ian Wayne Hunsley & Susanne Maria Hunsley	48,006	1.11
Robert Bruce Hansen & Julie Hansen <R&J Hansen Unit A/C>	44,060	1.02
Weller Brothers	37,352	0.87
Kerry Patrick Prior	35,952	0.83
Roger M Lewis & Lindy A Lewis	35,152	0.82
Tabdisk Pty Ltd	34,852	0.81
Salvetti Farming Company	34,202	0.79
Fransfarm Pty Ltd <Fransfarm Super Fund A/C>	33,402	0.77
R&G Andersen & Co	29,252	0.68
Isabella Farming Pty Ltd	28,454	0.66
Total	2,069,797	47.98

Photo courtesy of Helen Cameron, Kingaroy.

Peanut Company of Australia – 80 years of leadership in the Australian peanut industry

Directory

OFFICES AND OFFICERS

Managing Director
Robert B Hansen
B.App.Sc, Grad.Dip.Man

Joint Company Secretaries
Donald C Mackenzie FCA
David Clark B.Comm, CA

Incorporation
The Company was incorporated in and is domiciled in Australia. The Company is an unlisted public company.

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PCA
PEANUT COMPANY OF AUSTRALIA

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Peanuts by PCA

Peanut Company of Australia Limited ABN 34 057 251 091