

annual report 03-04



LIVESTOCK IMPROVEMENT AT A GLANCE :	
DAIRY ANIMAL RECORDING	
HERD TESTING	
LIVESTOCK IMPROVEMENT	
DAIRY ANIMAL DATABASE	
TESTLINK MILK ANALYSIS LABORATORIES	
DAIRY ANIMAL EVALUATION UNIT	
INDUSTRY STATISTICS AND TRENDS	
RESEARCH - BIOTECHNOLOGY, QUANTITATIVE	
GENETICS - MALE AND FEMALE, BOVINE	
REPRODUCTION TECHNOLOGY.	
ON-FARM CONSULTANCY	
ANIMAL HEALTH MANAGEMENT	
PROGENY TESTING	
DNA ANALYSIS	
ARTIFICIAL BREEDING	
LIQUID AND FROZEN SEMEN TECHNOLOGY	
EXTENSIVE NATION-WIDE FIELD SERVICE	
SUBSIDIARIES - DEER IMPROVEMENT & ANIMAL BREEDING SERVICES	
INTERNATIONAL SEMEN SALES.	

Livestock Improvement is a dairy farmer owned co-operative providing a comprehensive range of herd improvement services to the dairy industry. Its subsidiaries deliver breeding solutions for a range of animal species, including bovine, deer, sheep, pigs, goats, dogs and horses, both domestically and internationally.

#### ANNUAL REPORT 2003-2004

The Directors are pleased to present the annual report of Livestock Improvement Corporation Limited for the year ended 31 May 2004.

For and on behalf of the Board of Directors

The image shows two handwritten signatures in black ink. The signature on the left is 'SB Bay' and the signature on the right is 'RD Jackways'. Both signatures are written in a cursive, flowing style.

SB Bay, *Chairman*  
August 2004

RD Jackways, *Director*  
August 2004

CONTENTS

Overview	Inside Cover
Company Structure	3
Performance	4
Divisional Highlights	7
Chairman’s Report	19
Chief Executive’s Report	25
Board of Directors	31
Corporate Governance	33
National Council Report	36
Financial Statements	39

MISSION

MISSION

Leading the world with genetics and knowledge to create wealth for pastoral dairy farmers.

VISION

Leadership in pastoral livestock solutions.

STRATEGIC OBJECTIVES *by 2005/2006*

*Innovation*

Increase profit to \$10 million.

*Performance*

Return on capital of 10% after tax.

*Customer focus*

Achieve Silver Business Excellence Award.

CORE VALUES

*Integrity*

Expressed by being ethical; honest; trustworthy; fair; responsible and accountable; responsive and reliable.

*Customer focus*

Expressed by the above, and by putting the client first; demonstrating empathy with dairy farming; providing solutions to our farming clients and consistently providing a quality service.

*Innovation*

Expressed through innovative solutions which add value to our clients' business; consistently looking for better ways to do things, and a focus on quality and excellence in everything we do.

*Teamwork*

Expressed through leadership; professionalism - consistently demonstrating standards of excellence; balancing work and home life and empathy and support for colleagues.

COMPANY STRUCTURE

*Operational Divisions*

Genetics - Information - International

*Support Divisions*

Innovation/Research and Development  
Strategic Development  
Corporate Services  
Governance and Legal

*Subsidiaries*

Livestock Improvement (New Zealand)  
Corporation Ltd

- New Zealand Genetics™ (Australia) Pty Ltd
- Livestock Improvement (UK) Ltd

Livestock Improvement Deer Ltd

Animal Breeding Services Ltd

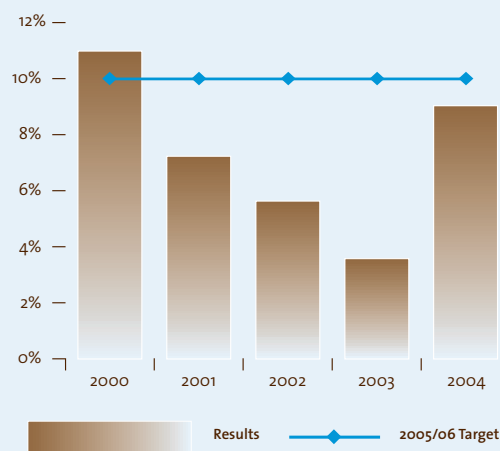
- Equine Fertility Services Ltd
- Dairy Goat Improvement Ltd

*Associates*

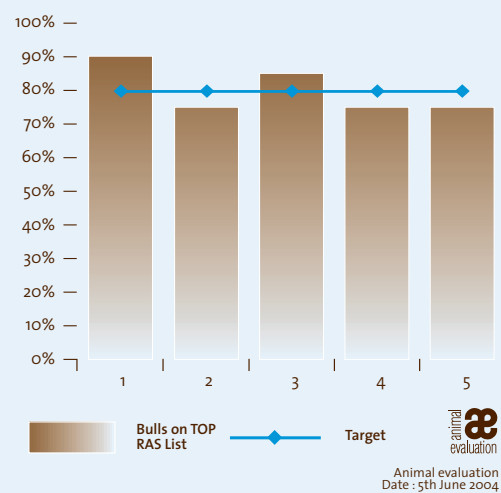
New Zealand Genetics (IRE) Ltd

PERFORMANCE

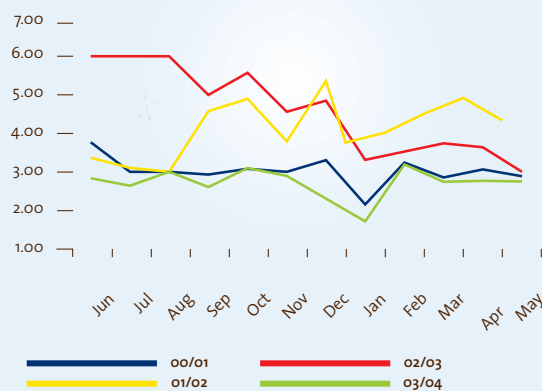
FINANCIAL: ROCE OF 10% AFTER TAX



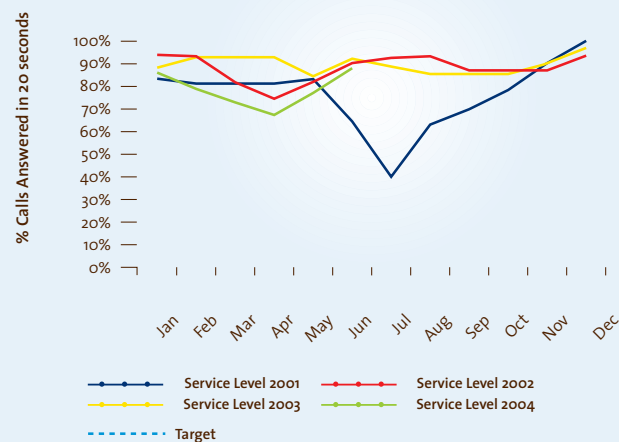
PROCESSES: BULLS ON THE TOP 20 RAS



PROCESSES: Herd Test Monthly Average Turn-around Time



PROCESSES: MINDA Service Levels





DR BEVIN HARRIS

One of the biggest issues facing dairying, around the world, is the decline in the fertility of dairy cows. In some countries, it is a major challenge to get cows in calf, and in some cases the declining fertility is making it difficult to breed enough replacement heifers.

However, in New Zealand, the issue is being tackled head on, thanks to a Fertility Breeding Value developed by Livestock Improvement.

Livestock Improvement Scientist, Dr Bevin Harris, says the breeding value, introduced to the Animal Evaluation Model in 2002, means bulls can be selected for the Livestock Improvement Premier Sires team taking into account their daughters' ability to get in calf year after year.

"For the first time, we've got a tool to effectively put a stop to any decrease in fertility in the national herd."

The ability to develop a female fertility breeding value ahead of the rest of the world is thanks to the Livestock Improvement Database, which holds herd records on 20 million dairy animals and provides the basis for Animal Evaluation.





Calf Clubs have been an institution in rural schools since the early 1900's, bringing communities together and inspiring young farmers of the future.

However, in recent years these events have paid the price of modern life, as teachers and parents simply don't always have the time needed to be there when their children have questions about their calves.

In answer, Livestock Improvement developed [www.calfclub.co.nz](http://www.calfclub.co.nz), a free website launched in June 2003, to help rural children select, care and train their calves.

Hundreds of rural schools have since logged on to register their calf clubs on the online calendar and each event is attended by a Livestock Improvement staff member to present a special [www.calfclub.co.nz](http://www.calfclub.co.nz) ribbon to the winning child/calf combination in any given category.

BRIDGET HUITEMA IS ONE OF THE MANY CHILDREN WHO ENJOYED CALF CLUB IN 2003



DIVISIONAL HIGHLIGHTS

GENETICS  
DIVISION

Activities

- Sire Proving Scheme
- Artificial Breeding - PREMIER SIRES, Alpha Nominated
- Artificial Breeding Technician Service
- National Sales force

Highlights

- Livestock Improvement bulls dominated the Ranking of Active Sires (RAS) list.
- Utilised gene discoveries made in partnership with Fonterra through the BoviQuest joint venture. The two genes known as Quantum and Optimum are the first milk production genes in the world to be patented and being used in Marker Assisted Selection (MAS) to enable the most promising full brothers to be selected for progeny testing.

- Farmers quick to recognise the benefits from tailing-off the herd with Short Gestation Length bulls and sales were ahead of forecast.
- IVP embryo transfer technology developed to generate multiple bull calves from elite cows. 106 bulls for the 2005 Sire Proving Scheme were produced via this technology which has involved a collaboration between Livestock Improvement and subsidiary Animal Breeding Services.
- Launch of the exclusive Once-a-Day (OAD) Breeding Index.
- The hand-held DataMate computers took efficiency and accuracy to new levels replacing all paper Mating Detail Certificates for recording nearly 3 million inseminations by Livestock Improvement Artificial Breeding Technicians.
- Farmers ranked bulls according to their own criteria using the Customate software on District Manager laptop computers.

Outlook

- Launch of Customate Plus enabling individual mating outcomes to be optimised using complex programming previously only available to the Livestock Selection analysts.
- Graduation of additional 65 crossbred bulls taking Livestock Improvement's Sire Proving Scheme (already the largest grass-based seasonal progeny test programme in the world) to new heights with 300 bulls under test.

DIVISIONAL HIGHLIGHTS

INFORMATION  
DIVISION

Activities

- MINDA
- Protrack
- Herd Testing
- FarmWise
- Animal Health
- GeneMark

MINDA

Highlights

- The use of MINDA by dairy farmers continued at a similar level to past seasons. Notably, there was a 10% decline in the number of calves recorded.
- MINDA software continues to be used by a majority of dairy farmers for recording herd data, and generating herd reports.
- A new release of MINDApro and M-NOTE software was launched in Autumn 2004. New features included pregnancy diagnosis recording, the ability to report on historical animals, a number of new reports, and a large number of other smaller new features and program improvements.
- The development, launch and subsequent uptake of MINDA software resulted in Livestock Improvement being awarded a NZ Marketing Award for the best business to business marketing initiative in New Zealand for 2003.

Outlook

A high level of usage of MINDA is expected to continue, as farmers use the herd information provided by MINDA to manage their herds and farms more profitably. In conjunction with the Animal Evaluation Unit, MINDA will complete development for dairy cows of genetic indices for Somatic Cell Count. These will be made available to MINDA customers in relevant reports in 2005.

HERD TESTING

Highlights 2003/04

- Favourable weather during summer in many parts of New Zealand resulted in a very good year for herd testing, with sample volumes exceeding expectations. This was despite the impact of flooding in central New Zealand that had a significant negative impact on farming in the late summer/early autumn.
- The Te Awamutu Weigh Station facility was closed at the end of the 2003/04 season to realise cost savings.
- Plans to commercially trial two new herd testing systems were abandoned in late Spring 2003 due to technical problems with equipment. Pilot trials of the two systems were carried out in autumn and winter, to prepare for the upcoming commercial trials.

Outlook

We expect to carry out a large scale commercial trial of one or both new herd testing systems in the spring of 2004. The outcomes of this trial work will enable us to evaluate the benefits of adopting one or both of these systems into the future.

FARMWISE

Highlights 2003/04

- FarmWise operated a nationwide dairy farm consultancy service, with 21 consultants offering service to dairy farmers in all parts of New Zealand.
- A full range of services were taken up, ranging from general consultancy and farm supervision to specific assistance with staff recruitment and major capital purchases.
- FarmWise assimilated knowledge and experience in Once-a-Day milking, assisting a number of farmers to explore whether the system was suited to their particular farming situations.

Outlook

No significant change is planned in FarmWise, with consultant numbers expected to remain static, and a similar range of services being offered to NZ dairy farmers as has been the case in the past. FarmWise will continue to assimilate knowledge on Once-a-Day milking systems, and will provide tailored assistance to farmers wanting to investigate and convert to Once-a-Day milking.

DIVISIONAL HIGHLIGHTS

Livestock Improvement continued to administer and operate the Dairy InSight funded Enzootic Bovine Leucosis (EBL) Eradication Scheme.

By Winter 2004 there were less than 10 EBL positive dairy herds remaining in New Zealand. As such, the New Zealand dairy industry has reached a point where it will be seeking recognition as being EBL free under international conventions.

the last year of EBL eradication in the NZ dairy industry. Beyond this season the scheme will enter a surveillance phase, and plans are currently being developed for this in conjunction with Dairy InSight and the wider dairy industry.

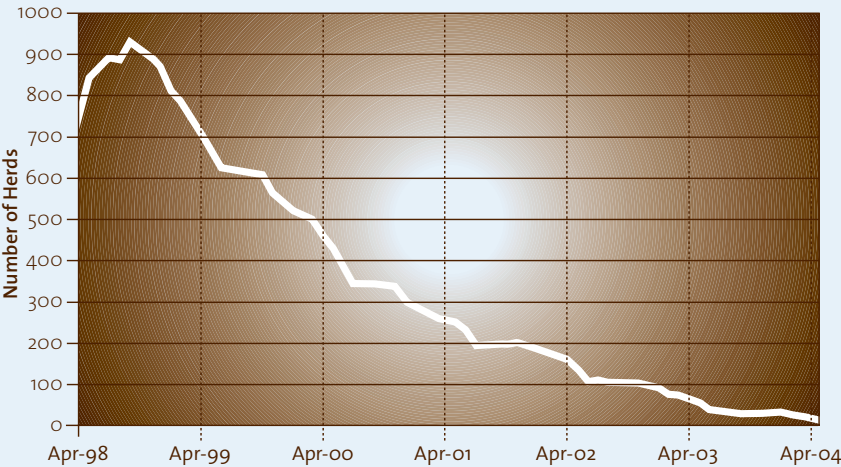
The second gene discovered by BoviQuest, Quantum, was launched to the market in Winter 2003.

The Calf Trace product, simplifying calf identification using DNA testing, was launched in spring 2004.

The DNA testing laboratory completed a substantial amount of testing for research groups, testament to the high standard of technical expertise available in the laboratory.

The laboratory achieved ISO 9001 certification in Autumn 2004.

EBL Positive Herds



customers will occur, as the benefits of using DNA testing for a variety of purposes become better understood. Early outputs from the BoviQuest biotechnology research programme may be implemented as tests in GeneMark, depending on the nature of the genes discovered

DIVISIONAL HIGHLIGHTS

INNOVATION  
DIVISION

The Innovation Group’s objectives are the development of new and improved products and services for New Zealand dairy farmers, and business process improvements to enhance the profitability of Livestock Improvement’s existing core business.

HIGHLIGHTS 2003/04  
INNOVATION PIPELINE

- Livestock Improvement’s various innovation streams were integrated into one common process across the organisation. The ‘i-2-i’ (ideas to implementation) programme will be launched in 2004/2005 to provide a consistent mechanism to convert ideas into new products and services for customers.
- A common process for continuous improvement of business processes was adopted and implemented across the organisation.

RESEARCH AND DEVELOPMENT

Livestock Improvement’s scientists are world renowned for the innovations they have delivered to pastoral farming. Research in the 2003/2004 year concentrated on three main areas of interest:

- Genomics (Gene discovery)
- Quantitative Genetics
- Reproductive Technologies

GENE DISCOVERY PROGRAMME

Livestock Improvement is undertaking an extensive research programme to identify genes for animal productivity traits. Once identified, information on these genes will be used to assist in selection decisions in its breeding scheme, and also to assist farmers in on-farm cow selection and mating decisions.

Highlights during the season include

- The 800 cows in the Friesian-Jersey Crossbred Trial were measured for a range of traits related to milk production and fertility.

- DNA samples being collected from 3000 cows across a number of farms to find fertility genes.
- Identification of two further genes that effect protein production.

Outlook

- Trait measurement for the animals in the Friesian-Jersey Crossbred Trial will continue.
- Statistical analysis of trait data already gathered will be conducted to link performance data to the genes responsible for influencing important traits such as milk production, fertility and disease resistance.

QUANTITATIVE GENETICS

Livestock Improvement’s quantitative genetics programme supports the Animal Evaluation Unit by developing breeding values for new traits for potential incorporation into the National Breeding Objective.

DIVISIONAL HIGHLIGHTS

Highlights 2003/2004

- A prototype Breeding Value for Somatic Cell Count for sires was developed representing a major scientific achievement with the incorporation of the test day model for this trait in Animal Evaluation.
- A prototype Breeding Value for Condition Score has been developed.

In addition, the quantitative genetics group provided support for Livestock Improvement's breeding scheme through

- Development and implementation of a software tool to optimise contract-mating decisions by maximising genetic gains while managing inbreeding at an acceptable level.
- Data from the Holstein-Friesian Strain Trial have been analysed in conjunction with the results of a similar trial at Moorepark (Ireland). New Zealand genetics have come out with the highest economic performance in a pastoral system in both trials, compared to the other strains evaluated.

Outlook

- Livestock Improvement's Research and Development team will continue to
- Explore new traits of value to New Zealand dairy farmers, including Somatic Cell Count, Once-a-Day Milking and Condition Score.
  - Work on the development of a prototype multi-trait Test Day Model for all Animal Evaluation Unit processes.
  - Develop software that will facilitate the incorporation of gene information in Breeding Worth calculations.

REPRODUCTION

Livestock Improvement has invested significantly in male reproductive research for many years. In 2002 the development of a female reproductive technologies platform (GENERate) was started to support Livestock Improvement's gene discovery programme.

Highlights 2003/04

- Key focus in semen research is the area of enhanced semen diluents and packaging methods to achieve the objectives of improved bull use while maintaining fertility.

- Livestock Improvement's female reproductive technologies programme, GENErate, in collaboration with Animal Breeding Services Ltd (ABS), delivered over 100 pregnancies resulting in male offspring. The resulting bulls will be eligible to enter the Sire Proving Scheme in 2005.
- First commercial embryo transfer (OPU/IVP) service by GENErate through ABS delivered to several farmers.

Outlook

- Research will continue into reducing the dose rate of Long Last Liquid™, and deep freeze semen without a reduction in Non Return Rate.
- Existing methods and techniques in embryo technology will be refined.

DIVISIONAL HIGHLIGHTS

INTERNATIONAL  
DIVISION

Activities

- International semen sales
- Fully owned subsidiaries in Australia and United Kingdom
- Joint Venture company (50/50) marketing semen in Ireland

Highlights 2003/04

- A record number of units sold with semen sales to more than 17 countries
- **Australia:** Livestock Improvement's 'Future First' progeny testing programme in Australia was launched in August 2003. This programme aims to further consolidate Livestock Improvement's position as a world leader in the supply of pastoral genetics. In its first year of operation the programme sampled 25 young sires and has plans to increase this number over the coming years. Unlike other programmes operating in Australia, Future First is structured for efficiency, taking maximum advantage of New Zealand sourced data via Interbull and utilising Livestock Improvement's 'whole

herd' sampling methodology. Generally the Australian market is still recovering from the effect of the drought and the downturn in dairy prices, however sales increased after a decline in the previous year. Livestock Improvement's product is performing well in the local index, the Australian Production Ranking (APR).

- **United Kingdom:** A solid 23% increase in sales has resulted in a good return from the United Kingdom operation. The business restructure over the past 12 months has reduced fixed costs and operational complexity. This business review has improved the management focus on sales that is now paying results. The United Kingdom is a valuable market for Livestock Improvement and the focus will continue on providing profitable genetics to United Kingdom dairy farmers, increasing customer numbers, sales and profit.
- **Ireland:** Livestock Improvement's Joint Venture operation, New Zealand Genetics (Ireland) Ltd, has had a very successful year with a 100% increase in sales over last year, despite an overall decline in the Irish artificial insemination market.


This excellent result is an outcome of a well co-ordinated sales and marketing programme by staff in Ireland. This performance built on the excellent performance of Livestock Improvement bulls in the Irish Breeding Index (EBI) and the data coming out of the Irish Government's Department of Agriculture Moorepark research project which has demonstrated that Livestock Improvement sires are the most profitable choice for Irish farmers.

- **Other markets:** South Africa and Chile, working with agents Genimex and Cooprinsem respectively, have had very good increases in sales. Argentina, while still a long way from the sales of a few years ago, is showing a small recovery. The sales in the USA have been slow and Brazil has been very disappointing.

Outlook

- Continue to grow and expand the Future First progeny test programme in Australia. Expand growth strategies in Ireland, capitalising on the success of 2003/2004.





This year, Livestock Improvement migrated its portfolio of information systems and the Livestock Improvement Database from its shared mainframe computer onto a cluster of servers. That's no mean feat for any business, let alone a farmer co-operative, operating one of the largest bovine databases in the world.

Aptly titled 'Project MOOVE', the initiative delivered savings of \$1.3 million per year in lowered maintenance costs and at an estimated total cost of \$2 million it was the second largest project ever undertaken by Livestock Improvement.

More than 60 staff were involved in the project, completing the task two months ahead of schedule and within budget, during the 2004 Easter period.

The project is also delivering tangible benefits for farmer clients, with herd record downloads taking a fraction of the time they used to take.





LIVESTOCK IMPROVEMENT DEER LIMITED, TRADING AS DEER IMPROVEMENT

2003/04

Livestock Improvement is a leader in semen technology and artificial breeding of dairy cattle, and this expertise was taken to the deer industry in the Autumn of 2004 when new subsidiary, Deer Improvement, carried out its first inseminations.

Deer Improvement now offers all commercial deer farmers the opportunity to access genes from top stags that previously would have gone only to the highest bidder.

The new company's breeding strategies are a replication of Livestock Improvement's, with progeny testing in contract herds and a team of elite stags supplying fresh and frozen semen via a network of AB Technicians.

Nineteen stags were purchased from leading studs on the basis of within-herd evaluations for yearling weight gain.

Several of these stags also have impressive antler traits and will target the dual-purpose market.

Deer Improvement has its office and stags based at the AgResearch Invermay research centre near Dunedin. The company operates with just four staff and contracts seasonal semen collection and processing services as well as AB Technicians selected from within the Livestock Improvement team.

Deer Improvement is also a participant in the AgResearch across-herd sire referencing programme which will, in future, enable farmers to recognise the truly elite animals, not just the best from each stud.

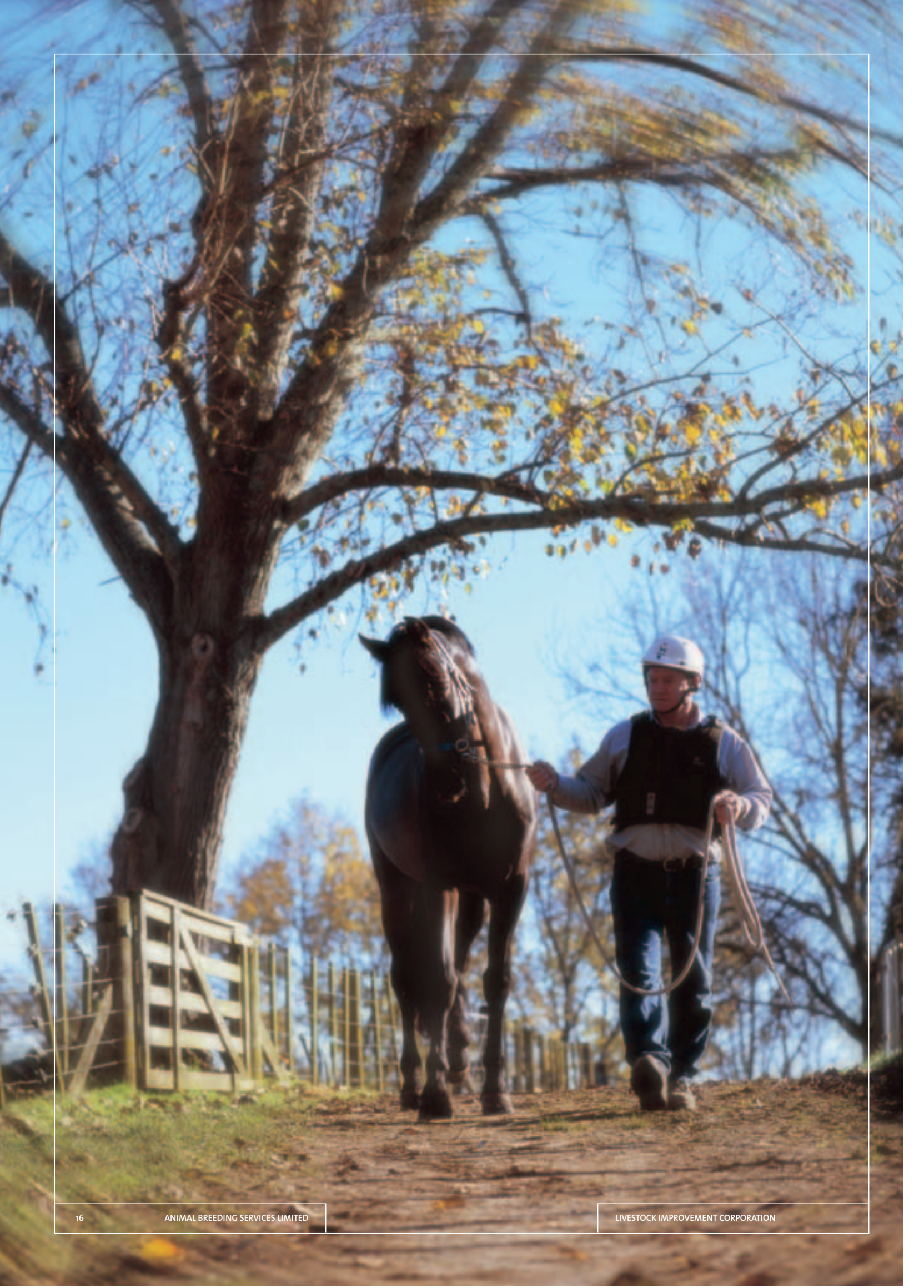
Plans 2004/05

At the time of publication of this Annual Report, pregnancy scanning confirmed a highly successful first season with an average of nearly 70% in calf to a single insemination following CIDR synchrony.

The first progeny will be born in November 2004. Deer Improvement will collect weaning weights before the 2005 mating season enabling selection of 'the best of the best' sires for its second mating season.

The new company has received positive feedback from the industry and support from deer farmers keen to achieve the rate of genetic gain only possible with the science of quantitative genetics and modern reproductive technology.





ANIMAL BREEDING SERVICES LIMITED

2003/04

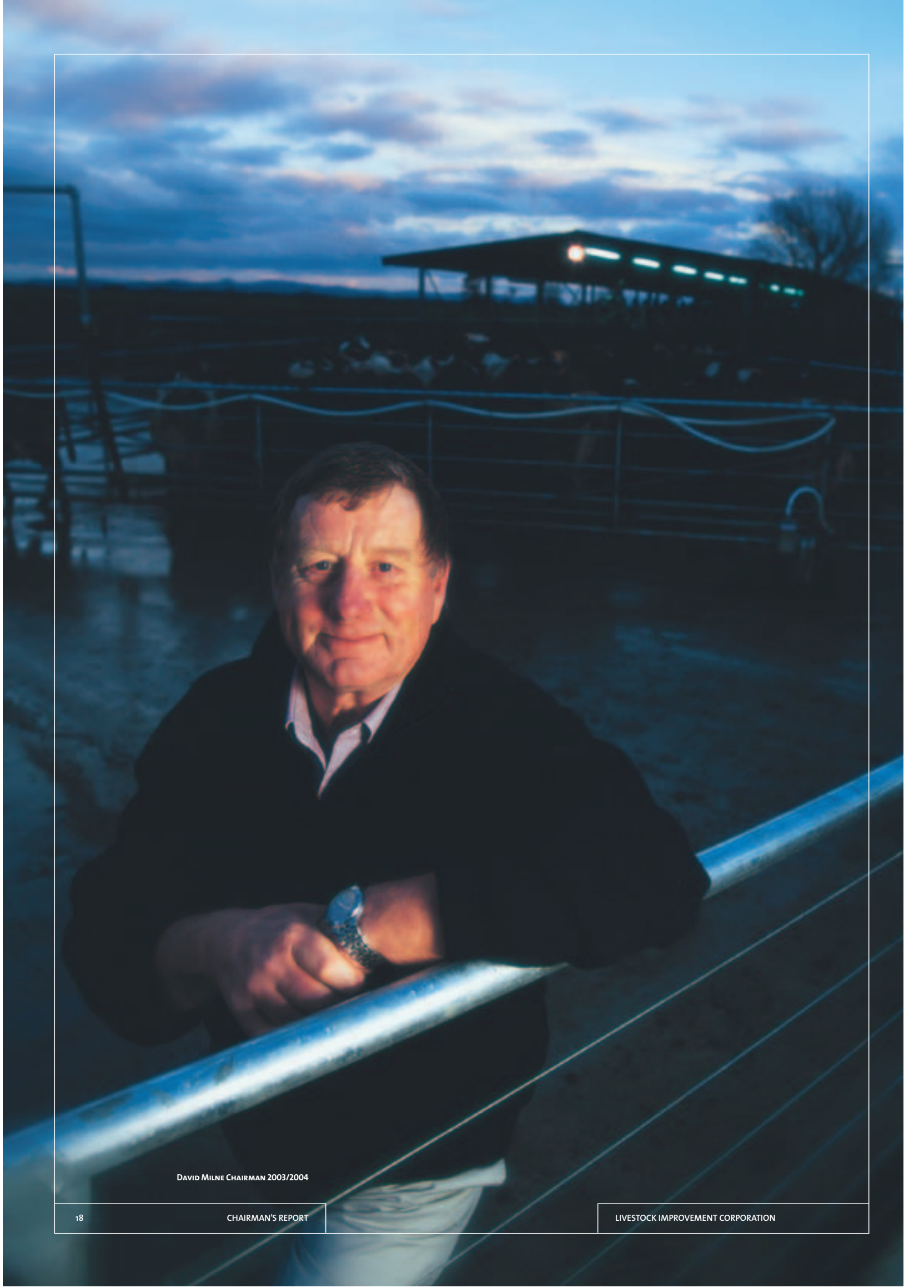
Animal Breeding Services, formed in 1996, is a Waikato based company providing commercial semen processing, embryo transfer and advanced reproductive technologies for the dairy, beef, sheep, goat, deer, pig and equine industries. Livestock Improvement acquired a majority shareholding in 2002 to extend its expertise in the area of embryo technology. During 2003/2004, Animal Breeding Services' business grew through lengthening the seasons of the services it provides. A technical "think tank" was implemented to investigate and to develop new and improved technical procedures to provide

farmer clients with enhanced results. International markets continue to be a focus with technical services provided in Australia, China, USA, Argentina and Brazil. A total of 1,730 ovine and 321 bovine embryos were exported. The ovine embryos went to China while the bovine embryos were exported to the UK. The number of embryos collected per cow flushed in the spring increased by 20% over the previous year. The Boar collection centre was expanded leading to increased sales of 34% which exceeded expectations.

Plans 2004/05

Increased effort on domestic market expansion will be implemented through the development of a formal Marketing Plan. A clear focus on international markets for embryo sales will be maintained with increased effort on identification of end use customers in those markets. Technical procedures will be constantly reviewed to enhance results achieved. An increased emphasis on operational efficiency will be implemented.





DAVID MILNE CHAIRMAN 2003/2004



## CHAIRMAN’S REPORT

### Financial Performance

The financial result for the year ended 31 May 2004 was an operating surplus before tax and biotechnology of \$8.445 million. The net surplus after tax was \$4.784 million compared with \$3.435 million last season. This result rewards the disciplined approach applied by the Board and management to redefining the potential of herd improvement.

Herd improvement is a mature business, the basics remaining unchanged - breeding superior sires, getting cows in calf, recording and analysing their effectiveness - and it is with a great deal of pride that I report, yet again, that Livestock Improvement has completed a year of innovation with rewards for shareholders in the paddock and the pocket.

### Shareholding

Livestock Improvement’s innovative breakthroughs have tended to be in the genetic environment but this was extended to a unique share structure during the year under review.

After intensive consultation with shareholders, a dual share structure was launched in April 2004 providing two classes of share - a

voting/ownership share known as the Co-operative Control Share, and an Investment Share. For the first time farmer shareholders can invest in the future of their co-operative, electing the level of their investment from two Investment Shares per Co-operative Control Share, to the maximum of 30:1.

The share structure and allocation of Investment Shares rewarded farmers for their loyalty and ownership of Livestock Improvement, distributing around \$45 million worth of value in Livestock Improvement to shareholders’ balance sheets.

In accordance with Shareholder Resolutions at the Annual Meeting on 27 November 2003, various changes were made to implement the Dual Shareholding Structure. These included :

- all 94,359 issued User Redemption Rights were surrendered and the Trust Deed wound up in April 2004.
- On 16 April 2004 the existing Constitution was replaced by the New Constitution approved by both the Shareholders and the Minister of Agriculture.
- Existing nominal value shares on issue at 16 April 2004 were subdivided into 2,952,859 Co-operative Control Shares and 29,528,590 Investment Shares.

- Investment Shares were listed on the Alternative Board (NZAX) of the NZX and tradable from 19 April 2004.

As at 31 May 2004, 2,946,048

Co-operative Control shares were on issue to 12,018 shareholders.

### Dividend

In July, and therefore subsequent to Balance Date, the Livestock Improvement Board was pleased to announce a distribution of dividends of:

- A priority dividend on Co-operative control Shares of 7.9 cents per share.
- A dividend of 16.3 cents per Investment Share.

Both Dividends have been paid by crediting Shareholders Accounts in July 2004. As the company has no tax imputation credits available, all dividends have had Resident Withholding Tax deducted at the prescribed rate of 33%.

### Governance

In accordance with the Constitution and the rotation schedule determined by the Board, Directors John Lynskey (Region 6) David Milne (Region 8) and Alvin Reid (Region 9) retired.

CHAIRMAN’S REPORT

Being eligible for re-election Messrs Lynskey and Reid were subsequently nominated and re-elected unopposed.

My retirement marks the end of 24 years as a Director of Livestock Improvement - beginning with the South Island Regional Board in the late 1970s and graduating to the Corporation Board eight years ago. Kevin Straight, representing Region 8 (a previous Chairman of the National Council) was the only nomination and was elected Director.

The Constitution allows for the appointment of three Independent Directors. The appointments of Phil Lough and Graham Fraser were ratified by Shareholders in October 2002 and in February 2003, Barry O'Donnell, with the prior approval of the National Council, was appointed an Independent Director. Due to work commitments Mr O'Donnell resigned in September 2003 and Mr Jay Waldvogel was appointed. Shareholders ratified this appointment at the Annual Meeting on 27 November 2003.

Concerned Dairymen’s Association (CDA)

This case involved seven causes of action and was brought by a group of 72 named Dairy Farmers and two AB companies, Levels

Gentech Limited and Brenco Livestock Limited. The case was heard in the High Court in Wellington in May - July 2003.

The judgement was released on 27 August 2003 and found in favour of the two defendants, New Zealand Dairy Board and Livestock Improvement Corporation Limited, on all seven causes of action. The defendants were awarded costs totaling \$434,000 - Livestock Improvement’s share being \$294,000 and representing a fraction of the cost (including staff time) of defending this case.

The plaintiffs lodged an appeal in respect of two causes of action heard in the Court of Appeal in Wellington on 26 July 2004.

Farmer Representation

Following a resolution at the 2002 Annual Meeting to separate the roles of governance (Directors) and representation (National Council) the Co-operative undertook a review of the number of Wards, National Councillors and Liaison Farmer Groups. Shareholders approved a recommendation at the 2003 Annual Meeting which reduced the number of Wards in the North Island from 28 to 21 with the South Island remaining at eight Wards. The National Council has assisted the Board

with the introduction of the new share structure during the season as well as undertaking their constitutional roles in representing shareholders.

A number of long serving National Councillors retired this year and elections have been held in all areas for these important roles. However, a vacancy still exists in Coastal Taranaki.

Perspectives

After more than 24 years at various Board tables with Livestock Improvement, it is appropriate to comment on the company as it’s been and on its promise for the future. Livestock Improvement is much more than “just a herd improvement organisation”. It is a co-operative designed and built by New Zealand dairy farmers, for New Zealand dairy farmers. It is owned by those farmers and it will continue to perform and deliver outstanding service and value to those shareholders.

It has been humbling, gratifying, challenging and rewarding to have been so closely involved in some of the most significant evolutions in Livestock Improvement’s development. This company has shaped the dairy industry in New Zealand; its integration and co-operative ownership being the envy of dairy nations around the world.

CHAIRMAN’S REPORT

It is a treasure which New Zealand dairy farmers must value and own. The secret, which other nations seek to emulate, is Livestock Improvement’s farmer ownership and control. Pressures have been applied at various times in the past and I have no doubt will again in the future, to weaken or dilute this farmer ownership and this must be repelled at all cost so that generations of dairy farmers will continue to enjoy the benefits of the most effective integrated dairy co-operative in the world. As I said at the start of this report, Livestock Improvement continues to widen the scope of its business, taking its expertise and knowledge to new species and markets. The aggressive growth directed by the Board and brought to life by a talented team of staff will deliver ever-increasing value in products, services and investment to shareholders.

Appreciations

Livestock Improvement has always attracted the best of the best in terms of its Directors, National Councillors, management and staff and I want to express my appreciation and gratitude to existing and past members who have guided and supported me so well. The current Board of Directors has skills which few Boards can boast and the National Council

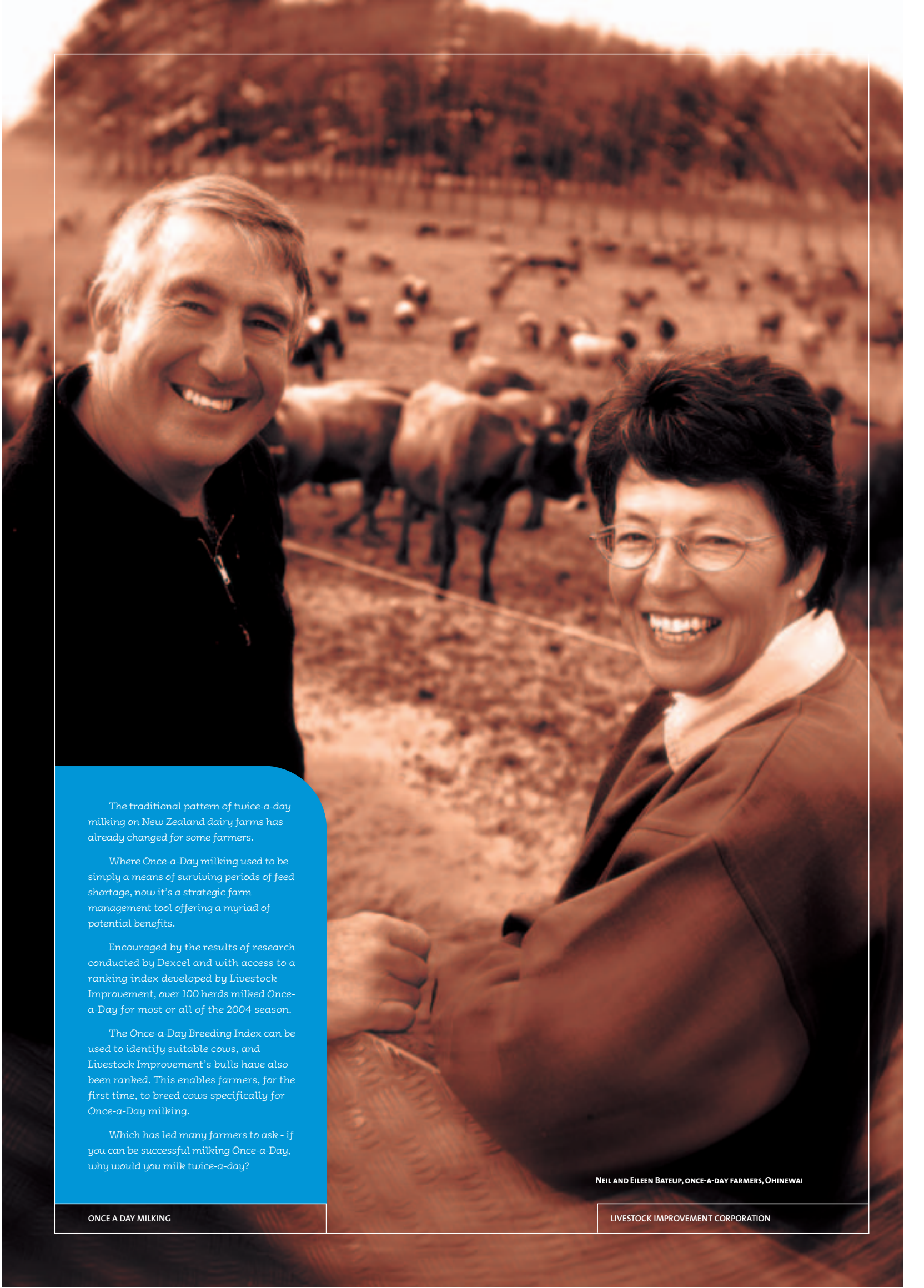
has the skills and commitment needed to represent shareholders’ concerns and ensure farmer voice in the growth of the business. I would like to specifically make tributes to two people. To Stuart Bay, my Deputy Chairman and now Chairman of the Board, whose unique skill-set has always been such an asset and such a support. And to Stuart Gordon who has developed a management team which is the driving force of the success Livestock Improvement has and will enjoy. Anyone who has contact with this company will speak of a culture which is palpable and unique; people with diverse and unique talents drawn together and expressing a unique passion for pastoral farming. This combination of talents is the success factor behind this year’s result - and every year’s result. They deserve commendation for their talent and focus.

I would also like to pay tribute to our shareholders - many of whom I have been privileged to know personally over my time with the company. Their loyalty has never been more expressive than since the share structure was launched earlier this year. New Zealand dairy farmers have always had a very real sense of ownership for this company and it has never been so evident as now, when they demonstrate that level through their

ownership of Investment Shares. Working with and for fellow dairy farmers has always been the stimulus which kept me in this job; it has been tremendously satisfying and I shall enjoy watching the company continue to go from success to success.



David Milne  
Chairman  
Financial year ended 31 May 2004



The traditional pattern of twice-a-day milking on New Zealand dairy farms has already changed for some farmers.

Where Once-a-Day milking used to be simply a means of surviving periods of feed shortage, now it's a strategic farm management tool offering a myriad of potential benefits.

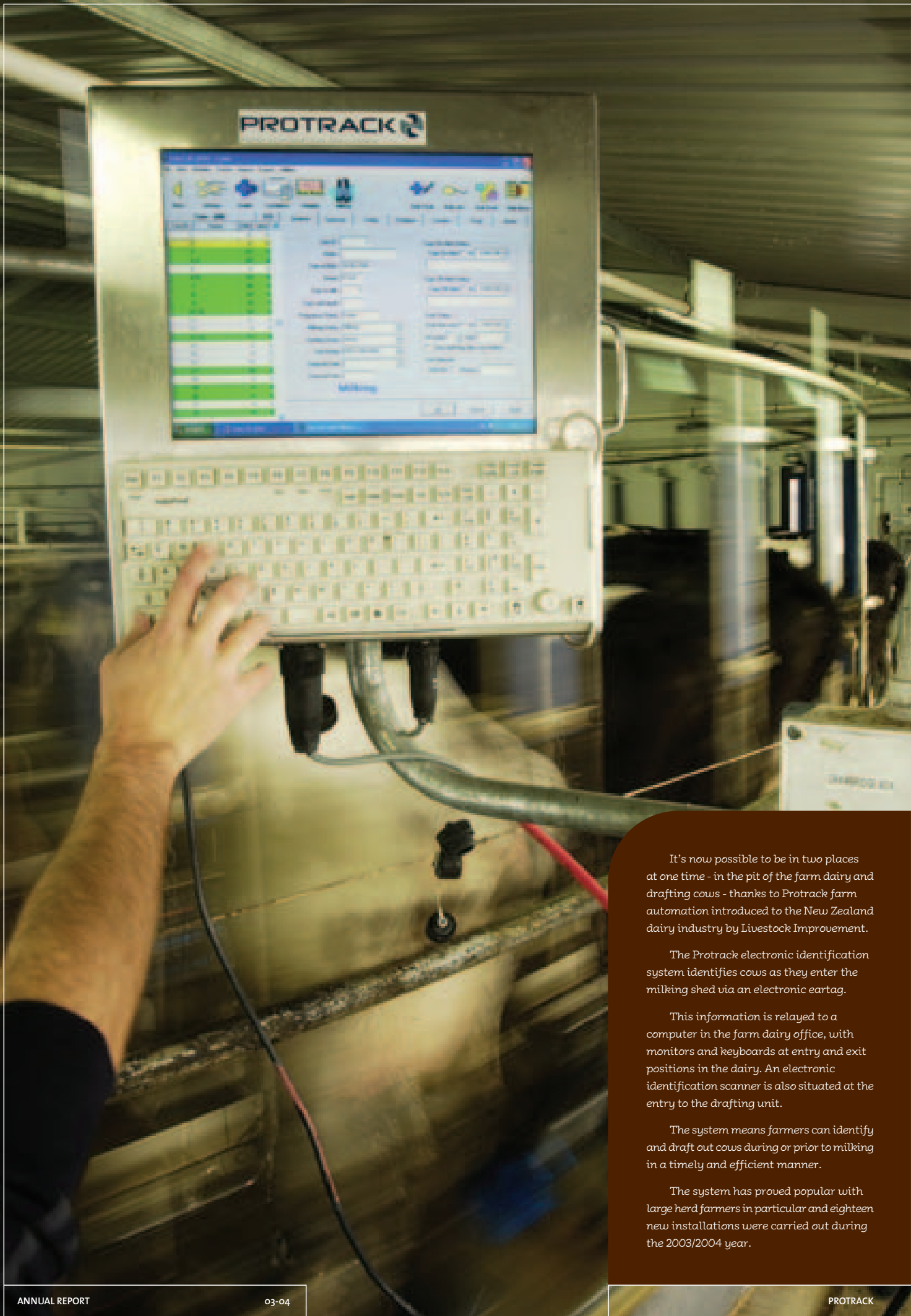
Encouraged by the results of research conducted by Dexcel and with access to a ranking index developed by Livestock Improvement, over 100 herds milked Once-a-Day for most or all of the 2004 season.

The Once-a-Day Breeding Index can be used to identify suitable cows, and Livestock Improvement's bulls have also been ranked. This enables farmers, for the first time, to breed cows specifically for Once-a-Day milking.

Which has led many farmers to ask - if you can be successful milking Once-a-Day, why would you milk twice-a-day?

NEIL AND EILEEN BATEUP, ONCE-A-DAY FARMERS, OHINEWAI





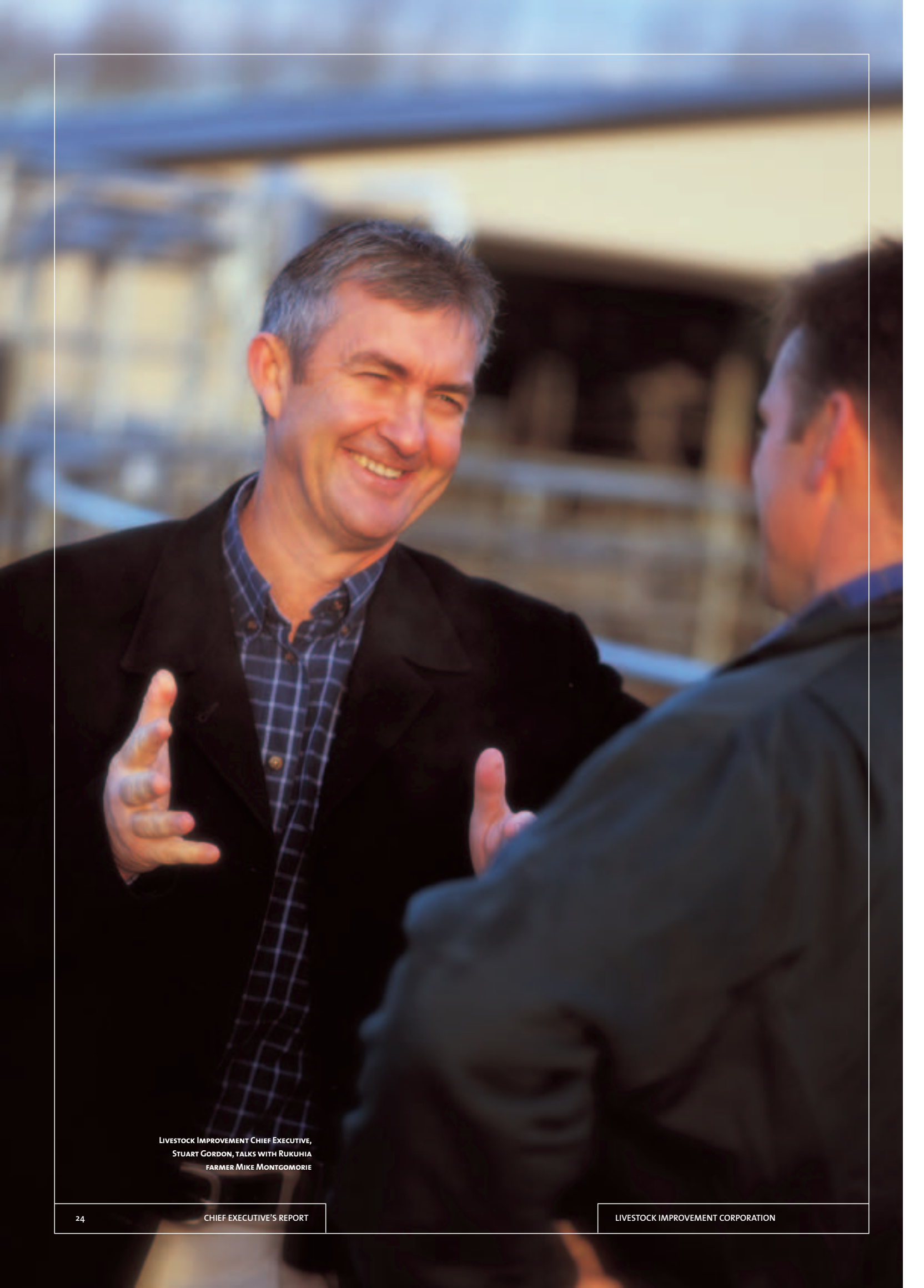
It's now possible to be in two places at one time - in the pit of the farm dairy and drafting cows - thanks to Protrack farm automation introduced to the New Zealand dairy industry by Livestock Improvement.

The Protrack electronic identification system identifies cows as they enter the milking shed via an electronic eartag.

This information is relayed to a computer in the farm dairy office, with monitors and keyboards at entry and exit positions in the dairy. An electronic identification scanner is also situated at the entry to the drafting unit.

The system means farmers can identify and draft out cows during or prior to milking in a timely and efficient manner.

The system has proved popular with large herd farmers in particular and eighteen new installations were carried out during the 2003/2004 year.



LIVESTOCK IMPROVEMENT CHIEF EXECUTIVE,  
STUART GORDON, TALKS WITH RUKUHIA  
FARMER MIKE MONTGOMERIE



“ It is a pleasure to report to shareholders on a year when Livestock Improvement recorded good financial performance and returns to shareholders, maintained its market share in core products and transferred its expertise to other species and markets. ”

It is a pleasure to report to shareholders on a year when Livestock Improvement recorded good financial performance and returns to shareholders, maintained its market share in core products and transferred its expertise to other species and markets.

## Looking back

### Domestic and international growth

Livestock Improvement’s revenue and investment in technology and growth is clearly focused on its core business of creating products and services for New Zealand dairy farmers with around \$91 million of the 2003/2004 sales from the domestic market, and \$7 million from international sales.

Balancing this focus, between domestic and international, reflects what our shareholders want. Livestock Improvement has a high level of contact and communication with our farmer shareholders which reinforces that they want products and services that meet their needs and provides a return on their investment shares.

### Share structure

During the year under review, Livestock Improvement introduced a share structure which has been acknowledged as innovative by farmers and commentators alike. The shape of the new structure was again an outcome of lengthy consultation with farmers.

Two classes of shares were introduced on 16 April 2004 giving farmers an ownership share (known as the Co-operative Control Share) and Investment Shares providing them with an opportunity to invest in the company - and to elect the level of that investment. Farmer shareholders can limit their holding

of Investment Shares to the minimum 2:1 ratio (two Investment Shares to every one Co-Operative Control Share) or increase their shareholding to the maximum of 30:1.

Direct benefits aside, the new structure delivers new levels of transparency and accountability on the management of their company to shareholders.

### New ventures

The return on investment delivered this year has resulted from innovations in core products and markets and from Livestock Improvement leveraging its capabilities into new markets.

In the 2003/2004 year we broadened the scope of our genetics business with the establishment of Deer Improvement New Zealand and the launch of the Livestock Improvement bull Progeny Testing programme in Australia.

### Deer Improvement

Deer Improvement was launched to improve our longer term profits through the transfer of Livestock Improvement’s expertise in semen research and breeding scheme design to the New Zealand deer industry. Early indicators confirm that, as a result of Livestock Improvement’s breeding strategies, the deer industry can achieve similar rates of genetic gain to that enjoyed by the dairy industry.

### Future First, Australia

Livestock Improvement’s progeny test programme was launched in Australia during 2003/2004.

‘Future First’ utilises the semen of Livestock Improvement sire proving sires, resident in New Zealand, and distributes them to Sire Proving Scheme herds in Victoria, Australia, generating Australian proofs.

We believe these proofs will confirm the ability of Livestock Improvement bulls to sire profitable, hardy, fertile cows suited to the Australian environment and increase semen sales to Australia. An additional benefit from the programme is that the extra progeny test data from the Australian bull daughters will add diversity and extend, even further, the reliability of bulls’ proofs in New Zealand.

### International recognition

After more than five years of research, the 2003/2004 year delivered results from the Moorepark Trial - a trial of three strains of cows farmed in Ireland. The trial compared European Holsteins with two other strains of animal - one Irish, and the other Livestock Improvement genetics.

The trial results confirm that Livestock Improvement genetics are significantly more fertile than the other two strains, have higher survival rates, greater longevity and are more profitable on grass.

CHIEF EXECUTIVE’S REPORT

“... Livestock Improvement is clear about its role and its aim - to be the provider of choice not as a result of ownership structure, but because our products and services are simply the best - leading edge, effective, relevant and better value.”

International growth

Livestock Improvement’s major overseas markets are Australia, United Kingdom and Ireland, each market delivering growth in market share and sales.

In Australia, sales have grown driven by a small but highly effective sales team in Victoria. In Ireland, Livestock Improvement has enjoyed a 100% increase in market share as farmers see the superiority of New Zealand sires independently demonstrated in the Moorepark Trials and hear the anecdotal evidence from their peers. Kiwi cows are fertile, turn grass into profit, and do that for longer than other strains of dairy cattle.

**Domestic market**

Despite the total market for herd improvement in New Zealand decreasing by 1%, Livestock Improvement’s market share grew marginally. This was significant because farmers now have a choice in the provider of herd improvement services - either with their own co-operative returning profits to them, or with a foreign owned company returning profits to its off-shore shareholders.

Those dynamics aside, Livestock Improvement is clear about its role and its aim - to be the provider of choice not as a result of ownership structure, but because our products and services are simply the

best - leading edge, effective, relevant and better value.

We have transferred our expertise in semen technology and artificial insemination to new markets - but not at the risk of our domestic market. Livestock Improvement’s first commitment is to its core products of artificial breeding, herd testing and analysis, and herd recording.

The Highlights Section of this Report gives insight into developments in those areas but notable highlights include:

**Once-a-Day Milking**

Selection for efficient converters of dry matter into milk solids has generated some cows that appear capable of maintaining production while being milked only once-a-day. Livestock Improvement FarmWise Consultants and geneticists are now working with farmers who are milking once-a-day to capitalise on the opportunities provided by this revolutionary technique.

In 2003 Livestock Improvement developed the Once-a-Day Breeding Index and this is now available to farmers wishing to select cows suitable for Once-a-Day milking; it is also used to rank bulls for breeding.

**Customate**

Livestock Improvement’s elite artificial breeding product is Premier Sires, which gives

farmers semen from a team of elite bulls. This concept has, over decades, been the breeding option chosen by a majority of New Zealand dairy farmers.

However, we are aware that a number of farmers want to select bulls and this led to the development of Customate, a programme which allows farmers to enter the traits they want in their future herd resulting in a list of all Artificial Breeding bulls available in the country, ranked by their ability to sire daughters with those traits.

**Fertility Breeding Value**

Livestock Improvement developed a Fertility Breeding Value which was included in the New Zealand Animal Evaluation Model in 2002. This enables farmers to identify Artificial Breeding bulls with high fertility, so they can breed cows which will get in calf year after year - literally putting a halt to the fertility decline which is arresting dairy nations around the world.

**KiwiCross™**

This time next year I will be able to report to shareholders on the proofs of the first commercial team of Crossbred (KiwiCross™) bulls. Sixty KiwiCross™ bulls will graduate from Livestock Improvement’s Sire Proving Scheme during 2004/2005 and interest is high as we await the proofs.

Success in the future comes down to understanding what our customers need, and doing our utmost to supply that.

## Looking after the business

### Business Process Improvement

Business Process Improvement is a term applied to the structured reviews Livestock Improvement conducts of all its processes to ensure we’re doing the right things, and doing them right.

### Projects Morph And Moove

Two significant projects within that discipline, known as Projects Morph and Moove, took place during 2003/2004 and culminated in a major change to the co-operative’s computer mainframe facilities. Project Morph’s goal was to improve the speed of response to farmer queries through MINDA.

The goal of Project Moove was to replace the mainframe, built in the late 1980s, with a faster, technically advanced open system which would achieve vastly improved levels of speed at a significantly reduced cost.

Project Moove, considered to be a technologically innovative and demanding task, was delivered ahead of time and on budget, generating savings of around \$1.5 million each year to Livestock Improvement. And it’s already delivering value to farmers with data downloads from the Livestock Improvement Database generated in a fraction of the time previously taken.

### Herd Testing

Another Business Process Improvement commenced during the year, was a comprehensive review of Livestock Improvement’s herd testing service. Due for completion in the 2004/2005 year, the project is expected to deliver more efficient herd testing systems, greater customer satisfaction and reduced operational cost to the co-operative.

### Strategic Procurement

Livestock Improvement’s wide range of business requires an equally wide range of supplies and the co-operative undertook a comprehensive review of its supply function to ensure effectiveness and best value for every point of purchase. When completed, this project is expected to deliver supply savings of around \$1 million per year.

### Looking after our communities

The realm of Livestock Improvement’s business is extending beyond the farm gate, but we are conscious of, and committed to, two particular communities which are critical to our success - staff and the rural sector.

### Livestock Improvement Staff

Livestock Improvement has earned a reputation as a good employer, paying market salaries to its staff and providing above average working conditions. The performance of each member of staff is linked to the company’s strategic plan so each individual understands the part they play in making those goals a reality. We listen to our staff because innovation, performance and achievement are an outcome of a dynamic culture, and climate is measured three times a year providing an insight into the varied environments of our people.

The ultimate measure, however, of Livestock Improvement is evident in the quality of staff we attract. The company’s reputation as a leader in livestock solutions and as an employer enables us to retain our greatest asset - innovative, technically excellent and motivated individuals who are passionate, knowledgeable and committed to pastoral farming.

CHIEF EXECUTIVE’S REPORT

The company’s reputation as a leader in livestock solutions and as an employer enables us to retain our greatest asset - innovative, technically excellent and motivated individuals who are passionate, knowledgeable and committed to pastoral farming.

Rural communities

Livestock Improvement has a close relationship with farmers and their communities through its extensive field force, the nature of its operations and direct farmer involvement and influence through the Livestock Improvement Board, National Council and Liaison Farmer network. The co-operative also provides tangible support for rural communities through sponsorship of farmer events, and a website specifically designed for rural children.

Sponsorships

Livestock Improvement provides targeted support, sponsorship and participates in events which involve our farmer shareholders, such as the Fonterra/Westpac Dairy Excellence Awards, Sharemilker of the Year, Ballance Farm Environment Awards, Dairy 3 Conference, Large Herds Conference, South Island Dairy Event, Agricultural ITO, New Zealand Agricultural Fieldays and the Taranaki and Waikato Rugby Union mascots.

Calf club

Calf club has traditionally been one of the events valued by rural communities - schools, parents and supporters. During 2003 Livestock Improvement designed and launched a website which provides sound and consistent information to help children select, care, train and show their calves. The enthusiastic and significant response from children, their parents and schools confirms that [www.calfclub.co.nz](http://www.calfclub.co.nz) has helped ensure the continuation of an event held dear by all those involved in the dairy industry.

Looking forward

Customer satisfaction

The combination of forward exchange rates and commodity prices have improved the prospects for dairying but, regardless, there is a very real need for Livestock Improvement to demonstrate strong economic performance of the business. Success in the future comes down to understanding what our customers need, and doing our utmost to supply that. As the industry becomes more sophisticated, so the challenges become complex, and the wins more tantalising.

Livestock Improvement is tackling a number of challenges, including

A reinvention of Herd testing

Livestock Improvement aims, over the next few years, to reinvent herd testing - giving farmers sophisticated new technology which is simple to operate, and which makes herd testing a more user friendly process, with greater outcomes than have ever been possible.

Wins from biotechnology

The 2004/2005 year will deliver additional genetic markers from Livestock Improvement’s biotechnology research programme. Genetic markers are literally the ‘black box’ of breeding, offering the potential to significantly lower the cost and reduce the time taken with sire proving. This harnessing of biotechnology could mean Livestock Improvement is able, in the future, to reduce the number of bulls progeny tested while increasing the rate of genetic gain.

CHIEF EXECUTIVE’S REPORT

These achievements are an outcome of a diverse, talented group of staff who understand pastoral farming and are committed to being the best of the best in every aspect of our business.

Changing the face of dairying

Two innovations launched by Livestock Improvement, are changing the face of dairying as we know it. Farmers who have installed Protrack farm automation systems in their dairies are lauding it as one of the best things to happen on farm, making it possible to milk and automatically draft cows at the same time. Sales are expected to increase as the range is extended to include drafting only systems, integration with MINDA and a system for Herringbone dairies. Livestock Improvement’s bull teams are now ranked for Once-a-Day Milking and the ability to breed cows specifically suited to Once-a-Day Milking will be one of the most significant changes to the pattern of pastoral dairying since it began in the early 1990s.

Improving genetics without compromising cow attributes

Improving genetics without compromising the cow attributes required by New Zealand dairy farmers is a very real challenge. Farmers want cows which are fertile, which last in the herd and, at the same time, produce volumes of milksolids from grass. It is a demanding balancing act, but Livestock Improvement has the resources, technical skills and staff commitment to make it happen.

Biosecurity and market access

Livestock Improvement’s Database provides traceability for a large percentage of the New Zealand dairy herd through its MINDA service. Biosecurity, or the need to trace animals, is increasingly a matter of concern for all countries in the world which are initiating traceability systems for their own agricultural industries and increasingly expect the markets they trade with to have the same.

Improved heat detection

Reliable heat detection is a critical tool to achieving calving within the tight pattern demanded by today’s dairy industry. This is an area of concern which Livestock Improvement is addressing with a commitment to finding answers in the near future.

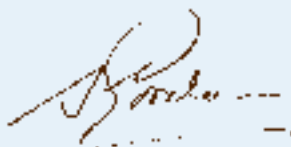
Appreciations

Year on year this company acquires more sophistication in its -

- business practice, pitting ourselves against the most effective and efficient companies in the world through the Business Excellence programme.
- Science programme which is more customer focused than it has ever been, delivering real solutions in real time, for our farmer clients.
- Knowledge platforms, building on a database infrastructure which is the envy of the dairying world, providing farmers with knowledge and information.

These achievements are an outcome of a diverse, talented group of staff who understand pastoral farming and are committed to being the best of the best in every aspect of our business.

I want to acknowledge the commitment our staff have shown over the last year. It’s been a challenging year and the financial result rewards a great deal of effort on the part of every member of the Livestock Improvement team.



Stuart Gordon  
Chief Executive



BOARD OF DRIECTORS

John Bicknell, Ted Coats, John Lynskey, Bryan Guy, David Milne (retired 31 May 2004)



Alvin Reid, Stuart Bay, Graham Fraser, Ron Jackways, Murray Jagger



Absent: Phil Lough, Jay Waldvogel



Mastitis is a significant cost to farmers and the dairy industry. A breeding tool has been developed to help reduce the incidence of mastitis in future generations of cows in New Zealand.

In 2004 Livestock Improvement developed a Somatic Cell Breeding Value which will be incorporated into the Breeding Worth in the 2004/05 season.

The Somatic Cell Count breeding value will be used in Livestock Improvement's Sire Proving Scheme. This will enable the selection of sires for the Premier Sires team to produce daughters that are less prone to mastitis.

GOVERNANCE REPORT

Role of Board of Directors

The Board is responsible for the direction and control of the company's activities. It is committed to the guiding values of the company, which are integrity, respect, continuous improvement and service to its Shareholders. Legislation and the company's Constitution establish the Board's responsibility and include provisions for how the company will operate.

- Responsibility

The Board is responsible for setting the strategic direction, approval of significant expenditures, policy determination and stewardship of the company's assets. The Board and the security holders shall not, except with the written consent of the Minister, exercise any of their rights, directions and powers under or alter the Constitution so as to cause or permit the Company to cease to be a Co-operative supplying goods and services to Shareholders.

- Co-operative Principles

The Constitution records the following Principles:

- The Company will remain a Co-operative Company;
- The Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company's qualifying products and services;
- Core products and services are made available to all Shareholders at fair commercial prices;
- Shareholders co-operate with the Company and each other including the sharing of information to promote their common interests.

- Pricing of Products and Services

In setting prices to be paid for products and services the Company should seek to create wealth for the Company and its Shareholders, supply good and services at commercial prices reflecting market conditions, taking into account the Company's co-operative principles and key strategic objectives set by the Board and approved by the National Council.

- Principal Activities

The Board has a responsibility to ensure the principal activities of the Company are the co-operative activities of supplying goods and services to its Shareholders with particular reference to:

- Measure and evaluation of growth, yield of milk or milk constituent and feed conversion efficiency of livestock, and any other factor relevant to decisions on breeding and management of livestock;
- The development and commercial application of artificial breeding or livestock;
- Improvement of livestock and farm management practices through products based on genetics, biotechnology, information and advice.

GOVERNANCE REPORT

Board Composition

The Constitution prescribes nine Elected Directors representing the regions and up to three Independent Directors. All Directors hold office for three years.

Re-election

Each Elected Director holds office as a Director for a period of three years. One third of Elected Directors retire from office each year. A retiring Director is eligible for re-election as a Director of the Company. The following Directors retired by rotation in 2004 and were re-elected unopposed:

- Region 6 P J Lynskey
- Region 9 A J Reid
- Region 8 D J Milne retired and did not seek re-election

K D Straight was elected unopposed

Committees

- Audit Finance & Risk Committee:

This is a sub-committee of the Board comprising five Directors and is chaired by an Independent Director, Mr G Fraser. It is constituted to monitor the veracity of the financial data produced by the Company and its Subsidiaries and ensures controls are in place to minimise the opportunities for fraud or material error in the accounts. The Audit Finance and Risk Committee meets at least five times a year with the external Auditors and Executive.

Internal Audit

The Committee has appointed PricewaterhouseCoopers as the internal auditors to audit critical systems and procedures.

- Remuneration and Executive Appointment Committee:

This also is a Sub-committee of the Board comprising three Directors and is chaired by an Independent Director, Mr P Lough. The committee is constituted to approve appointments and terms of remuneration for Senior Executives of the Company, principally the Chief Executive and those reporting to him. It also considers and, if appropriate, approves any wage and salary percentage adjustments for the Company's employees.

Insider Trading:

All Directors of the Company are familiar with and have formally acknowledged acceptance of an 'Insider Trading Code' that controls any dealings in securities by Directors. The provisions of the code are substantially in accordance with the 'Insider Trading (Approved Procedure for Company Officers) Notice' issued under the Securities Amendment Act 1988.

- Meetings:

The Board normally meets ten times a year. In 2003/2004 two additional meetings were held to consider the Dual Shareholding proposal.

Shareholding:

- Co-operative Control Shares

An Elected Director shall hold the minimum Co-operative Control Share holding requirement.

- Investment Shares:

An Elected Director shall hold the minimum Investment Share holding requirement, which shall be twice the number of Co-operative Control Shares held.

Interests Register:

A Directors' Interest Register is maintained and Directors interest in transactions during the financial year are outlined on page 60 of this report.





Matching new-born calves to their parents is important for the retention and growth of genetic gain within a herd and it's a vital factor in deciding which animals to cull, sell or breed from.

But, the accuracy of that matching is challenged during calving - especially with large herds.

Livestock Improvement's DNA group, GeneMark, has found an answer. CalfTrace is a calf identification programme providing 100% accuracy matching calf to sire and dam.

Once a herd is DNA tested the information is stored on the Livestock Improvement Database and all a farmer has to do is take a sample from a newborn calf (tail hair or blood) to enable accurate identification of its parents.

NATIONAL COUNCIL REPORT

It is my pleasure to update the activities of the Livestock Improvement National Council for the 2003/04 year on behalf of the Council and with particular thanks to the Council project team leaders, Ross Goudie, Wayne Berry and Geoff Stevenson.

Monitoring the Board

The major focuses this year have been:

A new Constitution for Livestock Improvement, listing on NZAX exchange on 16 April 2004. This was accompanied by an NZAX Disclosure Document and an independent report from Pricewaterhouse-Coopers and ABN Amro Craigs.

The listing on the NZAX brings its own disciplines and a new culture within the organisation.

The Council has a duty under clause 25.1 (b) of the Constitution to review the Board's business plan and approve the Company's Mission Statement and Key Strategic Objectives. Three key strategic objectives targeted by the Board for achievement in 2005 were approved by the National Council on 28 November 2003 and are as follows:

- Innovation -- Increase Profit to \$10m
- Performance -- Return on Capital of 10% after Tax
- Customer Focus -- Silver Business Excellence Award

Operating surplus before biotechnology and tax of \$8.445 million equates to 8.6% return on capital, which is a significant increase on the previous year. The Council has discussed and accepts the accounting methods applied to biotechnology. While biotechnology is a large investment with some risk attached, the Council believes this is an extremely

important investment in the future.

The National Council continues to discuss with the Board:

- Overall Business Plans and break out Sector Plans with forecasts
- Key Performance Indicators in a standardised format.
- Research and Development and investment strategies - present and future.
- Financials - revenue, expenses and net contributions by division.

National Council is well aware of its responsibility to represent the shareholders and will continue to monitor the Livestock Improvement Board.

Liaison Farmer / Communication

During the year, the project group has reviewed the Liaison Farmer network, looking at whether this is an effective method of communication/ information transfer between Livestock Improvement and its shareholders.

It was established that the following aspects of representation fall under the role of National Councillor:

- Liaison Farmer meetings need to be chaired effectively to facilitate open discussion by all.
- National Councillors are encouraged to have input when setting meeting agenda and format appropriate to the needs of their individual ward.

- Identify which methods of communication and frequency best aid information transfer within their ward.

This project group also addressed the issue of Ward vacancies within the National Council. We have put in place a process that will assist in ensuring that all shareholder Wards are represented at National Council. An election process and timetable has been defined and as of 1 June 2004 all but one National Councillor Ward is represented. An education / induction process is being undertaken by those new to the National Councillor role.

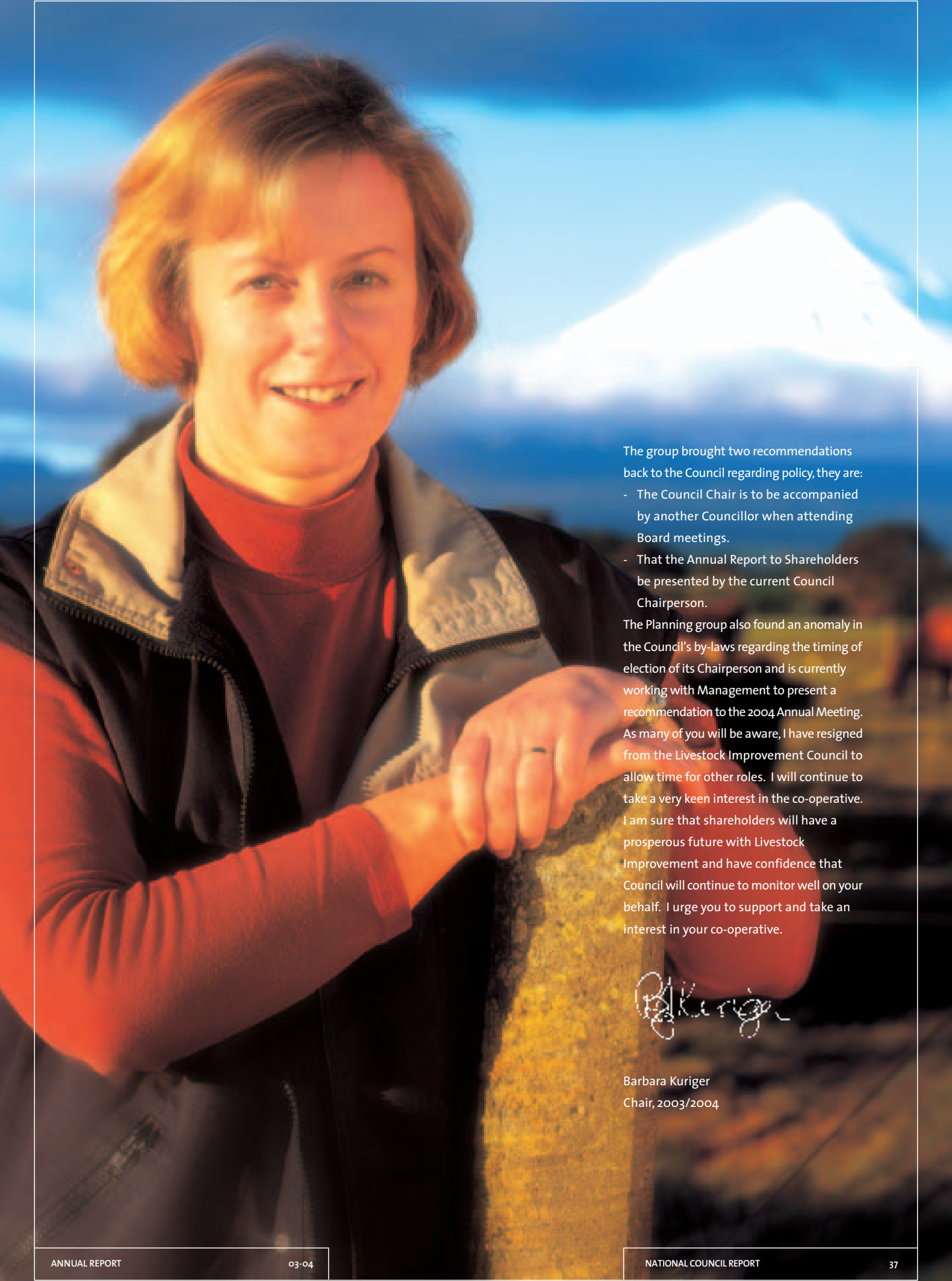
As the group moves forward, it will be looking to provide National Council with processes to support and foster effective relationships between shareholders and Livestock Improvement .

Development Planning Group

The brief given to the Development Planning Group was to look at formulating a plan for the succession for both the National Council and the Board of Directors of Livestock Improvement.

The committee is currently working with the Human Resources Section of Livestock Improvement to set up a list of the core competencies of the National Council and the avenues available to the Councillors to address any learning needs.

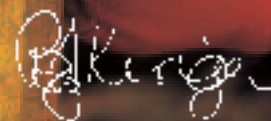




The group brought two recommendations back to the Council regarding policy, they are:

- The Council Chair is to be accompanied by another Councillor when attending Board meetings.
- That the Annual Report to Shareholders be presented by the current Council Chairperson.

The Planning group also found an anomaly in the Council's by-laws regarding the timing of election of its Chairperson and is currently working with Management to present a recommendation to the 2004 Annual Meeting. As many of you will be aware, I have resigned from the Livestock Improvement Council to allow time for other roles. I will continue to take a very keen interest in the co-operative. I am sure that shareholders will have a prosperous future with Livestock Improvement and have confidence that Council will continue to monitor well on your behalf. I urge you to support and take an interest in your co-operative.



Barbara Kuriger  
Chair, 2003/2004

From 1998 Livestock Improvement has been involved with two trials designed to compare the performance of different strains of Holstein Friesian cattle in different management systems.

The first is in Ireland where three different strains ; (HP -High Production, HD- High Durability and NZ90 - High BW New Zealand strain) are being compared under three Irish farming systems. (The HP strain is very similar to the OS90 strain used in the New Zealand trial- see below).

The other trial is in New Zealand where at the Dexcel No 2 farm three strains ; (NZ70- a 1970 High BI New Zealand strain, NZ90 - a High BW Holstein Friesian of New Zealand origin, and OS90- High BW Holsteins of overseas origin) are being compared across differing feed allowances, ranging from 4.5 tonne of dry matter per cow (all grass) to 7.0 tonne per cow (grass and maize grain and/ or silage).

The results from Ireland indicate that the New Zealand strain has produced slightly less milksolids than the other strains but has the best performance in terms of reproduction and overall profitability.

The preliminary results from the New Zealand trial indicate that the NZ90 strain has been superior to the OS90 strain in overall performance particularly at the lower feed allowances.

A comparison of the performance of the NZ70 strain with the NZ90 strain indicates that substantial genetic progress has been made in New Zealand over the last 30 years.

The trial suggests that New Zealand cattle have economic advantages in pastoral systems and that sires must be progeny tested in the environment in which they are to perform. The New Zealand trial also suggests that Body Condition Score and Lactation Length are traits which should be investigated as possible enhancements to the BW system.

FINANCIAL STATEMENTS

-----	
Statement of Financial Performance	41
-----	
Statement of Movements in Equity	42
-----	
Statement of Financial Position	43
-----	
Statement of Cash flows	44
-----	
Statement of Accounting Policies	45
-----	
Notes to the Financial Statements	48
-----	
Audit Report	59
-----	
Statutory Information	60
-----	

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 May 2004

		Consolidated		Parent	
	NOTE	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Total operating revenue	1	98,317	92,434	91,471	87,787
Total operating expenses	2	(89,872)	(88,892)	(82,017)	(83,391)
<b>Operating surplus before biotechnology research and income tax</b>		8,445	3,542	9,454	4,396
Biotechnology research		(3,645)	-	(3,645)	-
<b>Operating surplus before income tax</b>		<b>4,800</b>	<b>3,542</b>	<b>5,809</b>	<b>4,396</b>
Income Tax	3	(16)	(107)	-	-
<b>Net surplus for the year</b>		<b>4,784</b>	<b>3,435</b>	<b>5,809</b>	<b>4,396</b>
<b>Net surplus comprises</b>					
Parent interest		4,800	3,385	5,809	4,396
Minority interest		(16)	50	-	-

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 31 May 2004

		Consolidated		Parent	
	NOTE	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Total recognised revenues and expenses					
Net surplus for the year:					
parent interest		4,800	3,385	5,809	4,396
minority interest		(16)	50	-	-
Translation difference		4	24	-	-
		4,788	3,459	5,809	4,396
Contributions from owners					
Shares issued		470	448	470	448
Contributions from minority shareholders		-	295	-	-
		470	743	470	448
Distributions to owners					
Dividends:					
parent interest		-	(1,769)	-	(1,769)
minority interest		-	-	-	-
Repurchase of shares		(526)	(341)	(526)	(341)
Share purchase from minority shareholders		(4)	-	-	-
		(530)	(2,110)	(526)	(2,110)
Movements in equity for the period					
		4,728	2,092	5,753	2,734
Equity at beginning of year					
Comprising:					
parent interest		92,691	90,944	91,962	89,228
minority interest		345	-	-	-
Equity at end of year					
Comprising:					
parent interest		97,439	92,691	97,715	91,962
minority interest		325	345	-	-



## STATEMENT OF FINANCIAL POSITION

*As at 31 May 2004*

		Consolidated		Parent	
	NOTE	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash balances		22,109	19,903	21,164	19,165
Intra-group receivables		-	-	4,075	3,146
Trade receivables		10,561	9,105	7,338	6,136
Inventories	4	4,968	4,102	4,063	3,412
Other current assets		1,041	1,254	881	1,173
		<b>38,679</b>	<b>34,364</b>	<b>37,521</b>	<b>33,032</b>
<b>Non-current Assets</b>					
Investments	5	214	448	2,282	1,965
Bulls and database		22,500	22,500	22,500	22,500
Fixed assets	6	49,031	50,165	48,285	49,669
Goodwill	7	545	708	-	-
Development costs	8	233	233	224	233
Loans		130	-	130	-
		<b>72,653</b>	<b>74,054</b>	<b>73,421</b>	<b>74,367</b>
<b>Total Assets</b>		<b>111,332</b>	<b>108,418</b>	<b>110,942</b>	<b>107,399</b>
<b>Current Liabilities</b>					
Intra-group payables		-	-	3,353	3,146
Trade payables		6,536	6,509	2,960	3,523
Provisions	9	2,950	4,596	2,855	4,530
Prepaid receivables		469	291	469	291
		<b>9,955</b>	<b>11,396</b>	<b>9,637</b>	<b>11,490</b>
<b>Non-current Liabilities</b>					
Provisions	9	3,590	3,947	3,590	3,947
Other non-current liabilities		23	39	-	-
		<b>3,613</b>	<b>3,986</b>	<b>3,590</b>	<b>3,947</b>
<b>Total Liabilities</b>		<b>13,568</b>	<b>15,382</b>	<b>13,227</b>	<b>15,437</b>
<b>Net Assets</b>		<b>97,764</b>	<b>93,036</b>	<b>97,715</b>	<b>91,962</b>
<b>Equity</b>	10	<b>97,764</b>	<b>93,036</b>	<b>97,715</b>	<b>91,962</b>

Director:

R. D. Graham

Director:

5 May  
July 2004

Date:

16 July 2004

Date:

16 July 2004

# STATEMENT OF CASH FLOWS

For the year ended 31 May 2004

	NOTE	Consolidated		Parent	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Net cash from/(used in) operating activities</b>					
Cash provided from:					
Receipts from customers		96,052	90,694	88,667	84,543
Interest income received		1,152	1,230	1,279	1,237
		97,204	91,924	89,946	85,780
Cash applied to:					
Payments to suppliers and employees		(84,778)	(81,848)	(77,744)	(76,089)
Interest expense paid		(15)	(28)	(13)	(4)
Income tax paid		(41)	(367)	-	-
		(84,834)	(82,243)	(77,757)	(76,093)
	11	12,370	9,681	12,189	9,687
<b>Net cash from/(used in) investing activities</b>					
Cash provided from:					
Proceeds from sale of other non-current assets		1,076	335	1,059	335
		1,076	335	1,059	335
Cash applied to:					
Acquisition of shares		(4)	(1,484)	(479)	(1,484)
Acquisition of other non-current assets		(9,420)	(12,568)	(8,940)	(12,344)
		(9,424)	(14,052)	(9,419)	(13,828)
		(8,348)	(13,717)	(8,360)	(13,493)
<b>Net cash from/(used in) financing activities</b>					
Cash provided from:					
Shares paid up		470	448	470	448
		470	448	470	448
Cash applied to:					
Repurchase of shares		(526)	(341)	(526)	(341)
Dividends paid to shareholders of the Group		(1,760)	(2,678)	(1,774)	(2,678)
		(2,286)	(3,019)	(2,300)	(3,019)
		(1,816)	(2,571)	(1,830)	(2,571)
<b>Net increase (decrease) in cash balances</b>		<b>2,206</b>	<b>(6,608)</b>	<b>1,999</b>	<b>(6,377)</b>
<b>Cash balances at beginning of year</b>		<b>19,903</b>	<b>26,511</b>	<b>19,165</b>	<b>25,542</b>
<b>Cash balances at end of year</b>		<b>22,109</b>	<b>19,903</b>	<b>21,164</b>	<b>19,165</b>

(a) BASIS OF PREPARATION

Livestock Improvement Corporation Limited (the Parent) is a company domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1993 and listed on the Alternative Board of the New Zealand Stock Exchange Limited. The Parent is an issuer for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act. The reporting currency used in the preparation of these financial statements is New Zealand dollars.

Financial statements for the Parent and consolidated financial statements are presented. The consolidated financial statements comprise the Parent, its subsidiaries and interests in associates.

The financial statements comprise statements of the following: accounting policies; financial performance; movements in equity; financial position; cash flows; as well as the notes to these statements. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. Where no financial reporting standard exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined with regard to other forms of authoritative support.

The financial statements are prepared on the basis of historical cost except that livestock inventories (other than the breeding bulls) are stated at valuation.

(b) GENERAL ACCOUNTING POLICIES

The general accounting policies for the measurement and reporting of earnings and financial position on an historical cost basis have been followed in the preparation of these accounts. The financial statements have been prepared based on the going concern concept.

(c) PARTICULAR ACCOUNTING POLICIES

The following particular accounting policies which materially affect the measurement of earnings and financial position have been applied.

(i) Foreign Currencies

Transactions involving foreign currencies are translated at rates of exchange ruling at the date of the transaction. Monetary amounts outstanding at balance date are converted using the year-end rate. All exchange differences are taken to the Statement of Financial Performance. Short-term transactions covered by forward exchange contracts are translated at the exchange rates specified in those contracts.

Translation of the financial statements of independent foreign operations

The assets and liabilities of the Group's and associate's overseas operations, being independent foreign operations, are translated at the exchange rates ruling at balance date. The revenues and expenses of these entities are translated at rates approximating the exchange rates ruling at the dates of the transactions. Exchange differences arising on the translation of independent foreign operations are recognised directly in the foreign currency translation reserve.

(ii) Fixed Assets and Depreciation

All owned items of property, plant and equipment are initially recorded at cost, and, except for land, depreciated. Initial cost includes the purchase consideration, or fair value in the case of donated assets, and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete. All feasibility costs are expensed as incurred. The useful economic lives of depreciating assets have been assessed as:

Buildings	40 years
Plant and Equipment	5 years
Vehicles	5 years
Office Equipment	5 years
Field-based Laptop Computers	3 years
Other Personal Computers	4 years
Other Computer Equipment	5 years
Computer Software	4 years

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated initially at an amount equal to the present value of the future minimum lease payments, and are depreciated as described above.

(iii) Bulls and Database

These assets are comprised of the pool of Breeding Bulls and the Parent's database.

Breeding Bulls

The pool of Breeding Bulls was acquired in May 1988 and it is the Parent's policy to maintain this pool. The composition of the pool constantly changes with the average bull having a productive breeding life of three years. All costs incurred in maintaining the pool including the costs of replacement bulls are expensed as they are incurred.

Accordingly, on the basis that the pool will be maintained, there is no defined economic life of this asset. Thus it is not considered appropriate to amortise the cost of this asset unless there is a permanent impairment in its value.

**Livestock Improvement Database**

In May 1988, the Parent acquired the Livestock Improvement database as part of its acquisition of the net assets and operations of the Livestock Improvement Division of the NZDB and the six Livestock Improvement Associations. Under the Dairy Industry Restructuring Act 2001, the core database, covering some 40 fields of animal data, was defined. While the Livestock Improvement database includes these defined fields, no value is attributed to the core database.

All costs of maintaining and enhancing the Livestock Improvement database are expensed when incurred as a period cost. Accordingly, there is no defined economic life of this asset. Thus it is not considered appropriate to amortise the cost of this asset unless there is a permanent impairment in its value.

**(iv) Inventories**

Inventories are valued at the lower of cost or their net realisable value on a first in first out basis. The cost of frozen semen includes the direct cost of production.

Livestock inventories, other than breeding bulls, are revalued annually.

**(v) Accounts Receivable**

Accounts Receivable are stated at estimated net realisable value.

**(vi) Taxation**

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Future tax benefits and provisions for deferred tax are not offset if they arise in different tax jurisdictions.

Any income tax effect of movements in reserves is recognised

directly against the related reserve and allocated to deferred or current tax.

**(vii) Basis of Preparing Consolidated Financial Statements**

**Subsidiaries**

Subsidiaries are those entities controlled, directly or indirectly, by the Parent. The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

**Associates**

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group's share of the net surplus/net deficit of associates is recognised as a component of operating revenue/expense in the statement of financial performance, after adjusting for the amortisation of goodwill arising on acquisition. Dividends received from associates are credited to the carrying amount of the investment in associates. The unamortised balance of goodwill arising on acquisition is included in the carrying amount of the associate.

**Partnerships**

Partnerships are those relationships that the Group has with other persons whereby the partners carry on a business in common with a view to profit. Where the Group has a controlling interest in a partnership it is accounted for in the consolidated financial statements as a subsidiary. Where the Group has significant influence over the operating and financial policies of the partnership it is accounted for in the consolidated financial statements as an associate.

**Joint Ventures**

Joint ventures are joint arrangements with other parties in which the Parent has several liability in respect of costs and liabilities, and shares in any resulting output. The Parent's share of the assets, liabilities, revenues and expenses of joint ventures are incorporated into the Parent and consolidated financial statements on a line-by-line basis using the proportionate method.

**Goodwill Arising on Acquisition**

Goodwill arising on the acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the period during which benefits are expected to be derived - a period not exceeding 5 years.



**Transactions Eliminated on Consolidation**

The effects of intra- group transactions are eliminated in preparing the consolidated financial statements.

**(viii) Derivative Financial Instruments**

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. Where a hedge of an anticipated purchase or sale transaction is undertaken the exchange difference on the hedging transaction up to the date of the purchase or sale transaction, and any costs associated with the hedge transaction to that date, are deferred and included in the measurement of the purchase or sale transaction.

Derivative financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

Where a derivative financial instrument, which is a hedge of an anticipated transaction, is terminated early but the anticipated transaction is still expected to occur, the deferred gain or loss that arose prior to termination continues to be deferred and is recognised as part of the transaction when it occurs. If the transaction is no longer expected to occur, the deferred gain or loss is recognised in the Statement of Financial Performance immediately. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

**(ix) Research and Development Expenditure**

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenditure is expenditure on the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services.

All research expenditure is recognised in the Statement of Financial Performance as incurred. Development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the product or service will commence.

Development expenditure recognised as an asset is stated at cost and amortised on a straight-line basis over the period

of expected benefits (5 years). Amortisation begins at the time that commercial production commences. All other development expenditure is recognised in the Statement of Financial Performance as incurred.

Biotechnology research has been expensed and separately disclosed in the Statement of Financial Performance. In the prior year this was externally funded and included in the ‘amounts incurred and expensed for research’ (Note 2). Now that the Parent is funding its own biotechnology research, the Directors regard this expenditure as a form of investment for future growth and, hence, exclude it in the calculation of the level of distributions.

**(x) Operating Leases**

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased asset. Lease incentives received are recognised as an integral part of the total lease payments made.

**(xi) Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, cash comprises cash balances (net of bank overdrafts) and demand deposits. Cash excludes bank bills that are not used as part of the Group’s day-to-day cash management.

**(xii) Changes in Accounting Policies**

Uniform accounting policies have been applied throughout the Group on a consistent basis with those of the previous year.

**(xiii) Comparative Information**

Certain comparative information has been reclassified in order to provide a more consistent basis for comparison.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>1. OPERATING REVENUE</b>				
Operating revenue comprises				
Related-party sales revenue	-	-	1,226	1,510
External sales revenue	97,056	91,241	88,896	85,077
Interest income	1,198	1,193	1,325	1,200
Net foreign exchange gain	34	-	-	-
Gain on disposal of fixed assets	29	-	24	-
<b>Total Operating Revenue</b>	<b>98,317</b>	<b>92,434</b>	<b>91,471</b>	<b>87,787</b>
Biotechnology research is net of contract revenues received of \$1.8 million.				

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>2. OPERATING EXPENSES</b>				
<b>Operating expenses include:</b>				
Interest expense	15	28	13	4
Equity accounted losses of associates	133	255	-	-
Depreciation of fixed assets:				
Amortisation of development costs	56	-	56	-
Buildings	540	512	540	512
Plant and equipment	3,121	3,006	2,994	2,918
Furniture and fittings	205	202	188	199
Vehicles	1,398	1,381	1,345	1,358
Computers and software	3,665	2,749	3,653	2,738
Amortisation of goodwill	163	109	-	-
Amounts incurred and expensed for research	3,655	7,199	3,871	7,322
Doubtful debts:				
Increase/(decrease) in provision	-	-	-	-
Written off	78	37	42	32
Increase/Decrease in provisions:				
Employee retirement allowances	(34)	79	(34)	79
Employee entitlements	63	62	34	62
Operating lease expenses	693	490	526	363
Net foreign exchange loss	-	88	-	-
Loss on disposal of fixed assets	-	48	-	47
Employee remuneration:				
Staff salaries and wages	42,349	41,206	39,557	39,425
Fees to Directors	356	319	356	31
Auditor's remuneration:				
Clifford Fry & Co - audit services	9	-	-	-
KPMG - audit services	46	37	46	37
KPMG - listing services	75	-	75	-
- other services	75	97	75	97
I A Anderson & Co - audit services	-	9	-	-
Donations	-	-	-	-

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>3. TAXATION</b>				
<b>(a) Income Tax Expense</b>				
Operating surplus before income tax	4,800	3,542	5,809	4,396
Permanent differences:				
Deductions arising from change in tax status	(2,097)	(11,505)	(2,097)	(11,505)
Other	1,088	1,129	917	856
Timing differences not recognised	(5,700)	(2,567)	(5,745)	(2,648)
Tax loss not recognised	1,964	9,724	1,116	8,901
	<b>(4,745)</b>	<b>(3,219)</b>	<b>(5,809)</b>	<b>(4,396)</b>
Taxable income	55	323	0	-
Tax expense @ 33%	18	107	0	-
Income tax over provided in prior year	(2)	-	-	-
Total income tax expense:	16	107	-	-
Current taxation	16	107	-	-
Deferred taxation	-	-	-	-
<b>(b) Imputation Credits</b>				
Balance at beginning of year			-	-
Income tax paid			-	-
Balance at end of year			-	-
The imputation credits are available to shareholders of the parent:				
Through the parent	-	-		
Through subsidiaries	214	651		
<b>(c) Deferred Taxation</b>				
The income tax benefit of timing differences that are not recognised are nil (2003 : \$1.607 million).				
<b>(d) Tax Losses</b>				
Unrecognised tax losses available for offset against future assessable income:				
Tax losses	26,836	24,871	25,083	23,967
Tax saving thereon	8,856	8,207	8,277	7,909

A future tax saving will also arise over approximately four years from the ability to depreciate certain fixed assets from a higher cost or book value for tax purposes than applies for accounting purposes. The associated contingent tax benefit has reduced the current year's tax by \$0.692 million (2003 \$3.797 million) and the balance, which has not been recognised in the financial statements, is \$2.686 million (2003 \$3.378 million).

The ability to utilise these tax losses depends on the generation of sufficient assessable income in the respective tax jurisdictions.



	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>4. INVENTORIES</b>				
Semen	1,730	1,361	1,649	1,323
Artificial Breeding Tradeable Products	492	639	492	639
Livestock	990	516	681	389
Milk Analysis Centres	200	212	200	212
Herd Testing Brackets and Bolts	112	120	112	120
Equipment	764	745	764	724
Sundry	6	5	6	5
Drugs and Consumables	129	125	-	-
Stockfeed	4	67	-	-
Embryos	382	312	-	-
Farm Automation Systems	159	-	159	-
	<b>4,968</b>	<b>4,102</b>	<b>4,063</b>	<b>3,412</b>

Only that semen projected to be sold in the next financial year has been valued at cost and included in the accounts on the assumption that it is fully useable. All other semen stock has been included at nil realisable value. The unrealised gain arising from the revaluation of livestock is \$0.062 for the Group and \$0.056 for the Parent.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>5. INVESTMENTS</b>				
<b>Non-current investments</b>				
Shares in listed companies	4	4	4	4
Shares in unlisted companies	40	37	40	37
Investments in subsidiaries	-	-	2,238	1,788
Investment in associates	170	407	-	136
	<b>214</b>	<b>448</b>	<b>2,282</b>	<b>1,965</b>
The market value of shares in listed companies at balance date is \$0.002 million (2003: \$0.002 million).				
<b>(a) Carrying amount of associates</b>				
Carrying amount at beginning of year	407	662		
Disposal of associate	(104)	-		
Share of total recognised revenues and expenses	(133)	(255)		
Equity accounted value of investment	<b>170</b>	<b>407</b>		
<b>(b) Included within the above carrying value is goodwill relating to investment in associate</b>				
Goodwill arising on acquisition of associate	271	271		
Accumulated amortisation	(199)	(144)		
Net carrying amount	<b>72</b>	<b>127</b>		

	Consolidated	
	2004 \$'000	2003 \$'000
<b>(c) Results of associates</b>		
Equity accounted earnings comprise:		
Share of surplus (loss) before income tax	(78)	(201)
Income tax	-	-
Share of net surplus (loss)	(78)	(201)
Amortisation of goodwill	(55)	(54)
Total recognised revenues and expenses	(133)	(255)

In December 2001 the Parent acquired a 50% holding in Intellitech Automation Limited. The Group has equity accounted the result of Intellitech Automation Limited for the year. However, the Parent's 50% holding in Intellitech was disposed of on 29 May 2004. The Group has also equity accounted the unaudited result of NZ Genetics (IRE) Limited for the year.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>6. FIXED ASSETS</b>				
<b>Land</b>				
At cost	6,591	6,821	6,591	6,821
<b>Buildings</b>				
At cost	20,238	20,616	20,238	20,616
Accumulated depreciation	(4,487)	(4,147)	(4,487)	(4,147)
	15,751	16,469	15,751	16,469
<b>Plant and Equipment</b>				
At cost	25,931	23,992	25,367	23,515
Accumulated depreciation	(16,162)	(13,346)	(15,905)	(13,177)
	9,769	10,646	9,462	10,338
<b>Furniture and Fittings</b>				
At cost	2,327	2,397	2,290	2,336
Accumulated depreciation	(1,930)	(1,867)	(1,906)	(1,819)
	397	530	384	517
<b>Vehicles</b>				
At cost	9,300	8,676	8,848	8,493
Accumulated depreciation	(5,622)	(5,308)	(5,545)	(5,272)
	3,678	3,368	3,303	3,221
<b>Computers and Software</b>				
At cost	24,465	23,282	24,327	23,170
Accumulated depreciation	(11,620)	(10,951)	(11,533)	(10,867)
	12,845	12,331	12,794	12,303
<b>Total net carrying amount</b>	<b>49,031</b>	<b>50,165</b>	<b>48,285</b>	<b>49,669</b>

The Directors acknowledge that the fair value of land and buildings is considerably greater than the carrying value. The last independent valuation, carried out during June 2001, plus the cost of additional buildings completed since, represents a total of approximately \$30 million.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>7. GOODWILL</b>				
Balance at beginning of year	708	-	-	-
Goodwill arising on acquisition	-	817	-	-
Amortised	(163)	(109)	-	-
Balance at end of year	545	708	-	-

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>8. DEVELOPMENT COSTS</b>				
Balance at beginning of year	233	-	233	-
Costs capitalised	56	233	47	233
Amortisation	(56)	-	(56)	-
Balance at end of year	233	233	224	233

	NOTE	Consolidated		Parent	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>9. PROVISIONS</b>					
Current					
Employee Entitlements	9(a)	1,967	1,748	1,872	1,682
Sire Proving Rebates	9(b)	983	1,065	983	1,065
Dividends	9(c)	-	1,783	-	1,783
		2,950	4,596	2,855	4,530
Non Current					
Employee Entitlements	9(a)	1,099	1,289	1,099	1,289
Sire Proving Rebates	9(b)	2,491	2,658	2,491	2,658
		3,590	3,947	3,590	3,947

A dividend was declared post balance date and will, therefore, reflect in next year's, rather than this year's accounts. In the 2003 year, the declaration was made prior to balance date (and, therefore, included in the accounts).

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>a) Provision for Employee Entitlements</b>				
Balance at beginning of year	3,037	2,861	2,971	2,830
Additional provision made	3,129	3,250	3,022	3,190
Amount utilised	(3,100)	(3,074)	(3,022)	(3,049)
Balance at end of year	<b>3,066</b>	<b>3,037</b>	<b>2,971</b>	<b>2,971</b>
Current	1,967	1,748	1,872	1,682
Non-current	1,099	1,289	1,099	1,289

The provision for employee entitlements relates to employee benefits such as accrued annual leave and retirement allowances. The provision for retirement allowances is affected by the estimate of eligibility for the allowance (the employee must continue in employment until eligible for National Superannuation). The retirement allowance portion extends out over the next 30 years.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>(b) Provision for Sire Proving Rebates</b>				
Balance at beginning of year	3,723	3,416	3,723	3,416
Additional provision made	688	1,614	688	1,614
Amount utilised	(937)	(1,307)	(937)	(1,307)
Balance at end of year	<b>3,474</b>	<b>3,723</b>	<b>3,474</b>	<b>3,723</b>
Current	983	1,065	983	1,065
Non-current	2,491	2,658	2,491	2,658

The provision for sire proving rebates relates to the (rebated) cost of herd testing daughters resulting from sire proving inseminations. The provision is affected by a number of estimates including the expected number of heifer calves born and raised, and the herd testing options used. The non-current portion is payable within 3 years.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>(c) Provision for Dividends</b>				
Balance at beginning of year	1,783	2,692	1,783	2,692
Additional provision made	-	1,769	-	1,769
Amount utilised	(1,774)	(2,678)	(1,774)	(2,678)
Unused provision reversed	(9)	-	(9)	-
Balance at end of year	-	1,783	-	1,783
Current	-	1,783	-	1,783
Non-current	-	-	-	-

The Directors declared a dividend in relation to the current year on 16 July 2004. This represented 60% of the operating surplus before biotechnology research (\$5.067 million). However, since the declaration was made after balance date, no provision has been made in this year's accounts.

10. CAPITAL

The Parent had 2,946,048 Co-operative Control shares on issue at balance date. The shares have a nominal value of \$1 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. The Parent also had 29,528,590 Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Investment Shares were created by a sub-division of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
11. NET CASH FLOW FROM (USED IN) OPERATING ACTIVITIES				
The following is a reconciliation between the surplus after income tax shown in the Statement of Financial Performance and the net cash flow from/(used in) operating activities.				
Surplus after income tax	4,784	3,435	5,809	4,396
Items classified as investing/financing activities				
(Gain)/loss on sale of other non-current assets	(29)	48	(24)	47
Non-cash items				
Depreciation	8,985	7,850	8,776	7,725
Equity accounted losses	133	255	-	-
Goodwill	163	109	-	-
Movement in working capital				
(Increase)/decrease in inventories	(866)	(299)	(651)	20
Decrease/(increase) in other receivables	(1,226)	270	(1,839)	(1,389)
(Decrease)/increase in other payables	426	(1,987)	118	(1,112)
Net cash from/(used by) operating activities	12,370	9,681	12,189	9,687

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
12. FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at beginning of year	13	(11)	-	-
Difference arising on translation of independent foreign operations	4	24	-	-
Balance at end of year	17	13	-	-



	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>13. OPERATING LEASE COMMITMENTS</b>				
The Group has the following future operating lease commitments:				
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	588	521	435	410
Later than one year but not later than two years	494	455	375	355
Later than two years but not later than five years	1,091	1,159	964	951
Later than five years	881	1,152	881	1,152
	<b>3,054</b>	<b>3,287</b>	<b>2,655</b>	<b>2,868</b>

**14. FINANCIAL INSTRUMENTS**

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

**(a) Foreign Currency Risk**

Foreign currency risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of transactions that are denominated in a currency other than the respective Parent's functional currency. Such transactions which would typically expose the Group to foreign currency risk include exported sales, imported purchases, purchases of certain plant and machinery and offshore investments, which include subsidiaries and associates. The currencies, giving rise to currency risk, in which the Group primarily deals are Great British Pounds, United States Dollars, Australian Dollars and Euros.

The Group's policy is to hedge 100% of all existing foreign currency exposures. The Group hedges its exposures by using forward exchange contracts.

**(b) Interest Rate Risk**

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and advances.

**(c) Credit Risk**

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group

to incur a financial loss. The Group is exposed to credit risk through the normal trade credit cycle, advances to third parties and through the use of derivative financial instruments. No collateral is required in respect of financial assets. 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. Reputable financial institutions are used for investing and cash handling purposes. A sum of \$21.2 million is deposited with Westpac (2003 \$19.20 million). At balance date there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position. The maximum exposure to credit risk arising from amounts receivable under forward exchange contracts is \$0.483 million (2003: \$0.453 million) and for amounts payable under forward exchange contracts is \$0.487 million (2003: \$0.552 million).

**(d) Fair Values**

The fair values of the Group's financial instruments do not differ significantly from their carrying values shown in the Statement of Financial Position.

**15. CONTINGENT LIABILITIES**

In the normal course of business Livestock Improvement is subject to claims against it. A claim has been made by the Concerned Dairyman's Association in relation to the Animal Evaluation Model. While the High Court found for the Parent on all grounds of action and awarded it costs, the Concerned Dairyman's Association has lodged an appeal.

This and other claims are being contested and defended. Having received legal advice and made their own enquiries, the Directors do not expect that the financial outcome will have a material adverse effect on the Group's financial position. No provision has been made in the financial statements.

16. GROUP INVESTMENTS

The Group has the following significant subsidiaries and associates:

Name	Country of Incorporation	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2004 %	2003 %		
<b>Subsidiaries</b>						
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31 May	Semen Sales
Livestock Improvement (UK) Ltd	UK	Ordinary	100	100	31 May	Semen Sales
New Zealand Genetics (Australia) Ltd	Australia	Ordinary	100	100	30 June	Semen Sales
LIC Bovine Ltd	NZ	Ordinary	100	100	31 May	Research
Animal Breeding Services Ltd	NZ	Ordinary	70	70	31 May	Reproductive Technologies
Animal Breeding Services Ltd has a 60% interest in Equine Fertility Services Ltd which specialises in reproductive technologies for horses.						
LIC Deer Ltd	NZ	Ordinary	100	-	31 May	Deer Artificial Breeding
<b>Associates</b>						
NZ Genetics (IRE) Ltd	Ireland	Ordinary	50	50	31 August	Semen Sales

17. SEGMENTAL INFORMATION

The Parent and Group predominantly provide goods and services to the New Zealand pastoral farming sector.

Any operations conducted outside of New Zealand, only facilitate export sales from domestic operations and are therefore not deemed to be separate geographical segments.

18. CAPITAL COMMITMENTS

No capital commitments exist at balance date.

19. RELATED PARTY TRANSACTIONS

(a) Identity of related parties with whom material transactions have occurred

Note 16 identifies all entities in which the Group has an interest. All of these entities along with the elected Directors are related parties of the Parent.

(b) Types of related party transactions

The Parent enters into transactions with its subsidiaries in the ordinary course of business as follows:

- Treasury; and
- Sales and services.

All Directors, excluding Messrs Lough, Fraser and Waldvogel, are customers of the Parent and purchase products and services for their farming activities on an ongoing basis.

20. PROSPECTIVE FINANCIAL INFORMATION

In March 2004, the Parent issued an NZAX disclosure document for its compliance listing as a non-standard issuer and quotation of Investment Shares prior to the subdivision of Co-operative Shares (refer note 10). Below is a comparison of the forecast financial statements to the Group's actual results for the year ended 31 May 2004.

	Consolidated	
	FORECAST \$000	ACTUAL \$000
<b>Statement of financial performance</b>		
Total operating revenue	99,065	98,317
Total operating expenses	(91,549)	(89,872)
Operating surplus before biotechnology research and tax	7,516	8,445
Biotechnology research	(3,563)	(3,645)
Operating surplus before income tax	3,953	4,800
Income tax	(93)	(16)
Net surplus for the year	3,860	4,784
Net surplus comprises		
Parent interest	3,737	4,800
Minority interest	123	(16)
<b>Statement of financial position</b>		
Equity	92,516	97,764
Current assets	33,202	38,679
Non-current assets	74,497	72,653
Current liabilities	(11,173)	(9,955)
Non-current liabilities	(4,010)	(3,613)
Net assets	92,516	97,764
<b>Statement of cash flows</b>		
Net cash flow from operating activities	8,214	12,370
Net cash flow from investing activities	(8,927)	(8,348)
Net cash flow from financing activities	(1,824)	(1,816)
Net increase in cash balances	(2,537)	2,206

Total operating revenue was lower than forecast because anticipated Animal Breeding Services Limited's sales did not materialise in the latter months of the financial year. On the other hand, herd testing activity was maintained at a higher level than forecast. Reduced expenditure resulted from the reduced sales activity and also from favourable year-end adjustments in semen inventories and the provision for sire proving rebates, and more favourable terms for the disposal of an associate (Intellitech). Reductions in income tax expense and minority interests were the consequence of reduced activity in Animal Breeding Services Limited.

The increases in Equity and Current Assets were the consequences of the improved trading result and the increase in semen inventories, and also of the Board's decision to defer a dividend declaration until after year-end. Current assets were also impacted by lower than anticipated capital spending (as reflected in both non-current assets, and cash flow from financing activities). Liabilities were significantly below forecast levels as the result of the adjustment to the provision for Sire Proving rebates and the decision to defer dividend declaration.

21. EVENTS AFTER BALANCE DATE

On 16 July 2004 the Directors declared a dividend representing 60% of the operating surplus before net expenditure on biotechnology research (refer note 9). The Record Date for dividend payment is 30 July 2004 and payment on both Co-operative Control and Investment Shares will be made on 31 July 2004.

AUDIT REPORT



To the shareholder of Livestock Improvement Corporation Limited

We have audited the financial statements on pages 39 to 56. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2004. This information is stated in accordance with the accounting policies set out on pages 43 to 45.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 31 May 2004 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 39 to 56:
- comply with New Zealand generally accepted accounting practice;
- give a true and fair view of the financial position of the company and group as at 31 May 2004 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 16 July 2004 and our unqualified opinion is expressed as at that date.

Yours faithfully

Hamilton

ACTIVITIES

The Company is primarily involved in the development, production and marketing of artificial breeding and herd testing services to the New Zealand dairy industry, the control and maintenance of the LIC Dairy Herd Improvement Database, and the execution of research relating to dairy herd improvement.

The Company was previously a wholly owned subsidiary of the New Zealand Dairy Board (NZDB). As part of the dairy industry restructuring, the Parent’s ownership was transferred to the farmers who utilise its services on 1 March 2002. The Parent continues the Dairy Herd Improvement activities previously provided by the six Livestock Improvement Associations and the Livestock Improvement Division of the NZDB.

The activities of subsidiaries are described in the Chairman’s and Chief Executive’s reports.

Directors and Remuneration

Directors of the Company received the following remuneration:

	Fees \$000
D J Milne	65
S B Bay	39
J E Bicknell	25
E G Coats	25
B R Guy	25
R D Jackways	25
M E Jagger	25
P J Lynskey	25
A J Reid	25
G A Fraser	30
P V Lough	30
J S Waldvogel	17
	356

Directors of the subsidiary companies were not paid fees.

Entries Recorded or to be Recorded in the Interests Register

A Directors’ Interests

The following entries were recorded in the Interest Register of the Company and its subsidiaries during the year;

**D Milne:** reaffirmed earlier disclosures that he is a Director of

- Livestock Improvement (New Zealand) Corporation Limited
- Livestock Improvement (UK) Limited
- New Zealand Genetics (Australia) Pty Limited  
and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**S Bay:** Declared that he had sold two bull calves to the Company under the Contract Mating Scheme for \$5,000.00.

**S Bay:** Declared that he was a participant in the Company’s Contract Mating Scheme, which could potentially lead to the sale of two bull calves to the Parent in the 2004/05 season, for \$5,000.00.

**B Guy:** Declared that he was a participant in the Contract Mating Scheme with the Company, which could potentially lead to the sale of one bull calf to the Company in the 2004 season for \$2,500.00

**A Reid:** reaffirmed earlier disclosures that he has been, and remains, a Director of:

- Dexcel Holdings Limited - Director since March 2001
- Dexcel Limited - Director since March 2001
- W A Systems Limited  
and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**G Fraser:** affirmed that he has been and remains a Director of:

- Skellmax Industries Ltd - Director since May 2002
- AgResearch Limited - Director since December 2003
- LIC Deer Limited  
and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**P Lough:** affirmed that he has been and remains a Director of:

- Tatua Co-operative Dairy Co Ltd - Director since November 2002
- Meridian Energy Ltd - Director since August 1999
- Chairman of New Zealand Trade & Enterprise since July 2003  
and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**J Waldvogel:** affirmed he is Chief Operating Officer of Fonterra Co-operative Group Limited and a Director of Bonlac Foods Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.



**All Elected Directors of the Company** - are customers and shareholders of the Company and purchase products and services for their farming activities on an ongoing basis.

**S Gordon:** declared he is Chief Executive Officer of the Company and a Director of

- Livestock Improvement (New Zealand) Corporation Limited
- Livestock Improvement (UK) Limited
- LIC Deer Limited
- New Zealand Genetics (Australia) Pty Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**S Gordon:** declared that he is a Shareholder in and Director of

- Gordon Litt Farms Limited which became a customer of the Company purchasing products and services during the 2003/04 season and thereby qualifies to become a Shareholder in July 2004.

**D Adam:** declared he is an Executive of the Company and a Director of

- Animal Breeding Services Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**P Gatley:** declared he is an Executive of the Company and a Director of

- LIC Deer Limited
- Animal Breeding Services Limited
- Equine Fertility Services Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**P Haley:** declared he is a Manager of the Company and a Director of

- New Zealand Genetics (Australia) Limited and will therefore be interested in all transactions between this company and the Company and/or its subsidiaries.

**M O'Connor:** declared he is an Executive of the Company and M Brown declared he is a Manager of the Company and both are Directors of

- NZ Genetics (Ire) Limited and will therefore be interested in all transactions between this company and the Company and/or its subsidiaries.

**P Daley and M Daley:** declared they are Shareholders in and Directors of

- NZ Genetics (IRE) Limited and will therefore be interested in all transactions between this company and the Company and/or its subsidiaries.

**B Craine:** declared he is a Manager of Animal Breeding Services Limited and Director of

- Animal Breeding Services Limited
- Equine Fertility Services Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**J Hepburn:** declared he is a Director of

- Animal Breeding Services Limited
- Equine Fertility Services Limited
- Dairy Goat Improvement Limited
- New Zealand Breeding Services Limited
- Hamilton South Veterinary Services Limited and further declared that his family interests are shareholders in Animal Breeding Services Limited and own the property rented by Animal Breeding Services Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

**J Absolom:** declared he is a Director of

- Animal Breeding Services Limited
- Rissington Breed Lines Limited with a shareholder of Animal Breeding Services Limited
- Rissington Cattle Company Limited
- Rissington Station Limited and will therefore be interested in all transactions between these companies and the Company and/or its subsidiaries.

B Share Dealings of Directors

The Directors other than the independent directors (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of the Company's products and services were holders of the following shares as at balance date (31 May 2004):

	2004		2003	
	Co-operative Control	Investment Shares	Co-operative Shares	Investment Shares
D J Milne	273	2,730	299	-
S B Bay	1,431	14,310	1,374	-
J E Bicknell	600	6,000	460	-
E G Coats	497	4,970	508	-
B R Guy	1,005	10,050	869	-
R D Jackways	1,413	14,130	1,468	-
M E Jagger	494	4,940	441	-
P J Lynskey	1,060	10,600	1,206	-
A J Reid	2,942	29,420	2,600	-

No Director traded in Investment Shares between their listing date and the end of the financial year.

C Loans to Directors of the Company and its Subsidiaries

There have been no loans to Directors during the year.

D Directors' Indemnity and Insurance

The Company has issued a Deed of Indemnity and insured all its Directors and Officers against liabilities to other parties (except the Company or a related party) that may arise from their positions as Directors of the Company and its Subsidiaries. The indemnity and insurance does not cover liabilities arising from criminal actions.

EXECUTIVE EMPLOYEES’ REMUNERATION

During the year the following numbers of employees received total remuneration, including benefits, of at least \$100,000:

100,000 - 109,999	14
110,000 - 119,999	6
120,000 - 129,999	2
130,000 - 139,999	4
150,000 - 159,999	4
230,000 - 239,999	1

Co-operative Company Resolution

Pursuant to section 10 of the Co-operative Companies Act 1996, the following resolution was passed unanimously at a meeting of the Directors of the Company held on 16 July 2004.

That it be recorded:

- Livestock Improvement Corporation Limited (Company) was registered as a co-operative company under the provisions of the Co-operative Companies Act 1996 (Act) on 1 March 2002.
- In the opinion of the Board of Directors, the Company has been a co-operative company from that date to the end of the accounting year ended 31 May 2004.
- The grounds for this opinion are:

1. The principal activity of the Company involves supplying artificial breeding, herd testing, herd recording and other services to transacting shareholders (as that term is defined in section 4 of the Act). Accordingly, the principal activity of the Company is, and is stated in the Constitution of the Company as being, a co-operative activity (as that term is defined in section 3 of the Act); and
2. Not less than 60% of the voting rights attached to shares in the Company are held by transacting shareholders.

SHAREHOLDER INFORMATION

as at 30 July 2004

The following shareholding information relates to shareholdings as at 30 July 2004, being the company's record date for payment of dividends

	Twenty Largest shareholders	
	Investment Shares Held	% of Total Co-operative Shares
Rangitata Dairies	22,930	0.08
R H & L E Colebrook	21,750	0.07
G G & J A Imeson Family Trust	20,220	0.07
Clarksfield Holdings (1996) Ltd	20,130	0.07
Farminco Ltd	18,210	0.06
Waipap Station Partnership	18,150	0.06
Orini Downs Station Ltd	17,650	0.06
S B & D B Bay Family Trust	16,990	0.06
Langridge Enterprises Ltd	16,540	0.06
Avcar Holdings	16,370	0.06
Amuri Dairying Ltd	15,830	0.05
Riverlands Ko-Torp Ltd	15,510	0.05
Rakaia Island Dairies Ltd	15,400	0.05
Ted Rollinson Enterprises Ltd	15,090	0.05
Winterdowns Ltd	14,760	0.05
Rotokaia Farm Ltd	14,130	0.05
Koromiko Dairy	14,040	0.05
Washer & Co Ltd	14,020	0.05
A R & V J Morgan	13,950	0.05
Lacmor Dairies Ltd	13,820	0.05
Total	335,490	1.14

SIZE OF SHAREHOLDING

Holdings	Shareholders	Investment Shares Held	% of Total
1-1,000	2,250	1,386,234	4.7
1,001-2,000	3,650	5,536,822	18.8
2,001-3,000	2,848	7,011,508	23.7
3,001-4,000	1,532	5,294,567	17.9
4,001-5,000	726	3,238,842	11.0
5,001-10,000	900	5,820,952	19.7
Over 10,000	99	1,239,665	4.2
TOTAL	12,005	29,528,590	100.0

CREDIT RATING STATUS

The Co-operative currently does not have a credit rating status.

NON STANDARD LISTING

The Company has been classified as a Non Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule A3.3.3, by reason of it being a co-operative company having a unique constitution which includes provisions having the following effect:

- the acquiring of Investment Shares is restricted to New Zealand dairy farmers who hold Co-operative Control Shares and who purchase qualifying products and services from the Company; and
- holders of Investment Shares have no voting rights (except on matters affecting the rights of Investment Shareholders).

Waivers and Approvals granted by New Zealand Exchange Limited (NZX) in the process of the approval of the Constitution of Livestock Improvement Corporation Limited

Waivers and approvals were granted in respect of the following NZAX Listing Rules:

1. **Rule A1.1.2** to allow the definition of ‘Renounceable’ to refer to a Right or offer that is transferable to any other person who is entitled to hold the Securities to which the Right or offer relates.
2. **Rule 7.6.4** in Appendix 1 to allow clause 3.6.6(c) of the Constitution to permit financial assistance to be given to an Approved Holding Entity.
3. **Rule A4.2.1** is not applicable in the case of LIC, given its status as a Non Standard NZAX Issuer and as such LIC is not required to comply with the restrictions of that rule and clause 20 of the Constitution which provides for a more extensive lien on Securities is allowed.
4. **Rule B2.1.2** to allow for the following aspects of the Company’s corporate governance structure:
  - (a) Directors to be nominated by Co-operative Control Shareholders by region;
  - (b) certain qualifications to be required of Directors;
  - (c) the nomination procedure for Directors.
5. **Rule B2.1.3** to allow for the filling of casual vacancies by the Board where the position becomes vacant less than 8 months before the date on which that Director is due to retire by way of rotation.
6. **Rule B2.1.6** to allow for the rotation of Elected Directors as set out in clause 1(f) of schedule 3 of the Constitution whereby one-

third are due to retire on the 1st day of June in each year and a rotation schedule is provided for in paragraph 1(g) of schedule 3.

7. **Rule B2.3.1** to allow the Board to authorise the remuneration of the Independent Directors, but subject to the following conditions:
  - (a) the waiver is for a period of 12 months from 25 November 2003; and
  - (b) prior to the expiry of that period, the Company addresses the issue of compliance with Rule B2.3.1 and arranges for any necessary amendments to its constitution to ensure compliance with that Rule.Such waiver has been granted by NZX in recognition of the considerable involvement that shareholders do have in the appointment of Independent Directors, the ability of shareholders to resolve to remove such Independent Directors and the transparency of the remuneration paid to Independent Directors.
8. **Rule A4.6.5** allows an NZAX Issuer to include restrictions on the issue, acquisition or transfer of Equity Securities in its constitution, subject to the prior approval of NZX. NZX approved restrictions in the Constitution as follows:
  - (a) Clause 3.2.2 restricts the issue of Voting Securities with the aim of ensuring that LIC remains a co-operative company controlled by its Co-operative Control Shareholders (whose control is directly proportionate to the amount of products and services purchased by each such shareholder).
  - (b) Clause 3.2.3 restricts the issue and transfer of Securities so that they are only held by Users (or by other persons in certain specified circumstances). Again, this aims to protect the fundamental nature of a co-operative company.
  - (c) Clauses 10.1(b) and (d) place restrictions on the persons who may hold Investment Shares (so that such shares are only held by a Co-operative Control Shareholder, an Approved Holding Entity or the Company itself, or by other persons in certain specified circumstances).
  - (d) Clauses 10.2 to 10.7 (inclusive) and clause 13.5 relate to the acquisition and disposition of Investment Shares and, in particular, provide for the regulation of the minimum and maximum holding requirements for Investment Shares. Such provisions are intended to regulate the identity and interests of the shareholders, as is common for a co-operative company.
  - (e) Clause 24 lists matters, which require the consent of the Minister for Agriculture and Fisheries (or other relevant Minister). This provision is required by the Dairy Industry Restructuring Act 2001 and must therefore take precedence over all other provisions in the constitution and the Listing Rules.



**9. The NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:**

- (a) Clause 3.5.1(a) reflects Appendix 1 Rule 7.3.1(a). However that Rule only requires approval to be given by the classes of Quoted Equity Securities. As the Investment Shares are the only class of shares proposed to be quoted, clause 3.5.1(a) requires the approval of each class of Equity Securities, regardless of whether or not they are quoted.
- (b) The rules in Appendix 1 Rule 7.3.3(b), Appendix 1 Rule 7.6.3(a) and Rule A4.3.2(b)(i) (which all relate to issues of securities before 1995) have not been included in the Constitution because, as a matter of fact, these provisions do not apply to the Company.
- (c) Where the Listing Rules contain provisions which only apply to the issue of securities to, or holding of securities by, employees of the NZAX Issuer (e.g. Appendix 1 Rules 7.3.2(a), 7.3.6, and 7.6.5(b)), these provisions have not been replicated in the Constitution as employees of the Company are not permitted to own shares in the Company and, to the extent Directors are categorised as employees, it is not proposed that an issue of securities ever be made to Directors as a separate class.
- (d) Where the Listing Rules refer to Minimum Holdings, these provisions have not been replicated in the Constitution as the minimum and maximum holding requirements in respect of the Co-operative Control Shares and the Investment Shares (and the issue or surrender of shares to meet those requirements) are expressly set out elsewhere in the Constitution. This means that the Rules in Appendix 1 Rule 7.3.4(e), Appendix 1 Rule 7.3.8(c), Appendix 1 Rule 7.6.2 (which is otherwise dealt with in clause 3.6.3) and Appendix 1 Rule 7.6.3 (which is otherwise dealt with in clause 3.6.4(b)) are not included in the Constitution.
- (e) Clause 21 reflects Appendix 1 Rule 9.1. However, the definition of the "Average Market Capitalisation" has been amended to take account of the fact that it is only the Investment Shares which will have a market capitalisation value and that therefore the nominal value of the Co-operative Control Shares will be added to such value.
- (f) Paragraph 6.1 of Schedule 1 reflects Rule A5.1.7; however it applies to notices of meetings of shareholders rather than to Quoted Security holders.





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