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**LIVESTOCK IMPROVEMENT CORPORATION LIMITED (LIC)**

**ANNUAL REPORT**

**Year Ended 31 May 2009**



**Income Statement**  
For the year ended 31 May 2009

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2009	2008	2009	2008
Revenue	7	150,296	132,250	141,217	123,799
Other income	8	980	104	622	104
Purchased materials		(18,358)	(16,905)	(15,490)	(14,775)
Staff expenses	11	(66,015)	(58,106)	(62,257)	(54,823)
Depreciation		(5,299)	(5,332)	(4,873)	(4,903)
Amortisation		(3,193)	(3,620)	(3,193)	(3,620)
Impairment	9	(3,503)	(3,202)	(3,063)	(3,585)
Share of loss of equity accounted associate	34	(21)	-	(21)	-
Other expenses	10	(33,844)	(31,075)	(31,201)	(28,970)
Earnings before finance activities, taxation and fair value adjustments		21,042	14,114	21,742	13,227
Finance income	12	2,153	1,207	2,227	1,359
Finance expenses	12	(489)	(831)	(499)	(869)
Fair value adjustments-biological assets	16	12,465	9,877	12,841	9,493
Earnings before taxation		35,171	24,367	36,311	23,210
Tax expenses on fair value adjustments - biological assets		(3,739)	(2,963)	(3,852)	(2,848)
Tax expenses - other		(6,759)	(5,774)	(7,297)	(4,942)
Total tax expense	13	(10,498)	(8,737)	(11,150)	(7,790)
Profit for the period		24,672	15,630	25,162	15,420
Earnings per share	24				
Basic and diluted earnings per investment share (NZD)		0.836	0.529		

**Supplementary note to the Income Statement**

Profit for the period	24,672	15,630	25,162	15,420
Gain on fair value of biological assets	(12,465)	(9,877)	(12,841)	(9,493)
Tax effect on gain on fair value of biological assets	3,739	2,963	3,852	2,848
Underlying net earnings excluding biological assets and tax there on	15,947	8,716	16,173	8,775

**Statement of Total Recognised  
Income and Expenses  
For the year ended 31 May 2009**

<i>In thousands of New Zealand dollars</i>	<b>Note</b>	<b>Consolidated</b>		<b>Parent</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Foreign currency translation differences for foreign operations	22	(174)	253	-	-
Effective portion of changes in fair value of cash flow hedges	22	93	-	93	-
Net change in fair value of available for sale financial assets	22	131	-	-	-
Revaluation of property plant and equipment	22	(2,543)	7,446	(2,489)	5,858
<b>Total income and expenses recognised directly in equity</b>		<b>(2,493)</b>	<b>7,699</b>	<b>(2,396)</b>	<b>5,858</b>
<b>Profit for the period</b>		<b>24,672</b>	<b>15,630</b>	<b>25,162</b>	<b>15,420</b>
<b>Total recognised income and expense for the period</b>		<b>22,179</b>	<b>23,329</b>	<b>22,765</b>	<b>21,278</b>

**Balance Sheet**  
**As at 31 May 2009**

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2009	2008	2009	2008
<b>Assets</b>					
Fixed assets	14	64,997	68,422	58,135	61,224
Intangible assets	15	22,252	22,906	20,647	20,743
Biological assets	16	74,914	62,428	73,713	60,872
Investments & derivatives	17	8,114	10,681	15,822	18,831
Related party loans	33	-	-	6,634	1,206
<b>Total non-current assets</b>		<b>170,277</b>	<b>164,437</b>	<b>174,951</b>	<b>162,876</b>
Cash and cash equivalents	21	18,034	14,406	16,584	13,100
Inventories	19	7,421	4,668	6,710	4,244
Biological assets	16	1,003	844	-	24
Investments & derivatives	17	10,696	-	10,696	-
Trade and other receivables	20	15,023	17,269	15,512	21,674
Non-current assets held for sale	6	-	2,252	-	2,252
Other current assets		1,091	1,219	1,073	1,210
<b>Total current assets</b>		<b>53,266</b>	<b>40,658</b>	<b>50,575</b>	<b>42,504</b>
<b>Total assets</b>		<b>223,543</b>	<b>205,095</b>	<b>225,526</b>	<b>205,380</b>
<b>Equity</b>					
Share capital	22	58,464	58,464	58,464	58,464
Reserves	22	28,280	30,774	26,285	28,682
Retained earnings	22	92,411	74,426	96,847	78,378
<b>Total equity</b>		<b>179,155</b>	<b>163,664</b>	<b>181,597</b>	<b>165,524</b>
<b>Liabilities</b>					
Provisions	26	4,406	3,559	4,011	3,512
Deferred tax liability	18	24,058	18,768	23,745	18,082
<b>Total non-current liabilities</b>		<b>28,464</b>	<b>22,327</b>	<b>27,756</b>	<b>21,594</b>
Co-operative control shares	23	4,054	3,713	4,054	3,713
Trade and other payables	27	7,876	12,154	7,700	11,739
Provision for tax		1,482	(346)	1,966	(399)
Provisions	26	2,512	3,583	2,453	3,209
<b>Total current liabilities</b>		<b>15,924</b>	<b>19,104</b>	<b>16,173</b>	<b>18,262</b>
<b>Total liabilities</b>		<b>44,388</b>	<b>41,431</b>	<b>43,929</b>	<b>39,856</b>
<b>Total equity and liabilities</b>		<b>223,543</b>	<b>205,095</b>	<b>225,526</b>	<b>205,380</b>



Director

Date: 22 July 2009



Director

Date: 22 July 2009

**Cash Flow Statement**  
**For the year ended 31 May 2009**

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2009	2008	2009	2008
<b>Net cash from/(used in) operating activities</b>	<b>32</b>				
<b>Cash provided from:</b>					
Receipts from customers		152,619	126,903	142,023	117,320
Finance income received		2,101	1,207	2,221	1,359
		<b>154,720</b>	<b>128,110</b>	<b>144,244</b>	<b>118,679</b>
<b>Cash applied to:</b>					
Payments to suppliers and employees		(124,339)	(103,234)	(114,382)	(95,984)
Finance expense paid		(203)	(484)	(214)	(522)
Income tax paid		(3,415)	(4,431)	(3,414)	(4,431)
		<b>(127,958)</b>	<b>(108,149)</b>	<b>(118,010)</b>	<b>(100,937)</b>
		<b>26,763</b>	<b>19,961</b>	<b>26,233</b>	<b>17,742</b>
<b>Net cash from/(used in) investing activities</b>					
<b>Cash provided from:</b>					
Sale of biological assets		24	1,099	24	375
Sale of other non-current assets		2,704	145	2,704	145
Sale of property, plant and equipment		1,771	-	1,497	-
Advances to subsidiaries		-	-	75	2,146
		<b>4,499</b>	<b>1,244</b>	<b>4,300</b>	<b>2,666</b>
<b>Cash applied to:</b>					
Acquisition of term investments		(10,603)	-	(10,603)	-
Acquisition of shares		(27)	(208)	(25)	(775)
Acquisition of intangibles		(2,928)	(1,834)	(2,928)	(1,834)
Acquisition of property, plant and equipment		(7,295)	(6,420)	(6,859)	(5,425)
Acquisition of biological assets		(204)	-	-	(8)
		<b>(21,057)</b>	<b>(8,462)</b>	<b>(20,415)</b>	<b>(8,042)</b>
		<b>(16,558)</b>	<b>(7,218)</b>	<b>(16,115)</b>	<b>(5,376)</b>
<b>Net cash from/(used in) financing activities</b>					
<b>Cash provided from:</b>					
Shares paid up		880	687	880	687
Short term borrowings		-	-	-	-
		<b>880</b>	<b>687</b>	<b>880</b>	<b>687</b>
<b>Cash applied to:</b>					
Repurchase of co-operative shares		(539)	(447)	(539)	(447)
Dividends paid to shareholders of the Group		(6,690)	(4,460)	(6,690)	(4,459)
Interest paid on co-operative shares		(285)	(347)	(285)	(347)
		<b>(7,514)</b>	<b>(5,254)</b>	<b>(7,514)</b>	<b>(5,253)</b>
		<b>(6,634)</b>	<b>(4,567)</b>	<b>(6,634)</b>	<b>(4,566)</b>
<b>Net increase/(decrease) in cash balances</b>		<b>3,570</b>	<b>8,176</b>	<b>3,484</b>	<b>7,800</b>
<b>Cash balances at beginning of period</b>		<b>14,406</b>	<b>6,231</b>	<b>13,100</b>	<b>5,300</b>
Effect of exchange rate changes on cash held		57	-	-	-
<b>Closing cash balances</b>		<b>18,034</b>	<b>14,406</b>	<b>16,584</b>	<b>13,100</b>

**Notes to the Financial Statements**  
**For the year ended 31 May 2009**

**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 2009, comprise LIC and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in providing genetics and farm solutions 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').

The financial statements were approved by the Board of Directors on 22 July 2009.

**(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 Group'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:

- Note 14 – Fixed assets – revaluation of land and buildings
- Note 15 – Intangible assets - measurement of the recoverable amounts of intangibles
- Note 16 – Biological assets
- Note 17 – Investments
- Note 26 – Provisions

It is reasonably possible based on existing knowledge that outcomes within the next financial year, that are different from the assumptions made, could require a material adjustment to the carrying amount of the asset or liability affected.

## Notes to the Financial Statements

### 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.

##### (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, are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Where the Group'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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (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.

##### *Trade receivables*

Trade receivables are classified as a loan and receivables financial instrument and 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### *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.

#### (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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

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 measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. 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 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 New Zealand Dairy Core Database, covering some 40 fields of animal data, were defined. While the Livestock Improvement Database includes these defined fields, no specific value is attributed to the New Zealand Dairy Core Database.

The cost of the Livestock Improvement Database was capitalised. Based on analysis of various economic factors including the volume and complexity of data, models, statistical compilation and integration and the ability to derive revenue from several products 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

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 directly attributable costs.

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 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 other 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

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; see 3.(f) and 3. (h) for treatment), 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.

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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

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 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 as 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 from reference to milestones 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

Finance expenses comprise interest expense on borrowings, unwinding of 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 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 and land that is recorded at fair value. 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

- (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: May 2008

Effective date periods beginning on or after: 1 January 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 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 are in respect of:

- Scope
- Measurement of consideration transferred
- Goodwill measurement
- Initial measurement of non-controlling interest
- Transaction/acquisition costs
- Step acquisitions
- New disclosures

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

#### **Amendment: to NZ IFRS 7: Improving Disclosures about Financial Instruments**

Approved: March 2009

Effective date periods beginning on or after: 1 January 2009

Amendments to NZ IFRS 7 increase clarity and provide additional guidance. In particular the amendments aim to:

- enhance disclosures over fair value measurements relating to financial instruments, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations; and
- improve disclosures over liquidity risk to address current diversity in practice in how such disclosure requirements are being interpreted and applied, proposing quantitative disclosures based on how liquidity risk is managed and strengthening the relationship between quantitative and qualitative liquidity risk disclosures.

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. Applies to entities:

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

- Whose debt or equity instruments are traded in a public market who file, or are in the process of filing, financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
- who do not qualify for differential reporting concessions.
- New way of determining segments – focus on information provided to the 'chief operating decision maker'.
- Includes consequential amendments to NZ IAS 34 Interim Financial Reporting.
- Sets out requirements for related disclosures about products and services, geographical areas and major customers.

The impact of these amendments on the group's financial statements has not yet been determined.

#### **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' (ie 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 introduces the requirement to have three balance sheets in certain circumstances.
- The revised standard also prohibits presenting components of comprehensive income in the Statement of Changes in Equity.

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

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

Approved: February 2008

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 27 – Consolidated and Separate Financial Statements (amended)**

Approved: February 2008

Effective date periods beginning on or after: 1 January 2009

The amendments 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 are accounted for in equity
- 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:

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

- 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.

### 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.

#### (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 cervine 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.

#### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Notes to the financial statements

5 Segment reporting (continued)

*Business segments*

**Consolidated**

In thousands of New Zealand dollars

	Genetics		Farm Solutions		Other Group Operations		Total Operations	
	2009	2008	2009	2008	2009	2008	2009	2008
Total external revenues	80,699	71,910	67,225	57,257	3,351	3,187	151,276	132,354
Inter-segment revenues	-	-	-	-	-	-	-	-
Total segment revenue	80,699	71,910	67,225	57,257	3,351	3,187	151,276	132,354
<b>Segment result</b>	40,387	29,477	17,848	9,764	(24,728)	(15,250)	33,507	23,991
<b>Unallocated expenses</b>	-	-	-	-	-	-	-	-
Results from operating activities	40,387	29,477	17,848	9,764	(24,728)	(15,250)	33,507	23,991
Net finance costs	-	-	-	-	1,664	376	1,664	376
Income tax expense	(12,231)	(10,906)	(5,931)	(3,612)	7,665	5,781	(10,498)	(8,737)
<b>Profit for the period</b>	<b>28,156</b>	<b>18,571</b>	<b>11,916</b>	<b>6,152</b>	<b>(15,399)</b>	<b>(9,093)</b>	<b>24,672</b>	<b>15,630</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		Total Operations	
	2009	2008	2009	2008	2009	2008	2009	2008
Segment assets	132,184	121,326	64,955	59,619	26,404	24,150	223,543	205,095
Unallocated assets	-	-	-	-	-	-	-	-
Total assets	132,184	121,326	64,955	59,619	26,404	24,150	223,543	205,095
Segment liabilities	27,593	25,809	11,887	11,118	4,909	4,504	44,388	41,431
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities	27,593	25,809	11,887	11,118	4,909	4,504	44,388	41,431
Capital expenditure	1,727	1,690	2,018	3,948	5,009	2,399	8,754	8,037
Depreciation	864	980	2,719	2,922	1,715	1,430	5,299	5,332
Amortisation of intangible assets	-	-	-	-	3,193	3,620	3,193	3,620
Impairment losses on investments, intangible assets and property, plant and equipment	-	-	440	-	3,063	3,202	3,503	3,202

#### Geographical segments

##### Consolidated In thousands of New Zealand dollars

	New Zealand		Rest of World		Total	
	2009	2008	2009	2008	2009	2008
Revenue from external customers	141,147	123,241	10,129	9,113	151,276	132,354
Segment assets	222,540	195,936	1,003	9,159	223,543	205,095
Capital expenditure	8,488	7,791	266	246	8,754	8,037

## Notes to the financial statements

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

*In thousands of New Zealand dollars*

Whakarongo Block

Consolidated		Parent	
2009	2008	2009	2008
-	2,252	-	2,252

### 7. Revenue

*In thousands of New Zealand dollars*

Sales of goods  
Services - Herd testing, MINDA, Farmwise, Animal  
Evaluation, Genemark  
**Total revenues**

Consolidated		Parent	
2009	2008	2009	2008
97,166	88,662	88,241	80,300
53,130	43,588	52,976	43,499
<b>150,296</b>	<b>132,250</b>	<b>141,217</b>	<b>123,799</b>

### 8. Other income

*In thousands of New Zealand dollars*

Other  
Net gain on sale of property, plant and equipment

Consolidated		Parent	
2009	2008	2009	2008
354	-	-	-
626	104	622	104
<b>980</b>	<b>104</b>	<b>622</b>	<b>104</b>

### 9. Impairment

*In thousands of New Zealand dollars*

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

Note

15

17

Consolidated		Parent	
2009	2008	2009	2008
-	-	-	383
440	-	-	-
3,063	3,202	3,063	3,202
<b>3,503</b>	<b>3,202</b>	<b>3,063</b>	<b>3,585</b>

### 10. 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	
2009	2008	2009	2008
9	6	9	6
165	127	165	127
-	64	-	64
3	14	3	15
20	38	-	-

Other audit-related services include services in relation to the interim financial statements.

*In thousands of New Zealand dollars*

Included in expenses:  
Research and Development

Consolidated		Parent	
2009	2008	2009	2008
3,381	4,602	3,381	4,602

## Notes to the financial statements

### 11. Staff expenses

*In thousands of New Zealand dollars*

Wages and salaries
Contributions to employee superannuation
Other movements in provisions for employee
Other employee expenses

Consolidated		Parent	
2009	2008	2009	2008
58,265	51,710	54,742	48,507
2,216	2,222	2,182	2,038
-	18	-	167
5,534	4,156	5,333	4,111
<b>66,015</b>	<b>58,106</b>	<b>62,257</b>	<b>54,823</b>

### 12. Finance income and expense

*In thousands of New Zealand dollars*

Interest income on loans and receivables
Net foreign exchange gain
Dividend income on available-for-sale financial assets
<b>Finance income</b>
Interest expense
Dividend paid on Co-Operative Control Shares
Net foreign exchange loss
<b>Finance expense</b>
<b>Net finance costs</b>

Consolidated		Parent	
2009	2008	2009	2008
1,238	1,207	1,539	1,359
528	-	354	-
387	-	334	-
<b>2,153</b>	<b>1,207</b>	<b>2,227</b>	<b>1,359</b>
(204)	(523)	(214)	(522)
(285)	(347)	(285)	(347)
-	39	-	-
<b>(489)</b>	<b>(831)</b>	<b>(499)</b>	<b>(869)</b>
<b>1,664</b>	<b>376</b>	<b>1,728</b>	<b>490</b>

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

*In thousands of New Zealand dollars*

<b>Current tax expense</b>
Current period
Adjustment for prior periods
<b>Deferred tax expense</b>
Origination and reversal of temporary differences
Reduction in tax rate
Recognition of previously unrecognised tax losses
<b>Total income tax expense</b>

Consolidated		Parent	
2009	2008	2009	2008
5,163	4,222	5,393	4,086
330	-	389	-
<b>5,493</b>	<b>4,222</b>	<b>5,782</b>	<b>4,086</b>
5,005	5,056	5,368	4,342
-	(397)	-	(383)
-	(144)	-	(255)
<b>5,005</b>	<b>4,515</b>	<b>5,368</b>	<b>3,704</b>
<b>10,498</b>	<b>8,737</b>	<b>11,150</b>	<b>7,790</b>

*Reconciliation of tax expense*

*In thousands of New Zealand dollars*

Profit for the period
Total income tax expense
Profit excluding income tax
Income tax using the Company's domestic tax rate: 30% (2008: 33%)
Effect of tax rates in foreign jurisdictions
Reduction in tax rate
Non-deductible expenses
Research and development tax credit
Current year losses for which no deferred tax asset was recognised
Under/(over) provided in prior periods

Consolidated		Parent	
2009	2008	2009	2008
24,672	15,630	25,162	15,420
10,498	8,737	11,150	7,790
<b>35,171</b>	<b>24,367</b>	<b>36,311</b>	<b>23,210</b>
10,551	8,041	10,893	7,659
5	(117)	-	-
-	(397)	-	(383)
1,070	1,354	858	1,321
(1,155)	-	(1,155)	-
43	-	-	(552)
(16)	(144)	554	(255)
<b>10,498</b>	<b>8,737</b>	<b>11,150</b>	<b>7,790</b>

## Notes to the financial statements

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

Income tax recognised directly in equity

*In thousands of New Zealand dollars*

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

Consolidated		Parent	
2009	2008	2009	2008
282	850	293	801
-	-	-	-
282	850	293	801

*Imputation credits*

*In thousands of New Zealand dollars*

Imputation credits at 1 June  
New Zealand tax payments, net of refunds  
Imputation credits attached to dividends received  
Imputation credits attached to dividends paid  
Imputation credits at 31 May

Consolidated		Parent	
2009	2008	2009	2008
5,002	572	4,507	77
3,415	4,430	3,414	4,430
165	-	165	-
(3,432)	-	(3,432)	-
5,149	5,002	4,654	4,507

The imputation credits are available to shareholders of the Company:

Through the Company

Through subsidiaries

4,654	4,507	4,654	4,507
495	495	-	-
5,149	5,002	4,654	4,507

## Notes to the financial statements

### 14. Fixed assets

#### Consolidated

*In thousands of New Zealand dollars*

#### Cost or fair value

	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
Balance at 1 June 2007	34,820	21,932	26,719	10,860	2,115	13,347	109,793
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)
	-	(64)	(4,889)	(917)	(37)	(517)	(6,424)
Disposals	-	-	-	-	-	-	-
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	16,258	115,619
Balance at 1 June 2008	38,589	24,311	22,475	11,792	2,194	16,258	115,619
Additions	-	432	2,749	1,945	43	655	5,824
Increases/(decreases) resulting from revaluations	(3,284)	1,012	-	-	-	-	(2,272)
Disposals	-	-	(65)	(1,949)	(204)	(4,253)	(6,471)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-
Forex Impact	-	-	89	24	(74)	(7)	32
Balance at 31 May 2009	35,305	25,755	25,248	11,812	1,959	12,653	112,732
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2007	-	(6,109)	(22,024)	(6,887)	(1,910)	(10,695)	(47,625)
Depreciation for the year	-	(583)	(1,411)	(1,636)	(131)	(1,571)	(5,332)
Impairment loss	-	-	-	-	-	-	-
	-	30	4,298	909	37	485	5,759
Disposals	-	-	-	-	-	-	-
Balance at 31 May 2008	-	(6,662)	(19,137)	(7,614)	(2,004)	(11,781)	(47,198)
Balance at 1 June 2008	-	(6,662)	(19,137)	(7,614)	(2,004)	(11,781)	(47,198)
Depreciation for the year	-	(623)	(1,565)	(1,582)	(53)	(1,476)	(5,299)
Impairment loss	-	-	-	-	-	-	-
	-	-	54	1,687	193	2,861	4,795
Disposals	-	-	-	-	-	-	-
Forex Impact	-	-	(41)	(11)	26	(7)	(33)
Balance at 31 May 2009	-	(7,285)	(20,689)	(7,520)	(1,838)	(10,403)	(47,735)
<b>Carrying amounts</b>							
At 1 June 2007	34,820	15,823	4,695	3,973	205	2,652	62,168
At 31 May 2008	38,589	17,649	3,338	4,178	190	4,477	68,422
At 1 June 2008	38,589	17,649	3,338	4,178	190	4,477	68,422
At 31 May 2009	35,305	18,470	4,559	4,292	121	2,250	64,997

## Notes to the financial statements

### 14. Fixed assets (continued)

<b>Parent</b> <i>In thousands of New Zealand dollars</i>	<b>Land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Furniture and Fittings</b>	<b>Computers</b>	<b>Total</b>
<b>Cost or deemed cost</b>							
Balance at 1 June 2007	31,610	20,708	25,021	9,978	1,994	13,050	102,361
Additions	-	97	663	1,486	42	3,414	5,702
Increase 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	15,958	107,178
Balance at 1 June 2008	33,598	23,168	21,908	10,547	1,999	15,958	107,178
Additions	-	296	2,679	1,712	35	836	5,558
Increases/(decreases) resulting from revaluations	(3,173)	976	-	-	-	-	(2,197)
Disposals	-	-	(57)	(1,598)	(194)	(4,211)	(6,060)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 May 2009	30,425	24,440	24,530	10,661	1,840	12,583	104,479
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2007	-	(6,045)	(21,162)	(6,634)	(1,858)	(10,575)	(46,274)
Depreciation for the year	-	(524)	(1,437)	(1,265)	(60)	(1,617)	(4,903)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	30	3,761	909	37	485	5,222
Balance at 31 May 2008	-	(6,539)	(18,838)	(6,990)	(1,881)	(11,707)	(45,955)
Balance at 1 June 2008	-	(6,539)	(18,838)	(6,990)	(1,881)	(11,707)	(45,955)
Depreciation for the year	-	(551)	(1,454)	(1,394)	(48)	(1,426)	(4,873)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	-	51	1,468	187	2,778	4,484
Balance at 31 May 2009	-	(7,090)	(20,241)	(6,916)	(1,742)	(10,355)	(46,344)
<b>Carrying amounts</b>							
At 1 June 2007	31,610	14,663	3,859	3,344	136	2,475	56,087
At 31 May 2008	33,598	16,629	3,070	3,557	118	4,251	61,224
At 1 June 2008	33,598	16,629	3,070	3,557	118	4,251	61,224
At 31 May 2009	30,425	17,350	4,289	3,745	98	2,228	58,135

Valuations of land and buildings were performed to determine the carrying value of these assets at 31 May 2009. These were performed by independent registered valuers, John Dunckley 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 \$54 million.

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

#### Consolidated

<i>In thousands of New Zealand dollars</i>	
Land	10,574
Buildings	16,585

## Notes to the financial statements

### 15. Intangible assets

#### Consolidated

*In thousands of New Zealand dollars*

	Goodwill	Intellectual Property	Database	Software	Total
<b>Cost</b>					
Balance at 1 June 2007	2,972	-	10,500	21,696	35,168
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>-</b>	<b>10,500</b>	<b>23,530</b>	<b>37,982</b>
Balance at 1 June 2008	3,952	-	10,500	23,530	37,982
Acquisitions – internally developed	-	-	-	2,930	2,930
Acquisitions – separately acquired	-	-	-	-	-
Acquisitions – business combinations	50	-	-	-	50
Disposals	-	-	-	(64)	(64)
<b>Balance at 31 May 2009</b>	<b>4,002</b>	<b>-</b>	<b>10,500</b>	<b>26,396</b>	<b>40,898</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 June 2007	1,804	-	-	9,667	11,471
Amortisation for the year	-	-	-	3,620	3,620
Foreign Currency Impact	(15)	-	-	-	(15)
<b>Balance at 31 May 2008</b>	<b>1,789</b>	<b>-</b>	<b>-</b>	<b>13,287</b>	<b>15,076</b>
Balance at 1 June 2008	1,789	-	-	13,287	15,076
Amortisation for the year	-	-	-	3,193	3,193
Impairment	440	-	-	-	440
Disposals	-	-	-	(63)	(63)
<b>Balance at 31 May 2009</b>	<b>2,229</b>	<b>-</b>	<b>-</b>	<b>16,417</b>	<b>18,646</b>
<b>Carrying amounts</b>					
At 1 June 2007	1,168	-	10,500	12,029	23,697
<b>At 31 May 2008</b>	<b>2,163</b>	<b>-</b>	<b>10,500</b>	<b>10,243</b>	<b>22,906</b>
At 1 June 2008	2,163	-	10,500	10,243	22,906
<b>At 31 May 2009</b>	<b>1,773</b>	<b>-</b>	<b>10,500</b>	<b>9,979</b>	<b>22,252</b>

## Notes to the financial statements

### 15. Intangible assets (continued)

<b>Parent</b> <i>In thousands of New Zealand dollars</i>	<b>Goodwill</b>	<b>Intellectual Property</b>	<b>Database</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 June 2007	-	-	10,500	21,696	32,196
Acquisitions – internally developed	-	-	-	1,067	1,067
Acquisitions – separately	-	-	-	767	767
Acquisitions – business combinations	-	-	-	-	-
<b>Balance at 31 May 2008</b>	<b>-</b>	<b>-</b>	<b>10,500</b>	<b>23,530</b>	<b>34,030</b>
Balance at 1 June 2008	-	-	10,500	23,530	34,030
Acquisitions – internally developed	-	-	-	2,930	2,930
Acquisitions – separately	-	168	-	-	168
Acquisitions – business combinations	-	-	-	-	-
Disposals	-	-	-	(64)	(64)
<b>Balance at 31 May 2009</b>	<b>-</b>	<b>168</b>	<b>10,500</b>	<b>26,396</b>	<b>37,064</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 June 2007	-	-	-	9,667	9,667
Amortisation for the year	-	-	-	3,620	3,620
Impairment loss	-	-	-	-	-
<b>Balance at 31 May 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,287</b>	<b>13,287</b>
Balance at 1 June 2008	-	-	-	13,287	13,287
Amortisation for the year	-	-	-	3,193	3,193
Impairment loss	-	-	-	-	-
Disposals	-	-	-	(63)	(63)
<b>Balance at 31 May 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,417</b>	<b>16,417</b>
<b>Carrying amounts</b>					
At 1 June 2007	-	-	10,500	12,029	22,529
<b>At 31 May 2008</b>	<b>-</b>	<b>-</b>	<b>10,500</b>	<b>10,243</b>	<b>20,743</b>
At 1 June 2008	-	-	10,500	10,243	20,743
<b>At 31 May 2009</b>	<b>-</b>	<b>168</b>	<b>10,500</b>	<b>9,979</b>	<b>20,647</b>

The impairment of goodwill was due to a sustained period of economic loss in Northern Feed Systems, which is included in the Farm Solutions CGU.

#### *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 allocated to each unit are as follows:

	<b>Consolidated</b>	
<i>In thousands of New Zealand dollars</i>	<b>2009</b>	<b>2008</b>
Genetics	353	353
Farm Solutions	1,420	1,810
	<b>1,773</b>	<b>2,163</b>

## Notes to the financial statements

### 15. Intangible assets (continued)

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

<i>In thousands of New Zealand dollars</i>	Consolidated	
	2009	2008
Farm Solutions	10,500	10,500
	<b>10,500</b>	<b>10,500</b>

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

The 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 (8.7 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.

### 16. Biological assets

#### Consolidated

*In thousands of New Zealand dollars*

	Elite breeding bulls	Elite breeding stags	Other livestock	Total
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>
Balance at 1 June 2008	60,872	1,556	844	63,272
Increase due to acquisitions	-	-	204	204
Decrease due to sales	-	-	(24)	(24)
Change in fair value less estimated point-of-sale costs	12,841	(355)	(21)	12,465
Transferred to inventories	-	-	-	-
<b>Balance at 31 May 2009</b>	<b>73,713</b>	<b>1,201</b>	<b>1,003</b>	<b>75,917</b>
Non-current	73,713	1,201	-	74,914
Current	-	-	1,003	1,003
<b>Balance at 31 May 2009</b>	<b>73,713</b>	<b>1,201</b>	<b>1,003</b>	<b>75,917</b>

## Notes to the Financial Statements

### 16 Biological assets (continued)

#### Parent

*In thousands of New Zealand dollars*

	Elite breeding bulls	Elite breeding stags	Other livestock	Total
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	24
<b>Balance at 31 May 2008</b>	<b>60,872</b>	<b>-</b>	<b>24</b>	<b>60,896</b>
Balance at 1 June 2008	60,872	-	24	60,896
Increase due to acquisitions	-	-	-	-
Decrease due to sales	-	-	(24)	(24)
Change in fair value	12,841	-	-	12,841
Transferred to inventories	-	-	-	-
<b>Balance at 31 May 2009</b>	<b>73,713</b>	<b>-</b>	<b>-</b>	<b>73,713</b>
Non-current	73,713	-	-	73,713
Current	-	-	-	-
<b>Balance at 31 May 2009</b>	<b>73,713</b>	<b>-</b>	<b>-</b>	<b>73,713</b>

At 31 May 2009, Elite breeding bulls comprised 1,100 bulls (2008: 1,400 bulls)

At 31 May 2009, Elite breeding stags comprised 4 stags (2008: 4 stags)

#### Valuation detail

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

The valuation consisted of the following assumptions:

WACC	8.70%
Inflation rate on expenses	3.5%
Inflation rate on revenue	2%
Tax rate	30%

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 major 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

### 16. 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 industries.

#### *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.

### 17. Investments

*In thousands of New Zealand dollars*

#### **Current investments**

Short term deposits

Derivative financial asset

#### **Non-current investments**

Investment in Subsidiaries

Investment in Associates

Available-for-sale financial assets

#### **Total Investments**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Short term deposits	10,603	-	10,603	-
Derivative financial asset	93	-	93	-
	<b>10,696</b>	<b>-</b>	<b>10,696</b>	<b>-</b>
Investment in Subsidiaries	-	-	8,399	8,349
Investment in Associates	4	-	-	-
Available-for-sale financial assets	8,110	10,681	7,423	10,482
	<b>8,114</b>	<b>10,681</b>	<b>15,822</b>	<b>18,831</b>
<b>Total Investments</b>	<b>18,810</b>	<b>10,681</b>	<b>26,518</b>	<b>18,831</b>

During the year an impairment loss of \$3.063 million (2008: \$3.202 million) was recognised in the investment in Tru-Test, an available for sale financial asset. This was due to a sustained period of lower than expected economic performance by Tru-Test.

### 18. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following:

#### **Consolidated**

*In thousands of New Zealand dollars*

Fixed assets

Intangible assets

Biological assets

Inventories

Provisions

Other items

Tax loss carry-forwards

Tax (assets)/liabilities

Set off of tax

Net tax (assets)/liabilities

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Fixed assets	-	1,868	(388)	(1,590)	(388)	278
Intangible assets	-	-	(3,150)	(3,150)	(3,150)	(3,150)
Biological assets	-	-	(21,951)	(17,802)	(21,951)	(17,802)
Inventories	-	-	(73)	(20)	(73)	(20)
Provisions	1,706	2,029	(333)	(1)	1,373	2,028
Other items	131	-	-	(102)	131	(102)
Tax loss carry-forwards	-	-	-	-	-	-
Tax (assets)/liabilities	1,837	3,897	(25,895)	(22,665)	(24,058)	(18,768)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	<b>1,837</b>	<b>3,897</b>	<b>(25,895)</b>	<b>(22,665)</b>	<b>(24,058)</b>	<b>(18,768)</b>

## Notes to the Financial Statements

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

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Parent <i>In thousands of New Zealand dollars</i>	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Fixed assets	-	1,824	(403)	(1,572)	(403)	252
Intangible assets	-	-	(3,150)	(3,150)	(3,150)	(3,150)
Biological assets	182	512	(21,692)	(17,764)	(21,510)	(17,252)
Inventories	-	-	(65)	-	(65)	-
Provisions	1,365	2,062	(61)	(46)	1,304	2,016
Other items	81	51	-	-	81	51
Tax loss carry-forwards	-	-	-	-	-	-
Tax (assets)/liabilities	1,628	4,449	(25,371)	(22,532)	(23,745)	(18,082)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	1,628	4,449	(25,371)	(22,532)	(23,745)	(18,082)

#### Movement in temporary differences during the year

#### Consolidated

*In thousands of New Zealand dollars*

	Balance 1 June 2007	Recognised in profit or loss	Recognised in equity	Balance 31 May 2008	Recognised in profit or loss	Recognised in equity	Balance 31 May 2009
Fixed assets	2,148	(1,020)	(850)	278	(384)	(282)	(388)
Intangible assets	(3,150)	-	-	(3,150)	-	-	(3,150)
Biological assets	(15,467)	(2,335)	-	(17,802)	(4,149)	-	(21,951)
Inventories	(295)	274	-	(21)	(52)	-	(73)
Provisions	2,453	(425)	-	2,028	(654)	-	1,374
Other items	182	(284)	-	(102)	233	-	131
Tax loss carry-forwards	725	(725)	-	-	-	-	-
	(13,404)	(4,515)	(850)	(18,768)	(5,005)	(282)	(24,058)

#### Parent

*In thousands of New Zealand dollars*

	Balance 1 June 2007	Recognised in profit or loss	Recognised in equity	Balance 31 May 2008	Recognised in profit or loss	Recognised in equity	Balance 31 May 2009
Fixed assets	2,179	(1,126)	(801)	252	(362)	(293)	(403)
Intangible assets	(3,150)	-	-	(3,150)	-	-	(3,150)
Biological assets	(14,978)	(2,275)	-	(17,252)	(4,258)	-	(21,510)
Inventories	(267)	267	-	-	(65)	-	(65)
Provisions	2,511	(494)	-	2,017	(713)	-	1,304
Other items	127	(76)	-	51	30	-	81
Tax loss carry-forwards	-	-	-	-	-	-	-
	(13,578)	(3,704)	(801)	(18,082)	(5,368)	(293)	(23,745)

## Notes to the Financial Statements

### 19. Inventories

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2009	2008	2009	2008
Semen	1,472	1,586	1,345	1,428
Equipment	5,443	3,071	4,910	2,805
Other	506	11	455	11
	<b>7,421</b>	<b>4,668</b>	<b>6,710</b>	<b>4,244</b>

In 2009 Inventories recognised as an expense during the period amounted to: \$0.012M (2008: \$0.011M).  
Inventories written off in 2009 totalled \$0.165M (2008: \$0).

### 20. Trade receivables

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2009	2008	2009	2008
Trade receivables due from related parties	28	25	4,247	9,114
Trade debtors	12,669	13,635	8,941	11,312
Other trade receivables	2,324	3,609	2,324	1,248
	<b>15,023</b>	<b>17,269</b>	<b>15,512</b>	<b>21,674</b>

See note 28 with respect to impairment of trade receivables.

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

	Consolidated	
<i>In thousands of New Zealand dollars</i>	2009	2008
Euro	1,426	1,670
Australian Dollars	635	1,579
British Pounds	1,273	1,094
US Dollars	820	759
Canadian Dollars	-	6

### 21. Cash and cash equivalents

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2009	2008	2009	2008
Bank balances	4,249	4,906	2,800	3,600
Call deposits	13,785	9,500	13,784	9,500
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>18,034</b>	<b>14,406</b>	<b>16,584</b>	<b>13,100</b>

The effective interest rate on call deposits in 2009 was 4.5 percent (2008: 8 percent).

## Notes to the Financial Statements

### 22. 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>	LIC Investment Shares	Foreign Currency Translation reserve	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation reserve	Retained earnings	Total equity
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>-</b>	<b>-</b>	<b>30,477</b>	<b>74,426</b>	<b>163,664</b>
Balance at 1 June 2008	58,464	297	-	-	30,477	74,426	163,664
Total recognised income and expense	-	(174)	93	131	(2,543)	24,672	22,179
Dividends to equity holders	-	-	-	-	-	(6,690)	(6,690)
<b>Balance at 31 May 2009</b>	<b>58,464</b>	<b>123</b>	<b>93</b>	<b>131</b>	<b>27,934</b>	<b>92,411</b>	<b>179,155</b>

#### Parent

<i>In thousands of New Zealand dollars</i>	LIC Investment Shares	Foreign Currency Translation reserve	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation reserve	Retained earnings	Total equity
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>-</b>	<b>-</b>	<b>28,682</b>	<b>78,378</b>	<b>165,524</b>
Balance at 1 June 2008	58,464	-	-	-	28,682	78,378	165,524
Total recognised income and expense	-	-	93	-	(2,489)	25,162	22,765
Dividends to equity holders	-	-	-	-	-	(6,690)	(6,690)
<b>Balance at 31 May 2009</b>	<b>58,464</b>	<b>-</b>	<b>93</b>	<b>-</b>	<b>26,193</b>	<b>96,847</b>	<b>181,597</b>

## Notes to the Financial Statements

### 22. Capital and reserves (continued)

#### Share capital

#### Investment Shares

#### In thousands of shares

On issue at 1 June  
Own shares acquired  
Issue of shares  
On issue at 31 May

2009	2008
29,528	29,528
-	-
-	-
29,528	29,528

The Parent had 29,528,590 fully paid 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 that it is no longer compulsory to hold Investment shares and specifies the maximum shareholding limits for Investment Shares. All Shareholders must sell their total holding of Investment Shares within two years of ceasing to be a Co-operative Control Shareholder. Employees of LIC are able to purchase Investment shares under the LIC Employee Share Scheme.

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.

#### Foreign Currency Hedge reserve

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

#### Available for Sale Asset reserve

The reserve relates to the fair value adjustment for available for sale shares.

#### 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:

#### In thousands of New Zealand dollars

\$0.00 Interim Investment Share dividend (2008 : \$0.00)  
\$0.2266 Final Investment Share dividend – paid in 2009 (2008 : \$0.15)

2009	2008
-	-
6,690	4,458

After 31 May 2009 the following dividends were proposed by the Directors for 2009. The dividends have not been provided for and there are no income tax consequences.

#### In thousands of New Zealand dollars

41.9 cents per Investment share (2008: 22.7 cents)

2009	2008
12,379	6,690

## Notes to the Financial Statements

### 23. Co-operative Control Shares

	Consolidated		Parent	
	2009	2008	2009	2008
<i>In thousands of shares</i>				
On issue at 1 June	3,713	3,473	3,713	3,473
Own shares acquired	(539)	(449)	(539)	(449)
Issue of shares	880	689	880	689
On issue at 31 May	4,054	3,713	4,054	3,713

The Parent had 4,054,475 (2008: 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.

### 24. Earnings per share

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

The calculation of basic and diluted earnings per share at 31 May 2009 was based on the profit attributable to Investment shareholders of \$24,672 million (2008: \$15,630 million) and a weighted average number of shares outstanding of 29,528 million (2008: 29,528 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 83.6 cents per Investment Share (2008: 52.9 cents per Investment Share).

#### *Profit attributable to investment shareholders*

##### *In thousands of New Zealand dollars*

Net profit for the period

2009	2008
24,672	15,630

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

##### *In thousands of shares*

Issued Investment shares at 1 June

Effect of own shares acquired

Effect of issue of ordinary shares

Weighted average number of Investment shares at 31 May

2009	2008
29,528	29,528
-	-
-	-
29,528	29,528

There have been no dilutive effects on earnings per share.

## Notes to the Financial Statements

### 25. Loans and borrowings

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2009	2008	2009	2008
<b>Current liabilities</b>				
Co-operative Control Shares	4,054	3,713	4,054	3,713
	<b>4,054</b>	<b>3,713</b>	<b>4,054</b>	<b>3,713</b>

For more information about the Company's exposure to interest rate and foreign currency risk, see note 28.

### 26. Provisions

#### Consolidated

*In thousands of New Zealand dollars*

	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Total
Balance at 1 June 2008	3,345	3,467	330	7,142
Additional provision made	3,071	701	-	3,772
Amount utilised	(2,595)	(1,402)	-	(3,997)
<b>Balance at 31 May 2009</b>	<b>3,822</b>	<b>2,766</b>	<b>330</b>	<b>6,918</b>
Non-current	2,661	1,662	83	4,406
Current	1,161	1,104	247	2,512
<b>Balance at 31 May 2009</b>	<b>3,822</b>	<b>2,766</b>	<b>330</b>	<b>6,918</b>

#### Parent

*In thousands of New Zealand dollars*

	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Total
Balance at 1 June 2008	3,209	3,183	330	6,722
Additional provision made	3,032	655	-	3,687
Amount utilised	(2,635)	(1,310)	-	(3,945)
<b>Balance at 31 May 2009</b>	<b>3,606</b>	<b>2,528</b>	<b>330</b>	<b>6,464</b>
Non-current	2,504	1,424	83	4,011
Current	1,102	1,104	247	2,453
<b>Balance at 31 May 2009</b>	<b>3,606</b>	<b>2,528</b>	<b>330</b>	<b>6,464</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.

## Notes to the financial statements

### 26. Provisions (continued)

#### *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.

#### *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 to possible, the estimated future cash outflows.

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

- 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 2009. 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.

### 27. Trade and other payables

*In thousands of New Zealand dollars*

Trade payables due to related parties  
Other trade payables  
Non-trade payables and accrued expenses

Consolidated		Parent	
2009	2008	2009	2008
-	-	650	1,823
6,386	6,793	6,300	6,746
1,490	5,361	750	3,170
<b>7,876</b>	<b>12,154</b>	<b>7,700</b>	<b>11,739</b>

Payables denominated in currencies other than the functional currency comprise:

	2009	2008
Euro	230	1,219
Australian Dollars	210	747
British Pounds	289	886

## Notes to the financial statements

### 28. 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.

#### (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 2009 (2008: \$0). 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>	Consolidated		Parent	
	2009	2008	2009	2008
New Zealand	10,492	11,717	11,849	18,462
Australia	635	1,579	742	451
United Kingdom	1,273	1,094	888	590
Other European countries	1,426	1,670	836	962
North America	349	210	349	210
South Africa	339	421	339	421
South America	509	492	509	492
Other regions	-	86	-	86
<b>Trade and other receivables</b>	<b>15,023</b>	<b>17,269</b>	<b>15,512</b>	<b>21,674</b>

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

#### Consolidated

*In thousands of New Zealand dollars*

	Gross receivable 2009	Impairment 2009	Gross receivable 2008	Impairment 2008
Trade receivables				
Not past due	11,570	-	11,196	-
Past due 0-30 days	1,157	-	2,483	-
Past due 31-120 days	1,350	40	3,004	-
Past due 121-360 days	1,396	410	925	339
Past due more than 1 year	-	-	-	-
<b>Total</b>	<b>15,473</b>	<b>450</b>	<b>17,608</b>	<b>339</b>

## Notes to the financial statements

### 28. Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

	Gross receivable 2009	Impairment 2009	Gross receivable 2008	Impairment 2008
Trade receivables				
Not past due	11,880	-	11,022	-
Past due 0-30 days	1,157	-	2,486	-
Past due 31-120 days	1,350	40	2,739	-
Past due 121-360 days	1,396	231	5,598	171
Past due more than 1 year	-	-	-	-
<b>Total</b>	<b>15,783</b>	<b>271</b>	<b>21,845</b>	<b>171</b>

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

	Consolidated		Parent	
<i>In thousands of New Zealand dollars</i>	2009	2008	2009	2008
Gross trade receivables	15,473	17,608	15,783	21,845
Individual impairment	-	-	-	-
Collective impairment	(450)	(339)	(271)	(171)
<b>Trade receivables net</b>	<b>15,023</b>	<b>17,269</b>	<b>15,512</b>	<b>21,674</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*

	2009		2008	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other Payables	7,876	7,876	12,154	12,154
Co-Operative Control Shares	4,054	4,054	3,713	3,713
<b>Total non derivative liabilities</b>	<b>11,930</b>	<b>11,930</b>	<b>15,867</b>	<b>15,867</b>

#### Parent

*In thousands of New Zealand dollars*

	2009		2008	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other Payables	7,700	7,700	11,739	11,739
Co-Operative Control Shares	4,054	4,054	3,713	3,713
<b>Total non derivative liabilities</b>	<b>11,754</b>	<b>11,754</b>	<b>15,452</b>	<b>15,452</b>

## Notes to the financial statements

### 28. 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. Other 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:

*In thousands of New Zealand dollars*

	USD	AUD	GBP	EUR
<b>2009</b>				
<b>Foreign currency risk</b>				
Trade and other receivables	820	635	1,273	1,426
Cash balances	312	955	1,283	649
Trade and other payables	-	(210)	(289)	(230)
<b>Net balance sheet exposure before hedging activity</b>	<b>1,132</b>	<b>1,380</b>	<b>2,267</b>	<b>1,845</b>

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

Notional amounts	(1,333)	(283)	-	-
<b>Net un-hedged exposure</b>	<b>(201)</b>	<b>1,097</b>	<b>2,267</b>	<b>1,845</b>

#### **2008**

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

Trade and other receivables	759	1,579	1,094	1,670
Cash balances	79	491	495	158
Trade and other payables	-	(747)	(886)	(1,219)
<b>Net balance sheet exposure before hedging activity</b>	<b>838</b>	<b>1,323</b>	<b>703</b>	<b>609</b>

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

Notional amounts	-	-	-	-
<b>Net un-hedged exposure</b>	<b>838</b>	<b>1,323</b>	<b>703</b>	<b>609</b>

##### (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 deposits.

#### **Consolidation**

*In thousands of New Zealand dollars*

	<b>2009</b>		<b>2008</b>	
	Total	6 months or less	Total	6 months or less
<b>Fixed rate instruments</b>				
Cash and cash equivalents	18,034	18,034	14,406	14,406
Short term deposits	10,603	10,603	-	-
<b>Total fixed rate instruments</b>	<b>28,637</b>	<b>28,637</b>	<b>14,406</b>	<b>14,406</b>

## Notes to the financial statements

### 28. Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

#### Fixed rate instruments

Cash and cash equivalents

Short term deposits

Total fixed rate instruments

2009		2008	
Total	6 months or less	Total	6 months or less
16,584	16,584	13,100	13,100
10,603	10,603	-	-
<b>27,187</b>	<b>27,187</b>	<b>13,100</b>	<b>13,100</b>

Other investments of the Group relate to:

*In thousands of New Zealand dollars*

Equity securities available-for-sale

Consolidated		Parent	
2009	2008	2009	2008
8,110	10,681	7,423	10,482
<b>8,110</b>	<b>10,681</b>	<b>7,423</b>	<b>10,482</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 and retained earnings.

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 2009 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately \$0.18M (2008: \$0.008M).

It is estimated that a general increase of ten percentage points (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 \$0.034M for the year ended 31 May 2009 (2008: \$0.020M). The forward exchange contracts have been included in this calculation.

## Notes to the financial statements

### 28. Financial instruments (continued)

#### (iii) Hedging

##### *Forecast transactions*

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2009 the fair value of forward exchange contracts was adjusted against the hedging reserve at that date. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 May 2009 was \$0.093M (2008: \$0), comprising assets of \$0.093M (2008: \$0) and liabilities of Nil (2008: \$0).

The cashflow from the forward exchange contracts will occur within the next financial year.

## Notes to the financial statements

### 28 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	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2009							
<b>Assets</b>							
Investments	17	-	-	8,110	-	8,110	8,110
Derivatives	17	93	-	-	-	93	93
Trade and other receivables	20	-	15,023	-	-	15,023	15,023
Short term deposits	17	-	10,603	-	-	10,603	10,603
Cash and cash equivalents	21	-	18,034	-	-	18,034	18,034
		<b>93</b>	<b>43,660</b>	<b>8,110</b>	<b>-</b>	<b>51,863</b>	<b>51,863</b>
<b>Liabilities</b>							
Co-operative control shares	23	-	-	-	4,054	4,054	4,054
Trade and other payables	27	-	-	-	7,876	7,876	7,876
		<b>-</b>	<b>-</b>	<b>-</b>	<b>11,930</b>	<b>11,930</b>	<b>11,930</b>

**Notes to the financial statements**

**28 Financial instruments (continued)**

*Classification and fair values*

<b>Parent</b>										
<i>In thousands of New Zealand dollars</i>										
	2009	Note	Designated at fair value	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value		
<b>Assets</b>										
Investments	17		-	-	7,423	-	7,423	7,423		
Derivatives	17		93	-	-	-	93	93		
Trade and other receivables	20		-	15,512	-	-	15,512	15,512		
Short term deposits	17		-	10,603	-	-	10,603	10,603		
Cash and cash equivalents	21		-	16,584	-	-	16,584	16,584		
Related party loans	33		-	6,634	-	-	6,634	6,634		
			<b>93</b>	<b>49,333</b>	<b>7,423</b>	<b>-</b>	<b>56,849</b>	<b>56,849</b>		
<b>Liabilities</b>										
Co-operative control shares	23		-	-	-	4,054	4,054	4,054		
Trade and other payables	27		-	-	-	7,700	7,700	7,700		
			<b>-</b>	<b>-</b>	<b>-</b>	<b>11,754</b>	<b>11,754</b>	<b>11,754</b>		

## Notes to the financial statements

### 28 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.

<b>Consolidation</b> <i>In thousands of New Zealand dollars</i>	Note	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
2008						
<b>Assets</b>						
Investments	17	-	10,681	-	10,681	10,681
Trade receivables	20	17,269	-	-	17,269	17,269
Cash and cash equivalents	21	14,406	-	-	14,406	14,406
		<b>31,675</b>	<b>10,681</b>	<b>-</b>	<b>42,356</b>	<b>42,356</b>
<b>Liabilities</b>						
Co-operative control shares	23	-	-	3,713	3,713	3,713
Trade and other payables	27	-	-	12,154	12,154	12,154
		<b>-</b>	<b>-</b>	<b>15,867</b>	<b>15,867</b>	<b>15,867</b>

## Notes to the financial statements

### 28 Financial instruments (continued)

#### Classification and fair values

Parent In thousands of New Zealand dollars	Note	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2008						
<b>Assets</b>						
Investments	17	-	10,482	-	10,482	10,482
Trade receivables	20	21,674	-	-	21,674	21,674
Cash and cash equivalents	21	13,100	-	-	13,100	13,100
		<b>34,774</b>	<b>10,482</b>	<b>-</b>	<b>45,256</b>	<b>45,256</b>
<b>Liabilities</b>						
Co-operative control shares	23	-	-	3,713	3,713	3,713
Trade and other payables	27	-	-	11,739	11,739	11,739
		<b>-</b>	<b>-</b>	<b>15,452</b>	<b>15,452</b>	<b>15,452</b>

## Notes to the financial statements

### 28. Financial instruments (continued)

#### *Estimation of fair values*

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

### 29. Operating leases

#### *Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2009	2008	2009	2008
Less than one year	682	438	579	438
Between one and five years	1,335	1,099	1,068	1,011
More than five years	-	18	-	18
	<b>2,017</b>	<b>1,555</b>	<b>1,648</b>	<b>1,467</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 2009 \$0.438 million was recognised as an expense in the income statement in respect of operating leases (2008: \$0.420 million). \$0.150 million was recognised as income in respect of subleases (2008: \$0.039 million).

### 30. Capital commitments

As at 31 May 2009 the Group had entered into a contract to purchase, plant and equipment for \$0.661 million (2008: \$0.578 million). These commitments are expected to be settled in the following financial year.

### 31. Contingencies

In the normal course of business, the Group 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

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2009	2008	2009	2008
<b>Profit for the period</b>	<b>24,672</b>	<b>15,630</b>	<b>25,162</b>	<b>15,420</b>
Adjustments for:				
Depreciation	5,299	5,332	4,873	4,903
Amortisation of intangible assets	3,193	3,620	3,193	3,620
Impairment of goodwill	440	-	-	-
Share of loss in associate	21	-	21	-
Change in deferred taxation	5,290	5,365	5,662	4,505
Change in fair value of biological assets	(12,465)	(9,877)	(12,841)	(9,493)
Impairment of Investments	3,063	3,202	3,063	3,585
Gain on sale of property, plant and equipment	(626)	(104)	(622)	(104)
	<b>4,215</b>	<b>7,538</b>	<b>3,349</b>	<b>7,016</b>
Change in inventories (increase)/decrease	(2,752)	1,034	(2,466)	733
Change in trade receivables (increase)/decrease	2,246	(4,798)	6,161	(5,949)
Change in assets held for sale (increase)/decrease	2,252	(2,252)	2,252	(2,252)
Change in biological assets (increase)/decrease	(159)	657	24	343
Change in Other Current Assets (increase)/decrease	128	(653)	137	(634)
Change in trade and other payables increase/(decrease)	(4,278)	3,084	(4,213)	2,251
Change in provisions increase/(decrease)	1,809	(1,124)	2,661	(702)
Items reclassified to/from Investing/Financing activities	(1,370)	845	(6,835)	1,516
	<b>(2,124)</b>	<b>(3,207)</b>	<b>(2,278)</b>	<b>(4,694)</b>
<b>Net cash from operating activities</b>	<b>26,763</b>	<b>19,961</b>	<b>26,233</b>	<b>17,742</b>

### 33. 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, subsidiary and associate 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:

#### *In thousands of New Zealand dollars*

	2009	2008
Short term employee benefits	2,803	2,874
Defined Contribution Superannuation Plans	79	60
Termination Payments	101	-
	<b>2,983</b>	<b>2,934</b>

#### *In thousands of New Zealand dollars*

#### **Sale of goods and services**

Sale of goods and services to directors and key management personnel

Transaction value		Balance outstanding	
2009	2008	2009	2008
385	397	13	25

## Notes to the financial statements

### 33. Related parties (continued)

	Co-Operative Shares		Investment Shares	
	2009	2008	2009	2008
<b>Shareholding of Related Parties</b>				
A J Reid	4,394	3,410	74,310	74,310
B R Guy	1,625	1,571	10,602	10,050
E G Coats	589	595	5,170	4,970
K D Straight	1,044	984	7,040	7,040
M Dewdney	798	478	12,856	7,278
M E Jagger	1,152	678	20,211	19,820
P J Lynskey	2,660	2,150	61,504	60,600
S B Bay	3,488	1,739	47,835	46,650

All Directors, excluding Messrs Lough, Dale 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:

- Financing; and
- Sales and services.

	Transaction value		Balance outstanding	
	2009	2008	2009	2008
<i>In thousands of New Zealand dollars</i>				
Sale of goods and services to subsidiaries	2,070	2,185	4,247	9,114

Sales of goods to subsidiaries were made in the ordinary course of business on an arms length basis. Interest charged by the parent to subsidiaries for the year was \$0.301M (2008: \$0.150M).

Related party loans are repayable on demand and are charged interest at rates in line with the relevant markets base lending rate.

#### *Employee Share Scheme*

LIC acts as manager for the LIC Employee Share Scheme and has incurred \$0.045M of costs in running the scheme for the year.

## Notes to the financial statements

### 34. Group Investments

The Group has the following significant subsidiaries:

<b>Subsidiaries</b>						
<b>Name</b>	<b>Country of Incorp</b>	<b>Class of Share</b>	<b>Voting Interest Held</b>		<b>Balance Date</b>	<b>Principal Activity</b>
			<b>2009 %</b>	<b>2008 %</b>		
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

<b>Associates</b>						
<b>Name</b>	<b>Country of Incorp</b>	<b>Class of Share</b>	<b>Voting Interest Held</b>		<b>Balance Date</b>	<b>Principal Activity</b>
			<b>2009 %</b>	<b>2008 %</b>		
Technical Farm Solutions Ltd	NZ	Ordinary	25%	-	31-Mar	Animal Management Systems

Total loss reported for Technical Farm Solutions Ltd was \$85,420. LIC's 25% share has been reported on the income statement using the equity method.

### 35. Subsequent event

Dividend declared refer to note 22. There are no other subsequent events.



## Audit report

### **To the shareholders of Livestock Improvement Corporation Limited**

We have audited the financial statements on pages 1 to 48. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2009. This information is stated in accordance with the accounting policies set out on pages 5 to 16.

#### **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 2009 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 in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.



### **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 1 to 48:
  - 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 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 22 July 2009 and our unqualified opinion is expressed as at that date.

A handwritten signature in blue ink that reads 'KPMG'.

Hamilton

## **LIC DIRECTORS REPORT**

### **Overview**

The 2008/2009 year was 'a game of two halves' for the dairy industry and LIC. The bulk of LIC's income is derived during the peak of the season, spring, and this was a boom time for the industry with prospects for payout approaching \$7.00 per kg ms. The resulting buoyancy and farmer confidence was reflected in record sales volumes and revenue for LIC.

This result reflects growth across the entire business and growth in the national herd over recent years.

LIC delivered a range of diverse products and services, which, collectively, generated a conservative \$70 million of value on farm. At the same time, the cooperative invested significantly in science, technology and product development, which will ensure that New Zealand dairy farmers remain at the leading edge of dairy production in the future.

### **Financial Result**

Revenue for the 2008/2009 year was \$150.296 million (2007/2008 \$132.250 million), which represents an increase of 13.6%.

Increased sales volumes resulted in an increase in earnings before interest and tax of \$6.928 million or 49%. Underlying net earnings increased by \$7.231 million or 83%, to \$15.947 million.

The strength of LIC's balance sheet continues with total assets of \$223.5 million with an equity ratio above 80%.

The 2008/2009 year saw strong operating cash flows of \$26.763 million, an increase of 34% over the previous year, and equivalent to 18% of revenue. Investment in company assets was \$10.2 million.

The company's total assets (land, buildings, bull and stag teams) are valued at \$223.543 million compared to \$205.095 million the previous year.

The company had no term debt at the end of the year, but had seasonal borrowings, which peaked at around \$18 million.

### **Dividend**

LIC will distribute a record dividend to shareholders of \$12.75 million representing 80% of underlying earnings, to its Cooperative and Investment Shareholders. This translates to 8.65 cents per Cooperative Control Share and 41.9 cents per Investment Share. The fully imputed dividend payment will be made to Shareholders on 21 August 2009.

This represents a gross yield of 39.6% on Investment Shares, compared to a dividend on Investment Shares of 22.7 cents in 2007/2008 and a dividend on Co-operative Control Shares of 6.97 cents in 2007/2008.

### **Summary**

The record result and investments made in the 2008/2009 year position LIC well for the medium to long term as the dairy industry progresses through the current downturn and moves into a recovery phase.

In line with financial pressures on farm, the company has initiated an extensive cost containment programme across the business including a salary freeze for the 2009/2010 year, a review and reduction of its capital expenditure programme and operating costs.

LIC products and services are critical to the profitability of dairying and the Board and Management are committed to running the business in a prudent way to ensure the cooperative plays its part in the industry recovery.

**Appreciation**

On behalf of the Board, I would like to thank CEO Mark Dewdney, Senior Management and all LIC staff for a challenging but excellent year and for their proactive commitment to work even harder for our Shareholders and LIC for the tough year ahead.

I would also like to acknowledge my fellow Directors and the LIC Shareholders Council for their work and support over the past year.

A handwritten signature in black ink, appearing to read 'Stuart Bay', with a stylized, flowing script.

Stuart Bay  
CHAIRMAN

## 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 will remain a Co-operative Company;
- The Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company's qualifying products and services; 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; and
- 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.

### Election of Directors

The Directors representing the Southern region (Kevin Straight and Alvin Reid) retired by rotation in 2009. Mr Reid being eligible stood for re-election. Mrs Jennifer Calder and Messrs Murray King and Andrew Robb were also nominated and a postal election held. Mr King was elected and Mr Reid was re-elected.

Appointed Director Mr Graham Fraser retired at the 2008 Annual Meeting. Mr Jason Dale was approved by the LIC Shareholder Council and appointed by the Board as replacement. Co-operative Control Shareholders will be asked to ratify Mr Dale's appointment at the 2009 Annual Meeting.

## **Audit Finance & Risk Committee**

### **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 Jason Dale.

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 thirteen times in 2008/09.

### **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 can hold Investment Shares in accordance with the Company's Constitution.

### **Interests Register**

A Directors' Interest Register is maintained and Directors interest in transactions during the financial year are outlined on page 53 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

(a) 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.

The following Directors and Deemed Directors have declared interest in transactions with any of the following entities:

**S Bay:**

Member of Governance Group of Pastoral 21

**E Coats:**

Director of: Johnes Ltd and New Zealand Animal Evaluation Ltd. Member of Governance Group of NAIT. Animal Health Board.

**M Dewdney:**

Director of Tru-Test Ltd, SIDDC Board, Innovation Waikato Ltd.

**M King:**

Director of: Milktech Ltd, Scott Milktech Ltd and Canterbury Grasslands Ltd.

**P Lough:**

Director of: Tatua Dairy Company Ltd, Dairy Equity Ltd, Methven Ltd, Quotable Value NZ Ltd 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, and 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).

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2009/2010 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
J Lynskey	2	\$16,000
A Reid	1	\$8,000

**(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:

Director	2009		2008	
	Co-operative Control	Investment Shares	Co-operative Control	Investment Shares
Stuart Bay	3,488	47,835	1,739	46,650
Ted Coats	589	5,170	595	4,970
Bryan Guy	1,625	10,602	1,571	10,050
Murray Jagger	1,152	20,211	678	19,820
John Lynskey	2,660	61,504	2,150	60,600
Alvin Reid	4,394	74,310	3,410	74,310
Kevin Straight	1,044	7,040	984	7,040

No Director traded Investment Shares during the year other than through the Voluntary Investment Scheme (VIS) refer page 59 B.

**(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.

**DIRECTORS AND REMUNERATION**

Directors of the Parent received the following remuneration:

	Fees \$000
S B Bay	99
E G Coats	39.6
B R Guy	39.6
J C Dale	31.3
M E Jagger	39.6
P J Lynskey	39.6
A J Reid	39.6
K D Straight	39.6
G A Fraser	18.3
PV Lough	46
J S Waldvogel	39.6
	471.8

**Executive Employees' Remuneration**

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

Remuneration Range	Returning	Cessations	Total
100,000 – 109,999	19	1	20
110,000 – 119,999	8	2	10
120,000 – 129,999	10	1	11
130,000 – 139,999	3		3
140,000 – 149,999	2		2
150,000 – 159,999	1	1	2
160,000 – 169,999	2		2
170,000 – 179,999	1		1
180,000 – 189,999	1		1
190,000 – 199,999	1		1
200,000 – 209,999	2	1	3
210,000 – 219,999	1		1
220,000 – 229,999	2		2
240,000 – 249,999	1		1
260,000 – 269,999	1		1
520,000 – 529,999	1		1
Total	56	6	62

**RESOLUTION OF DIRECTORS  
DATED 22 July 2009 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 2009.

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 2009**

**Size of Shareholding**

Holdings	Shareholders	Investments Share Held	% of Total
1-999	2469	1,176,423	3.984
1,000-1,999	2371	3,580,984	12.127
2,000-2,999	2122	5,216,138	17.665
3,000-3,999	1254	4,319,805	14.629
4,000-4,999	708	3,167,285	10.726
5,000-9,999	1027	6,830,750	23.133
Over 10,000	274	5,237,205	17.736
<b>Total</b>	<b>10225</b>	<b>29,528,590</b>	<b>100%</b>

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

	<b>Investment</b>
Anglesea Consulting Limited	360,000
Christopher John Procter, Donna Leigh Procter, BSN Trustees Ltd - Tara Trust	177,035
NZGT LIC Nominees Limited - Employee Share Scheme	72,559
Shirley Ann Dunlop, Brian Douglas Dunlop, Gary Bruce Dunlop	68,574
Peter John Lynskey, Carole Joyce Lynskey, Neil Taylor - Maolla Trust	61,504
William Terence Leonard	55,603
Mark Francis Slee, Devon Mathieson Slee	53,639
Rotokaia Farm Limited	48,930
Broad Acres Farms Limited	48,494
Allan James Hubbard, Allan John Pye, Andrew Paul Turney-Balrath Farm P/Ship	47,882
Stuart Bruce Bay, Doris Beth Bay - Bay Family Trust	47,835
D B Douglas Limited	47,573
South Hilton Limited	42,070
Christopher John Stark, Allan James Hubbard - Deebury Pastoral Ealing Trust	40,729
Rakaia Island Dairies Limited	40,580
Browns Farm Limited	40,360
Hammond Limited	40,346
Malcolm John Piggott, Rosalie Freda Piggott	35,884
Lichfield Lands Incorporated	33,848
Fenland Limited	33,660

**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 donations of \$9,000 during the year ended 31 May 2009.

**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 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. 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 1st 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 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 \$53,000.

In relation to the financial assistance provided for the Dividend Plan, the Livestock Improvement Board resolved on 22 July 2009 that Livestock Improvement should provide the financial assistance referred to above ('Dividend Plan Financial Assistance'), and that the giving of the Dividend Plan Financial Assistance is in the best interest of Livestock Improvement and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to Livestock Improvement and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

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

- 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 \$15,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 22 July 2009 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 \$43,000.

The Board of LIC resolved on 22 July 2009 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.