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**LIVESTOCK IMPROVEMENT CORPORATION LIMITED (LIC)**

**ANNUAL REPORT**

**Year Ended 31 May 2008**

**Income Statement**  
**For the year ended 31 May 2008**

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2008	2007	2008	2007
<b>Continuing operations</b>					
Revenue	9	132,250	112,101	123,799	107,135
Other income	10	104	84	104	84
Purchased materials		(16,905)	(11,347)	(14,775)	(10,045)
Staff expenses	13	(58,106)	(51,861)	(54,823)	(48,950)
Depreciation		(7,670)	(7,202)	(7,241)	(6,665)
Amortisation		(1,282)	(887)	(1,282)	(887)
Impairment of investment	11	(3,202)	-	(3,585)	(4,963)
Other expenses	12	(31,075)	(28,918)	(28,970)	(26,480)
<b>Earnings before finance activities and fair value adjustments</b>		<b>14,114</b>	<b>11,970</b>	<b>13,227</b>	<b>9,229</b>
Finance income	14	1,207	1,045	1,359	1,419
Finance expenses	14	(831)	(1,057)	(869)	(750)
Fair value adjustments – biological assets	18	9,877	17,649	9,493	16,379
<b>Earnings before taxation</b>		<b>24,367</b>	<b>29,607</b>	<b>23,210</b>	<b>26,277</b>
Tax expense on fair value adjustments – biological assets		(2,963)	(5,295)	(2,848)	(4,914)
Tax expense other		(5,774)	(2,752)	(4,942)	(1,952)
<b>Total Tax expense</b>	15	<b>(8,737)</b>	<b>(8,047)</b>	<b>(7,790)</b>	<b>(6,866)</b>
<b>Net Surplus from continuing operations</b>		<b>15,630</b>	<b>21,560</b>	<b>15,420</b>	<b>19,411</b>
<b>Discontinued operation</b>					
Profit/(loss) from discontinued operation (net of tax)	6	-	(2,527)	-	-
<b>Profit/(loss) for the period</b>		<b>15,630</b>	<b>19,033</b>	<b>15,420</b>	<b>19,411</b>
<b>Earnings per share</b>	26				
Basic and diluted earnings per investment share (NZD)		0.529	0.645		
<b>Continuing operations</b>					
Basic and diluted earnings per investment share (NZD)		0.529	0.730		
<b>Supplementary note to the Income Statement</b>					
<b>Profit/(loss) for the period</b>		<b>15,630</b>	<b>19,033</b>	<b>15,420</b>	<b>19,411</b>
Gain on fair value of biological assets		(9,877)	(17,649)	(9,493)	(16,379)
Tax effect of gain on fair value of biological assets		2,963	5,295	2,848	4,914
<b>Underlying net earnings excluding biological assets and tax there on</b>		<b>8,716</b>	<b>6,679</b>	<b>8,775</b>	<b>7,946</b>

**Statement of Total Recognised  
Income and Expense  
For the year ended 31 May 2008**

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2008	2007	2008	2007
Foreign currency translation differences for foreign operations	24	253	44	-	-
Income and expense recognised directly in equity	24	7,446	-	5,858	-
Profit/(loss) for the period		15,630	19,033	15,420	19,411
<b>Total recognised income and expense for the period</b>		<b>23,329</b>	<b>19,077</b>	<b>21,278</b>	<b>19,411</b>



Director



Director

**Balance Sheet**  
**As at 31 May 2008**

In thousands of New Zealand dollars	Note	Consolidated		Parent	
		2008	2007	2008	2007
<b>Assets</b>					
Fixed assets	16	76,641	72,726	69,443	66,645
Intangible assets	17	14,686	13,139	12,523	11,971
Biological assets	18	62,428	52,897	60,872	51,403
Investments	19	10,681	13,675	18,831	20,497
Loans		-	-	1,206	4,698
<b>Total non-current assets</b>		<b>164,437</b>	<b>152,437</b>	<b>162,875</b>	<b>155,213</b>
Cash and cash equivalents	23	14,406	6,231	13,100	5,300
Inventories	21	4,668	5,702	4,244	4,977
Biological assets	18	844	1,501	24	367
Trade receivables	22	17,269	12,471	21,674	15,725
Non-current assets held for sale	7	2,252	-	2,252	-
Other current assets		1,219	512	1,210	522
<b>Total current assets</b>		<b>40,658</b>	<b>26,417</b>	<b>42,504</b>	<b>26,891</b>
<b>Total assets</b>		<b>205,095</b>	<b>178,854</b>	<b>205,380</b>	<b>182,104</b>
<b>Equity</b>					
Share capital	24	58,464	58,464	58,464	58,464
Reserves	24	30,774	23,075	28,729	22,824
Retained earnings	24	74,426	63,256	78,331	67,417
<b>Total equity</b>		<b>163,664</b>	<b>144,795</b>	<b>165,524</b>	<b>148,705</b>
<b>Liabilities</b>					
Provisions	28	3,559	3,806	3,512	3,404
Deferred tax liability	20	18,768	13,403	18,082	13,577
<b>Total non-current liabilities</b>		<b>22,327</b>	<b>17,209</b>	<b>21,594</b>	<b>16,981</b>
Co-operative Control Shares	25	3,713	3,473	3,713	3,473
Trade payables	29	12,154	9,070	11,739	9,487
Short-term borrowings		-	-	-	-
Provisions	28	3,237	4,307	2,810	3,458
<b>Total current liabilities</b>		<b>19,104</b>	<b>16,850</b>	<b>18,262</b>	<b>16,418</b>
<b>Total liabilities</b>		<b>41,431</b>	<b>34,059</b>	<b>39,856</b>	<b>33,399</b>
<b>Total equity and liabilities</b>		<b>205,095</b>	<b>178,854</b>	<b>205,380</b>	<b>182,104</b>

**Cash Flow Statement**  
**For the year ended 31 May 2008**

	Note	Consolidated		Parent	
		2008	2007	2008	2007
<i>In thousands of New Zealand dollars</i>					
<b>Net cash from/(used in) operating activities</b>	34				
Cash provided from:					
Receipts from customers		126,903	119,819	117,320	106,431
Interest income received		1,207	1,226	1,359	1,599
		<b>128,110</b>	<b>121,045</b>	<b>118,679</b>	<b>108,030</b>
Cash applied to:					
Payments to suppliers and employees		(103,234)	(99,992)	(95,984)	(86,332)
Interest expense paid		(484)	(79)	(522)	(79)
Income tax paid		(4,431)	(77)	(4,431)	(77)
		<b>(108,149)</b>	<b>(100,148)</b>	<b>(100,937)</b>	<b>(86,488)</b>
		<b>19,961</b>	<b>20,897</b>	<b>17,742</b>	<b>21,542</b>
<b>Net cash from/(used in) investing activities</b>					
Cash provided from:					
Acquisition of subsidiary		-	854	-	-
Sale of biological assets		1,099	-	375	-
Sale of other non-current assets		145	376	145	257
Advances to subsidiaries		-	-	2,146	-
		<b>1,244</b>	<b>1,230</b>	<b>2,666</b>	<b>257</b>
Cash applied to:					
Acquisition of shares		(208)	(15,609)	(775)	(16,413)
Acquisition of intangibles		(2,829)	(590)	(1,834)	(590)
Acquisition of Property, Plant and Equipment		(5,425)	(11,269)	(5,425)	(10,681)
Acquisition of biological assets		-	-	(8)	-
		<b>(8,462)</b>	<b>(27,468)</b>	<b>(8,042)</b>	<b>(27,684)</b>
		<b>(7,218)</b>	<b>(26,238)</b>	<b>(5,376)</b>	<b>(27,427)</b>
<b>Net cash from/(used in) financing activities</b>					
Cash provided from:					
Shares paid up		687	640	687	640
		<b>687</b>	<b>640</b>	<b>687</b>	<b>640</b>
Cash applied to:					
Repurchase of shares		(447)	(445)	(447)	(445)
Dividends paid to shareholders of the Group		(4,460)	(7,530)	(4,459)	(7,530)
Interest paid on Co-Operative Shares		(347)	(299)	(347)	(299)
		<b>(5,254)</b>	<b>(8,274)</b>	<b>(5,253)</b>	<b>(8,274)</b>
		<b>(4,567)</b>	<b>(7,634)</b>	<b>(4,566)</b>	<b>(7,634)</b>
<b>Net increase/(decrease) in cash balances</b>		<b>8,176</b>	<b>(12,975)</b>	<b>7,800</b>	<b>(13,519)</b>
Cash balances at beginning of period		6,231	19,206	5,300	18,819
<b>Closing cash balances</b>		<b>14,406</b>	<b>6,231</b>	<b>13,100</b>	<b>5,300</b>

**Notes to the Financial Statements  
For the year ended 31 May 2008**

**1. Accounting entity**

Livestock Improvement Corporation Limited (“LIC” or 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 (“NZAX”). The Parent is an issuer for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

These financial statements of LIC, as at and for the year ended 31 May 2008, comprise LIC and its subsidiaries (together referred to as the “Group”).

The Group is primarily involved in providing genetics, farm information and farm automation systems to its customers – both shareholding and non-dairy customers.

**2. Basis of preparation**

*(a) Statement of compliance*

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (“IFRS”).

An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 37.

The financial statements were approved by the Board of Directors on 4 August 2008.

*(b) Basis of measurement*

The financial statements have been prepared on the historical cost basis except for the following:

- Land and Buildings are measured at fair value;
- Biological assets are measured at fair value less point-of-sale costs;
- Available-for-sale financial assets are measured at fair value; and
- Derivative financial instruments are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

*(c) Functional and presentation currency*

These financial statements are presented in New Zealand dollars (\$), which is the Company’s functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

*(d) Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are described in the following notes:

## Notes to the Financial Statements

### 2. Basis of preparation (continued)

- Note 16 – Fixed assets – revaluation of land and buildings
- Note 17 – Measurement of the recoverable amounts of intangibles
- Note 18 – Biological assets
- Note 19 – Investments
- Note 28 – Provisions
- Note 33 – Contingencies

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

#### (a) *Basis of consolidation*

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The cost of acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

##### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

##### (iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (b) *Foreign currency*

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, using the exchange rates at the reporting date, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements, except when deferred in equity as qualifying cash flow or qualifying net investment hedges.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Where the Company's presentation currency differs from the functional currency of an entity, the assets and liabilities of the operation are translated from the functional currency into the presentation currency at exchange rates at the reporting date. The income and expenses of these entities are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of these entities and of borrowings and other currency instruments designated as hedges of such instruments are recognised directly in the foreign currency translation reserve ("FCTR"). When an entity is partially disposed of or sold, the exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

#### (c) *Financial instruments*

##### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities accounted for as available-for-sale financial assets, trade receivables, cash and cash equivalents, short-term borrowings, and trade payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

##### *Available-for-sale financial assets*

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

##### *Instruments at fair value through profit or loss*

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.



## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### *Trade receivables*

Trade receivables classified as a loan and receivables financial instrument are stated at amortised cost using the effective interest method, less any impairment losses.

#### *Short-term borrowings*

Short-term borrowings are classified as an other liabilities financial instrument and are stated at amortised cost using the effective interest method.

#### *Investments in equity securities*

Investments in equity securities held by the Group are classified as available-for-sale, except for investments in equity securities of subsidiaries and associates, which are measured at cost in the separate financial statements of the Company. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of equity investments classified as available-for-sale is their quoted bid price at the balance sheet date or fair value as determined by a valuation methodology for unquoted equity investment.

#### *Trade payables*

Trade payables are classified as an other liabilities financial instrument and are stated at cost.

#### *Co-operative Control Shares*

Co-operative Control Shares are classified as an other liability financial instrument because such instruments are redeemable at the option of the shareholder. Dividend payments made are indexed and preferred. Dividends thereon are recognised as interest expense in profit or loss.

When Co-operative Control Shares are repurchased, the amount of the consideration paid is recognised as a reduction in that liability.

#### (ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

#### (iii) Share capital

##### *Investment Shares*

Investment Shares are classified as equity because such instruments are redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (d) *Fixed assets*

##### (i) Recognition and measurement

Items of property, plant and equipment, except for land and buildings, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Land and buildings are revalued to market value at least every 3 years, or when a substantial movement in values has occurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings	40 years
• Plant and Equipment	5-7 years
• Vehicles	5 years
• Furniture and Fittings	5 years
• Computers	3-5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end.

#### (e) *Intangible assets*

##### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the investment over the carrying value of the net identifiable assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

##### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins at the time that commercial production or use of the process commences and the amortisation period is up to five years on a straight line basis. The amortisation period and amortisation method is reviewed at each financial year-end. Development assets are tested for impairment on an annual basis until available for use.

#### (iii) 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, were defined. While the Livestock Improvement Database includes these defined fields, no value is attributed, specifically, to the core database.

The cost of the Livestock Improvement Database was capitalised. Based on analysis of various economic factors the Parent has determined that the Livestock Improvement Database has an indefinite useful life. The Livestock Improvement Database is tested annually for impairment and carried at cost less accumulated impairment losses.

#### (iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, being up to five years. The amortisation period and amortisation method is reviewed at each financial year-end.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs included the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, being up to five years. The amortisation period and amortisation method is reviewed at each financial year-end.

#### (v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

#### (f) *Biological assets*

Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. The Group's biological assets comprise:

- Elite breeding bulls;
- Elite breeding stags; and
- Other livestock.

#### (g) *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

#### (h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### (i) Impairment

The carrying amounts of the Group's assets, except for inventory and biological assets, are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

##### (i) Impairment of loans and receivables, and equity instruments

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

Debt instruments that are not individually significant and debt instruments for which, based on the individual assessment, it was determined that no objective evidence of impairment existed, are collectively assessed for impairment in groups with similar risk characteristics.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with short duration are not discounted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

##### (ii) Impairment of fixed assets and intangibles

The carrying amounts of the Group's non-financial assets, other than biological assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (j) *Employee benefits*

##### (i) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the rate at reporting date, which reflects the government bonds that have a maturity date approximating the terms of the Groups obligation along with the Groups risk premium. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

##### (ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### (iii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

#### (k) *Provisions*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

##### (i) ACC Partnership Programme

The Parent belongs to the ACC Partnership Programme whereby the Parent accepts the management and financial responsibility of work related illnesses and accidents of employees. Under the Programme the Parent is liable for all its claims costs for a period of four years up to a specified maximum. At the end of the four-year period, the Parent pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes to ACC.

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely to possible, the estimated future cash outflows.

#### (l) *Revenue*

##### (i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

##### (ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

#### (m) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### (n) *Finance income and expenses*

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on Co-operative Control shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

#### (o) *Income tax*

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) *Discontinued operations*

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

(q) *Non-current assets held for sale*

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(r) *Earnings per share*

The Group presents basic and diluted earnings per share ("EPS") data for its investment shares. Basic EPS is calculated by dividing the profit or loss attributable to investment shareholders of the Company by the weighted average number of investment shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to investment shareholders and the weighted average number of investment shares outstanding for the effects of all dilutive potential investment shares. LIC has no potential dilutive investment shares.

(s) *Standards, amendments and interpretations issued that are not yet effective and have not been early adopted*

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to the Group include:

**NZ IFRS 1 and NZ IAS 27 Amendments to Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate**

Approved: June 2008

*Effective date periods beginning on or after: 1 July 2009*

The amendments to NZ IFRS 1 First-time Adoption of International Financial Reporting Standards and NZ IAS 27 Consolidated and Separate Financial Statements respond to constituents' concerns that

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

retrospectively determining cost and applying the cost method in accordance with NZ IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort.

The amendments address the issue:

- by allowing first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and
- by removing the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor. The amendments to NZ IAS 27 also respond to queries regarding the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation. The amendments require the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IFRS 3 – Business Combinations (revised)**

Approved: February 2008

*Effective date periods beginning on or after: 1 July 2009*

The main changes: NZ IFRS 3 (2008) includes in its scope business combinations involving only mutual entities, and those in which separate entities or businesses are brought together to form a reporting entity by contract alone.

In addition to this are these new or amended requirements:

- All items of consideration transferred are recognised at fair value
- Goodwill measurement
- Non-controlling interest
- Transaction/acquisition costs
- Additional acquisition of non-controlling equity interests after the business combination accounted for as an equity transaction
- New disclosures.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IFRS 4 - Insurance Contracts – Amendments**

Approved: September 2007

*Effective date periods beginning on or after: 1 January 2009*

The amendment to NZ IFRS 4 removes the partial exemption for qualifying entities, now requiring full compliance for qualifying entities. The scope of NZ IFRS 4 has also been changed slightly from 'an entity which undertakes insurance or reinsurance activities' to 'an entity which issues insurance contracts' to align with the scope set out in paragraph 2.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IFRS 8 - Operating Segments**

Approved: December 2006

*Effective date periods beginning on or after: 1 January 2009*

Disclosure only standard.



## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

New way of determining segments – focus on information provided to the “chief operating decision maker”.

Sets out requirements for related disclosures about products and services, geographical areas and major customers.

Includes consequential amendments to NZ IAS 34 Interim Financial Reporting.

#### **NZ IAS 1 - Presentation of financial statements (revised)**

Approved: November 2007

*Effective date periods beginning on or after: 1 January 2009*

The revised standard supersedes the 2003 version of IAS 1 Presentation of Financial Statements as amended in 2005.

- The revised standard introduces "total comprehensive income" (i.e. changes in equity during a period, other than those resulting from transactions with owners in their capacity as owners), and a "Statement of comprehensive income".
- All non-owner changes in equity are presented in one statement (i.e. a Statement of Comprehensive Income) or two statements (i.e. an Income Statement and a Statement of Comprehensive Income).
- The revised standard also prohibits presenting components of comprehensive income in the Statement of Changes in Equity.

#### **NZ IAS 1 – Amendment to Puttable Financial Instruments and Obligations arising on Liquidation**

Approved: November 2007

*Effective date periods beginning on or after: 1 January 2009*

If an entity has reclassified the instruments as per the amendments to NZ IAS 32 between financial liabilities and equity.

New Disclosures required:

- The amount, the timing and the reason for the reclassification must be disclosed;
- For puttable instruments that are classified as equity instruments;
- Summary quantitative data relating to the amount classified as equity;
- Its objectives, policies and processes for managing its obligation to repurchase or redeem such instruments;
- The expected cash outflow on redemption or repurchase and how this amount was determined; and
- A limited life entity to include information regarding the length of its life.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IAS 23 - Borrowing Costs**

Approved: July 2007

*Effective date periods beginning on or after: 1 January 2009*

Supersedes NZ IAS 23 Borrowing Costs.

- The main change from the previous version is the removal of the option to expense borrowing costs incurred in respect of “qualifying assets” for full reporting entities.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IAS 27 – Consolidated and Separate Financial Statements (amended)**

Approved: February 2008

*Effective date periods beginning on or after: 1 January 2009*

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

The amendments to relate mainly to changes in the accounting for non-controlling interest and the loss of control of a subsidiary.

- Transactions with non-controlling interest while retaining control
- Loss of control
- Guidance on “linkage” and attribution of losses

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IAS 32 – Amendment to Puttable Financial Instruments and Obligations arising on Liquidation**

Approved: February 2008

*Effective date periods beginning on or after: 1 January 2009*

The amendments introduce an exception to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain instruments that would normally be classified as liabilities to be classified as equity only if they meet certain conditions. The amendments to NZ IAS 32 provide exemptions for two categories of instruments issued by an entity. They are:

- A puttable financial instrument; or
- An instrument, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

These amendments are not expected to have any significant impact on the Groups financial statements.

#### **NZ IFRIC 13 - Customer Loyalty Programmes**

Approved: September 2007

*Effective date periods beginning on or after: 1 July 2008*

Addresses accounting by entities that grant loyalty award credits (such as ‘points’ or travel miles) to customers who buy other goods or services, including credit card providers. It does not deal with customer loyalty programmes that grant customers financial assets (e.g. cash vouchers) or incentives granted outside a sales transaction.

Key provisions include:

- Entities shall allocate some of the proceeds of the initial sale to the award credits as a liability. In effect the award is accounted for as a separate component of the sale transaction.
- Proceeds allocated to the award credits is measured at their fair value (the amount for which the award could have been sold for separately)
- The deferred portion of the proceeds shall be recognised as revenue only when it has fulfilled its obligations. It may fulfill its obligations either by supplying the awards itself, or engaging (and paying) a third party to do so.
- If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract, which would require recognition under NZ IAS 37.

These amendments are not expected to have any significant impact on the Groups financial statements.

### 4. Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## Notes to the Financial Statements

### 4. Determination of fair values (continued)

(a) *Land and buildings*

The fair value of land and buildings is based on market values. Fair values of land has been determined by using a direct comparison methodology and the fair value of buildings has been determined by using a capitalised rental and depreciated replacement cost methodology.

(b) *Biological assets*

The fair value of livestock held for sale is based on the market price of livestock of similar age, breed and genetic make-up.

The fair value of elite bulls and elite stags for which there is no active market is determined using a discounted cash flow approach.

(c) *Investments in equity securities*

The fair value of investments in equity securities accounted for as available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. Where an active market price is not available for available-for-sale financial assets the market value is determined by using a valuation technique. The valuation technique adopted for the Group is an EBITDA earnings multiple methodology. The earning multiple is determined with reference to known entities in a like sector.

(d) *Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

### 5. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

*Business segments*

Risks and rewards in LIC are predominantly affected by the products and services offered by its individual businesses. The Group has two reportable segments, defined by business:

- Genetics – the provision of bovine and cervinae genetic breeding material and related services predominately to dairy and deer farmers
- Farm Solutions – the provision of farm automation systems – including Northern Feeds Systems, herd testing and animal recording for pastoral farmers.
- Other – consists of support functions including Strategy and Growth, Human Resources, Business Transformation and Excellence, Human Resources, Chief Executive, Governance and Finance.

## Notes to the financial statements

### 5. Segment reporting (continued)

*Business segments*

**Consolidated**

*In thousands of New Zealand dollars*

	<b>Genetics</b>		<b>Farm Solutions</b>		<b>Other Group operations</b>		<b>Eliminations</b>		<b>Discontinued operations</b>		<b>Continuing operations</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Total external revenues	71,910	59,648	57,257	49,261	3,187	8,371	-	-	-	5,095	132,354	112,185
Inter-segment revenues	-	-	-	-	-	-	-	-	-	-	-	-
Total segment revenue	71,910	59,648	57,257	49,261	3,187	8,371				5,095	132,354	112,185
Segment result	29,477	27,088	9,764	6,273	(15,250)	(6,269)	-	-	-	(2,527)	23,991	29,619
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	-	-
Results from operating activities	29,477	27,088	9,764	6,273	(15,250)	(6,269)	-	-	-	(2,527)	23,991	29,619
Net finance costs	-	-	-	-	376	(12)	-	-	-	-	376	(12)
Income tax expense	(10,906)	(7,209)	(3,612)	(1,669)	5,781	831	-	-	-	-	(8,737)	(8,047)
Loss on sale of discontinued operation (net of income tax)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit for the period</b>	<b>18,571</b>	<b>19,879</b>	<b>6,152</b>	<b>4,604</b>	<b>(9,093)</b>	<b>(5,450)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,527)</b>	<b>15,630</b>	<b>21,560</b>

## Notes to the financial statements

### 5. Segment reporting (continued)

Business segments (continued)

#### Consolidated

*In thousands of New Zealand dollars*

	Genetics		Farm Solutions		Other Group operations		Discontinued operations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Segment assets	121,326	101,488	59,619	47,892	24,150	27,528	-	1,946	205,095	178,854
Unallocated assets	-	-	-	-	-	-	-	-	-	-
Total assets	121,326	101,488	59,619	47,892	24,150	27,528	-	1,946	205,095	178,854
Segment liabilities	25,809	21,145	11,118	7,994	4,504	3,676	-	1,244	41,431	34,059
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	25,809	21,145	11,118	7,994	4,504	3,676	-	1,244	41,431	34,059
Capital expenditure	1,690	1,567	3,948	3,793	2,399	6,048	-	-	8,037	11,408
Depreciation	980	985	3,260	2,183	3,430	3,866	-	168	7,670	7,202
Amortisation of intangible assets	-	54	-	-	1,282	833	-	-	1,282	887
Impairment losses on investments, intangible assets and property, plant and equipment	-	912	-	-	3,202	-	-	-	3,202	912

*Geographical segments*

#### Consolidated

*In thousands of New Zealand dollars*

	New Zealand		Rest of World		Total	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	123,241	111,282	9,113	5,987	132,354	117,269
Segment assets	195,936	172,973	9,159	5,881	205,095	178,854
Capital expenditure	5,957	11,215	246	193	6,203	11,408

## Notes to the financial statements

### 6. Discontinued operation

During the year ending 31 May 2008, Animal Breeding Services' assets were sold and some of the staff were transferred to Animal Breeding Services (2007) Ltd. The operation of ABS was discontinued at 31 May 2007.

Profits attributable to the discontinued operation were as follows:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>
<b>Results of discontinued operation</b>		
Revenue	-	5,095
Expenses	-	7,622
Results from operating activities	-	(2,527)
Income tax expense	-	-
Results from operating activities, net of income tax	-	(2,527)
Loss on sale of discontinued operation	-	-
Income tax on gain on sale of discontinued operation	-	-
Profit/(loss) for the period	-	(2,527)
Basic earnings/(loss) per share (New Zealand cents)	-	0.086
Diluted earnings/(loss) per share (New Zealand cents)	-	0.086
<b>Cash flows from discontinued operation</b>		
Net cash from operating activities	-	(499)
Net cash from investing activities	-	(199)
Net cash from financing activities	-	640
Net cash from/(used in) discontinued operation	-	(58)
<b>Effect of disposal on the financial position of the Group</b>		
Property, plant and equipment	-	(496)
Inventories	-	(876)
Trade and other receivables	-	(558)
Cash and cash equivalents	-	(16)
Provisions	-	703
Loans	-	-
Deferred tax liabilities	-	-
Trade and other payables	-	541
Net identifiable assets and liabilities	-	(702)
Consideration received, satisfied in cash		
Cash disposed of	-	490
Net cash inflow	-	490

### 7. Non-current assets held for sale

Land at Palmerston North (Whakarongo Block) is presented as a non-current asset held for sale.

<i>In thousands of New Zealand dollars</i>	<b>Consolidated 2008</b>	<b>Parent 2008</b>
Whakarongo Block	2,252	2,252

## Notes to the financial statements

### 8. Acquisitions of subsidiaries

#### *Business combination 2008*

On 5 November 2007 the Group acquired all of the shares in FarmKeeper Pty Ltd and Overland Corner Holdings Pty Ltd for \$750,000 in cash. The contribution to the consolidated net surplus for the period 6 November 2007 to 31 May 2008 was \$153,734.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
<i>In thousands of New Zealand dollars</i>			
Fixed assets	5	-	5
Trade and other receivables	12	-	12
Other current assets	14	-	14
Other current liabilities	(30)	-	(30)
Net identifiable assets and liabilities	1	-	1
Consideration paid, satisfied in cash	750	-	750
Goodwill on acquisition	749	-	749
Cash acquired	-	-	-
<b>Net cash outflow</b>	<b>750</b>	<b>-</b>	<b>750</b>

Pre-acquisition carrying amounts were determined based on applicable NZ IFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values, and will be finalised within 12 months of the acquisition date.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' work force, software technologies, and the synergies expected to be achieved from integrating the company into the Group.

An additional \$100,000 is payable to the vendor over the next two years, conditional on FarmKeeper and Overland Corner Holdings Ltd achieving agreed financial targets.

### 9. Revenue

	Continuing operations		Discontinued operation		Consolidated		Parent	
<i>In thousands of New Zealand dollars</i>	2008	2007	2008	2007	2008	2007	2008	2007
Sales of goods	66,341	68,886	-	5,084	66,341	73,970	60,204	63,914
Services	65,909	43,215	-	11	65,909	43,226	63,595	43,221
<b>Total revenues</b>	<b>132,250</b>	<b>112,101</b>	<b>-</b>	<b>5,095</b>	<b>132,250</b>	<b>117,196</b>	<b>123,799</b>	<b>107,135</b>

## Notes to the financial statements

### 10. Other income

*In thousands of New Zealand dollars*

Net gain on sale of property, plant and equipment

Consolidated		Parent	
2008	2007	2008	2007
104	84	104	84
<b>104</b>	<b>84</b>	<b>104</b>	<b>84</b>

### 11. Impairment of Investments

*In thousands of New Zealand dollars*

Note

Impairment of investment in subsidiaries/inter company advances  
Impairment of investment

19

Consolidated		Parent	
2008	2007	2008	2007
-	-	383	4,963
3,202	-	3,202	-
<b>3,202</b>	<b>-</b>	<b>3,585</b>	<b>4,963</b>

### 12. Expenses

The following items of expenditure are included in other expenses:

*In thousands of New Zealand dollars*

Donations

Auditors' remuneration comprises:

KPMG – audit services

KPMG – taxation services

KPMG – other audit-related services

Other Auditors

Consolidated		Parent	
2008	2007	2008	2007
6	4	6	4
127	82	127	82
64	108	64	108
14	-	15	-
38	33	-	-
<b>243</b>	<b>223</b>	<b>206</b>	<b>190</b>

Other audit-related services include NZ IFRS advisory services.

*In thousands of New Zealand dollars*

Included in expenses:

Research and Development

Consolidated		Parent	
2008	2007	2008	2007
4,602	3,969	4,602	3,969

### 13. Staff expenses

*In thousands of New Zealand dollars*

Wages and salaries

Contributions to employee superannuation

Other movements in provisions for employee entitlements

Other employee expenses

Consolidated		Parent	
2008	2007	2008	2007
53,680	47,422	50,477	45,256
2,222	1,941	2,038	1,882
18	573	167	(72)
2,186	1,925	2,141	1,884
<b>58,106</b>	<b>51,861</b>	<b>54,823</b>	<b>48,950</b>



## Notes to the financial statements

### 14. Finance income and expense

*In thousands of New Zealand dollars*

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Interest income on loans and receivables	1,207	1,045	1,359	1,419
Dividend income on available-for-sale financial assets	-	-	-	-
<b>Finance income</b>	<b>1,207</b>	<b>1,045</b>	<b>1,359</b>	<b>1,419</b>
Interest expense	(523)	(79)	(522)	(79)
Dividend paid on Co-Operative Control Shares	(347)	(299)	(347)	(299)
Net foreign exchange loss	39	(679)	-	(372)
<b>Finance expense</b>	<b>(831)</b>	<b>(1,057)</b>	<b>(869)</b>	<b>(750)</b>
<b>Net finance costs</b>	<b>376</b>	<b>(12)</b>	<b>490</b>	<b>669</b>

### 15. Income tax expense in the income statement

*In thousands of New Zealand dollars*

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Current tax expense</b>				
Current period	4,421	-	4,086	-
Adjustment for prior periods	-	-	-	-
	4,421		4,086	
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	4,858	9,526	4,342	8,291
Reduction in tax rate	(397)	(1,479)	(383)	(1,425)
Change in unrecognised temporary differences	-	-	-	-
Recognition of previously unrecognised tax losses	(144)	-	(255)	-
	4,316	8,047	3,704	6,866
Income tax expense excluding tax on sale of discontinued operation	8,737	8,047	7,790	6,866
Income tax expense from continuing operations	8,737	8,047	7,790	6,866
Income tax expense from discontinued operation (excluding gain on sale)	-	-	-	-
<b>Total income tax expense</b>	<b>8,737</b>	<b>8,047</b>	<b>7,790</b>	<b>6,866</b>

*Reconciliation of tax expense*

*In thousands of New Zealand dollars*

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Profit for the period	15,630	19,033	15,420	19,411
Total income tax expense	8,737	8,047	7,790	6,866
<b>Profit excluding income tax</b>	<b>24,367</b>	<b>27,080</b>	<b>23,210</b>	<b>26,277</b>
Income tax using the Company's domestic tax rate	8,041	8,936	7,659	8,671
Effect of tax rates in foreign jurisdictions	(117)	78	-	-
Reduction in tax rate	(397)	(1,479)	(383)	(1,425)
Non-deductible expenses	1,354	512	1,321	1,994
Recognition of previously unrecognised tax losses	-	-	-	-
Current year losses for which no deferred tax asset was recognised	-	-	(552)	(2,374)
Under/(over) provided in prior periods	(144)	-	(255)	-
	8,737	8,047	7,790	6,866

## Notes to the financial statements

### 15. Income tax expense in the income statement (continued)

*Income tax recognised directly in equity*

*In thousands of New Zealand dollars*

Revaluation of buildings	850	-
Available-for-sale financial assets	-	-
Total income tax recognised directly in equity	850	-

Consolidated		Parent	
2008	2007	2008	2007
850	-	801	-
-	-	-	-
850	-	801	-

*Imputation credits*

*In thousands of New Zealand dollars*

Imputation credits at 1 June	572	495
New Zealand tax payments, net of refunds	4,430	77
Imputation credits attached to dividends received	-	-
Imputation credits attached to dividends paid	-	-
Imputation credits at 31 May	5,002	572

Consolidated		Parent	
2008	2007	2008	2007
572	495	77	-
4,430	77	4,430	77
-	-	-	-
-	-	-	-
5,002	572	4,507	77
4,507	77	4,507	77
495	495	-	-
5,002	572	4,507	77

The imputation credits are available to shareholders of the Company:

Through the Company	4,507	77
Through subsidiaries	495	495

## Notes to the financial statements

### 16. Fixed assets

#### Consolidated

*In thousands of New Zealand dollars*

	Land	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Computers	Total
<b>Cost or fair value</b>							
Balance at 1 June 2006	34,820	21,577	29,425	10,255	2,011	25,890	123,978
Additions	-	375	1,532	1,852	121	6,938	10,818
Disposals	-	(20)	(4,238)	(1,247)	(17)	(1,325)	(6,847)
Balance at 31 May 2007	34,820	21,932	26,719	10,860	2,115	31,503	127,949
Balance at 1 June 2007	34,820	21,932	26,719	10,860	2,115	31,503	127,949
Additions	-	165	645	1,849	116	3,428	6,203
Increases resulting from revaluations	6,021	2,427	-	-	-	-	8,448
Decreases resulting from revaluations	-	(149)	-	-	-	-	(149)
Disposals	-	(64)	(4,889)	(917)	(37)	(517)	(6,424)
Transfer to non-current assets held for sale	(2,252)	-	-	-	-	-	(2,252)
Balance at 31 May 2008	38,589	24,311	22,475	11,792	2,194	34,414	133,775
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2006	-	(5,529)	(24,488)	(6,546)	(1,774)	(15,330)	(53,667)
Depreciation for the year	-	(584)	(1,634)	(1,355)	(152)	(3,477)	(7,202)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	4	4,098	1,014	16	514	5,646
Balance at 31 May 2007	-	(6,109)	(22,024)	(6,887)	(1,910)	(18,293)	(55,223)
Balance at 1 June 2007	-	(6,109)	(22,024)	(6,887)	(1,910)	(18,293)	(55,223)
Depreciation for the year	-	(583)	(1,411)	(1,636)	(131)	(3,909)	(7,670)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	30	4,298	909	37	485	5,759
Balance at 31 May 2008	-	(6,662)	(19,137)	(7,613)	(2,004)	(21,717)	(57,134)
<b>Carrying amounts</b>							
At 1 June 2006	34,820	16,048	4,957	3,709	237	10,560	70,311
At 31 May 2007	34,820	15,823	4,695	3,973	205	13,210	72,726
At 1 June 2007	34,820	15,823	4,695	3,973	205	13,210	72,726
At 31 May 2008	38,589	17,649	3,338	4,178	190	12,697	76,641

## Notes to the financial statements

### 16. Fixed assets (continued)

#### Parent

*In thousands of New Zealand dollars*

	Land	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Computers	Total
<b>Cost or deemed cost</b>							
Balance at 1 June 2006	31,610	20,611	26,536	9,260	1,949	25,557	115,523
Additions	-	117	1,142	1,852	62	6,940	10,113
Disposals	-	(20)	(2,657)	(1,134)	(17)	(1,291)	(5,119)
Balance at 31 May 2007	31,610	20,708	25,021	9,978	1,994	31,206	120,517
Balance at 1 June 2007	31,610	20,708	25,021	9,978	1,994	31,206	120,517
Additions	-	97	663	1,486	42	3,414	5,702
Increases resulting from revaluations	4,240	2,427	-	-	-	-	6,667
Disposals	-	(64)	(3,776)	(917)	(37)	(506)	(5,300)
Transfer to non-current assets held for sale	(2,252)	-	-	-	-	-	(2,252)
Balance at 31 May 2008	33,598	23,168	21,908	10,547	1,999	34,114	125,334
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2006	-	(5,512)	(22,360)	(6,364)	(1,767)	(15,157)	(51,160)
Depreciation for the year	-	(537)	(1,459)	(1,284)	(107)	(3,278)	(6,665)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	4	2,657	1,014	16	262	3,953
Balance at 31 May 2007	-	(6,045)	(21,162)	(6,634)	(1,858)	(18,173)	(53,872)
Balance at 1 June 2007	-	(6,045)	(21,162)	(6,634)	(1,858)	(18,173)	(53,872)
Depreciation for the year	-	(524)	(1,437)	(1,265)	(60)	(3,955)	(7,241)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	30	3,761	909	37	485	5,222
Balance at 31 May 2008	-	(6,539)	(18,838)	(6,990)	(1,881)	(21,643)	(55,891)
<b>Carrying amounts</b>							
At 1 June 2006	31,610	15,099	4,176	2,896	182	10,400	64,363
At 31 May 2007	31,610	14,663	3,859	3,344	136	13,033	66,645
At 1 June 2007	31,610	14,663	3,859	3,344	136	13,033	66,645
At 31 May 2008	33,598	16,629	3,070	3,557	118	12,471	69,443

Valuations of land and buildings were performed to determine the carrying value of these assets at 31 May 2008. These were performed by independent registered valuers, John Dunkley from DTZ New Zealand Limited MREINZ and Jon G. Newson, and are based on methods/assumptions referred to in Note 4. The total fair value of land and buildings, as valued by independent valuers is \$56 million.

Under a cost model, each asset would be recorded as:

#### Consolidated

*In thousands of New Zealand dollars*

Land	12,826
Buildings	16,585

## Notes to the financial statements

### 17. Intangible assets

#### Consolidated

*In thousands of New Zealand dollars*

	Goodwill	Database	Software	Total
<b>Cost</b>				
Balance at 1 June 2006	2,157	10,500	2,950	15,607
Acquisitions – internally developed	-	-	590	590
Acquisitions – separately acquired	-	-	-	-
Acquisitions – business combinations	815	-	-	815
<b>Balance at 31 May 2007</b>	<b>2,972</b>	<b>10,500</b>	<b>3,540</b>	<b>17,012</b>
Balance at 1 June 2007	2,972	10,500	3,540	17,012
Acquisitions – internally developed	-	-	1,067	1,067
Acquisitions – separately acquired	-	-	767	767
Acquisitions – business combinations	980	-	-	980
<b>Balance at 31 May 2008</b>	<b>3,952</b>	<b>10,500</b>	<b>5,374</b>	<b>19,826</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 June 2006	892	-	1,182	2,074
Amortisation	-	-	887	887
Impairment	912	-	-	912
<b>Balance at 31 May 2007</b>	<b>1,804</b>	<b>-</b>	<b>2,069</b>	<b>3,873</b>
Balance at 1 June 2007	1,804	-	2,069	3,873
Amortisation for the year	-	-	1,282	1,282
Foreign Currency Impact	(15)	-	-	(15)
<b>Balance at 31 May 2008</b>	<b>1,789</b>	<b>-</b>	<b>3,351</b>	<b>5,140</b>
<b>Carrying amounts</b>				
At 1 June 2006	1,265	10,500	1,768	13,533
<b>At 31 May 2007</b>	<b>1,168</b>	<b>10,500</b>	<b>1,471</b>	<b>13,139</b>
At 1 June 2007	1,168	10,500	1,471	13,139
<b>At 31 May 2008</b>	<b>2,163</b>	<b>10,500</b>	<b>2,023</b>	<b>14,686</b>

## Notes to the financial statements

### 17. Intangible assets (continued)

#### Parent

In thousands of New Zealand dollars

	Goodwill	Database	Software	Total
<b>Cost</b>				
Balance at 1 June 2006	-	10,500	2,950	13,450
Acquisitions – internally developed	-	-	590	590
Acquisitions – separately	-	-	-	-
Acquisitions – business combinations	-	-	-	-
Reclassification to Fixed Assets	-	-	-	-
<b>Balance at 31 May 2007</b>	<b>-</b>	<b>10,500</b>	<b>3,540</b>	<b>14,040</b>
Balance at 1 June 2007	-	10,500	3,540	14,040
Acquisitions – internally developed	-	-	1,067	1,067
Acquisitions – separately	-	-	767	767
Acquisitions – business combinations	-	-	-	-
<b>Balance at 31 May 2008</b>	<b>-</b>	<b>10,500</b>	<b>5,374</b>	<b>15,874</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 June 2006	-	-	1,182	1,182
Amortisation for the year	-	-	887	887
Reclassification to Fixed Assets	-	-	-	-
Impairment loss	-	-	-	-
<b>Balance at 31 May 2007</b>	<b>-</b>	<b>-</b>	<b>2,069</b>	<b>2,069</b>
Balance at 1 June 2007	-	-	2,069	2,069
Amortisation for the year	-	-	1,282	1,282
Impairment loss	-	-	-	-
<b>Balance at 31 May 2008</b>	<b>-</b>	<b>-</b>	<b>3,351</b>	<b>3,351</b>
<b>Carrying amounts</b>				
At 1 June 2006	-	10,500	1,768	12,268
<b>At 31 May 2007</b>	<b>-</b>	<b>10,500</b>	<b>1,471</b>	<b>11,971</b>
At 1 June 2007	-	10,500	1,471	11,971
<b>At 31 May 2008</b>	<b>-</b>	<b>10,500</b>	<b>2,023</b>	<b>12,523</b>

#### Impairment testing for cash-generating units containing goodwill and indefinite life intangible assets

For the purpose of impairment testing, goodwill and indefinite life intangible assets is allocated to the Group's operating divisions, which represent the lowest level within the Group at which the goodwill and indefinite life intangible assets is monitored for internal management purposes.

The aggregate carrying amounts of goodwill and indefinite life intangible assets allocated to each unit are as follows:

In thousands of New Zealand dollars	Consolidated	
	2008	2007
New Zealand Genetics	1,414	1,168
New Zealand Farm Solutions	11,249	10,500
	<b>12,663</b>	<b>11,668</b>

## Notes to the financial statements

### 17. Intangible assets (continued)

The New Zealand Genetics unit's impairment test was based on its value in use.

The New Zealand Farm Solutions unit's impairment test was based on its value in use.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 5-year business plan

The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data).

The above estimates are sensitive in the following areas:

- Discount rate (10 percent); and
- Future projected cashflows (incorporates inflation of 3 percent)

A one percent shift in either of the above would cause no material impact on the impairment tests on the cash generating units.

### 18. Biological assets

#### Consolidated

*In thousands of New Zealand dollars*

	Note	Elite breeding bulls	Elite breeding stags	Other livestock	Total
Balance at 1 June 2006		35,045	161	2,447	37,653
Increase due to acquisitions		-	-	16	16
Decrease due to sales		-	-	(920)	(920)
Change in fair value less estimated point-of-sale costs		16,358	1,333	(42)	17,649
Transferred to inventories		-	-	-	-
<b>Balance at 31 May 2007</b>		<b>51,403</b>	<b>1,494</b>	<b>1,501</b>	<b>54,398</b>
Non-current		51,403	1,494	-	52,897
Current		-	-	1,501	1,501
<b>Balance at 31 May 2007</b>		<b>51,403</b>	<b>1,494</b>	<b>1,501</b>	<b>54,398</b>
Balance at 1 June 2007		51,403	1,494	1,501	54,398
Increase due to acquisitions		-	-	95	95
Decrease due to sales		-	-	(1,098)	(1,098)
Change in fair value less estimated point-of-sale costs		9,469	62	346	9,877
Transferred to inventories		-	-	-	-
<b>Balance at 31 May 2008</b>		<b>60,872</b>	<b>1,556</b>	<b>844</b>	<b>63,272</b>
Non-current		60,872	1,556	-	62,428
Current		-	-	844	844
<b>Balance at 31 May 2008</b>		<b>60,872</b>	<b>1,556</b>	<b>844</b>	<b>63,272</b>

## Notes to the Financial Statements

### 18. Biological assets (continued)

#### Parent

*In thousands of New Zealand dollars*

	Note	Elite breeding bulls	Elite breeding stags	Other livestock	Total
Balance at 1 June 2006		35,045	-	445	35,490
Increase due to acquisitions		-	-	-	-
Decrease due to sales		-	-	(99)	(99)
Change in fair value		16,358	-	21	16,379
Transferred to inventories		-	-	-	-
<b>Balance at 31 May 2007</b>		<b>51,403</b>	<b>-</b>	<b>367</b>	<b>51,770</b>
Non-current		51,403	-	-	51,403
Current		-	-	367	367
<b>Balance at 31 May 2007</b>		<b>51,403</b>	<b>-</b>	<b>367</b>	<b>51,770</b>
Balance at 1 June 2007		51,403	-	367	51,770
Increase due to acquisitions		-	-	8	8
Decrease due to sales		-	-	(375)	(375)
Change in fair value		9,469	-	24	9,493
Transferred to inventories		-	-	-	-
<b>Balance at 31 May 2008</b>		<b>60,872</b>	<b>-</b>	<b>24</b>	<b>60,896</b>
Non-current		60,872	-	-	60,872
Current		-	-	-	24
<b>Balance at 31 May 2008</b>		<b>60,872</b>	<b>-</b>	<b>24</b>	<b>60,896</b>

At 31 May 2008, Elite breeding bulls comprised 1,400 bulls (2007: 1,400 bulls)

At 31 May 2008, Elite breeding stags comprised 4 stags (2007: 4 stags)

#### Valuation detail

The elite breeding bulls and stags have been valued at fair value and is consistent with the valuation methodology used in prior years.

The valuation consisted of the following assumptions:

WACC	9.35%
Inflation rate on expenses	4%
Inflation rate on Revenue	1%
Tax rate	30%

The 2008 elite breeding bulls valuation includes for the first time the impact of DNA proven technology. A \$5.00 price premium for DNA proven semen sales is reflected in this valuation.

The Group is exposed to a number of risks related to its biological assets:

#### *Animal Health*

The Group has significant exposure to the risk of a disease outbreak in the New Zealand dairy herd.

#### *Regulatory and environmental risks*

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.



## Notes to the Financial Statements

### 18. Biological assets (continued)

#### *Supply and demand risk*

The Group is exposed to risks arising from fluctuations in the price and sales volume of semen. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

The elite biological asset valuation is linked directly to the performance of the New Zealand dairy and deer industry.

#### *Climate and other risks*

The Group's livestock are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks.

### 19. Investments

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Non-current investments</b>				
Investment in Subsidiaries	-	-	8,349	6,824
Available-for-sale financial assets	10,681	13,675	10,482	13,673
	<b>10,681</b>	<b>13,675</b>	<b>18,831</b>	<b>20,497</b>

During the year an impairment loss of \$3.202 million was recognised in the investment in Tru-Test. This was due to a sustained period of lower than expected economic performance by Tru-Test.

### 20. Deferred tax assets and liabilities

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

#### **Consolidated**

<i>In thousands of New Zealand dollars</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Fixed assets	1,868	2,148	(1,590)	-	278	2,148
Intangible assets	-	-	(3,150)	(3,150)	(3,150)	(3,150)
Biological assets	-	90	(17,802)	(15,557)	(17,802)	(15,467)
Inventories	-	-	(20)	(295)	(20)	(295)
Provisions	2,029	2,604	(1)	(150)	2,028	2,453
Other items	-	182	(102)	-	(102)	182
Tax loss carry-forwards	-	725	-	-	-	725
Tax (assets)/liabilities	3,897	5,749	(22,665)	(19,152)	(18,768)	(13,403)
Set off of tax						
Net tax (assets)/liabilities	3,897	5,749	(22,665)	(19,152)	(18,768)	(13,403)

## Notes to the financial statements

### 20. Deferred tax assets and liabilities (continued)

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

#### **Parent**

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
<i>In thousands of New Zealand dollars</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Fixed assets	1,824	2,180	(1,572)	-	252	2,180
Intangible assets	-	-	(3,150)	(3,150)	(3,150)	(3,150)
Biological assets	512	131	(17,764)	(15,108)	(17,252)	(14,977)
Inventories	-	-	-	(267)	-	(267)
Provisions	2,062	2,511	(46)	-	2,016	2,511
Other items	51	127	-	-	51	127
Tax loss carry-forwards	-	-	-	-	-	-
Tax (assets)/liabilities	4,449	4,949	(22,532)	(18,525)	(18,082)	(13,577)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	4,449	4,949	(22,532)	(18,525)	(18,082)	(13,577)

#### *Movement in temporary differences during the year*

#### **Consolidated**

<i>In thousands of New Zealand dollars</i>	<b>Balance 1 June 2006</b>	Recognised in profit or loss	<b>Balance 31 May 2007</b>	Recognised in profit or loss	Recognised in equity	<b>Balance 31 May 2008</b>
Fixed assets	2,637	(489)	2,148	(1,020)	(850)	278
Intangible assets	(3,465)	315	(3,150)	-	-	(3,150)
Biological assets	(11,010)	(4,457)	(15,467)	(2,335)	-	(17,802)
Inventories	(213)	(82)	(295)	274	-	(21)
Provisions	2,675	(221)	2,453	(426)	-	2,028
Other items	139	44	182	(284)	-	(102)
Tax loss carry-forwards	3,881	(3,156)	725	(725)	-	-
	(5,356)	(8,047)	(13,403)	(4,515)	(850)	(18,768)

#### **Parent**

<i>In thousands of New Zealand dollars</i>	<b>Balance 1 June 2006</b>	Recognised in profit or loss	<b>Balance 31 May 2007</b>	Recognised in profit or loss	Recognised in equity	<b>Balance 31 May 2008</b>
Fixed assets	2,664	(485)	2,179	(1,126)	(801)	252
Intangible assets	(3,465)	315	(3,150)	-	-	(3,150)
Biological assets	(10,753)	(4,225)	(14,978)	(2,275)	-	(17,252)
Inventories	(197)	(69)	(267)	267	-	-
Provisions	2,611	(100)	2,511	(494)	-	2,016
Other items	62	65	127	(76)	-	51
Tax loss carry-forwards	2,367	(2,367)	-	-	-	-
	(6,711)	(6,866)	(13,577)	(3,704)	(801)	(18,082)

## Notes to the financial statements

### 21. Inventories

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2008	2007	2008	2007
Semen	1,586	2,539	1,428	2,321
Equipment	3,071	2,913	2,805	2,656
Other	11	250	11	-
	<b>4,668</b>	<b>5,702</b>	<b>4,244</b>	<b>4,977</b>

In 2008 inventories recognised as an expense amounted to \$10,781k (2007: \$7,294k).

### 22. Trade receivables

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2008	2007	2008	2007
Trade receivables due from related parties	25	22	9,114	6,670
Other trade receivables	17,244	12,449	12,560	9,055
	<b>17,269</b>	<b>12,471</b>	<b>21,674</b>	<b>15,725</b>

See note 29 with respect to impairment of trade receivables.

Receivables denominated in currencies other than the functional currency comprise trade receivables denominated in:

*In thousands*

	2008	2007
Euro	1,670	669
Australian Dollars	1,579	1,316
British Pounds	1,094	834
US Dollars	759	849
Canadian Dollars	6	-

### 23. Cash and cash equivalents

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2008	2007	2008	2007
Bank balances	4,906	2,431	3,600	1,500
Call deposits	9,500	3,800	9,500	3,800
Cash and cash equivalents	-	-	-	-
Bank overdrafts used for cash management purposes	-	-	-	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>14,406</b>	<b>6,231</b>	<b>13,100</b>	<b>5,300</b>

The effective interest rate on call deposits in 2008 was 8 percent (2007: 8 percent).

## Notes to the financial statements

### 24. Capital and reserves

#### *Reconciliation of movement in capital and reserves*

##### **Consolidated**

##### **Attributable to equity holders of the Parent**

<i>In thousands of New Zealand dollars</i>	<b>LIC Investment Shares</b>	<b>Foreign Currency Translation reserve</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance at 1 June 2006	58,464	-	23,031	51,753	133,248
Total recognised income and expense	-	44	-	19,033	19,077
Dividends to equity holders	-	-	-	(7,530)	(7,530)
<b>Balance at 31 May 2007</b>	<b>58,464</b>	<b>44</b>	<b>23,031</b>	<b>63,256</b>	<b>144,795</b>

Balance at 1 June 2007	58,464	44	23,031	63,256	144,795
Total recognised income and expense	-	253	7,446	15,630	23,329
Dividends to equity holders	-	-	-	(4,458)	(4,458)
<b>Balance at 31 May 2008</b>	<b>58,464</b>	<b>297</b>	<b>30,477</b>	<b>74,426</b>	<b>163,664</b>

##### **Parent**

<i>In thousands of New Zealand dollars</i>	<b>LIC Investment Shares</b>	<b>Foreign Currency Translation reserve</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance at 1 June 2006	58,464	-	22,824	55,536	136,824
Total recognised income and expense	-	-	-	19,411	19,411
Dividends to equity holders	-	-	-	(7,530)	(7,530)
<b>Balance at 31 May 2007</b>	<b>58,464</b>	<b>-</b>	<b>22,824</b>	<b>67,417</b>	<b>148,705</b>
Balance at 1 June 2007	58,464	-	22,824	67,417	148,705
Total recognised income and expense	-	-	5,858	15,420	21,278
Dividends to equity holders	-	-	-	(4,458)	(4,458)
<b>Balance at 31 May 2008</b>	<b>58,464</b>	<b>-</b>	<b>28,682</b>	<b>78,378</b>	<b>165,524</b>

## Notes to the financial statements

### 24. Capital and reserves (continued)

#### *Share capital*

##### *In thousands of shares*

	<b>Investment Shares</b>	
	<b>2008</b>	<b>2007</b>
On issue at 1 June	29,528	29,528
Own shares acquired	-	-
Issue of shares	-	-
<b>On issue at 31 May</b>	<b>29,528</b>	<b>29,528</b>

The Parent 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.

All investment shares have no par value and rank equally with regard to the Parent's residual assets.

#### *Foreign Currency Translation reserve*

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

#### *Revaluation reserve*

The revaluation reserve relates to the revaluation of land and buildings.

#### *Dividends*

The following dividends were declared and paid by the Group in the year ended 31 May:

<i>In thousands of New Zealand dollars</i>	<b>2008</b>	<b>2007</b>
\$0.10 Interim Investment Share dividend (2007 : \$0.10)	-	7,530
\$0.15 Final Investment Share dividend – paid in 2008 (2007 : \$0.10)	4,458	-

After 31 May 2008 the following dividends were proposed by the Directors for 2008. The dividends have not been provided for and there are no income tax consequences.

<i>In thousands of New Zealand dollars</i>	<b>2008</b>	<b>2007</b>
22.7 cents per Investment share (2007: 15 cents)	6,693	4,458

## Notes to the financial statements

### 25. Co-operative Control Shares

<i>In thousands of shares</i>	<b>Co-operative Control Shares</b>	
	<b>2008</b>	<b>2007</b>
On issue at 1 June	3,473	3,278
Own shares acquired	(449)	(445)
Issue of shares	689	640
<b>On issue at 31 May</b>	<b>3,713</b>	<b>3,473</b>

The Parent had 3,713,060 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 Co-operative Control shares are classified as liabilities.

### 26. Earnings per share

#### *Basic and diluted earnings per share*

The calculation of basic and diluted earnings per share at 31 May 2008 was based on the profit attributable to Investment shareholders of \$15,630 million (2007: \$19.033 million) and a weighted average number of shares outstanding of 29.529 million (2007: 29.529 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 52.9 cents per Investment Share (2007: 64.5 cents per Investment Share).

#### *Profit attributable to investment shareholders*

<i>In thousands of New Zealand dollars</i>	Continuing operations 2008	Dis-continued operation 2008	<b>Total 2008</b>	Continuing operations 2007	Dis-continued operation 2007	<b>Total 2007</b>
Net profit/(loss) for the period	15,630	-	15,630	21,560	(2,527)	19,033

#### *Weighted average number of Investment shares*

<i>In thousands of shares</i>	<b>2008</b>	<b>2007</b>
Issued Investment shares at 1 June	29,529	29,529
Effect of own shares acquired	-	-
Effect of issue of ordinary shares	-	-
<b>Weighted average number of Investment shares at 31 May</b>	<b>29,529</b>	<b>29,529</b>

There have been no significant dilutive effects on earnings per share.

## Notes to the financial statements

### 27. Loans and borrowings

The contractual terms of the Group's interest-bearing loans and borrowings are:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Current liabilities</b>				
Co-operative Control Shares	3,713	3,473	3,713	3,473
	<b>3,713</b>	<b>3,473</b>	<b>3,713</b>	<b>3,473</b>

For more information about the Company's exposure to interest rate and foreign currency risk, see note 29.

### 28. Provisions

<b>Consolidated</b>						
<i>In thousands of New Zealand dollars</i>	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Taxation	Other	<b>Total</b>
Balance at 1 June 2007	3,294	3,898	378	(37)	580	8,113
Additional provision made	88	854	(48)	4,123	-	5,017
Amount utilised	(70)	(1,285)	-	(4,432)	(547)	(6,334)
<b>Balance at 31 May 2008</b>	<b>3,312</b>	<b>3,467</b>	<b>330</b>	<b>(346)</b>	<b>33</b>	<b>6,796</b>
Non-current	2,271	1,206	82	-	-	3,559
Current	1,041	2,261	248	(346)	33	3,237
<b>Balance at 31 May 2008</b>	<b>3,312</b>	<b>3,467</b>	<b>330</b>	<b>(346)</b>	<b>33</b>	<b>6,796</b>
<b>Parent</b>						
<i>In thousands of New Zealand dollars</i>	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Taxation	Other	<b>Total</b>
Balance at 1 June 2007	3,042	3,497	378	(54)		6,863
Additional provision made	237	971	(48)	4,086		5,245
Amount utilised	(70)	(1,285)	-	(4,431)		(5,786)
<b>Balance at 31 May 2008</b>	<b>3,209</b>	<b>3,183</b>	<b>330</b>	<b>(399)</b>		<b>6,322</b>
Non-current	2,224	1,206	83	-		3,512
Current	985	1,977	247	(399)		2,810
<b>Balance at 31 May 2008</b>	<b>3,209</b>	<b>3,183</b>	<b>330</b>	<b>(399)</b>		<b>6,322</b>

#### *Provision for employee entitlements*

The provision for employee entitlements relates to employee benefits such as long service leave, 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.

#### *Provision for sire proving rebate*

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.

## Notes to the financial statements

### 28. Provisions (continued)

#### *ACC Partnership Programme*

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The Group manages its exposure arising from the programme by promoting a safe and healthy working environment by:

- implementing and monitoring health and safety policies;
- induction training on health and safety;
- actively managing work place injuries to ensure employees return to work as soon as practical;
- recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and
- identification of work place hazards and implementation of appropriate safety procedures.

The Group has chosen a stop loss limit of 250% of the industry premium

The Group is not exposed to any significant concentrations of insurance risk as work related injuries are generally the result of an isolated event to an individual employee.

An external independent actuarial valuer, Neil Christie from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the Group's liability, and the valuation is effective 31 May 2008. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuers report.

Average inflation has been assumed as being between 2.6% and 4.2%. A IBNR rate is calculated using a discount of 6.1%. A reopen discount rate of 6.23% has been used.

### 29. Trade and other payables

*In thousands of New Zealand dollars*

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Trade payables due to related parties	-	-	1,823	577
Other trade payables	6,793	6,906	6,746	2,352
Non-trade payables and accrued expenses	5,361	2,164	3,170	6,558
	<b>12,154</b>	<b>9,070</b>	<b>11,739</b>	<b>9,487</b>

Payables denominated in currencies other than the functional currency comprise:

	<b>2008</b>	<b>2007</b>
Euro	1,219	508
Australian Dollars	747	287
British Pounds	886	734

### 30. 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. 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.



## Notes to the financial statements

### 30. Financial instruments (continued)

#### (a) 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.

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 Balance Sheet. There was no exposure to credit risk arising from amounts payable under forward exchange contracts at 31 May 2008 (2007: \$1,822k). As per last year there is no exposure to credit risk arising from amounts receivable under forward exchange contracts.

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographical regions is as follows:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
New Zealand	12,161	8,803	18,906	13,749
Australia	1,579	1,316	451	40
United Kingdom	1,094	834	590	657
Other European countries	1,670	669	962	430
America	759	849	759	849
Other regions	6	-	6	-
Trade and other receivables	<b>17,269</b>	<b>12,471</b>	<b>21,674</b>	<b>15,725</b>

The status of trade receivables at the reporting date is as follows:

#### **Consolidated**

*In thousands of New Zealand dollars*

	<b>Gross receivable 2008</b>	<b>Impairment 2008</b>	<b>Gross receivable 2007</b>	<b>Impairment 2007</b>
Trade receivables				
Not past due	11,196	-	9,668	-
Past due 0-30 days	2,483	-	1,709	-
Past due 31-120 days	3,004	-	1,036	-
Past due 121-360 days	925	339	397	339
Past due more than 1 year	-	-	-	-
Total	<b>17,608</b>	<b>339</b>	<b>12,810</b>	<b>339</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

	<b>Gross receivable 2008</b>	<b>Impairment 2008</b>	<b>Gross receivable 2007</b>	<b>Impairment 2007</b>
Trade receivables				
Not past due	11,022	-	7,817	-
Past due 0-30 days	2,486	-	1,709	-
Past due 31-120 days	2,739	-	1,640	-
Past due 121-360 days	5,598	171	4,730	171
Past due more than 1 year	-	-	-	-
<b>Total</b>	<b>21,845</b>	<b>171</b>	<b>15,896</b>	<b>171</b>

In summary, trade receivables are determined to be impaired as follows:

	<b>Consolidated</b>		<b>Parent</b>	
<i>In thousands of New Zealand dollars</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Gross trade receivables	17,608	12,810	21,845	15,896
Individual impairment	-	-	-	-
Collective impairment	(339)	(339)	(171)	(171)
<b>Trade receivables net</b>	<b>17,269</b>	<b>12,471</b>	<b>21,674</b>	<b>15,725</b>

In the case of insolvency the Group generally writes off the receivable in full unless there is clear evidence that a receipt is highly probable.

#### (b) Liquidity Risk

Liquidity risk represents the Groups ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis.

The Group's exposure to liquidity risk can be summarised as follows:

#### Consolidation

*In thousands of New Zealand dollars*

	<b>2008</b>		<b>2007</b>	
	<b>Total</b>	<b>Repayable on demand</b>	<b>Total</b>	<b>Repayable on demand</b>
Trade Payables	12,154	12,154	9,070	9,070
Co-Operative Control Shares	3,713	3,713	3,473	3,473
<b>Total non derivative liabilities</b>	<b>15,867</b>	<b>15,867</b>	<b>12,543</b>	<b>12,543</b>

#### Parent

*In thousands of New Zealand dollars*

	<b>2008</b>		<b>2007</b>	
	<b>Total</b>	<b>Repayable on demand</b>	<b>Total</b>	<b>Repayable on demand</b>
Trade Payables	11,739	11,739	9,487	9,487
Co-Operative Control Shares	3,713	3,713	3,473	3,473
<b>Total non derivative liabilities</b>	<b>15,452</b>	<b>15,452</b>	<b>12,960</b>	<b>12,960</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

#### (c) Market Risk

##### (i) 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 ("GBP"), United States dollars ("USD"), Australian dollars ("AUD") and Euros ("EUR").

The Group's exposure to foreign currency risk can be summarised as follows:

<i>In thousands of New Zealand dollars</i>	<b>USD</b>	<b>AUD</b>	<b>GBP</b>	<b>EUR</b>
<b>2008</b>				
<b>Foreign currency risk</b>				
Trade receivables	759	1,579	1,094	1,670
Cash balances	79	491	495	158
Net balance sheet exposure before hedging activity	<b>838</b>	<b>2,070</b>	<b>1,589</b>	<b>1,828</b>
<b>Forward exchange contracts</b>				
Notional amounts	-	-	-	-
Net un-hedged exposure	-	-	-	-

#### **2007**

##### **Foreign currency risk**

Trade receivables	849	1,316	834	669
Cash balances	192	574	369	406
Net balance sheet exposure before hedging activity	<b>1,041</b>	<b>1,890</b>	<b>1,203</b>	<b>1,075</b>

##### **Forward exchange contracts**

Notional amounts	1,298	-	-	524
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##### (ii) 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.

#### **Consolidation**

<i>In thousands of New Zealand dollars</i>	<b>2008</b>		<b>2007</b>	
	<b>Total</b>	<b>6 months or less</b>	<b>Total</b>	<b>6 months or less</b>
<b>Fixed rate instruments</b>				
Cash and cash equivalents	14,406	14,406	6,231	6,231
Related party loans	-	-	-	-
Total fixed rate instruments	<b>14,406</b>	<b>14,406</b>	<b>6,231</b>	<b>6,231</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

	2008		2007	
	Total	6 months or less	Total	6 months or less
<b>Fixed rate instruments</b>				
Cash and cash equivalents	13,100	13,100	5,300	5,300
Total fixed rate instruments	<b>13,100</b>	<b>13,100</b>	<b>5,300</b>	<b>5,300</b>

Other investments of the Group relate to:

	Consolidated		Parent	
	2008	2007	2008	2007
<i>In thousands of New Zealand dollars</i>				
Equity securities available-for-sale	10,681	13,675	10,482	13,673
	<b>10,681</b>	<b>13,675</b>	<b>10,482</b>	<b>13,673</b>

Equity securities relate to investments in shares and common stock of private entities in New Zealand, United Kingdom, Australia and Ireland.

#### *Capital management*

The Group's capital includes share capital, reserves, retained earnings and minority interests.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher equity returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

#### *Sensitivity analysis*

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates will have an impact on profit.

At 31 May 2008 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately \$8,000 (2007: \$12,000).

It is estimated that a general increase of ten percentage points (0.1%) in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit before income tax by approximately \$20,000 for the year ended 31 May 2008 (2007: \$19,000). The forward exchange contracts have been included in this calculation.

## Notes to the financial statements

### 30. Financial instruments (continued)

#### (iii) Hedging

##### *Forecast transactions*

The Group uses forward exchange contracts to hedge forecast transactions. As at 31 May 2008 the fair value of forward exchange contracts was \$0 (2007: \$14,000). The Group does not perform hedge accounting.

## Notes to the financial statements

### 30. Financial instruments (continued)

#### *Classification and fair values*

Available for sale assets are recorded at their fair value. All other assets and liabilities are short term. The carrying value is not significantly different to their fair value.

#### **Consolidation**

*In thousands of New Zealand dollars*

	Note	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2008								
<b>Assets</b>								
Investments	19	-	-	-	10,681	-	10,681	10,681
		-	-	-	<b>10,681</b>	-	<b>10,681</b>	<b>10,681</b>
Derivatives								
Trade receivables	22	-	-	17,269	-	-	17,269	17,269
Cash and cash equivalents	23	-	-	14,406	-	-	14,406	14,406
		-	-	<b>31,675</b>	-	-	<b>31,675</b>	<b>31,675</b>
<b>Liabilities</b>								
Derivatives								
Other current liabilities	25	-	-	-	-	3,713	3,713	3,713
Trade payables	29	-	-	-	-	12,154	12,154	12,154
		-	-	-	-	<b>15,867</b>	<b>15,867</b>	<b>15,867</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

*Classification and fair values*

#### **Parent**

*In thousands of New Zealand dollars*

	Note	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2008								
<b>Assets</b>								
Investments	19	-	-	-	10,482	-	10,482	10,482
		-	-	-	<b>10,482</b>	-	<b>10,482</b>	<b>10,482</b>
Derivatives								
Trade receivables	22	-	-	21,674	-	-	21,674	21,674
Cash and cash equivalents	23	-	-	13,100	-	-	13,100	13,100
		-	-	<b>34,774</b>	-	-	<b>34,774</b>	<b>34,774</b>
<b>Liabilities</b>								
Derivatives								
Other current liabilities	25	-	-	-	-	3,713	3,713	3,713
Trade payables	29	-	-	-	-	11,739	11,739	11,739
		-	-	-	-	<b>15,452</b>	<b>15,452</b>	<b>15,452</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

*Classification and fair values*

#### **Consolidation**

*In thousands of New Zealand dollars*

2007

#### **Assets**

	Note	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Investments	19	-	-	-	13,675	-	-	-
		-	-	-	<b>13,675</b>	-	-	-
Derivatives								
Trade receivables	22	-	-	12,471	-	-	12,471	12,471
Cash and cash equivalents	23	-	-	6,231	-	-	6,231	6,231
		-	-	<b>18,702</b>	-	-	<b>18,702</b>	<b>18,702</b>

#### **Liabilities**

Derivatives								
Other current liabilities	25	-	-	-	-	3,473	3,473	3,473
Trade payables	29	-	-	-	-	9,070	9,070	9,070
		-	-	-	-	<b>12,543</b>	<b>12,543</b>	<b>12,543</b>



## Notes to the financial statements

### 30. Financial instruments (continued)

*Classification and fair values*

#### Parent

*In thousands of New Zealand dollars*

	Note	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2007								
<b>Assets</b>								
Investments	19	-	-	-	13,673	-	-	-
		-	-	-	<b>13,673</b>	-	-	-
Derivatives								
Trade receivables	22	-	-	15,725	-	-	15,725	15,725
Cash and cash equivalents	23	-	-	5,300	-	-	5,300	5,300
		-	-	<b>21,025</b>	-	-	<b>21,025</b>	<b>21,025</b>
<b>Liabilities</b>								
Derivatives								
Other current liabilities	25	-	-	-	-	3,473	3,473	3,473
Trade payables	29	-	-	-	-	9,487	9,487	9,487
		-	-	-	-	<b>12,960</b>	<b>12,960</b>	<b>12,960</b>

## Notes to the financial statements

### 30. Financial instruments (continued)

#### *Estimation of fair values*

The methods used in determining the fair values of financial instruments are discussed in note 4.

### 31. Operating leases

#### *Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Less than one year	438	425	438	425
Between one and five years	1,099	1,160	1,011	1,160
More than five years	18	220	18	220
	<b>1,555</b>	<b>1,805</b>	<b>1,467</b>	<b>1,805</b>

The Group leases a number of facilities under operating leases. The leases vary in length depending on location, fit out and business need.

Lease payments are reviewed as per the individual lease agreements to reflect market rentals.

During the year ended 31 May 2008 \$0.420 million was recognised as an expense in the income statement in respect of operating leases (2007: \$0.425 million). \$0.039 million was recognised as income in respect of subleases (2007: \$0.039 million).

### 32. Capital commitments

During the year ended 31 May 2008 the Group entered into a contract to purchase, plant and equipment for \$0.578 million (2007: \$0.625 million). These commitments are expected to be settled in the following financial year.

### 33. Contingencies

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 expect that the possibility of any outflow in settlement is remote.

## Notes to the financial statements

### 34. Reconciliation of the profit for the period with the net cash from operating activities

<i>In thousands of New Zealand dollars</i>	Note	Consolidation		Parent	
		2008	2007	2008	2007
<b>Profit for the period</b>		<b>15,630</b>	<b>19,033</b>	<b>15,420</b>	<b>19,411</b>
Adjustments for:					
Depreciation		7,670	7,202	7,241	6,665
Amortisation of intangible assets		1,282	887	1,282	887
Impairment of goodwill		-	912	-	-
Change in deferred taxation		5,365	8,047	4,505	6,866
Change in fair value of biological assets		(9,877)	(17,469)	(9,493)	(16,379)
Impairment of Investments		3,202	-	3,585	4,963
Share of profit of equity accounted investees		-	-	-	-
Gain on sale of property, plant and equipment		(104)	-	(104)	-
		<b>7,538</b>	<b>(421)</b>	<b>7,016</b>	<b>3,002</b>
Change in inventories (increase)/decrease		1,034	194	733	(448)
Change in trade receivables (increase)/decrease		(4,798)	1,983	(5,949)	2,094
Change in Co Operative Shares increase/(decrease)		240	195	240	195
Change in assets held for sale (increase)/decrease		(2,252)	-	(2,252)	-
Change in biological assets (increase)/decrease		657	976	343	78
Change in Other Current Assets (increase)/decrease		(653)	436	(634)	415
Change in trade and other payables increase/(decrease)		3,084	(2,483)	2,251	(1,794)
Change in provisions increase/(decrease)		(1,124)	567	(702)	554
Items reclassified to/from Investing/Financing activities		605	417	1,276	(1,965)
		<b>(3,207)</b>	<b>2,285</b>	<b>(4,694)</b>	<b>(871)</b>
<b>Net cash from operating activities</b>		<b>19,961</b>	<b>20,897</b>	<b>17,742</b>	<b>21,542</b>

### 35. Related parties

#### *Parent and ultimate controlling party*

The immediate parent and controlling party of the Group is Livestock Improvement Corporation Limited.

All the directors, executive management and subsidiary companies are related parties of the Parent. The Group has no identified other related parties.

#### *Transactions with key management personnel*

Key management personnel compensation comprised:

<i>In thousands of New Zealand dollars</i>	2008	2007
Employee benefits	2,934	2,595

## Notes to the financial statements

### 35. Related parties (continued)

*In thousands of New Zealand dollars*

	Transaction value		Balance outstanding	
	2008	2007	2008	2007
<b>Sale of goods and services</b>				
Sale of goods and services to directors and key management personnel	397	269	25	22

	Co-Operative Shares		Investment Shares	
	2008	2007	2008	2007
<b>Shareholding of Related Parties</b>				
A J Reid	3,410	3,042	74,310	74,310
B R Guy	1,571	2,004	10,050	10,050
E G Coats	595	522	4,970	4,970
K D Straight	984	946	7,040	7,040
M Dewdney	478	163	7,278	7,278
M E Jagger	678	729	19,820	19,820
P J Lynskey	2,150	2,027	60,600	60,600
S B Bay	1,739	1,555	46,650	46,650

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.

#### *Other related party transactions*

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

- Treasury; and
- Sales and services.

*In thousands of New Zealand dollars*

	Transaction value		Balance outstanding	
	2008	2007	2008	2007
Sale of goods to subsidiaries	2,185	3,592	9,114	6,670

## Notes to the financial statements

### 36. Group Investments

The Group has the following significant subsidiaries:

#### Subsidiaries

Name	Country of Incorporation	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2008 %	2007 %		
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31 May	Holding Company
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
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	100	31 May	Farm Automation Systems
FarmKeeper Pty Ltd	Australia	Ordinary	100	100	31 May	Farm Mapping Software
Overland Corner Holding Pty Ltd	Australia	Ordinary	100	100	31 May	Farm Mapping Software

### 37. Subsequent event

Subsequent to 31 May 2008 LIC sold the land classified as non-current assets held for sale referred to in Note 7.

On 11 June 2008 LIC Shareholders voted to change the shareholding structure of LIC. The minimum and maximum multiples of Co-operative to Investment shareholdings were removed and replaced with a maximum Investment Share shareholding by any one shareholder of 5% of the shares on issue. In addition a Staff Unit Trust will be eligible to hold LIC Investment Shares.

## Notes to the financial statements

### 38. Explanation of transition to NZ IFRS

#### Consolidated

##### *Reconciliation of NZ IFRS equity with Previous NZ GAAP at 31 May 2006*

<i>In thousands of New Zealand dollars</i>	<i>Note</i>	<b>Equity</b>	<b>Total Liabilities</b>	<b>Total Assets</b>
<b>Reported under Previous NZ GAAP</b>		<b>96,697</b>	<b>19,447</b>	<b>116,144</b>
Deferred taxation	<i>A</i>	(5,356)	5,356	-
Fair value of land and buildings	<i>B</i>	22,486	-	22,486
Financial instruments	<i>C</i>	16	-	16
Fair value of Biological Assets	<i>D</i>	22,870	-	22,870
Re-class of puttable instruments/Co-Operative Shares	<i>E</i>	(3,278)	3,278	-
Inventory Revaluation		772	-	772
Other adjustments		621	(621)	-
Correction of prior period error	<i>F</i>	(1,581)	-	(1,581)
<b>Total NZ IFRS adjustments</b>		<b>36,551</b>	<b>8,013</b>	<b>44,564</b>
<b>Restated under NZ IFRS</b>		<b>133,248</b>	<b>27,460</b>	<b>160,708</b>

##### *Reconciliation of NZ IFRS equity and profit with Previous NZ GAAP at and for the year ended 31 May 2007*

<i>In thousands of New Zealand dollars</i>	<i>Note</i>	<b>Equity</b>	<b>Total Liabilities</b>	<b>Total Assets</b>	<b>Profit for the Period</b>
<b>Reported under Previous NZ GAAP</b>		<b>98,662</b>	<b>17,566</b>	<b>116,228</b>	<b>9,554</b>
Deferred taxation	<i>A</i>	(5,356)	13,403	-	(8,047)
Fair value of land and buildings	<i>B</i>	22,486	-	22,482	(4)
Financial instruments	<i>C</i>	16	-	(14)	(30)
Fair value of Biological Assets	<i>D</i>	22,870	-	40,562	17,692
Re-class of puttable instruments	<i>E</i>	(3,174)	3,473	-	(299)
Inventory Revaluation		772	-	1,100	328
Other adjustments		621	(382)	78	(160)
Correction of prior period error	<i>F</i>	(1,581)	-	(1,581)	-
Movement in Profit for period		9,479	-	-	-
<b>Total NZ IFRS adjustments</b>		<b>46,133</b>	<b>16,493</b>	<b>62,626</b>	<b>9,479</b>
<b>Restated under NZ IFRS</b>		<b>144,795</b>	<b>34,059</b>	<b>178,854</b>	<b>19,033</b>

*There are no material adjustments to the cash flow statements for 2007/2008, due to IFRS.*

## Notes to the Financial Statements

### 38. Explanation of transition to NZ IFRS (continued)

#### Parent

*Reconciliation of NZ IFRS equity with Previous NZ GAAP at 31 May 2006*

*In thousands of New Zealand dollars*

	<i>Note</i>	<b>Equity</b>	<b>Total Liabilities</b>	<b>Total Assets</b>
<b>Reported under Previous NZ GAAP</b>		<b>101,687</b>	<b>17,697</b>	<b>119,384</b>
Deferred taxation	<i>G</i>	(6,711)	6,711	-
Fair value of land and buildings	<i>H</i>	22,421	-	22,421
Financial instruments	<i>I</i>	16	-	16
Fair value of Biological Assets	<i>J</i>	23,045	-	23,045
Re-class of puttable instruments/Co-Operative Shares	<i>K</i>	(3,278)	3,278	-
Inventory Revaluation		598	-	598
Other adjustments		627	(627)	-
Correction of prior period error	<i>L</i>	(1,581)	-	(1,581)
<b>Total NZ IFRS adjustments</b>		<b>35,137</b>	<b>9,362</b>	<b>44,499</b>
<b>Restated under NZ IFRS</b>		<b>136,824</b>	<b>27,059</b>	<b>163,883</b>

*Reconciliation of NZ IFRS equity and profit with Previous NZ GAAP at and for the year ended 31 May 2007*

*In thousands of New Zealand dollars*

	<i>Note</i>	<b>Equity</b>	<b>Total Liabilities</b>	<b>Total Assets</b>	<b>Profit for the Period</b>
<b>Reported under Previous NZ GAAP</b>		<b>104,229</b>	<b>16,732</b>	<b>120,961</b>	<b>10,177</b>
Deferred taxation	<i>G</i>	(6,711)	13,577	-	(6,866)
Fair value of land and buildings	<i>H</i>	22,421	-	22,413	(8)
Financial instruments	<i>I</i>	16	-	(14)	(30)
Fair value of Biological Assets	<i>J</i>	23,045	-	39,403	16,358
Re-class of puttable instruments	<i>K</i>	(3,174)	3,473	-	(299)
Inventory Revaluation		598	-	889	291
Other adjustments		627	(382)	34	(211)
Correction of prior period	<i>L</i>	(1,581)	-	(1,581)	-
Movement in Profit for period		9,234	-	-	-
<b>Total NZ IFRS adjustments</b>		<b>44,476</b>	<b>16,667</b>	<b>61,143</b>	<b>9,234</b>
<b>Restated under NZ IFRS</b>		<b>148,705</b>	<b>33,399</b>	<b>182,104</b>	<b>19,411</b>

*There are no material adjustments to the cash flow statements for 2007/2008, due to IFRS.*

#### Consolidated

##### A. Deferred Taxation

Under NZ IFRS deferred tax is recognised on all temporary differences between the accounting carrying value and tax base for each asset and liability, which is known as the balance sheet approach. Under previous NZ GAAP deferred tax was only recognised for the effect of timing differences between accounting and tax profits. This change in methodology results in the recognition of deferred tax under NZ IFRS that would have been considered permanent differences under previous NZ GAAP and not recognised.

## Notes to the Financial Statements

### 38. Explanation of transition to NZ IFRS (continued)

Under NZ IFRS deferred tax liabilities will be recognised on items including; biological assets, property revalued under NZ IFRS and the database asset. The deferred tax liability recognised at 31 May 2006 was \$5.356 million. The additional deferred tax liability recognised at 31 May 2007 is \$8.047 million, of which \$4.457 million relates to the revaluation of Biological assets at 31 May 2007 (\$11,010 million at 31 May 2006).

#### **B. Fair Value of Land and Buildings**

On transition to NZ IFRS LIC have elected to adopt the revaluation model for its land and buildings. The effect of this is to increase property, plant & equipment at 31 May 2007 by \$22.482 million (31 May 2006 \$22.486 million). The aggregate fair value of land and buildings at 31 May 2007 for which fair value is used is \$50.643 million (31 May 2006 \$50.868 million). The effect on depreciation from the revaluation of buildings is \$0.004 million for the period ended 31 May 2007.

#### **C. Financial Instruments**

NZ IAS 39 requires all derivative instruments to be recorded at fair value in the balance sheet with the related changes in fair value recognised in the income statement unless the instruments qualify for hedge accounting. LIC currently uses foreign exchange contracts (options and forwards) to hedge forecast cash flows and interest rate swaps to hedge borrowings. LIC does not utilise hedge accounting, therefore all changes in fair value of the instruments are recorded in the income statement. This had the result of increasing total liabilities at 31 May 2007 by \$0.014 million (31 May 2006 increasing assets by \$0.016 million), and reducing profit for the period ended 31 May 2007 by \$0.030 million.

#### **D. Fair Value of Biological Assets**

NZ IAS 41 requires Biological Assets to be valued at fair value. LIC holds Elite Breeding Bulls, Elite Breeding Stags and other livestock that are classified as Biological Assets. As there is no readily accessible market for the Elite Breeding Bulls and Elite Breeding Stags, these assets have been valued at fair value using a discounted cash flow method. The method for determining elite breeding bull valuation has been prepared by Price Waterhouse Coopers based on forecast results prepared by LIC. Other livestock has been valued at market values at the end of each reporting period based on sales data. The effect of the recognising Biological Assets at fair value is to increase assets at 31 May 2007 by \$40.562 million (31 May 2006 \$22.870 million).

#### **E. Reclassification of Co-operative Control Shares**

IFRS 39 requires puttable financial instruments to be recognised as a liability, and distributions paid on those instruments to be recorded in the income statement. Under the terms and conditions of the Co-operative Control Shares these instruments are puttable instruments and, as such are presented in the balance sheet as a current liability rather than as equity. The impact of this reclassification at 31 May 2007 is to reduce equity by \$3.473 million, increase term liabilities by \$3.473 million and reduce distribution to shareholders and profit by \$0.299 million (31 May 2006 reduce equity by \$3.278 million, increase term liabilities by \$3.278 million).

#### **F. Correction of Prior Period Error**

Until 2001 Herd Testing Equipment had been held on the balance sheet of LIC as Loose Tools. These assets were not depreciated, however replacement Herd Testing Equipment was expensed as it was purchased. In 2001, LIC changed its accounting policy, and started to depreciate Herd Testing Equipment, and capitalise new purchased equipment. At the time of the change in the accounting policy all existing Herd Testing Equipment was to be identified and depreciated over its useful life. However \$1.581 million of existing Herd Testing Equipment was not correctly identified, and therefore remained on the balance sheet at original cost. Due to the time that has elapsed, these items should have been fully depreciated. The impact of this prior period error is to reduce equity at 31 May 2007 by \$1.581 million (31 May 2006 \$1.581 million). There is no future impact of the correction of this prior period item.



**38. Explanation of transition to NZ IFRS (continued)**

**Parent**

**G. Deferred Taxation**

Under NZ IFRS deferred tax is recognised on all temporary differences between the accounting carrying value and tax base for each asset and liability, which is known as the balance sheet approach. Under previous NZ GAAP deferred tax was only recognised for the effect of timing differences between accounting and tax profits. This change in methodology results in the recognition of deferred tax under NZ IFRS that would have been considered permanent differences under previous NZ GAAP and not recognised.

Under NZ IFRS deferred tax liabilities will be recognised on items including; biological assets, property revalued under NZ IFRS and the database asset. The deferred tax liability recognised at 31 May 2006 is \$6.711 million. The additional deferred tax liability recognised at 31 May 2007 is \$6.866 million.

**H. Fair Value of Land and Buildings**

On transition to NZ IFRS LIC have elected to adopt the revaluation model for its land and buildings. LIC has elected to revalue land and buildings on its balance sheet at the date of transition. The effect of this is to increase property, plant & equipment at 31 May 2007 by \$22.413 million; 31 May 2006 \$22.421 million. The effect on depreciation from the revaluation of buildings is \$0.008 million for the period ended 31 May 2007.

**I. Financial Instruments**

NZ IAS 39 requires all derivative instruments to be recorded at fair value in the balance sheet with the related changes in fair value recognised in the income statement unless the instruments qualify for hedge accounting. LIC currently uses foreign exchange contracts (options and forwards) to hedge forecast cash flows and interest rate swaps to hedge borrowings. LIC does not utilise hedge accounting, therefore all changes in fair value of the instruments are recorded in the income statement. This had the result of increasing total liabilities at 31 May 2007 by \$0.014 million (31 May 2006 increasing assets by \$0.016 million), and reducing profit for the period ended 31 May 2007 by \$0.030 million.

**J. Fair Value of Biological Assets**

NZ IAS 41 requires Biological Assets to be valued at fair value. LIC holds Elite Breeding Bulls and other livestock that are classified as Biological Assets. As there is no readily accessible market for the Elite Breeding Bulls, these assets have been valued at fair value using a discounted cash flow method. The method for determining elite breeding bull valuation has been prepared by Price Waterhouse Coopers based on forecast results prepared by LIC. Other livestock has been valued at market values at the end of each reporting period based on sales data. The effect of the recognising Biological Assets at fair value is to increase the Term assets at 31 May 2007 by \$39.403 million (31 May 2006 \$23.045 million).

**K. Reclassification of Co-operative Control Shares**

IFRS 39 requires puttable financial instruments to be recognised as a liability, and distributions paid on those instruments to be recorded in the income statement. Under the terms and conditions of the Co-operative Control Shares these instruments are puttable instruments and, as such are presented in the balance sheet as a current liability rather than as equity. The impact of this reclassification at 31 May 2007 is to reduce equity by \$3.473 million, increase term liabilities by \$3.473 million and reduce distribution to shareholders and profit by \$0.299 million (31 May 2006 reduce equity by \$3.278 million, increase term liabilities by \$3.278 million).

**L. Correction of Prior Period Error**

Until 2001 Herd Testing Equipment had been held on the balance sheet of LIC as Loose Tools. These assets were not depreciated, however replacement Herd Testing Equipment was expensed as it was purchased. In 2001, LIC changed its accounting policy, and started to depreciate Herd Testing Equipment, and capitalise new purchased equipment. At the time of the change in the accounting policy all existing Herd Testing Equipment was to be identified and depreciated over its useful life. However \$1.581 million of existing Herd Testing Equipment was not correctly identified, and therefore remained on

## **Notes to the financial statements**

### **38. Explanation of transition to NZ IFRS (continued)**

the balance sheet at original cost. Due to the time that has elapsed, these items should have been fully depreciated. The impact of this prior period error is to reduce equity at 31 May 2007 by \$1.581 million (31 May 2006 \$1.581 million). There is no future impact of the correction of this prior period item.



## Audit report

### To the shareholders of Livestock Improvement Corporation Limited

We have audited the financial statements on pages 2 to 58. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2008. This information is stated in accordance with the accounting policies set out on pages 6 to 18.

#### 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 2008 and the results of their operations and cash flows for the year ended on that date.

#### Auditors' responsibilities

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

#### Basis of opinion

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

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

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

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation 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 2 to 58:
  - 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 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 4 August 2008 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink, appearing to read 'KPMG' with a stylized flourish at the end.

Auckland

## **GOVERNANCE REPORT**

### **Role of Board of Directors**

The Board is responsible for the direction and control of Livestock Improvement's activities. It is committed to the guiding values of the Company, integrity, respect, continuous improvement and service to its Shareholders. Legislation and the Constitution 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.

### **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.

### **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 products 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.

### **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 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.

### **Board Composition**

The Board is comprised of seven Elected Directors representing the 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 Directors representing the Midland region (Stuart Bay and Ted Coats) retired by rotation in 2008 and being eligible stood for re-election. Mr Wayne Berry was also nominated and a postal election held. Messrs Bay and Coats were re-elected.

Mr Phil Lough , an Independent Director, retired by rotation and was reappointed by shareholders at the 2007 Annual Meeting.

## **Committees**

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

### **Audit Finance & 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 P 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 M 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 2007/08.

## **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. The share structure was amended, effective from 1 July 2008, removing the compulsion for any Shareholder to hold Investment Shares.

## **Interests Register**

A Directors' Interest Register is maintained and Directors interest in transactions during the financial year are outline on page 63 of the report.

## **STATUTORY REQUIREMENTS**

### **Nature of LIC Business**

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

## ENTRIES IN THE INTERESTS REGISTER

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

### Directorships and Memberships

#### **S Bay:**

Member of Governance Group of Pastoral 21

#### **E Coats:**

Director of Dairy NZ, Johnes Ltd and a Member of Governance Group of NAIT

#### **M Dewdney:**

Director of Tru-Test Ltd

#### **G Fraser:**

Director of Skellerup Holdings, Ag Research, Chair of Governance Group of Pastoral 21 and Chair of the transition group implementing the recommendations of the Dairy Industry Good review.

#### **P Lough:**

Director of Tatua Dairy Company Ltd, Dairy Equity Ltd, Methven, Arc Innovations and Port Nelson

#### **P J Lynskey:**

Director of New Zealand Animal Evaluation Ltd

#### **A Reid:**

Director of Hitech Foods Ltd, Opuha Water Partnership Ltd, SIDDC Board, WA Systems Ltd, Kakahu Irrigation Ltd, Totara Valley Irrigation Ltd, Conical Hill Dairy Ltd

#### **J Waldvogel:**

Director of Global Dairy Concepts (USA), Global Dairy Platform (USA), Dairiconcepts (USA) and Dairy America (USA).

## DIRECTORS AND REMUNERATION

Directors of the Parent received the following remuneration:

	<i>Fees</i>
	<i>\$000</i>
S B Bay	96
E G Coats	38
B R Guy	38
M E Jagger	38
P J Lynskey	38
A J Reid	38
K D Straight	38
G A Fraser	43
PV Lough	43
J S Waldvogel	38
	448

## ENTRIES IN THE INTEREST REGISTER

### (a) Directors Interest

#### 11.07.07 Board

Mr T Coats declared an interest and withdrew from the discussion on Dairy InSight.

#### 01.04.08 Board

Mr T Coats declared an interest as a DairyNZ Director in the discussion on share transfers and share surrenders.

Mr P Lough declared a potential interest in the share structure discussion.

Mr T Coats declared an interest in the Feed Conversion Efficiency discussion.

Mr B Guy sold 1 bull calf to the Company during the year for \$2500.

### (b) Share dealings by 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 LIC's products and services are holders of the following shares:

<i>Director</i>	<i>2008</i>		<i>2007</i>	
	<i>Co-operative Control Shares</i>	<i>Investment Shares</i>	<i>Co-operative Control Shares</i>	<i>Investment Shares</i>
Stuart Bay	1,739	46,650	1,555	46,650
Ted Coats	595	4,970	522	4,970
Bryan Guy	1,571	10,050	2,004	10,050
Murray Jagger	678	19,820	729	19,820
John Lynskey	2,150	60,600	2,027	60,600
Alvin Reid	3,410	74,310	3,042	74,310
Kevin Straight	984	7,040	946	7,040

No Director traded Investment Shares during the year.

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

There have been no loans 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 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 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:

<b>Remuneration Range</b>	<b>Returning</b>	<b>Cessations</b>	<b>Total</b>
100,000 – 109,999	16	2	18
110,000 – 119,999	5		5
120,000 – 129,999	6	1	7
130,000 – 139,999	4		4
150,000 – 159,999	1	2	3
160,000 – 169,999	2		2
170,000 – 179,999		1	1
180,000 – 189,999	2	1	3
200,000 – 209,999	2		2
210,000 – 219,999	1	1	2
230,000 – 239,999	1		1
250,000 – 259,000	2		2
500,000 – 509,999	1		1
Total	43	8	51

**RESOLUTION OF DIRECTORS**  
**DATED 27 JUNE 2008 CONFIRMING THE CO-OPERATIVE STATUS OF**  
**LIVESTOCK IMPROVEMENT CORPORATION LIMITED**

**RESOLVED THAT:**

- 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 2008.
- 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 the 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 2008**

**Size of Shareholding**

<b>Holdings</b>	<b>Shareholders</b>	<b>Investments Share Held</b>	<b>% of Total</b>
1-999	3,296	1,357,654	4.60
1,000-1,999	2,717	4,109,777	13.91
2,000-2,999	2,345	5,772,139	19.54
3,000-3,999	1,334	4,604,652	15.59
4,000-4,999	700	3,135,189	10.61
5,000-9,999	989	6,560,457	22.21
Over 10,000	244	3,998,722	13.54
<b>Total</b>	<b>11,625</b>	<b>29,358,590</b>	<b>100.00</b>

**Twenty Largest Shareholdings of Quoted Securities (by participant code)**

	<b>Investment Shares Held</b>
Peter John Lynskey, Carole Joyce Lynskey (Maolla Trust)	60,600
Rotokaia Farm Ltd	48,930
Allan Hubbard, Allan Pye, Andrew Turney (Balrath Farm Partnership)	47,882
Stuart Bruce Bay, Doris Beth Bay (Bay Family Trust)	46,650
Broad Acres Farms Ltd	42,494
South Hilton Ltd	42,070
Rakaia Island Dairies Ltd	40,580
Christopher John Stark, Allan James Hubbard (Deebury Pastoral Ealing)	37,789
Browns Farm Ltd	34,860
Timothy Pearce Watson, Wendy Jane Watson	34,820
Fenland Ltd	33,660
Christopher John Stark, Allan James Hubbard (Deebury Pastoral Maronan)	31,136
Clarksfield Holdings 1996 Ltd	31,110
Westhaven Farms Limited	31,080
Farminco Ltd	30,000
Kennedy Farm Ltd	29,940
Gillian Patricia Gow, James Platt Gow, Matthew Platt Gow (Gow Family Trust)	29,554

Kotomatua Holdings Ltd	29,280
Lacmor Dairies Ltd	29,190
Mark Francis Slee, Devon Mathieson Slee	28,675

### **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 2008.

### **Non- Standard Listing**

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule 5.1.4, by reason of it being a co-operative company having a 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 have been granted in respect of the following NZAX Listing Rules:

1. Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any other person who is entitled to hold the Securities to which the Right or offer relates.
2. Rule 3.2.2 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 pursuant to clause 26.4(b) and Schedule 3 of the Constitution;
  - (b) Certain qualifications to be required of directors as set out in paragraphs 1(a) and 2 of Schedule 3;
  - (c) The nomination procedure for directors as set out in paragraph 1(b) of Schedule 3.
3. Rule 3.2.3 to permit the provisions of paragraph 1(e) of Schedule 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 the director is due to retire by way of rotation.
4. Rule 3.2.6 to allow for the rotation of Elected Directors as set out in clause 27 of the Constitution and clauses 1(c) and (d) of Schedule 3 whereby Elected Directors are due to retire on the 1<sup>st</sup> day of June in each year on a regional basis, so that a rotation schedule of 4 years for Elected Directors is permitted.
5. Rule 7.6.3 to allow clause 3.6.2 to permit financial assistance to be given to an Approved Holding Entity.
6. Rule 8.2.1 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 so that clause 20 of the Constitution (which provides for a more extensive lien on Securities) is allowed.
7. Rule 11.1.5 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. Restrictions in the Constitution requiring approval from NZX are 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 Employee Scheme Holders (or by other persons in certain specified circumstances). Again, this aims to protect the fundamental nature of a cooperative company;
  - (c) Clause 3.2.3A prohibits third party interests by prohibiting a Shareholder from holding Shares on behalf of any person who is not a User (subject to exceptions in the case of Family Trusts and the Employee Share Purchase Scheme);
  - (d) 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, or the Company or Approved Holding Entity or an Employee Scheme Holder (or by other persons in certain limited specified circumstances);
  - (e) Clauses 10.2 to 10.7 (inclusive) place restrictions on how Investment Shares may be held. Clause 10.3 imposes a Maximum Investment Shareholding of not more than 5% of the

total number of Investment Shares currently on issue. Clause 10.4 provides for disposal of Investment Shares upon a person ceasing to be a Co-operative Control Shareholder. Clause 10.6 permits an Approved Holding Entity to hold Investment Shares to administer any Voluntary Investment Scheme and Dividend Reinvestment Plan. Clause 10.7 provides for shares to be held in Brokers' Accounts;

- (f) Clause 10.8 authorises the Board to establish an Employee Share Purchase Scheme which may hold up to 5% of the total number of Investment Shares currently on issue;
  - (g) Clause 13.5 permits the Board to refuse to register transfers of Investment Shares where the transfer would breach the restrictions referred to in paragraph 7(e) above or would otherwise be in breach of the Constitution, and clause 13.5A empowers the Board to require proof that shares are not being acquired for the benefit of third parties;
  - (h) Clause 24 list 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.
8. NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:
- (a) The definition in clause 2.1 of "Average Market Capitalisation" has been amended to take account of the fact that it is only the Investment Shares, which will have a market capitalisation value, and therefore the nominal value of the Cooperative Control Shares will be added to that value. This definition is relevant in relation to section 9 of the Listing Rules in relation to Major Transactions and Material Transactions;
  - (b) Rules 7.3.3(b), 7.6.3(a) and 4.3.2(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) Clause 3.5.1(a) reflects 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, the definition in the Constitution excludes the word "Quoted" so that under clause 3.5.1(a) the approval of each class of Equity Securities is required regardless of whether or not they are Quoted;
  - (d) Clause 3.5.2(a) of the Constitution provides for the reference in Rule 7.3.1(a) to "Quoted Equity Securities" to be deemed a reference to "Equity Securities", as the Co-operative Control Shares are not Quoted;
  - (e) Clause 3.5.2(b) of the Constitution provides for the reference in Rule 7.3.4(ba) to "Equity Securities carrying Votes" to be deemed a reference to "Investment Shares" as Investment Shares do not have voting rights (except in very limited circumstances);
  - (f) Paragraph 6.1 of Schedule 1 reflects Rule 6.2.5; however it applies to notices of meetings of Shareholders rather than of Quoted Security holders.

## **DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993**

- A. **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 19 August 2008 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:

- (g) 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;
- (h) The Dividend Plan Financial Assistance is available to all eligible Shareholders, giving equal opportunity to participate in the benefits of the Dividend Plan;
- (i) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new shares are being issued under the Dividend Plan;
- (j) 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;
- (k) 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;
- (l) 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
- (m) The amount of financial assistance is minimal in comparison to the benefits arising out of the Dividend Plan for Shareholders and Livestock Improvement.

- B **Voluntary Investment Scheme:** Livestock Improvement Corporation Limited (“LIC”) proposes to provide financial assistance to those Shareholders who elect to participate in the Voluntary Investment Scheme (“Investment Scheme”) by agreeing to pay to The New Zealand Guardian Trust Company Limited (“Guardian Trust”) as the Approved Holding Entity the annual services fee and other fees, brokerage costs, and commission incurred for the purposes of the Investment Scheme. 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 Investment Scheme, and the moneys paid by LIC to Guardian Trust as Approved Holding Entity will include any fees, brokerage and commission costs of ABN AMRO.

LIC is required to make disclosure to all Shareholders in respect of this proposed financial assistance. The exact amount of the costs depends upon the extent to which Shareholders participate in the Investment Scheme. However the total amount of costs in the next 12 months is estimated to be in the region of \$18,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 19 August 2008 that LIC should provide the financial assistance referred to above (“VIS Assistance”), and that the giving of the VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board’s conclusions are:

- (i) The VIS Assistance enables LIC to provide shareholders with an efficient means of acquiring additional Investment Shares in LIC without incurring transaction costs which they would otherwise incur;
- (ii) The VIS Assistance is available to all shareholders, giving equal opportunity to participate in the benefits of the Investment Scheme;
- (iii) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the VIS Scheme;
- (iv) 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;
- (v) The VIS Scheme 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 Investment Shares;
- (vi) The VIS Scheme enables LIC to offer Shareholders a mechanism to invest 4% of their annual spend on purchases of Qualifying Products and Services, in Investment Shares without resulting in unnecessary new capital being raised through the issue of new Investment Shares; and
- (vii) The amount of financial assistance is minimal in comparison to the benefits arising out of the VIS Scheme for Shareholders and Livestock Improvement

**C LIC Employee Share Scheme:** LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme (“Employee Scheme”) under which Guardian Trust is the Trustee and LIC is the Manager. LIC proposes to pay the Trustee’s fees and expenses (including brokerage) estimated to be \$36,000. Against this payment can be offset the Manager’s fee of 10% of the gross dividends (including any imputation credits) on the Investment Shares received by the Employee Scheme for the relevant financial year. The amount of the Manager’s fee will depend on how many employees participate in the Employee Scheme and the level of their contribution. An estimate of the net amount of the financial assistance is \$35,000.

The Board of LIC resolved on 19 August 2008 that LIC should provide the financial assistance referred to above (“Employee Scheme Assistance”) and that the giving of the Employee Scheme Assistance is in the best interests of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Employee Scheme Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board’s conclusions are:

- (viii) The Employee Scheme will be a valuable addition to the benefits available to the employees of LIC and will assist in retaining them as valuable staff;
- (ix) The Employee Scheme is a method of aligning the interests of employees with the interests of Shareholders and is an effective means of motivating future performance

of the employees. This is expected to bring about an increase in the value of the Investment Shares;

- (x) Shareholders will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Employee Scheme;
- (xi) The additional Investment Shares will be purchased through ABN AMRO at the NZAX market price;
- (xii) The Employee Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for Shareholders wishing to sell those Shares;

The amount of financial assistance is minimal in comparison to the benefits arising out of the Employee Scheme for Shareholders and LIC.