



Annual Report 2006-2007

Improving, growing

Contents

2	At a glance
2	Performance
4	Chairman's Report
8	Chief Executive's Report
16	Shareholder Council Report
20	Governance Report
24	LIC Board
26	Leadership Team
27	LIC Shareholder Council
29	Financial Report
47	Audit Report
52	Waivers and Approvals
53	Disclosure of Financial Assistance
54	<i>Appendix 1:</i> Livestock Improvement's Share Structure
54	<i>Appendix 2:</i> Description of Dividend Reinvestment Plan
57	Directory

Annual Report 2006-2007

The Directors are pleased to present the Annual Report of Livestock Improvement Corporation Limited for the year ended 31 May 2007.

For and on behalf of the Directors



STUART BAY / CHAIRMAN

August 2007



GRAHAM FRASER / DIRECTOR

August 2007

“Prosperous growth in any business depends on basic fundamentals – protecting, enhancing and leveraging off what you do well.”

STUART BAY / CHAIRMAN



At a glance

Vision

An essential partner on farm and in food supply chains.

Core purpose

We exist to help farmers become more efficient and profitable by genetically improving their animals, and by providing information, systems and technology that make it easier to farm. Successfully doing this creates value for our customers and wealth for our shareholders.

Core values

Integrity
Customer focus
Innovation
Teamwork

Company structure

Operational divisions

Farm Solutions
Genetics
Sales
Field Operations

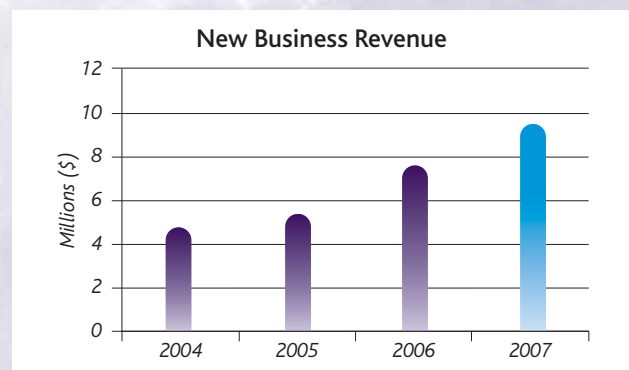
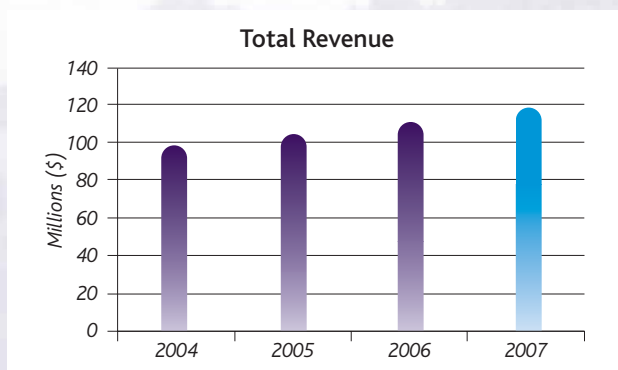
Support groups

Human Resources
Strategy and Growth
Commercial Support
Transformation and Excellence

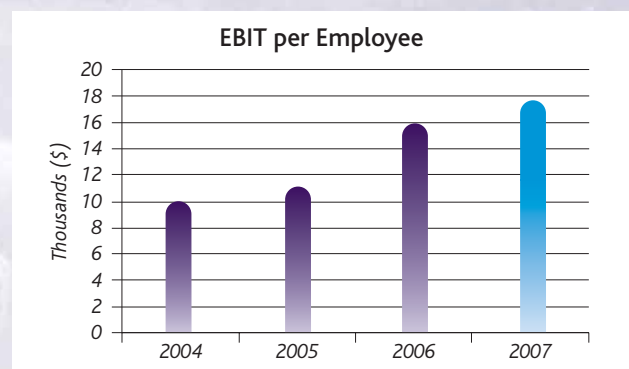
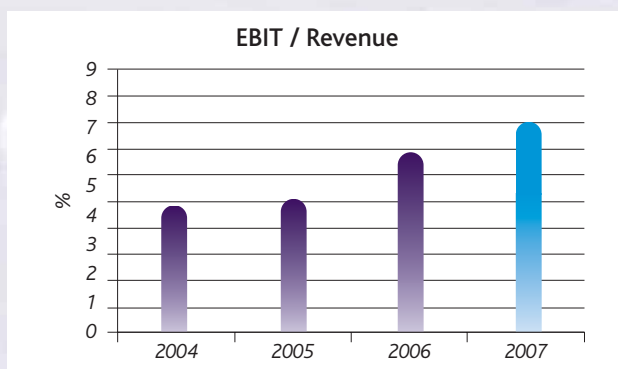
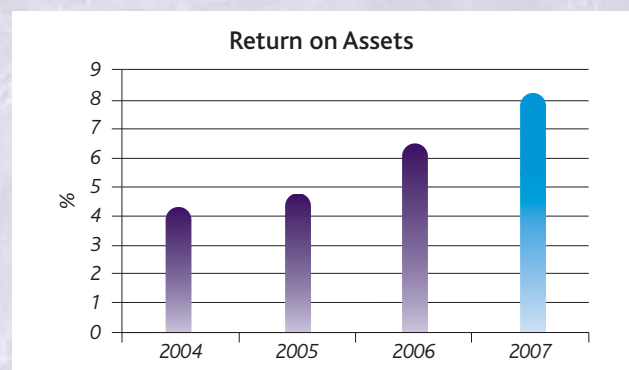
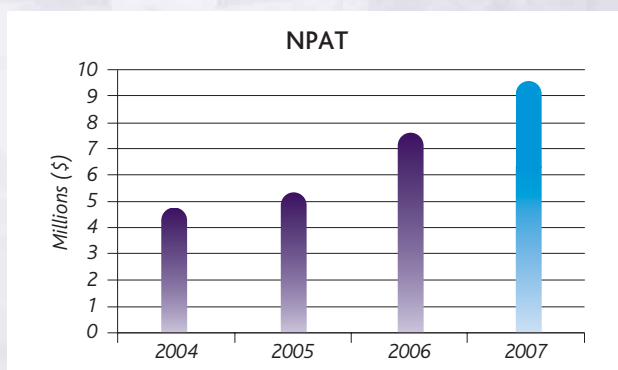
Performance

	2004	2005	2006	2007
Return on Assets	4%	5%	7%	8%
NPAT	\$4,784,000	\$5,296,000	\$7,572,000	\$9,554,000
Total Assets	\$111,332,000	\$111,302,000	\$116,144,000	\$116,282,000
Total Revenue	\$98,317,000	\$104,041,000	\$110,471,000	\$118,321,000
Capex	\$10,185,185	\$5,633,607	\$29,848,703	\$29,206,527

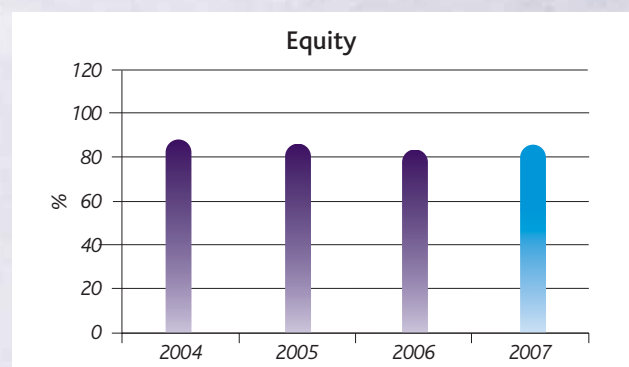
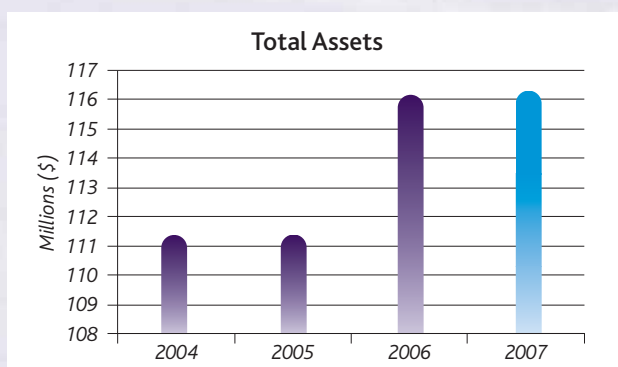
Revenue measures



Performance measures



Balance Sheet measures



Chairman's Report



Prosperous growth in any business is based on some basic fundamentals – protecting, enhancing and leveraging off what you do well.

That's what LIC is doing.

Growth is critical if we're to maintain the innovative edge we have achieved over nearly a century – but we are not growing at the expense of our foundation products of dairy herd testing, recording and artificial breeding. Rather, we are leveraging off our capabilities to develop new information, systems and technology that livestock farmers need to be profitable.

Our growth strategy is gaining momentum.

Overview

Last year saw the development, announcement and introduction of the LIC strategic plan to 2011 which was a major effort focused on establishing our new vision, direction, goals and strategies to deliver increasing value on-farm, and to our shareholders.

Under CEO, Mark Dewdney, restructuring of the business occurred at every level as we sought to strengthen our traditional business structures but also further encourage our performance culture, and build capabilities for the future.

Our focus on growth and continual performance improvement has delivered an excellent result at customer and shareholder level.

Financial result

Revenue for the 2006/2007 year was \$118.3 million. Net profit (after tax) was \$9.6 million which compares to \$7.6 million in 2005/2006 and represents an increase of 26% or \$2 million.

The increase in profit is a consequence of an increase in service levels in 2006/2007 and lower depreciation. The decision to dispose of Animal Breeding Services resulted in an offset of costs, as did the challenging operational issues experienced by the Protrack business unit.

The company's balance sheet strength was utilised with \$16.2 million spent in acquiring Northern Feed Systems in Victoria, Australia and a significant shareholding in Tru-Test.

The company had no term debt at the end of the year, but had seasonal borrowings which peaked at around \$10 million.

Dividend

The LIC Board announced a total dividend for the year of 10 cents for Co-operative Control shares, and 25 cents (made up of an

interim of 10 cents and final of 15 cents) for Investment shares.

This represented a gross dividend yield of 13.9% on Investment shares and contrasted with the total dividend, in 2005/2006, of 8.5 cents for Co-operative Control shares and 24.5 cents for Investment shares.

At the end of the 2006/2007 year, LIC had used most of the tax losses it had carried forward from previous years. This means that, in 2007/2008, the company will, for the first time (other than small provisional payments) pay income tax. The profit for 2007/2008 will therefore be taxed prior to the payment of dividends, which will have imputation credits.

Another key change in the 2007/2008 year is that both the interim and annual accounts will have to be prepared, and comparatives restated, in accordance with International Financial Reporting Standards (IFRS). We will communicate with shareholders when we understand how this will impact LIC.

New growth strategy

LIC's new strategy to 2011, to leverage off and extend our expertise in farm and animal performance management to other species, was launched at the company's Annual Meeting last year. It was the result of an extensive period of research, review, consultation and, finally, endorsement by the LIC Board, Management and Shareholder Council.

The objectives, described on page 9 of this report, push the boundaries of operational and technical performance, much as we did in 2001 when we set out to deliver a net profit (after tax and before biotechnology spend) of \$10 million; return on capital employed (before tax and biotechnology) of 10% and achieve a Silver Business Excellence Award.

We achieved all of those objectives, and more.

Value generated since formation

LIC has made a significant contribution to its shareholders and the dairy industry since the co-operative was formed in 2002. In dollar terms, it has delivered more than \$436 million worth of benefits through:

Gross dividend payments (including 2006/2007)	\$30 million
Total share value on issue (balance date \$1.80/Investment share and \$1.00/Co-operative Control share)	\$56 million
Increased on-farm productivity through genetics	\$350 million

The gross amount of increased revenue from LIC genetics for the period under review was close to \$600 million. The annual genetic trend for the Premier Sires stock increasing at 3.2 kg milksolids per lactation. With an average value of \$4.44 per kg (in 2007 dollars) across the period, this multiplies out to gross values of \$39.6 million, \$81.6 million, \$123 million, \$162.4 million, and \$205 million for seasons ending 2003, 2004, 2005, 2006, and 2007 respectively.

However, when valuing genetic improvement it is not appropriate to report the gross benefit. The genetically improved cows need more feed than the less improved cows that they supersede. For this reason, Economic Values for Animal Evaluation are calculated on a per feed unit basis.

The overall outcome is that the \$350 million net benefit of the genetic improvement quoted comes about from better feed conversion efficiency of improved cows (higher production per cow from better diversion of feed to lactation compared to maintenance) and from not needing so many cows to harvest a given amount of feed (saving the variable "cow" costs on a per feed unit basis).

Around 80-85% of the benefit arises from the better feed conversion efficiency; and about 15-20% from not needing so many improved cows to harvest the farm's feed (compared to the number of less improved cows farmers need).

Core purpose

The company's new core purpose statement captures why LIC exists:

to help farmers become more efficient and profitable by genetically improving their animals and by providing information, systems and technology that make it easier to farm.

This statement focuses the company resources on delivering an ever improving product and service range, running our business more efficiently, and supporting improved on-farm performance and profitability with new systems and technologies to help farmers remain at the forefront in the production of the highest quality food possible in a demanding world of discerning customers.



Supporting improved on-farm performance and profitability with new systems and technologies

Acquisitions

Tru-Test

LIC has worked with Tru-Test over a number of years in the development of farm management and automation systems. To develop and extend that relationship, LIC purchased two parcels of shares in December 2006, taking our ownership to 19.9%.

This closer integration with a leading provider of technology will assist the achievement of our farm automation strategies.

LIC CEO, Mark Dewdney, is a Director of Tru-Test.

Northern Feed Systems

Situated in Victoria, Australia, Northern Feed Systems builds the hardware and owns part of the intellectual property for our farm automation systems – Cena in Australia and Protrack in New Zealand. In February 2007 LIC purchased the company to provide certainty and continuity for our Australasian farm automation systems.

Merger

During the year under review, LIC also agreed to merge its Irish subsidiary with Irish artificial insemination company, Eurogene AiServices, to provide an integrated AI service to the Irish dairy industry.

The new company will be known as Eurogene AiServices (Ire) Limited, combining the sales and administration teams of both companies with Eurogene's AI technician service. LIC is the second largest shareholder of Eurogene AiServices.

Shareholding

LIC generates value to shareholders, through returns on shares and provision of product and services. This is reflected in the excellent financial result, the dividend the Board resolved to pay, the continued growth in the share price and shareholder participation in the Dividend Reinvestment Plan.

The investment share price has increased to \$1.80 as at the end of the year, but remains well short of the net tangible assets of the company. 2,800 shareholders now participate in the Dividend Reinvestment Plan.

Summary

Board and Management continue to actively investigate domestic and international opportunities that fit our growth strategies, however our focus and grip remains firmly on animal and farm productivity improvement for our shareholders.

In our aim to double the size of this business by 2011, we are confident that we can deliver a wider range of benefits to more farmers and also to our other valued partners and stakeholders.

We have signalled that the balance sheet strength will be judiciously utilised to support the strategic growth of the company, as well as the reasonable expectation that there may be a requirement to retain higher levels of future profits for re-investment.

We are entering an era of unprecedented confidence for the dairy sector in particular, which amidst the uncertainty of such factors as exchange rates, interest rates and climate change, does include the prospect of exciting new DNA, RFID and information technologies that will help our farmers immensely.

Appreciation

Finally, I wish to record my appreciation to the CEO Mark Dewdney, senior management and all staff for an excellent year's results and also to thank my fellow directors and the LIC Shareholder Council for their commitment, passion and positive contribution to our co-operative's governance and representation.



STUART BAY / CHAIRMAN

A photograph of two men in a rural setting. The man on the left is seen from the back, wearing a dark green jumpsuit. The man on the right is facing him, wearing a light blue shirt and a dark vest, with his hands on his hips. They are standing next to a green tractor. The background features trees with some autumn-colored leaves and a grassy field under a blue sky with clouds.

Chief Executive's Report

LIC has continuously evolved over its 98 year history, and 2006/2007 saw another important step as the company adopted a strategy that will see it leverage its expertise in animal performance management, to a wider variety of livestock farming industries, and expand its focus, beyond animals, to the whole farm.

The strategic plan, developed by the Leadership Team in conjunction with the Board, and endorsed by the Shareholder Council, is underpinned by four basic principles:

That we will...

- ▲ Continue to be a high performance growth company, and will expand our focus from dairy herd improvement to the provision of farm improvement services across a wider spectrum of livestock farming industries.
- ▲ Never lose sight of the reason we exist – to deliver great products and services to our dairy farmer owners and customers.
- ▲ Manage the business on a commercial basis, looking to provide products that create value for farmers on farm, and wealth for shareholders from dividends and share price appreciation.
- ▲ Make LIC a great place to work for staff.

LIC exists to help farmers become more efficient and profitable. One year into the job of CEO, it's a pleasure to report to shareholders on what went well during 2006/2007, what didn't, and what we're going to do about it.

Animal performance management

LIC has been in the business of animal performance management for almost a century. The fundamental blend of herd testing, milk analysis and herd reporting has reached levels of sophistication never dreamed of by our forbears.

MINDA has evolved from a paper-based system for the dairy industry with the Yellow Notebook at its heart, to a range of electronic, paper and palm pilot products delivering a tailored level of performance reporting to farmers.

This level of innovation is a direct result of talking with farmers informally, and at Focus Groups to determine their requirements.

Innovative products are delivered by a team focused on anticipating and developing technologies which give farmers greater ability to monitor and predict animal performance. MINDA is continuously updated with new versions released at regular intervals – our future

goal is to expand the focus of MINDA beyond the dairy cow, to the wider farm, and to other species of farmed animals.

LIC is justifiably proud of its Customer Contact Centre which provides professional and personal contact for all farmer queries. Customer satisfaction surveys confirm the value farmers put on this service and the Contact Centre constantly exceeds the industry benchmarks for speed of response.

MINDA for beef, deer and sheep

Widening our boundaries to the whole-farm has seen MINDA tailored to become a traceability and profit tool for the beef and deer industries.

These innovations enable farmers to identify the animals which are making, and those which are costing, them money AND will fulfil the future regulatory requirement to track all cattle and deer animal movements (anticipated to be regulated in 2009).

The program will support the commercial farming of meat animals by providing identification, traceability and animal performance management with the focus on improving profitability.

MINDA for beef and deer enables farmers, selling and buying stock, to complete their Animal Status Declarations at the push of a button – replacing the time-consuming and repetitive paperwork that is the current industry standard.

Given that approximately two thirds of animals reared in beef operations come from dairy farms, MINDA for beef will give beef farmers insight to the genetics which are delivering the weight gains they are after, enabling them to exercise greater choice in the animals they purchase for finishing.

Dairy animal performance management

Enabled by herd testing

Animal performance management, for the dairy industry, begins with herd testing, the analysis of milk samples translating to insights into the performance of individual animals which, in turn, advances genetic gain through the identification of the best cows as bull dams.

Dairy animal performance

Powered by animal evaluation

LIC scientists have, over the past two years, worked with NZ Animal Evaluation Ltd to develop the NZ Test Day Model. NZ Test Day Model is a new statistical model, introduced to New Zealand in February 2007, which brings greater accuracy in calculating breeding and production values for cows and bulls and greater flexibility for dairy farmers involved in herd testing programs.

In a letter to all dairy farmers in November 2006, Dairy InSight, who co-funded development of the NZ Test Day Model, said that the increased accuracy resulting from the NZ Test Day Model was anticipated to generate around \$1.5 million each year in genetic gain for New Zealand dairy farmers.

From the start of the 2007/2008 dairy season farmers will, for the first time, be able to choose whether to herd test once or twice in a 24 hour period. This innovation will significantly reduce the workload on herd test day.

More simplicity and less clutter during herd testing

The new EZ Link handheld, which has herd records automatically loaded and which links the cow records to the barcode on the milk flasks, was successfully rolled-out to 1000 herds during 2006/07. Following great feedback from users, EZ Link is being progressively made available to all customers who wish to use this service.

Single test and EZ Link significantly reduce the hassles of herd testing day, and we believe both will play a major role in increasing the uptake of herd testing in future years.

Centralised weighing of milk samples

During the year, LIC rationalised the number of depots that weigh milk samples. From the end of the 2006/07, all North Island samples are weighed at two sites, New Plymouth and Hamilton, and in the South Island at Christchurch and Invercargill.



NZ Test Day Model will generate
around \$1.5 million more genetic gain



LIC exists to help farmers become more efficient and profitable

Dairy animal performance management

– brought to life in the farm dairy

Protrack has transformed a farmer's MINDA animal records into a practical, everyday tool, which means that he or she can, figuratively, be in three or four places at once, and which makes animal handling faster, simpler and more accurate.

LIC launched its Protrack range of farm automation systems to the market in the 2003 season. The appeal of these systems, especially for large herds, is great and resulted in significant sales demand.

Pressure from rapid sales growth, and issues with software performance and hardware supply during the 2006-2007 season caused frustration for a number of customers.

We have worked hard during the year to improve our installation and support process, and to ensure that all customers' systems are operating to specification. We very much regret the frustration and inconvenience this caused on a number of farms over the first six months of the season.

We have added more resource to the business and have a skilled and committed team located around the country. We have also completely reviewed and updated our operational procedures and communication processes with stakeholders and are confident that we will deliver to promise.

We believe we are winning back the confidence of our Protrack users which will ensure that Protrack remains the market leader in New Zealand.

LIC is absolutely committed to Protrack; it delivers superb performance in the field and we believe that future integration with a wide range of automation devices will transform milking and the identification and handling of dairy cattle.

Diagnostics – using milk, tissue, blood and hair

LIC's Diagnostics laboratories now provide analysis of milk samples (from herd testing) and of tissue, blood and hair samples for parentage and disease testing.

Milk analysis

Around 9 million samples were processed through our milk analysis laboratories at Hamilton and Christchurch during the year.

DNA analysis and disease testing

LIC was one of the leaders in the introduction of DNA analysis to dairy farming, and it is pleasing to see that this science is now becoming an integral part of many farming businesses.

Herd profiling and Calf Trace has improved the accuracy and taken the hassle out of calf identification during calving, and the collection of samples was made even easier with the launch of the innovative DNA Punch.

During 2006/2007 the DNA Punch was adapted to become a tool for disease testing, with the launch of testing for Bovine Viral Diarrhoea (BVD). The ease of sample collection has led to a significant increase in the number of cattle farmers testing their bulls and calves for BVD.

LIC's BVD blood test is based on the latest molecular biology methods using DNA extraction and Polymerase Chain Reaction (PCR) technology. The BVD PCR test detects the virus genes in blood to establish whether the animal is infected with BVD and also enables farmers to identify persistently infected animals.

Conventional BVD tests involve submitting a blood sample for either an Antigen ELISA test or a pooled sample PCR test from a group of animals, with retesting of the pool should a carrier be detected.

Meeting the growing demand for DNA parentage and animal health diagnosis saw the Hamilton laboratory purchase a new generation Sequenom analyser in December 2006, resulting in a substantial decrease in the price of DNA testing and faster turnaround time for results. The new machine gives us the capacity we need to meet the growing demand for our Diagnostics product range.

Improving on-farm management and performance

LIC's 20-strong FarmWise team of consultants maintained their position as the country's leading provider of on-farm dairy advice that helps farmers improve their businesses' productivity and profitability.

In addition to, and in line with, the company's growth in markets and products, FarmWise Consultants provided technical advice to a growing number of LIC's international customers.

Genetics

The dairy industry increased its use of artificial breeding services during 2006/07, with LIC achieving record insemination volumes and market share.

Our bulls maintain the strongest position on the Ranking of Active Sires list (published by NZ Animal Evaluation Ltd), both before and after the re-ranking that resulted from the implementation of NZ Test Day Model in February 2007.

Trends in farmer choice for AB

It is not many years since the choice of artificial breeding sires was very narrow. LIC has broadened the offering by enlarging the Sire Proving Scheme to offer more depth in the Holstein-Friesian and Jersey teams, and has introduced some unique product in the form of KiwiCross™, Short Gestation and once-a-day bulls, enabling farmers to select sires that match their individual breeding goals.

Demand increases for our KiwiCross bulls with sales now representing more than 20% of our total genetics business in only the third year since product launch. This innovation enables the industry to capitalise on the value of some outstanding crossbred cows which could not otherwise become bull mothers, and the service is clearly satisfying a customer need.

While the majority of dairy farmers continue to entrust their bull team selection to LIC via Premier Sires, many others enjoy constructing teams based on their own personal breeding goals. To assist them in this process LIC has developed sophisticated software tools. Customate ranks every bull available in New Zealand (including our competitors) according to the farmer's criteria, and Customate Plus goes a step further, utilising the software developed for our own sire analysts to optimise individual mating outcomes by matching a specific sire with each cow.

Kamar sales

Record sales of Kamars were recorded during the year, representing a 5% increase on the previous year.

AB Technician service

For the first time, we had no low groups in 2006/2007 and achieved a new record number of inseminations per Technician.



MINDA helps farmers identify the animals which are making, and those which are costing, them money

New frontiers

Short Gestation Genetics

LIC's team of Short Gestation bulls have been successful in reducing gestation by five days but, mindful of the financial advantages generated when farmers are able to tighten their calving pattern, we are constantly looking for ways this can be naturally shortened even further.

With this in mind, we began a trial using Yak semen to mate dairy cows.

Known to interbreed naturally with cows, Yaks have a gestation period that is about 25 days shorter than dairy cows. (Average Yak gestation period is 257 compared to 282 for dairy cows). Another advantage is that the resulting calves look noticeably different, providing a useful marker.

The trial will measure the gestation length of the Yak/dairy cross to see if it approximates the parent average as this would give farmers an advantage of approximately 12 days. The first cows mated in the trial are due to calve in the spring of 2007.

New frontiers

Once-a-day milking continues to win converts

LIC, in conjunction with Dexcel, hosted the inaugural once-a-day (OAD) Milking Conference in 2007.

Key points included:

- ▲ OAD milking can be as profitable, or more profitable, than Twice-a-Day (TAD) provided the stocking rate is optimised and discipline applied to controlling Somatic Cell Counts, particularly in autumn.
- ▲ On average, farm working expenses decreased by 25.5% (\$520 per ha and \$72,800 per farm) upon switching to OAD.
- ▲ On average, milksolids yield decreased by 5.6% (54kg ms/ha and 7,535 kg ms per farm) upon switching to OAD milking.
- ▲ On average, OAD cattle sales revenue increased by 33.5% because improved animal health, body condition score and fertility mean cows last longer in the herd, cull cows are heavier, and farms have more replacements they can sell.
- ▲ Cows milked OAD have less lameness, have higher body condition score and higher reproductive performance.
- ▲ OAD farmers and staff report reduced stress levels and improved lifestyle.

LIC supports OAD farmers with tailored genetics and advisory products.

New frontiers

Sexed semen

LIC has, for a number of years, been investigating technology for sexing semen and plans a trial in the spring of 2007 to quantify the impact of sexed semen on non-return rates in New Zealand.

New frontiers

Genomic Selection

The cost of progeny testing is significant – not only in dollars (LIC invests more than \$13 million each year into Sire Proving) – but also in the time it takes to deliver a proven bull.

Genomic Selection is the science whereby bulls are selected for widespread use based on their DNA profile; it's a little like a genetic fingerprint, giving new insights to the bull's potential from the moment it is born and its DNA is available for evaluation.

Genomic Selection potentially offers significant advantages for farmers in terms of the rate of genetic gain on-farm and, for LIC, in terms of progeny test efficiency and reducing land-holding requirements.

International semen markets

For the first time in LIC's history, international sales of semen exceeded 500,000 straws, with targets exceeded in the key markets of Ireland, United Kingdom, South America, Australia and the United States.

During 2006/2007 the European Union delisted all bovine semen and embryo collection centres in New Zealand that were registered for exports to the EU. Following this ban an embargo was also placed on all LIC semen held in stocks in Ireland and the United Kingdom.

The situation in the UK was quickly resolved and all stocks in Ireland were released some months later. This resulted in some disruption to our sales efforts in both countries during the year.

Deer Improvement

In 2004 LIC leveraged its expertise in semen technology and genetic improvement by establishing a dedicated deer genetics business.

In the intervening years, the company has established itself as a leader in deer genetics by setting up a nucleus herd at its Balfour Research Farm and now owns 10 of the top 20 stags on the industry database for venison growth rate.

The improving venison schedule had a noticeable impact on the

Around 70% growth in number of deer inseminations



market last year, with 70% growth achieved in the number of inseminations carried out in 2006/07.

The demand for velvet and trophy genetics created an opportunity for Deer Improvement to secure the ownership of some top velvet/trophy genetics to augment the product range and capitalise on our sales/service infrastructure.

Deer Improvement is undertaking a number of trials involving the artificial breeding of deer and on oestrus synchronisation to develop a CIDR device specifically for deer.

Breeding values are being developed to assist deer farmers in selecting for temperament and carcass traits.

The company has also developed a computer model of farm financial impacts to demonstrate the returns possible from investment in genetic gain via artificial insemination.

Improving customer service

One of LIC's greatest strengths is the size and calibre of its sales team. Our team of Regional and District Managers provide a hands-on sales and support service to farmers across the country.

The team has, this year, adopted an electronic service order form which streamlines the order process from customers directly into the LIC database. This replaces the original paper-based order form and will reduce processing time and the potentials for error, and greatly improve the customer experience at sales time.

Community involvement

LIC is proud to sponsor a number of organisations and events that promote excellence, teamwork and innovation in farming.

We are a major national sponsor of the New Zealand Dairy Industry Awards (NZDIA) and the Ballance Farm Environment Awards. Both competitions seek to promote best practice on farm, showcase excellence and recognise people who are contributing to our industry. We are committed to the pursuit of excellence and are proud to be major sponsors of these competitions.

LIC is also a major sponsor of SIDDC – the South Island Dairying Development Centre – an organisation dedicated to improving performance on farm, demonstrating best practice and sharing practical knowledge with farmers.

In addition, LIC sponsors many regional field days, the National Fieldays, a number of Dairy Conferences as well as the Taranaki and Waikato Rugby Unions through their respective mascots Ferdinand the Bull and Mooloo the Cow.

Staff

The year under review has been a busy and challenging one for the LIC team and the ultimate tribute to their collective passion and determination is the success reported in this year-end result.

In October we launched our new growth strategy to 2011 and followed this up with a comprehensive review of the company's organisational structure to ensure we are set up to deliver the stretched goals of the strategic plan.

The restructure was focused on concentrating our energy and talent to the best use – e.g. we now have one sales and field operations team whose sole focus is the customer, rather than having various divisions each with their own customer facing staff.

Now bedded in, we believe the new structure will deliver higher synergies and performance in the future.

Appreciation

I am very happy with the progress we made over the year under review. We have laid the foundations to take LIC from the great position it was in when I joined, to even new levels of performance and innovation. We still have a huge amount to do as our markets, customers and competitors continuously change and raise the performance bar on us.

We could not achieve what we do without our entire team of dedicated and loyal staff. Thank you to everyone who contributed over the year, both those who continue with us, and those who, for various reasons, moved to new opportunities elsewhere during the year.

I would particularly like to acknowledge the role my Leadership Team play in developing the strategy and driving its execution, and our Board for supporting us so positively throughout the year.

And last, but not least, I want to pay tribute to the shareholders and customers whose loyalty and patronage is sincerely appreciated, and which provides the foundation for LIC to deliver even more products and services to increase the profitability of farming.



MARK DEWDNEY / CHIEF EXECUTIVE



Shareholder Council

Report

Our Council Vision statement describes our purpose: Adding value by representing shareholders.

The Council's role includes looking at the overall performance, monitoring and commenting on the different parts of the business where appropriate.

It is my pleasure, as Chairman, to present the Council's report for the 2006/2007 year.

Members of the LIC Shareholder Council are elected representatives from the Shareholder base. We have an important role to play being representatives of shareholders to carry out the functions required of us under the company's constitution.

LIC Shareholder Council activities

Since the formation of the LIC co-operative in 2001 the Council structure has been reviewed and updated to equip us to provide the level of scrutiny and transparency our shareholders deserve.

This evolution saw the formation of two sub-committees this year – Governance and Representation, and Performance and Strategy – whose roles are to study issues in-depth and report findings and recommendations to the full LIC Shareholder Council.

Governance and Representation Committee

Chaired by Canterbury farmer, Murray King, the Representation and Governance Committee was formed to establish closer links with shareholders following the demise of the Liaison Farmer network; it is also responsible for reviewing LIC's Governance performance.

Some of the work has included re-establishing ward networks and extending the training programme for Councillors.

Shareholders may notice that the name of the Council has changed – from the National Council to the more appropriately named, LIC Shareholder Council. This is consistent with our vision statement. We will continue to work for the benefit of all shareholders in the co-operative both large and small.

The Council will continue to encourage shareholders to seek election to both the LIC Shareholder Council and the LIC Board, with the aim to have all elections contested.

An external review of Management's interface and reporting to the LIC Board processes and procedures was undertaken. Council is confident that subsequent improvements made will increase the standard of reporting and other processes. We as a Council enjoy a constructive relationship with the Board and Management of LIC.

Performance and Strategy Committee

Chaired by Peter Le Heron, who farms in the East Waikato, the Performance and Strategy Committee is responsible for reviewing LIC's strategic direction and performance.

Council worked with the LIC Board and Leadership Team to understand, scrutinise and, finally, endorse LIC's new strategic plan.

Council took an innovative approach to this, first developing its own strategic plan, and then comparing it to the one presented by the Board. Both reports were very similar. Council's approach is to apply a farmer perspective appreciating that many of our shareholders see LIC primarily as a supplier of goods and services. However, this has to be balanced with growth – the company cannot provide world-leading products and services without growth and that comes at a cost.

We believe that, while ambitious, the new strategic plan will continue to deliver high quality outcomes that are both practical and beneficial for shareholders. The Council is confident that CEO, Mark Dewdney, has the Leadership Team and structure in place to deliver the strategy and we will be reviewing annual performance against these stretched targets.

An extra \$2 million net profit (\$9.6 million) was made, further strengthening the balance sheet. This puts LIC in a very good position to grow, in line with its strategic plan.

Council is pleased to report that price increases in core products and services were below the inflation rate and Council will continue to monitor this.

The Council believes that the company is in very good form with both strong management and governance in place. The slight dividend increase of 0.5 cents per investment share to 25 cents, is a strong dividend for shareholders. An extra \$2 million profit on the balance sheet, puts us in a very good position to grow.

Council was very pleased with shareholder uptake of the Dividend Re-investment Plan showing that LIC remains firmly valued by New Zealand dairy farmers.

The Board has indicated that its willingness to grow the business within the present strategic plan, could have an impact on future investment dividends and we acknowledge that our tax status will change from this year forward, due to using all tax credits to date.

The company has worked within its budget and business plans for the past year, and the Council will continue to monitor this. The Council also notes that the parent company is stronger than the consolidated business as seen in the accounts.

Study tour to Australia

Six Councillors, accompanied by LIC's CEO and Board Chairman, visited Australia on a study tour in March 2007. The comprehensive tour saw us meet with dairy farmers, farmer cooperatives, research organisations, industry bodies and, of course, LIC's Victorian based staff.

This study tour impacted greatly on the group's level of understanding and appreciation of what can be, at times, a difficult market. It is easy, in New Zealand, to be complacent about the infrastructure we have – in particular the LIC Database. Getting a hands-on perspective of the dairying environment in Australia, (including the drought) and talking with the LIC team enabled the Council to make some constructive comments and recommendations to the Board regarding LIC's approach to growth in the Australian market in particular. A comprehensive report was produced for the benefit of the Board and other councillors who did not go, to widen the benefit gained from this trip.

The updated animal evaluation model we now have, NZ Test Day Model, is just one output utilising the depth of information stored on the LIC Database. The prospect of Genomic Selection and the potential impact this will have on this country's genetic gain, re-emphasises the farsightedness which led to the development of this database.

Products and services

Council has a very valuable role to play in providing a farmer perspective on the range and quality of LIC's products and services, and customer support. We will continue to monitor the implementation of the strategy to ensure the highest standards of customer satisfaction are maintained.

▲ Farm automation

LIC's involvement in farm automation is strategically important. Council notes, however, the very disappointing performance associated with the installation and commissioning of Protrack systems. The commitment of the Board and management in addressing the issues has been accepted, along with the effort expended by field staff. Importantly, the patience and goodwill of customers, compromised by these problems, is acknowledged and appreciated.

▲ Herd Testing

The implementation of NZ Test Day Model means LIC can offer a herd testing service more suited to the demands of today's farmers. Council supports this, knowing how choice will reduce hassle in the farm dairy and foster renewed uptake of a service, which underpins on-farm performance.

▲ Genetics

The sale of part of the business of Animal Breeding Services is evidence that advances in biotechnology occur at a very rapid rate. When purchased, back in 2002, In Vitro Production (IVP) and Trans Vaginal Recovery (TVR) technologies were



The new strategic plan will deliver high quality outcomes that are both practical and beneficial for shareholders



EZ Link, an innovation enabled by NZ Test Day Model, reduces the hassle of herd testing

leading edge. These have now been surpassed and the Board's decision to exit the business and devote energies towards the development of a technology which will significantly advance the rate of genetic gain – Genomic Selection – is supported by Council. While this is a new and exciting area of LIC's journey we look forward to the results coming through on our farms.

▲ Traceability

Early signals were that New Zealand would have mandatory identification of cattle and deer by 2009. That date is fast approaching and Council has expressed concern at the lack of urgency or certainty at a regulatory level.

Dairy farmers already have a high level of traceability, thanks to MINDA. Council appreciates that LIC's Trace business has worked hard to develop an animal performance management profit tool for the beef and deer industries. While uptake has been slow, we are confident that beef and deer farmers will come to appreciate the value to be gained from being able to identify, record and breed animals that make money, versus the ones which cost money.

Mergers and acquisitions

The recent merger with Eurogene Ai Services (Ire) Limited in Ireland and acquisition of Northern Feed Systems in Australia, were undertaken to keep developing and growing each business.

Appreciation

I would like to extend my thanks on behalf of Council, to Stuart Bay and his Board for their openness and support. I also wish to thank Mark Dewdney and his staff for their willingness to answer the many questions and sourcing the information Council has requested.

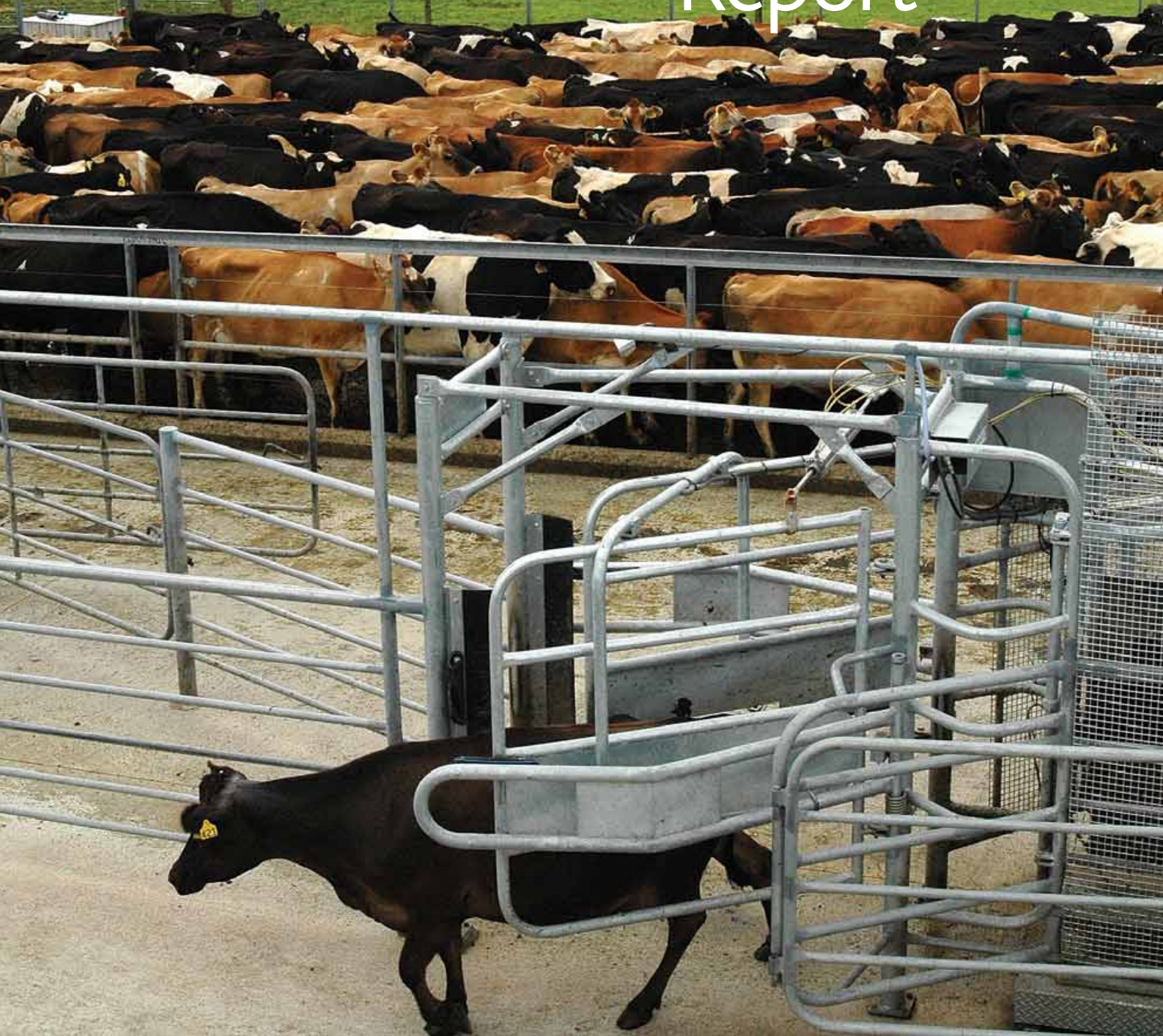
On behalf of shareholders, I extend appreciation to my predecessor, Hamish Anderson, for his commitment and guidance to the Council during his term as Chairman.

It has been a pleasure to work with you all, Board, Management, shareholders and fellow Councillors. I look forward to the challenges ahead over the next year.

LLOYD McCALLUM / CHAIRMAN

LIC Shareholder Council

Governance Report



Role of Board of Directors

The Board is responsible for the direction and control of LIC's activities.

It is committed to the guiding values of the company, integrity, respect, continuous improvement and service to its Shareholders.

Legislation, the Constitution and NZAX rules establish the Board's responsibility and include provisions for how the Co-operative will operate.

Responsibility

The Board is responsible for setting the strategic direction, approval of significant expenditures, policy determination and stewardship of the Co-operative'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, and operating the core database for the benefit of a large number of Shareholders.

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 goods 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 Shareholder Council.

Co-operative principles

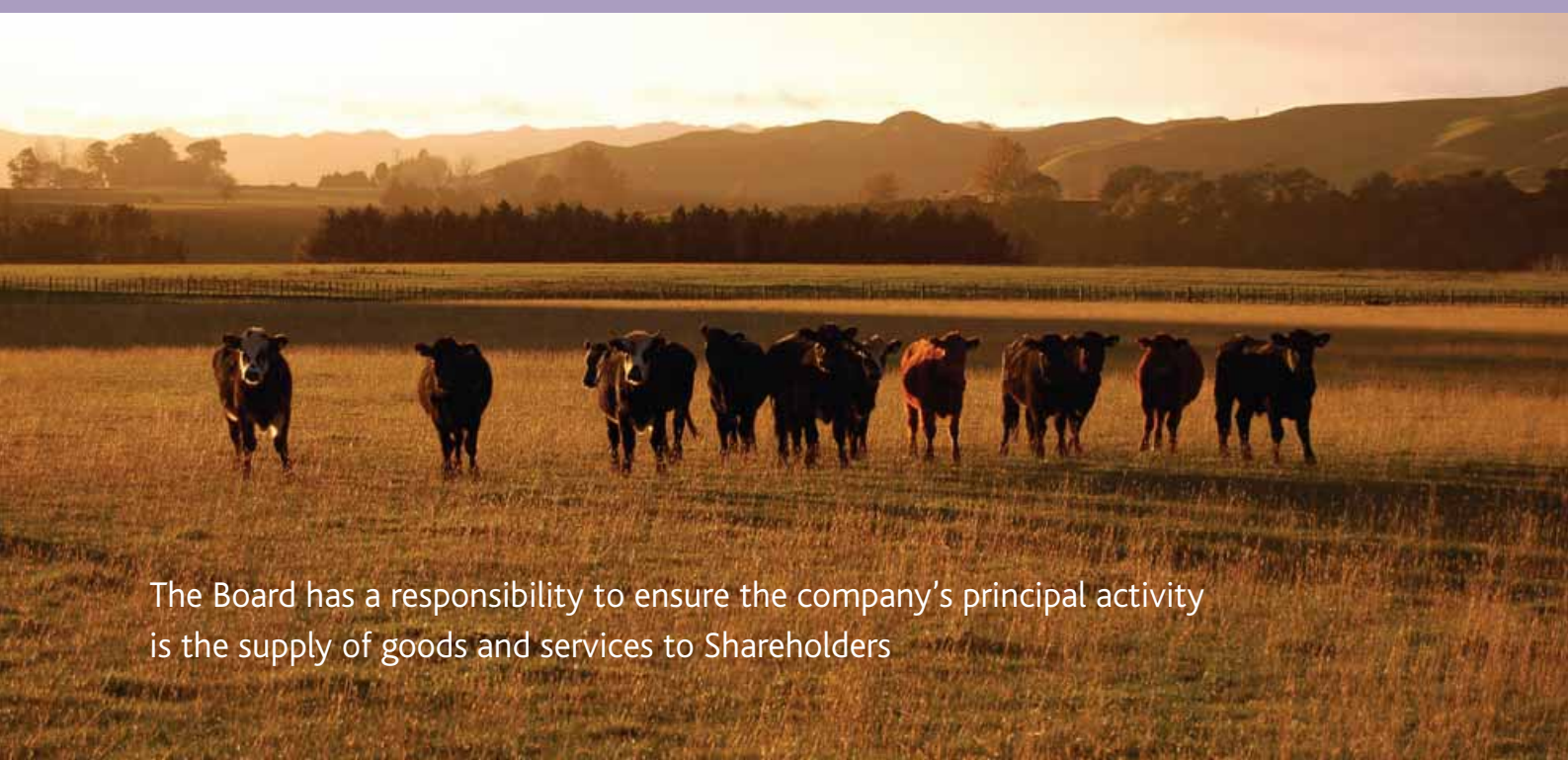
The company is committed to the following co-operative principles:

- ▲ 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;
- ▲ Products and services which benefit shareholders and which otherwise might not be made available, are developed and made available to shareholders, provided that the company receives a commercial return, and
- ▲ Shareholders co-operate with the Company and each other including the sharing of information to promote their common interests.

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:

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



The Board has a responsibility to ensure the company's principal activity is the supply of goods and services to Shareholders

Board composition

The Board is comprised of seven Elected Directors representing four regions and up to three Independent Directors. Elected Directors hold office for a period of four years and Independent Directors for up to three years. A retiring Director is eligible for re-election as a Director of the Company.

Re-election

The Director representing region one (Murray Jagger) retired by rotation in 2007 and being eligible stood for re-election. There being no further nominations, Mr Jagger was re-elected unopposed. Mr Jay Waldvogel, an Independent Director, retired by rotation and was reappointed by shareholders at the 2006 Annual Meeting.

Committees

The Board uses committees to facilitate effective decision making. All committees are comprised of Directors only.

Audit Finance and Risk Committee

A sub-committee of the Board, the Audit Finance and Risk Committee ensures the company complies with its audit, financial and risk management responsibilities. Five Directors are on the Committee which is chaired by Independent Director, Mr Graham Fraser.

The Audit Committee meets at least five times a year with the external Auditors and Executive.

Remuneration and Executive Appointment Committee

A sub-committee of the Board comprising four Directors and chaired by Independent Director, Mr Phil Lough, the committee approves 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 Co-operative's employees.

Shareholder Committee

A sub-committee of the Board comprised of four directors and chaired by Mr Murray Jagger, the Shareholder Committee's role includes ensuring the company has an appropriate constitution, representation and share structure.

Meetings

The Board met nine times in 2006/07.

Insider trading

All Directors of the Co-operative 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.

Shareholding

Co-operative Control Shares

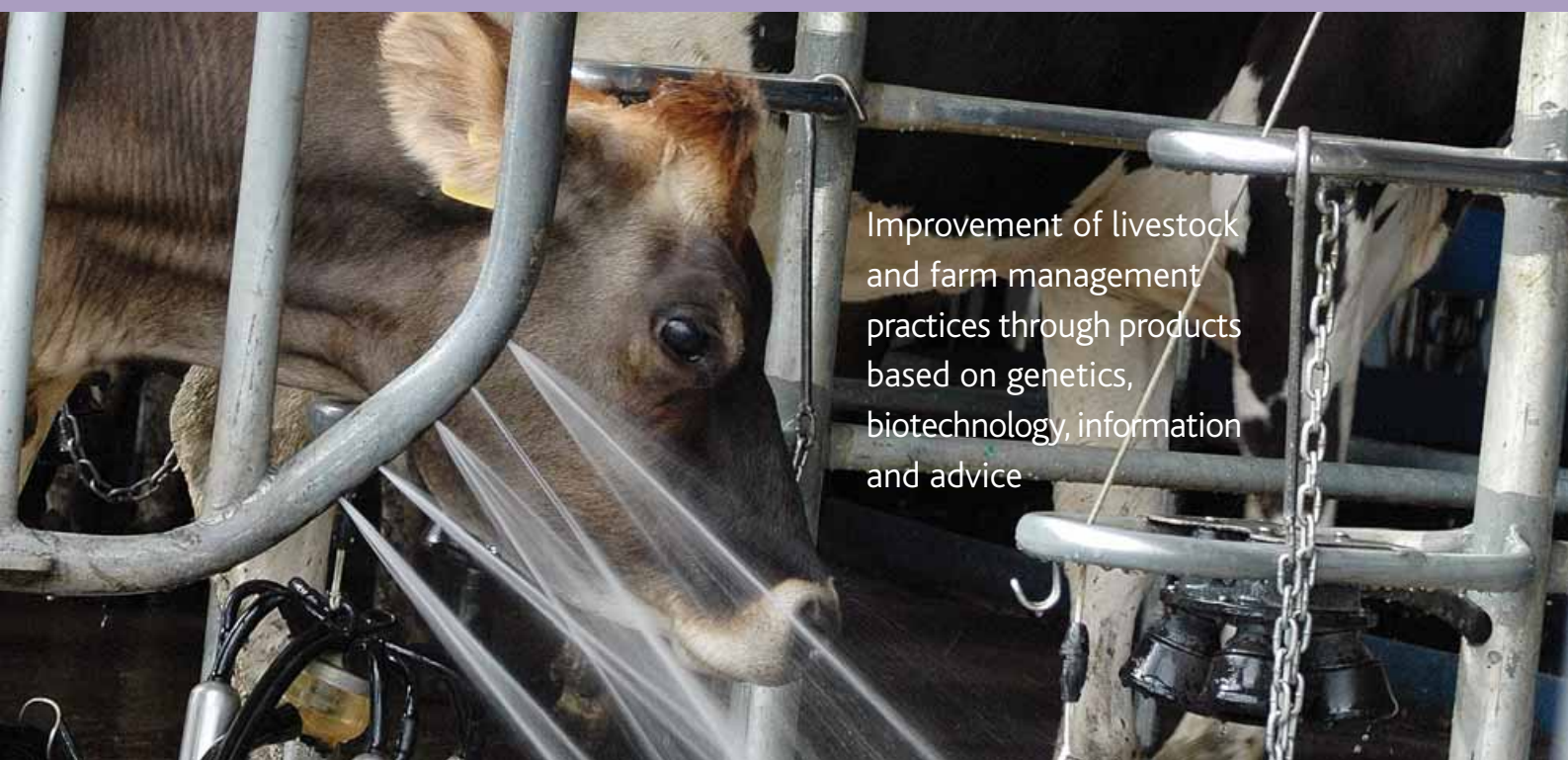
An Elected Director shall hold the minimum Co-operative Control Share holding requirement.

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 48 of the report.



Improvement of livestock and farm management practices through products based on genetics, biotechnology, information and advice

LIC Board

Left to right: John Lynskey, Jay Waldvogel, Alvin Reid, Bryan Guy, Stuart Bay, Kevin Straight, Murray Jagger, Ted Coats, Graham Fraser. Absent: Phil Lough



LIC Board 2006/2007

Farmer Directors

Stuart Bruce Bay, (Chairman) B.AgSc (Hons) Massey. Certificate in Company Direction

Dairy farmer/Director

370 ha milking 1400 Jersey and KiwiCross cows at Manawaru in the Eastern Waikato

LIC Director 1989. Deputy Chairman in 1996 and Chairman in 2004

Current directorships include:

- ▲ Baylea Farms Ltd
- ▲ Farming Trusts

Peter John Lynskey (known as John)

Dairy Farmer

560ha milking 1800 Friesian, Jersey and Crossbred cows at Oeo in South Taranaki

Director of LIC since 1993

Current directorships include:

- ▲ New Zealand Animal Evaluation Ltd
- ▲ Maola Land Company
- ▲ Maolla Properties Ltd

Murray Ernest Jagger, Dip.Ag Massey, Kellogg Rural Leadership (2002), Certificate in Company Direction

Dairy farmer

200ha milking 550 Jersey cows at Whangarei. 180ha beef

Director of LIC since 2000 and Director of Deer Improvement until 11 October 2006

Current directorships include:

- ▲ Manaia View Farms Ltd

Bryan Robert Guy, Kellogg Rural Leadership (1990), Executive

Dairy farmer

Development Programme for Primary Producers (Queensland).

370ha milking 650 Friesian cows at Feilding

Director of LIC since 1994

Current directorships include:

- ▲ Byreburn Ltd (family farming business)

Edward George Coats, Kellogg Rural Leadership (1994)

Dairy farmer

333ha milking 470 Friesian/Jersey cross cows at Okoroire in the Waikato

Director of LIC since 1996

Current directorships include:

- ▲ Family farming company
- ▲ Dairy InSight
- ▲ New Zealand Animal Evaluation Ltd

Alvin John Reid, Dip.Ag (Massey)

Dairy farmer

Farming in South Canterbury on four dairy units totalling 575ha milking platform milking 2500 dairy cows, with further interests in dairy operations in Otago and Southland

Director of LIC since 1998

Current directorships include:

- ▲ AJ & JG Reid Ltd
- ▲ Reid Partnership Ltd
- ▲ Ohape Milkers Ltd
- ▲ Riverholme Agriculture Ltd
- ▲ Accord Dairies Ltd
- ▲ Acerna Pastures Ltd
- ▲ Conical Hill Dairy Ltd (including five fully owned subsidiary companies)
- ▲ Dexcel Ltd and Dexcel Holdings Ltd
- ▲ Kakahu Irrigation Ltd
- ▲ Opuha Water Partnership Ltd
- ▲ WA Systems (2003) Ltd & WA Systems Ltd
- ▲ Hi Tech Foods Ltd

Kevin Dennis Straight

Dairy farmer

Director of LIC since 2004

- ▲ 250ha milking 800 crossbred cows
- ▲ 230ha drystock at Canvastown, Marlborough
- ▲ 130ha radiata pine forestry

Independent Directors

Graham Alexander Fraser, B.Com

Rotorua

Former dairy farmer and Chairman of New Zealand Dairy Board, Graham has held a number of Chairmanship positions including Glencoal Energy Ltd, Anchor Superannuation, Anchor Investments, New Zealand Dairy Research Institute and the Audit Committee of the New Zealand Dairy Board. Director of Deer Improvement until October 2006

Current directorships include:

- ▲ Skellerup Industries Ltd
- ▲ Deputy Chairman, AgResearch
- ▲ Chairman, Pastoral 21

Philip (Phil) Vernon Lough

Nelson

Phil Lough is a former Deputy CEO of the New Zealand Dairy Board and CEO of the Sealord Group, a leading global seafood business. He now operates as a professional director

Current directorships include:

- ▲ New Zealand Trade and Enterprise
- ▲ Port Nelson
- ▲ Tatua Co-operative Dairy Company
- ▲ Methven Group
- ▲ Dairy Equities

Jay Scott Waldvogel

Wisconsin, USA

- ▲ Extensive background in the international dairy industry
- ▲ Held a number of senior management positions in the United States, Europe and New Zealand, including Chief Operating Officer with Fonterra in New Zealand
- ▲ Currently serving as an advisor to global businesses on strategy and leadership development including a role as Senior Vice President, Strategy and International Business, for US Dairy Co-operative Dairy Farmers of America
- ▲ Actively involved in agriculture

Leadership Team

*Left to right: **Peter Gatley**, General Manager Genetics, **Gordon Lewis**, General Manager Transformation and Excellence, **Megan Douglas**, General Manager Human Resources, **Mark Dewdney**, Chief Executive, **David Hemara**, General Manager Strategy and Growth, **Janie Elrick**, Chief Financial Officer, **Jock Richardson**, General Manager Sales and Marketing, **Andrew Fear**, General Manager Field Operations*



Shareholder Council



Ward 1: Far North
Don Blumhardt

844 One Tree Point Road , RD 1,
Ruakaka 0171
Ph/Fax: 09 423 0468
Mobile: 0274 860 846



Ward 2: Dargaville/Warkworth
Robert Slack

R D 2, Waiuku 2682
Phone: 09 235 2764
Email: rcslack@ihug.co.nz



Ward 3: South Auckland
Ian Storey

129 Mangatea Road, RD 4, Ohinewai 3748
Phone: 07 824 4141
Fax: 07 824 4140
Mobile: 027 482 6494
Email: ianstorey@xtra.co.nz



Ward 4: Hauraki Plains/Coromandel
Jenny Morrison

27 Morrison Road, RD,
Hikuai 3579
Ph/Fax: 07 864 7861
Email: hikuai.valley@paradise.net.nz



Ward 5: West Waikato/Waipā
Gary Stokes

10 Law Road, RD 1, Hamilton 3281
Phone: 07 824 3604
Fax: 07 824 3601
Mobile: 021 351 112
Email: g.stokes@xtra.c.nz



Ward 6: East Waikato
Peter Le Heron

884 Horrell Road, RD 4, Morrinsville 3374
Phone: 07 887 2618
Fax: 07 887 2619
Mobile: 027 492 2958
Email: pete.LeH@xtra.co.nz



Ward 7: South Waikato
Wayne Berry

6 Wilton Road, RD 4,
Morrinsville 3374
Ph/Fax: 07 889 6191
Mobile: 027 280 1444
Email: wt.shg.berry@xtra.co.nz



Ward 8: King Country
Jeanette Quin

157 Adam Road. RD 7,
Te Awamutu 3577
Ph/Fax: 07 872 7978
Email: djquin@xtra.co.nz



Ward 9: Central Plateau
Brian Aspin

506 Paerata Road, RD 1,
Atiamuri 3076
Phone: 07 333 9386
Fax: 07 333 9068
Mobile: 027 442 9566
Email: theaspins@xtra.co.nz



Ward 10: Bay of Plenty/East Coast
John Scrimgeour

466 Bush Road, RD 6,
Te Puke 3071
Ph/Fax: 07 533 3681
Email: jscrim@xtra.co.nz



Ward 11: North Taranaki
Gordon Glentworth

Eltham Road, RD 29,
Kaponga 4850
Ph/Fax: 06 764 6704
Email: Glentworth@xtra.co.nz

Ward 12: Coastal Taranaki
Vacancy

**Ward 13: South Taranaki****Neil Barnes**

675 Mangorei Road, RD 1,
New Plymouth 4621
Ph/Fax: 06 758 7947
Mobile: 027 461 9724
Email: megz_neil@hotmail.com

**Ward 20: Otago/North Southland****Hamish Anderson**

Rotoiti, Main Road, Stirling
Phone: 03 418 2806
Fax: 03 418 2803
Mobile: 027 438 5590
Email: hamdor@xtra.co.nz

**Ward 14: Manawatu/Rangitikei****Christine Finnigan**

445 Milner Road, RD 3,
Palmerston North 4473
Ph/Fax: 06 329 7822
Mobile: 027 230 5032
Email: cfinnigan@xtra.co.nz

**Ward 21: Southland****Lloyd McCallum**

1100 Wilsons Crossing, No 1 RD,
Winton 9781
Ph/Fax: 03 221 7297
Mobile: 027 268 4832
Email: Lloyd.Kathy@xtra.co.nz

Ward 15: Hawkes Bay/Wairarapa*Vacancy***Ward 16: Tasman/Marlborough****Ken Polglase**

208 Bartletts Road. RD 1,
Richmond, Nelson 7031
Ph/Fax: 03 544 6833
Email: polka@tasman.net

**Ward 17: West Coast****Ron Monk**

Kokotahi, Kaniere, RD ,
Hokitika 7031
Ph/Fax: 03 755 6043
Email: hawthorn4grove@xtra.co.nz

**Ward 18: Canterbury****Murray King**

Appleby, RD 1, Nelson 7031
Phone: 03 544 8465
Fax: 03 544 2409
Mobile: 021 684 901
Email: Kingsway@ts.co.nz

**Ward 19: South Canterbury/
North Otago****John Van Polanen**

RD 6, Ashburton 7776
Phone: 03 302 4878
Fax: 03 302 4874
Mobile: 027 440 7036
Email: jvanp@xtra.co.nz

Ward boundaries for Councillors



Financial Report

Improving, growing

Statement of Financial Performance

for the year ended 31 May 2007

	<i>Note</i>	<i>Consolidated</i>		<i>Parent</i>	
		<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Total operating revenue	1	118,321	110,471	108,638	102,086
Total operating expenses	2	(108,767)	(102,899)	(98,461)	(91,565)
Operating surplus before income tax		9,554	7,572	10,177	10,521
Income Tax	3	–	–	–	–
Net Surplus After Tax for the year		9,554	7,572	10,177	10,521

Statement of Movements in Equity

for the year ended 31 May 2007

	<i>Note</i>	<i>Consolidated</i>		<i>Parent</i>	
		<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Total recognised revenues and expenses					
Net surplus for the year		9,554	7,572	10,177	10,521
Translation difference		46	(46)	–	–
		9,600	7,526	10,177	10,521
Contributions from owners					
Shares issued		639	688	639	688
		639	688	639	688
Distributions to owners					
Dividends Paid		(7,829)	(6,361)	(7,829)	(6,361)
Repurchase of shares		(445)	(390)	(445)	(390)
		(8,274)	(6,751)	(8,274)	(6,751)
Movements in equity for the period		1,965	1,463	2,542	4,458
Equity at beginning of year		96,697	95,234	101,687	97,229
Equity at end of year		98,662	96,697	104,229	101,687



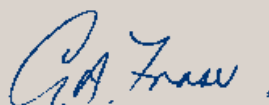
Statement of Financial Position

as at 31 May 2007

	<i>Note</i>	<i>Consolidated</i>		<i>Parent</i>	
		<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Current Assets					
Cash balances		6,231	19,206	5,300	18,819
Intra-group receivables		–	–	6,670	8,796
Trade receivables		12,471	14,454	9,055	9,023
Inventories	4	6,431	6,625	4,454	4,006
Other current assets		573	1,009	573	988
		25,706	41,294	26,052	41,632
Non-current Assets					
Investments	5	13,675	56	20,497	6,634
Bulls and database		22,500	22,500	22,500	22,500
Fixed assets	6	50,867	49,562	44,863	43,575
Goodwill	7	1,114	1,265	–	–
Development costs	8	2,420	1,431	2,405	1,416
Intragroup loans		–	–	4,698	3,591
Loans		–	36	–	36
		90,576	74,850	94,963	77,752
Total Assets		116,282	116,144	121,015	119,384
Current Liabilities					
Intra-group payables		–	–	577	206
Trade payables		9,070	11,553	8,910	10,154
Provisions	9	4,185	3,380	3,336	3,176
Prepaid receivables		–	238	–	238
		13,255	15,171	12,823	13,774
Non-current Liabilities					
Provisions	9	4,365	4,258	3,963	3,923
Other non-current liabilities		–	18	–	–
		4,365	4,276	3,963	3,923
Total Liabilities		17,620	19,447	16,786	17,697
Net Assets		98,662	96,697	104,229	101,687
Equity	10	98,662	96,697	104,229	101,687



STUART BAY / DIRECTOR / 12 July 2007



GRAHAM FRASER / DIRECTOR / 12 July 2007



STATEMENT OF CASH FLOWS

for the year ended 31 May 2007

Note	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Net cash from/(used in) operating activities				
Cash provided from:				
Receipts from customers	119,819	106,175	106,431	95,511
Interest income received	1,226	1,755	1,599	1,969
	121,045	107,930	108,030	97,480
Cash applied to:				
Payments to suppliers and employees	(99,992)	(90,670)	(86,332)	(80,243)
Interest expense paid	(79)	(28)	(79)	(24)
Income tax paid	(77)	—	(77)	—
	(100,148)	(90,698)	(86,488)	(80,267)
	20,897	17,232	21,542	17,213
Net cash from/(used in) investing activities				
Cash provided from:				
Proceeds from sale of other non-current assets	376	865	257	677
Cash from acquisition of subsidiary	854	—	—	—
	1,230	865	257	677
Cash applied to:				
Acquisition of associate/shares/advances to subsidiaries	(15,609)	(1,847)	(16,413)	(6,758)
Acquisition of non-current assets	(11,859)	(16,096)	(11,271)	(10,560)
	(27,468)	(17,943)	(27,684)	(17,318)
	(26,238)	(17,078)	(27,427)	(16,641)
Net cash from/(used in) financing activities				
Cash provided from:				
Shares paid up	640	688	640	688
	640	688	640	688
Cash applied to:				
Repurchase of shares	(445)	(390)	(445)	(390)
Dividends paid to shareholders of the Group	(7,829)	(6,361)	(7,829)	(6,361)
	(8,274)	(6,751)	(8,274)	(6,751)
	(7,634)	(6,063)	(7,634)	(6,063)
Net increase (decrease) in cash balances	(12,975)	(5,909)	(13,519)	(5,491)
Cash balances at beginning of year	19,206	25,115	18,819	24,310
Cash balances at end of year	6,231	19,206	5,300	18,819



Statement of Accounting Policies

for the year ended 31 May 2007

(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: significant 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.

(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, except that livestock inventories (other than the breeding bulls) are stated at valuation. The financial statements have been prepared based on Livestock Improvement continuing as a going concern.

(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 - 7 years
Vehicles	5 years
Furniture and Fittings	5 years
Computers and Software	3 - 5 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 and are included at the cost attributed to the assets when acquired.

Breeding Bulls

It is the Parent's policy to maintain the pool of Breeding Bulls. 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

The Parent acquired the Livestock Improvement database as part of its acquisition of the net assets and operations of the then Livestock Improvement division of the New Zealand Dairy Board and the six Livestock Improvement Associations. Under the Dairy 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, specifically, 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 to market values.

(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

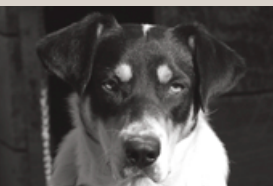
Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group's share of the net surplus/net deficit of associates is recognised as a component of operating revenue/expense in the Statement of Financial Performance, after adjusting 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.

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 five years.

Transactions Eliminated on Consolidation

The effects of intragroup 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 expensed 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 over the period of expected benefits, not exceeding five years. Amortisation begins at the time that commercial production commences. All other development expenditure is recognised in the Statement of Financial Performance as incurred.

(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, in particular Biotechnology Research is now included in total operating expenses.



Notes to the Financial Statements

for the year ended 31 May 2007

1. Operating Revenue

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Operating revenue comprises				
Related-party sales revenue	–	–	1,858	1,613
External sales revenue	117,192	108,530	105,277	98,646
Interest income	1,045	1,573	1,419	1,788
Net foreign exchange gain	–	342	–	39
Gain on disposal of fixed assets	84	26	84	–
Total Operating Revenue	118,321	110,471	108,638	102,086

The unrealised gain arising from the revaluation of livestock is \$0.097 million for the Group, nil for the Parent (2006: \$0.833 million Group; nil Parent).



2. Operating Expenses

		Consolidated		Parent	
	Note	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Operating expenses include:					
Interest expense		79	28	79	24
Equity accounted losses of associates		–	23	–	–
Depreciation of fixed assets:					
Buildings	6	600	563	536	533
Plant and Equipment		1,634	3,201	1,465	2,960
Furniture and Fittings		118	128	103	125
Vehicles		1,527	1,377	1,283	1,250
Computers and Software		4,027	4,430	3,982	4,397
Amortisation of development costs	8	183	71	183	71
Amortisation of goodwill	7	407	321	–	–
Impairment of goodwill		559	571	–	–
Impairment of investment in subsidiaries/ inter-company advances		–	–	4,963	–
Amounts incurred and expensed for Research		7,222	6,357	3,969	5,094
Doubtful debts:					
Written off		19	177	15	47
Increase/(decrease) in provision		168	217	–	–
Increase/(decrease) in provisions:					
Employee Entitlements	9	625	156	(20)	134
Operating lease expenses		1,071	816	537	508
Net foreign exchange loss		679	–	372	–
Loss on disposal of fixed assets		90	–	–	10
Employee remuneration:					
Fees to Directors		442	485	432	475
Fees to National Councillors		76	84	76	84
Staff Salaries and Wages		47,239	44,298	42,735	40,654
Auditors' remuneration:					
KPMG – audit services		82	80	82	80
– other services		108	94	108	94
Clifford Fry & Co – audit services		8	8	–	–
FDC & Associates – audit services		8	7	–	–

This analysis involves disclosure items as required by accounting standards and does not represent a comprehensive listing of all expenses.



3. Taxation

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
(a) Income Tax Expense				
Operating surplus prior to income tax	9,554	7,572	10,177	10,521
Permanent differences:				
Deductions arising from change in tax status	(1,374)	(1,520)	(1,374)	(1,520)
Other	1,611	1,933	(2,625)	1,199
Tax losses from prior years	(11,747)	(12,318)	(7,276)	(11,965)
Timing differences not recognised	(85)	2,340	(204)	1,765
Tax loss not recognised	2,041	1,993	1,302	0
	(9,554)	(7,572)	(10,177)	(10,521)
Taxable income	–	–	–	–
Tax expense @ 33%	–	–	–	–
Income tax over provided in prior year	–	–	–	–
Total income tax expense:				
Current taxation	–	–	–	–
Deferred taxation	–	–	–	–
(b) Imputation Credits				
Balance at beginning of year	–	–	–	–
Income tax paid	–	–	77	–
Balance at end of year	–	–	77	–
The imputation credits are available to shareholders of the parent:				
Through the parent	77	–	–	–
Through the subsidiaries	495	98	–	–
(c) Tax Losses				
Unrecognised tax losses available for offset against future assessable income:				
Tax losses	2,196	11,902	1,302	7,276
Tax saving thereon	724	3,928	429	2,401

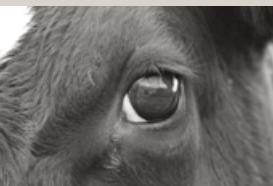
A future tax saving will also arise over approximately three years from the ability to depreciate certain fixed assets from a higher cost or book value for tax purposes than applies for accounting purposes. The associated contingent tax benefit has reduced the current year's tax by \$0.453 million (2006: \$0.501 million) and the balance, which has not been recognised in the financial statements, is \$0.951 million (2006: \$1.539 million).

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

(d) Deferred Tax

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Deferred tax asset not recognised	475	506	184	251

Outstanding timing differences arising in respect of the current and prior periods are not recognised due to the existence of tax losses.



4. Inventories

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Semen	1,439	1,271	1,432	1,375
Livestock	1,806	2,784	366	445
Equipment	2,913	2,258	2,656	2,186
Other	273	312	–	–
	6,431	6,625	4,454	4,006

Semen stock projected to be sold, in the next financial year is assumed to be fully useable, and has therefore been valued at cost. All other semen stock has been included at nil realisable value.

5. Investments

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Non-current investments				
Shares in listed companies	3	3	3	3
Shares in unlisted companies	13,672	53	13,670	53
Investments in subsidiaries	–	–	6,824	6,578
Investment in associates	–	–	–	–
	13,675	56	20,497	6,634

The market value of shares in listed companies at balance date is \$ 0.003 million (2006: \$0.002 million).

	<i>Consolidated</i>	
	<i>2007</i>	<i>2006</i>
	<i>\$'000</i>	<i>\$'000</i>
(a) Carrying amount of associates		
Carrying amount at beginning of year	–	163
Full acquisition of associate	–	(140)
Share of total recognised revenues and expenses	–	(23)
Equity accounted value of investment	–	–
(b) Included within the above carrying value is goodwill relating to investment in associate		
Goodwill arising on acquisition of associate	–	271
Accumulated amortisation	–	(271)
Net carrying amount	–	–
(c) Results of associates		
Equity accounted earnings comprise:		
Share of surplus (loss) before income tax	–	(5)
Income tax	–	–
Share of net surplus (loss)	–	(5)
Amortisation of goodwill	–	(18)
Total recognised revenues and expenses	–	(23)

In the prior period the Group has equity accounted the unaudited result of New Zealand Genetics (IRL) Limited for the seven months prior to full acquisition.



(d) Acquisition of Paul Shewan & Co Pty Ltd

On 1 February 2007 Livestock Improvement Pty Ltd acquired Paul Shewan & Co Pty Ltd trading as Northern Feed Systems, a company manufacturing automatic feeds systems in Australia. The contribution to the consolidated net surplus for the period 1 February 2007 to 31 May 2007 was \$69,521.

The acquisition was accounted for using the purchase method with the resulting goodwill being amortised in accordance with the Group's policy.

The acquisition had the following effect on the consolidated financial position at acquisition.

	2007 \$'000
Current Assets	
Receivables	313
Other current assets	1,078
	1,391
Non Current Assets	
Fixed Assets	95
	1,486
Current Liabilities	
Other current liabilities	142
	142
Net Assets	1,344
Net assets acquired	1,344
Purchase Consideration	2,159
Goodwill arising on acquisition	815

6. Fixed Assets

	<i>Consolidated</i>		<i>Parent</i>	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Land				
At cost	12,178	12,178	8,786	8,786
Buildings				
At cost	22,128	21,773	21,110	21,014
Accumulated depreciation	(6,108)	(5,528)	(6,045)	(5,512)
	16,020	16,245	15,065	15,502
Plant and Equipment				
At cost	26,748	27,688	25,031	26,536
Accumulated depreciation	(20,480)	(21,308)	(19,582)	(20,779)
	6,268	6,380	5,449	5,757
Furniture and Fittings				
At cost	2,151	2,054	1,994	1,949
Accumulated depreciation	(1,945)	(1,813)	(1,857)	(1,767)
	206	241	137	182
Vehicles				
At cost	10,913	10,480	9,978	9,260
Accumulated depreciation	(6,990)	(6,707)	(6,634)	(6,364)
	3,923	3,773	3,344	2,896
Computers and Software				
At cost	32,322	27,912	31,964	27,500
Accumulated depreciation	(20,050)	(17,167)	(19,882)	(17,048)
	12,272	10,745	12,082	10,452
Total net carrying amount	50,867	49,562	44,863	43,575

In June 2006 land and buildings were independently valued at \$46.7 million.



7. Goodwill

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Balance at beginning of year	1,265	381	–	–
Arising on acquisition	815	1,776	–	–
Amortised	(407)	(321)	–	–
Impaired	(559)	(571)	–	–
Balance at end of year	1,114	1,265	–	–

8. Development Costs

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Balance at beginning of year	1,431	183	1,416	171
Costs capitalised	1,172	1,319	1,172	1,316
Amortisation	(183)	(71)	(183)	(71)
Balance at end of year	2,420	1,431	2,405	1,416

Development costs arise principally from the Group's activities in developing software for the business.

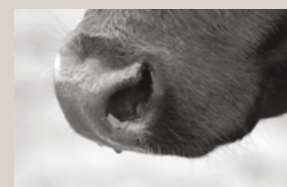
9. Provisions

	<i>Note</i>	<i>Consolidated</i>		<i>Parent</i>	
		<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Current					
Employee Entitlements	9(a)	2,924	2,172	2,075	1,968
Sire Proving Rebates	9(b)	1,261	1,208	1,261	1,208
		4,185	3,380	3,336	3,176
Non Current					
Employee Entitlements	9(a)	1,019	1,146	1,019	1,146
Sire Proving Rebates	9(b)	3,346	3,112	2,944	2,777
		4,365	4,258	3,963	3,923

(a) Provision for Employee Entitlements

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Balance at beginning of year	3,318	3,161	3,114	2,980
Additional provision made	3,276	2,856	2,587	2,630
Amount utilised	(2,651)	(2,699)	(2,607)	(2,496)
Balance at end of year	3,943	3,318	3,094	3,114
Current	2,924	2,172	2,075	1,968
Non-current	1,019	1,146	1,019	1,146

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.



(b) Provision for Sire Proving Rebates

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Balance at beginning of year	4,320	4,108	3,985	3,797
Additional provision made	1,821	1,695	1,671	1,671
Amount utilised	(1,534)	(1,483)	(1,451)	(1,483)
Balance at end of year	4,607	4,320	4,205	3,985
Current	1,261	1,208	1,261	1,208
Non-current	3,346	3,112	2,944	2,777

The provision for sire proving rebates relates to the 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 three years.

10. Capital

The Parent had 3,472,966 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. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution.

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 subdivision of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004. The Constitution prescribes the minimum and maximum shareholding limits for Investment Shares and the requirement that all Shareholders must sell their total holding of Investment Shares within two years of ceasing to be a Co-operative Control Shareholder.

Earnings per Share

Earnings per Investment Share, after allowing for Co-operative Share dividends, equated to 31.2 cents (2006: 24.7 cents).

11. Net Cashflow 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.

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Net surplus for the year	9,554	7,572	10,177	10,521
Items classified as investing/financing activities	708	(26)	1,184	10
Non-cash items				
Depreciation/Amortisation	8,089	9,770	7,552	9,336
Equity accounted losses	–	5	–	–
Goodwill amortised	966	892	–	–
Impairment of investment in subsidiaries / inter-company advances	–	–	4,963	–
Movement in working capital				
(Increase)/decrease in inventories	194	(1,030)	(448)	574
Decrease/(increase) in other receivables	2,473	(1,986)	(345)	(4,949)
(Decrease)/increase in other payables	(1,087)	2,035	(1,541)	1,721
Net cash from/(used by) operating activities	20,897	17,232	21,542	17,213



12. Foreign Currency Translation Reserve

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Balance at beginning of year	(14)	32	–	–
Difference arising on translation of independent foreign operations	46	(46)	–	–
Balance at end of year	32	(14)	–	–

13. Operating Lease Commitments

The Group has the following future operating lease commitments:

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	425	834	425	418
Later than one year but not later than two years	370	586	370	341
Later than two years but not later than five years	790	856	790	809
Later than five years	220	432	220	432
	1,805	2,708	1,805	2,000

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 90% of all existing net foreign currency exposures more than three months out. The Group hedges its net exposures by using forward exchange contracts. At balance date the Group had the following unhedged currency exposure arising on foreign currency monetary assets that fall due within the next 12 months.

	<i>Consolidated</i>		<i>Parent</i>	
	<i>2007 \$'000</i>	<i>2006 \$'000</i>	<i>2007 \$'000</i>	<i>2006 \$'000</i>
Trade Debtors				
US Dollars (USD)	849	1,056	–	–
Australian Dollars (AUD)	–	93	–	–
Cash Balances				
US Dollars (USD)	192	159	192	85
Great Britain Pounds (GBP)	369	21	83	21
Australian Dollars (AUD)	574	8	356	8
Euros (EUR)	406	178	399	178



(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 \$6.2 million is deposited with Westpac (2006: \$11.2 million Westpac, \$5 million Kiwibank and \$3 million ASB). 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 payable under forward exchange contracts is \$1.822 million (2006: \$1.367 million), there is an option for \$US 0.523 million at a strike rate of 0.6925 expiring on 15 February 2008. As per last year there is no exposure to credit risk arising from amounts receivable under forward exchange contracts.

(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. All claims are contested and defended. No provision has been made in these financial statements, as directors do not expect that outcomes from current claims against the Company will have a material adverse affect on the Group's financial position.

16. Group Investments

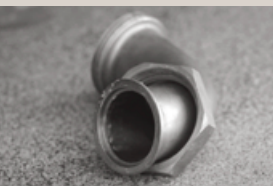
The Group has the following significant subsidiaries:

Name	Country of Incorporation	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2007 %	2006 %		
Subsidiaries						
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
Livestock Improvement Pty Ltd	Australia	Ordinary	100	100	31 May	Semen Sales
LIC Bovine Ltd	NZ	Ordinary	100	100	31 May	Research – non-trading
Animal Breeding Services Ltd	NZ	Ordinary	100	100	31 May	Reproductive Technologies
LIC Deer Ltd	NZ	Ordinary	100	100	31 May	Deer Artificial Breeding
New Zealand Genetics (IRL) Ltd	Ireland	Ordinary	100	100	31 May	Semen Sales
Paul Shewan & Co Pty Ltd (Trading as Northern Feed Systems)	Australia	Ordinary	100	–	31 May	Farm Automation Systems

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 and Other Commitments

Livestock Improvement has a capital commitment relating to the implementation of a new computer system of \$625k.

A Heads of Agreement was signed in February 2007 with Eurogene AI Services Ltd. A contract for 15% ownership in Eurogene AI Services Ltd is expected to be signed in August 2007. Eurogene AI Services Ltd has been granted the distribution rights for LIC products in Ireland in exchange for 15% of the shares in Eurogene AI Services (Ire) Limited.

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 transaction

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 and arms length basis.

20. Events after Balance Date

On 11 July 2007 the directors declared a final dividend of 15 cents per investment share and 10 cents per share for Co-operative shares, which along with the interim dividend, represented 81% of the operating surplus. The Record Date for dividend payment is 27 July and payment (on both Co-operative Control and Investment Shares) will be made on 31 July 2007.

A contract was signed in June 2007 for the sale of Animal Breeding Services' assets and the transfer of some staff to Animal Breeding Services (2007) Ltd.

21. Adoption of International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ('NZ IFRS') will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

Livestock Improvement Corporation Limited intends to implement NZ IFRS in its annual financial statements for the year ending 31 May 2008.

Transition Management

Livestock Improvement Corporation Limited has started a project to:

- assess the key differences in accounting policies under NZ IFRS and current accounting policies;
- determine the impacts on the financial statements from transition; and
- determine and implement processes to deal with any related business impact

Change in accounting policies on transition to NZ IFRS

Significant differences identified by Livestock Improvement are outlined below. It should not be regarded as a complete list of changes in accounting policies that will result from the transition to NZ IFRS, as some decisions have not yet been finalised where choices of accounting policies are available.

Livestock Improvement has not yet completed an exercise to quantify the effects of the differences in accounting policies discussed below, and is therefore currently unable to reliably quantify impacts on the financial statements, which will arise from transitioning to NZ IFRS. It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

(a) Bulls and Database

Currently Livestock Improvement's bull team and database are recognised at the cost attributed to these assets when acquired. No defined economic life is assigned, and they are not amortised.

Under NZ IFRS, agricultural assets are required to be recognised at fair value, which, for the bull team (since there is no ready market) will involve an assessment of its revenue earning capacity. Changes in fair value will be taken to the income statement. It is proposed to treat the database as a finite-life intangible asset, amortised over its assigned life.



(b) Semen Inventories

Currently Livestock Improvement values frozen semen stocks, projected to be sold in the subsequent financial year, at cost, being the direct cost of production. Under NZ IFRS, the cost of harvested agricultural assets is deemed to be its fair value at the date of harvest.

(c) Co-operative Shares

Currently Livestock Improvement's co-operative shareholding is treated as part of its equity (capital). Under NZ IFRS, 'puttable instruments' which give the holder redemption rights, must be classified as a financial liability.

(d) Long Service Leave

Livestock Improvement permanent employees become entitled to special additional holidays after 15, 25 and 35 years of unbroken service. Currently, long service leave is recognised when the conditions for its granting have been met. Under NZ IFRS, it must be accrued on an actuarial basis and a new provision created.

(e) ACC Self-Insurance

Livestock Improvement is a member of the ACC Partnership Programme, under which it assumes part of the liability to an employee for rehabilitation and/or compensation. Currently, this liability is not recognised. Under NZ IFRS, an outstanding claims liability will need to be calculated and recognised.

(f) Goodwill

Currently goodwill is amortised on a straight-line basis over the period during which the benefits are expected to be received, up to 5 years. Under NZ IFRS, goodwill is no longer amortised, but is instead tested for impairment. Goodwill will be allocated to the cash-generating unit (CGU) to which it relates and tested for impairment annually. Impairment losses will be recognised in the income statement.

(g) Deferred Taxation

On transition to NZ IFRS deferred tax is provided using the balance sheet approach rather than the income statement approach currently applied. The balance sheet approach provides for all temporary differences between the carrying amount of assets and liabilities for accounting and tax purposes. Deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity or as part of a business combination. Currently, future tax benefits are not recognised unless realisation of the asset is virtually certain. Under NZ IFRS, a deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(h) Financial Instruments

Accounting for financial instruments under NZ IFRS involves some major changes from our current policies. All derivative contracts will be carried at fair value on Livestock Improvement's balance sheet.

If a derivative contract qualifies for cash flow hedge accounting, the effective portion of the fair value movement will be taken to a reserve within equity. All other changes in fair value are recognised immediately in the income statement.

(i) Investments in Shares

Currently investments in shares are recorded at cost. Investments in shares held for trading are to be classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. Investments in shares that are not held for trading are to be classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

Other impacts on Transition to NZ IFRS

NZ IFRS 1 also allows a number of exemptions to assist in the transition to reporting under NZ IFRS. The explanatory comments below include details of the NZIFRS 1 exemptions Livestock Improvement intends to adopt.

(a) Foreign Currency Translation Reserve

Livestock Improvement intends to deem the cumulative translation differences for all foreign operations to be zero as at 1 June 2006 and thus eliminate the foreign currency translation reserve.

(b) Property

Livestock Improvement intends to deem the fair value of items of property as their cost as at 1 June 2006. It is not proposed to revalue these assets on an ongoing basis.





Audit report

To the shareholders of Livestock Improvement Corporation Limited

We have audited the financial statements on pages 30 to 46. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2007. This information is stated in accordance with the accounting policies set out on pages 33 to 35.

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 2007 and the results of their operations and cash flows for the year ended on that date.

Auditor's 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 judgments 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 and general accounting 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

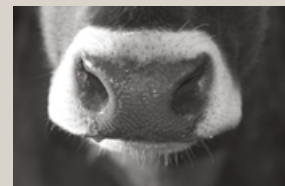
We have obtained all the information and explanations we have required.

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 30 to 46:
 - 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 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 12 July 2007 and our unqualified opinion is expressed as at that date.

Hamilton



Statutory Information

for the year ended 31 May 2007

Activities

The Parent 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 Livestock Improvement Database, and the execution of research relating to dairy herd improvement.

The activities of subsidiaries are described in the Directors and Chief Executive's reports.

Directors and Remuneration

Directors of the Parent received the following remuneration:

	Fees \$000
S B Bay	89
E G Coats	37
B R Guy	37
M E Jagger	37
P J Lynskey	37
A J Reid	37
K D Straight	37
G A Fraser	42
P V Lough	42
J S Waldvogel	37
	<hr/> 432
Directors of LIC Deer Limited were paid the following fees:	
G A Fraser	5
A F Porter	5
	<hr/> 10
Group Total	<hr/> 442 <hr/>

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:

Participation in the Companies Contract Mating scheme could lead to the potential sale of bull calves in the 2007/08 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
S Bay	1	\$2,500
B Guy	1	\$2,500

Directorships and Memberships

S Bay: Director of Dairy 21.

E Coats: Director of New Zealand Animal Evaluation Limited, Dairy InSight Incorporated, and a member of the Animal Identification and Traceability Governance Group.

M Dewdney: Director of Tru-Test Limited.

G Fraser: Director of Skellerup Holdings; Ag Research; Dairy 21; and is Chair of the transition Group implementing the recommendations of the Dairy Industry Good review.

P Lough: Director of Tatua Dairy Company Limited, NZ Trade and Enterprise, Dairy Equity Limited and SMI Limited.

P J Lynskey: Director of New Zealand Animal Evaluation Limited.

A Reid: Director of Dexcel Holdings Limited, Dexcel Limited, Hitech Foods Ltd, Opuha Water Partnership, SIDDC Board and WA Systems Limited.

All Elected Directors of the Company – are customers and Shareholders of Livestock Improvement Corporation Limited and purchase Products and Services for their farming activities on an ongoing basis.



(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 Livestock Improvement Corporation's products and services are holders of the following shares:

	2007		2006	
	<i>Co-operative Control Shares</i>	<i>Investment Shares</i>	<i>Co-operative Control Shares</i>	<i>Investment Shares</i>
S B Bay	1,555	46,650	1,751	30,000
E G Coats	522	4,970	587	4,970
B R Guy	2,004	10,050	1,135	10,050
M E Jagger	729	19,820	719	14,820
P J Lynskey	2,027	60,600	2,448	32,600
A J Reid	3,042	74,310	3,256	64,420
K D Straight	946	7,040	816	7,040

<i>Investment Shares</i>			
<i>Director</i>	<i>Date</i>	<i>Purchased</i>	<i>Share Price</i>
S B Bay	Oct 06	16,650	1.78
M Jagger	Jul 06	5,000	1.66
P Lynskey	Aug 06	28,000	1.62
A J Reid	Oct 06	2,390	1.66
A J Reid	Oct 06	7,500	1.76

(c) Loans to Directors of the Parent and its Subsidiaries

There have been no loans to Directors during the year.

(d) Directors' Indemnity and Insurance

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

(e) Use of Company's Information

There were no notices from Directors of the Company requesting to use Company Information received in their capacity as Directors which would not otherwise have been available to them.

Executive Employees' Remuneration

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

<i>Remuneration Range</i>	<i>Returning</i>	<i>Cessations</i>	<i>Total</i>
100,000 – 109,999	7	1	8
110,000 – 119,999	10	1	11
120,000 – 129,999	10	–	10
130,000 – 139,999	2	1	3
140,000 – 149,999	1	–	1
150,000 – 159,999	3	–	3
190,000 – 199,999	2	1	3
200,000 – 209,999	1	1	2
210,000 – 219,999	–	1	1
220,000 – 229,000	2	–	2
270,000 – 279,000	–	1	1
290,000 – 299,999	–	1	1
400,000 – 409,000	1	–	1



Total 39 8 47

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 11 July 2007.

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 2007.
- 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 31 May 2007

Twenty Largest Shareholders of Quoted Securities

	<i>Investment Shares held</i>
Peter John Lynskey, Carole Joyce Lynskey (Maolla Trust)	60,600
Allan Hubbard, Allan Pye, Andrew Turney (Balrath Farm Partnership)	47,882
Stuart Bruce Bay, Doris Beth Bay	46,650
South Hilton Ltd	43,070
Rakaia Island Dairies Ltd	40,580
Allan Hubbard, Christopher Stark (Deebury Ealing Ltd),	37,789
Timothy Pearce Watson, Wendy Jane Watson	34,820
Fenland Ltd	32,520
Kennedy Farms Ltd	29,940
Clarksfield Holdings 1996 Ltd	29,490
Allan Hubbard, Christopher Stark (Deebury Pastoral Maronan)	29,340
Koromatua Holdings Ltd	29,280
Westhaven Farms Ltd	28,800
Lichfield Lands Inc	27,330
Stonehaven Farms	26,280
Redpost Ltd	25,590
Shane Robert Carroll, Nicola Mary Shadbolt (Westview Farming Partnership)	25,430
D B Douglas Ltd	25,082
S & P Atkinson Farms Ltd	25,081
Willowbank Land Ltd	24,690

Size of Shareholding

<i>Holdings</i>	<i>Shareholders</i>	<i>Investment Shares Held</i>	<i>% of Total</i>
1–1,000	2,545	1,253,112	4.3
1,001–2,000	3,014	4,535,685	15.4
2,001–3,000	2,506	6,152,616	20.8
3,001–4,000	1,367	4,704,220	15.9
4,001–5,000	724	3,229,124	10.9
5,001–10,000	962	6,354,671	21.5
Over 10,000	212	3,299,162	11.2



Total	11,330	29,528,590	100
--------------	---------------	-------------------	------------

Credit Rating Status

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

Substantial Security Holders

No persons are substantial security holders of the Company as referred to in Section 26 of the Securities Act 1988.

Donations

The Company made no donations during the year ended 31 May 2007.

Non-Standard Listing

Livestock Improvement Corporation Limited 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 Livestock Improvement Corporation Limited; 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 capitalization 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.



Disclosure of Financial Assistance as required under the Companies Act 1993

1. **Dividend Reinvestment Plan:** Livestock Improvement has provided financial assistance to those shareholders who elect to participate in the Dividend Reinvestment Plan ("Dividend Plan") by agreeing to pay to the Guardian Trust Company of New Zealand Limited ("Guardian Trust") as the Approved Holding Entity the services and administration fees and brokerage and commission costs incurred for the purposes of the Dividend Plan. ABN AMRO Craigs Limited ("ABN AMRO") has been appointed as the Broker to purchase the Investment Shares on the NZAX market for the purposes of the Dividend Plan, and the moneys paid by Livestock Improvement to Guardian Trust as Approved Holding Entity will include the administration fee, brokerage and commission costs of ABN AMRO.

Livestock Improvement is required to make disclosures to all shareholders in respect of this financial assistance. The exact amount of the costs depends upon the extent to which shareholders participate in the Dividend Plan. However the total amount of costs in the next twelve months is estimated to be in the region of \$45000.

In relation to the financial assistance provided for the Dividend Plan, the Livestock Improvement Board resolved on 11 July 2007 that Livestock Improvement should provide the financial assistance referred to above ("Dividend Plan Financial Assistance"), and that the giving of the Dividend Plan Financial Assistance is in the best interest of Livestock Improvement and is of benefit to shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to Livestock Improvement and to the shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- (a) the Dividend Plan Financial Assistance enables Livestock Improvement to provide shareholders with an efficient means of acquiring additional Investment Shares in Livestock Improvement without incurring transaction costs which they would otherwise incur;
- (b) the Dividend Plan Financial Assistance is available to all eligible shareholders, giving equal opportunity to participate in the benefits of the Dividend Plan;
- (c) shareholders who do not participate will not be diluted or otherwise disadvantaged as no new shares are being issued under the Dividend Plan;
- (d) the additional Investment Shares will be purchased by ABN AMRO at the NZAX market price and participating shareholders will pay the average NZAX market price paid by ABN AMRO on market for those Shares;
- (e) the Dividend Plan will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for both participating and non-participating shareholders wishing to sell those Shares;
- (f) the Dividend Plan enables Livestock Improvement to offer Shareholders a mechanism to reinvest dividends in Investment Shares without resulting in unnecessary new capital being raised through the issue of new shares; and
- (g) the amount of financial assistance is minimal in comparison to the benefits arising out of the Dividend Plan for shareholders and Livestock Improvement.

2. **Minimum Investment Shareholding Requirement:** Guardian Trust has also been appointed by the Livestock Improvement Board as the Approved Holding Entity to acquire Investment Shares on behalf of or in order to sell Investment Shares to Co-operative Control Shareholders to enable them to meet their obligations in respect of the Minimum Investment Shareholding Requirement ("Minimum Investment Plan"). ABN AMRO has also been appointed by Guardian Trust as the Broker for the purposes of the Minimum Investment Plan. It is desirable that, as far as practicable, ABN AMRO should purchase Investment Shares for the Dividend Plan and the Minimum Investment Plan as a single pool on the same terms and conditions and accordingly Livestock Improvement proposes to pay costs, brokerage and commission in respect of the Minimum Investment Plan on the same basis as for the Dividend Plan and also proposes to advance to Guardian Trust, at an interest cost to the Company, the aggregate amounts debited by the Company to the relevant Shareholders' accounts to meet their liability to acquire Investment Shares ("Aggregate Debited Amount") which amount is subsequently recovered by the Company from the relevant Shareholders. The exact amount of these costs will depend upon the number of transactions which are made. However the total amount of costs in the next twelve months is estimated as being in this region of \$20,000.

The Livestock Improvement Board resolved on 11 July 2007 that Livestock Improvement should pay the annual services fee of Guardian Trust and make an advance to Guardian Trust of the Aggregate Debited Amount and all fees, brokerage costs and commission incurred by Guardian Trust for the purposes of the Minimum Investment Plan ("Minimum Investment Plan Financial Assistance"); and that the giving of the Minimum Investment Plan Financial Assistance is in the best interest of Livestock Improvement and is of benefit to shareholders not receiving that financial assistance; and that the terms and conditions under which the Minimum Investment Plan Financial Assistance is given are fair and reasonable to Livestock Improvement and to the shareholders not receiving that financial assistance. The grounds for the Board's conclusions are that:

- (a) it is in the interest of Livestock Improvement and of all shareholders that Livestock Improvement acquire new shareholders and the Minimum Investment Plan Financial Assistance assists in achieving this as follows:
 - Σ • the Minimum Investment Plan Financial Assistance encourages dairy farmers to become members of Livestock Improvement by providing them with an efficient means of acquiring the Minimum Investment Shareholding Requirement without incurring transaction costs which they would otherwise incur;
 - Σ • the Investment Shares purchased by ABN AMRO for the purposes of the Minimum Investment Plan will be purchased at the NZAX market price and the shareholders for whom the Investment Shares are purchased will pay the average NZAX market price paid by ABN AMRO on market for the Shares;
- (b) shareholders who have met their obligations in respect of the Minimum Investment Shareholding Requirement will not be diluted or otherwise disadvantaged as no new shares are being issued;
- (c) the amount of financial assistance is minimal in comparison to the benefits arising out of the Minimum Investment Plan; and
- (d) it is efficient and cost effective for ABN AMRO to purchase Investment Shares for the Dividend Plan and the Minimum Investment Plan as a single pool on the same terms and conditions, and accordingly it is desirable for Livestock Improvement to pay costs, brokerage and commission in respect of the Minimum Investment Plan on the same basis as it is obliged to do in respect of the Dividend Plan.



APPENDIX I

Livestock Improvement's Share Structure

Livestock Improvement's dual share structure comprises Investment Shares and Co-operative Control Shares.

In general terms, Investment Shares confer the assets of the Co-operative, the right to receive profit distributions and can be traded on the NZAX by Co-operative Control Shareholders at market determined prices, but have no voting rights (except as described below).

In contrast, Co-operative Control Shares have voting rights, may receive a priority dividend akin to a first mortgage interest rate and a priority payment on liquidation, and can only be surrendered to the Co-operative at the nominal issue price of \$1.00 per share.

More specifically, the features of both classes of share are as follows:

Co-operative control shares

- Are issued pursuant to the Co-operative Companies Act 1996 and have a nominal value of \$1.00 per share.
- Have a voting entitlement of one vote per share except in the case of the election of National Councillors where the voting entitlement is one vote per Shareholder in the relevant Ward.
- Can only, and must, be held by dairy farmers who have a Livestock Improvement Debtor's Code and purchase at least \$500 of qualifying products and services from the Co-operative per season, and earn income from the supply of milk to a licensed milk processor in New Zealand.
- Must be held to the value of 4% of the value of the previous season's purchases from the Co-operative of qualifying products and services.
- Are not tradable but can be transferred in certain circumstances with the prior written approval of the Livestock Improvement Board.
- Are issued by the Co-operative and are subject to surrender at the request of the Board or of a Shareholder in accordance with co-operative principles.
- Receive a dividend (if any is declared by the Board) in priority to dividends on the Investment Shares up to a maximum amount equal to the first mortgage lending rate of the Co-operative's principal bankers in respect of secured loans made to dairy farmers.
- Rank ahead of Investment Shares in the event of a liquidation with the payment being limited to repayment of the nominal value of the Co-operative Control Shares less any amount unpaid on those shares.
- Have no right to participate in the profits or assets of the Co-operative except for priority dividend payments and payment on liquidation.

Investment Shares

- Do not have a nominal value.
- Are entitled to dividends and to the profits and assets of the Co-operative subject to the priority rights of the Co-operative Control Shares.
- Have no voting rights (except where any resolution will affect the rights of Investment Shareholders).
- Can only be held by Co-operative Control Shareholders, the Co-operative, or the Approved Holding Entity or its broker on behalf of new Shareholders or for the purpose of the Dividend Reinvestment Plan.
- Must be held by Co-operative Control Shareholders who must hold between 2 and 30 Investment Shares for each Co-operative Control Share held.
- Are listed and quoted on the NZAX and can be traded at market determined prices.
- Entitle a holder to receive reports and financial statements and attend meetings of Shareholders.
- Must be sold within two years once a Shareholder ceases to be a Co-operative Control Shareholder.

APPENDIX II

Description of Dividend Reinvestment Plan

1. Introduction

In May 2006, the Board of Directors of Livestock Improvement Corporation Limited approved the adoption of the Livestock Improvement Corporation Limited Dividend Reinvestment Plan ("Plan").

The Plan enables shareholders to reinvest the net cash dividends after tax ("Net Proceeds") payable on all of their shares in Livestock Improvement Corporation Limited by acquiring further Investment Shares.

These Plan Shares will not be new Investment Shares issued by Livestock Improvement Corporation Limited, but will be existing Investment Shares purchased on behalf of Participants through market transactions on the NZAX Market. Livestock Improvement Corporation Limited has appointed The New Zealand Guardian Trust Company Limited ("Guardian Trust") to administer the Plan, and that company has appointed ABN AMRO Craigs Limited ("ABN AMRO") as the Broker to acquire the Plan Shares on behalf of Participants.

The main terms and conditions of the Plan are now summarised.



2. Participation

- (a) Participation in the Plan is optional and open to all shareholders except:
 - those who exceed the 30:1 ratio of Investment Shares to Co-operative Shares;
 - shareholders who are required to sell their Investment Shares and no longer trade with Livestock Improvement Corporation Limited;
 - Directors of Livestock Improvement Corporation Limited and their associated persons;
 - shareholders who shares subject to a sale notice issued by Livestock Improvement Corporation Limited in exercise of its lien; and
 - shareholders who have not acquired the minimum number of Investment Shares required to be held by them – their dividends will be applied to acquire that minimum number and when the minimum number has been acquired, the dividends may be used for participation in the Plan.
- (b) To participate in the Plan, a shareholder must complete the application form which accompanies the Offer Document. A copy of this document can be obtained from the Company Secretary of Livestock Improvement Corporation Limited, email: shares@lic.co.nz.
- (c) An application will continue to be effective for all subsequent dividends paid until terminated or amended.

3. Operation of the Plan

- (a) By participating in the Plan, each Participant directs Livestock Improvement Corporation Limited to pay to Guardian Trust the Net Proceeds of every cash dividend payable or credited on all the Shares registered in the Participant's name.
- (b) Guardian Trust shall instruct ABN AMRO to acquire existing Investment Shares by on market transactions through the NZAX Market.
- (c) The purchase price to Participants of the Investment Shares acquired shall be set by Guardian Trust and shall be the volume weighted average price paid to ABN AMRO for the Investment Shares. Where this would result in a Participant being entitled to less than a whole Share, part Shares will be rounded up or down in an equitable manner so as to enable all of the Plan Shares to be allocated.
- (d) In respect of each dividend paid by Livestock Improvement Corporation Limited, ABN AMRO will endeavour to use all of the Net Proceeds of that dividend to purchase Investment Shares, and Guardian Trust will then transfer to Participants the Investment Shares purchased using those Net Proceeds. This must be completed at least one month before the record date for the next dividend.
- (e) If, for any reason, a Participant does not receive all or any of the Plan Shares to which the Participant is entitled, then Livestock Improvement Corporation Limited will pay to or credit the Participant with the amount of the Net Proceeds of the dividend payable or credited on the Participant's Shares that the Participant did not receive in Plan Shares if that amount is \$2.00 or more. Amounts less than \$2.00 will be forfeited to Livestock Improvement Corporation Limited to meet expenses of operating the Plan.
- (f) Interest on moneys held by Guardian Trust or ABN AMRO in the course of administering the Plan shall be paid to Livestock Improvement Corporation Limited to meet expenses of operating the Plan.
- (g) Any dividends paid on Plan Shares prior to transfer to a Participant will be held on behalf of and paid or credited to that Participant.

4. Statements to Participants

- (a) Livestock Improvement Corporation Limited will send to each Participant, on each dividend payment date, a statement detailing:
 - the number of Shares held by the Participant;
 - the Net Proceeds of the cash dividend to be reinvested in Investment Shares;
 - the amount of any taxation deduction made;
 - advice as to the amount of any imputation or other taxation credits; and
 - such other matters required by law with respect to dividends and/or reinvestment.
- (b) Within 5 Business Days after each transfer of Investment Shares to Participants under paragraph 3(d) above, Livestock Improvement Corporation Limited will send to each Participant a statement detailing:
 - the Net Proceeds of the cash dividend reinvested;
 - the number of Plan Shares the Participant has acquired;
 - the average price of the Plan Shares acquired by the Participant; and
 - the amount (if any) paid or credited to the Participant pursuant to paragraph 3(e) above.

5. No Costs to Participants

No brokerage or commission costs will be payable by Participants subject to clause 3(e) above.

6. Termination of Participation by Participant

A Participant may at any time, by giving written notice to Livestock Improvement Corporation Limited terminate participation in the Plan.

7. Modification, Suspension and Termination by Livestock Improvement

Notice of any modification, suspension or termination of the Plan by Livestock Improvement Corporation Limited will be given to all Participants.





Our best asset – our people;
committed to farmers

Directory

Auditors - External	KPMG, Hamilton
Auditors - Internal	Deloitte, Auckland
Bankers	Westpac Banking Corporation, Hamilton
Legal Advisors	Minter Ellison Rudd Watts, Auckland
	Norris Ward McKinnon, Hamilton
Insurance Brokers	Willis, Auckland



Private Bag 3016
Cnr Ruakura & Morrinsville Roads
Newstead, Hamilton, New Zealand
Phone +64 7 856 0700
Fax +64 7 858 2741
www.lic.co.nz