

Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2011



Income Statement
For the year ended 31 May 2011

In thousands of New Zealand dollars

	Note	Consolidated		Parent	
		2011	2010	2011	2010
Revenue	7	165,592	136,441	157,937	128,460
Other income	8	-	90	-	89
Purchased materials		(23,003)	(16,838)	(20,726)	(13,895)
Staff expenses	11	(69,362)	(61,170)	(66,264)	(58,169)
Depreciation	14	(5,664)	(5,250)	(5,310)	(4,876)
Amortisation	15	(4,182)	(3,798)	(4,182)	(3,797)
Impairment	9	(1,507)	(1,905)	(1,055)	(1,905)
Share of loss of equity accounted associates	34	(84)	(2)	(2)	(2)
Other expenses	10	(37,455)	(30,735)	(35,498)	(28,538)
Earnings before finance activities, taxation and fair value adjustments - biological assets		24,333	16,834	24,899	17,367
Finance income	12	1,488	1,011	1,707	1,258
Finance expenses	12	(696)	(1,407)	(745)	(1,069)
Fair value adjustments - biological assets	16	828	(1,117)	222	(863)
Earnings before taxation		25,954	15,320	26,082	16,693
Tax expenses on fair value adjustments - biological assets		(248)	335	(67)	259
Tax expenses - other		(8,072)	(7,306)	(7,951)	(6,730)
Total Tax Expense	13	(8,320)	(6,971)	(8,017)	(6,471)
Profit for the period		17,634	8,349	18,065	10,222
Earnings per share	24				
Basic and diluted earnings per investment share (NZD)		0.597	0.283		

Supplementary note to the Income Statement

Profit for the period	17,634	8,349	18,065	10,222
(Profit)/loss on fair value of biological assets	(828)	1,117	(222)	863
Tax effect on (profit)/loss on fair value of biological assets	248	(335)	67	(259)
Underlying net earnings excluding biological assets and tax thereon	17,054	9,131	17,910	10,826

Statement of Comprehensive Income
For the year ended 31 May 2011

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2011	2010	2011	2010
Profit for the period		17,634	8,349	18,065	10,222
Other comprehensive income (net of income tax)					
Foreign currency translation differences for foreign operations		(156)	34	-	-
Effective portion of changes in fair value of cash flow hedges		(15)	89	(15)	89
Reclassification adjustments for gains/(losses) included in profit and loss		(89)	(93)	(89)	(93)
Net change in fair value of available for sale financial assets		87	(133)	-	-
Revaluation of property plant and equipment		575	(1,293)	501	(1,314)
Other comprehensive income for the period, net of income tax		403	(1,396)	398	(1,318)
Total comprehensive income for the period		18,036	6,953	18,462	8,905
Attributable to:					
Owners of the company		18,036	6,953	18,462	8,905
Total comprehensive income for the period		18,036	6,953	18,462	8,905

Balance Sheet
As at 31 May 2011

In thousands of New Zealand dollars

		Consolidated		Parent	
	Note	2011	2010	2011	2010
Assets					
Fixed assets	14	62,373	59,693	55,767	53,014
Intangible assets	15	25,650	22,920	24,447	21,265
Biological assets	16	72,848	72,865	72,848	72,683
Investments & derivatives	17	11,683	815	23,436	8,831
Loans		-	-	4,584	6,323
Total non-current assets		172,554	156,293	181,082	162,117
Cash and cash equivalents	21	16,281	24,908	15,117	22,947
Inventories	19	6,214	6,250	5,818	5,627
Biological assets	16	2,187	1,503	635	119
Investments & derivatives	17	15,233	11,467	15,233	11,467
Trade receivables	20	21,803	13,692	24,573	15,104
Non-current assets held for sale	6	-	8,473	-	8,473
Other current assets		2,566	1,077	2,561	1,070
Total current assets		64,284	67,370	63,936	64,806
Total assets		236,838	223,663	245,019	226,923
Equity					
Share capital		58,464	58,464	58,464	58,464
Reserves		24,131	26,884	22,210	24,968
Retained earnings		102,239	88,379	108,979	94,688
Total equity		184,834	173,727	189,654	178,120
Liabilities					
Provisions	26	3,944	3,947	3,795	3,657
Deferred tax liability	18	25,200	25,242	24,846	24,888
Total non-current liabilities		29,144	29,189	28,641	28,545
Co-operative Control Shares	23	4,328	4,650	4,328	4,650
Trade payables	27	13,640	11,198	13,704	10,674
Short-term borrowings		-	-	3,874	-
Provision for tax		3,220	2,409	3,167	2,495
Provisions	26	1,672	2,491	1,650	2,439
Total current liabilities		22,860	20,747	26,724	20,258
Total liabilities		52,004	49,936	55,365	48,803
Total equity and liabilities		236,838	223,663	245,019	226,923



Director

Date: 27 July 2011



Director

Date: 27 July 2011

Statement of Cash Flows
For the year ended 31 May 2011

In thousands of New Zealand dollars

	Note	Consolidated		Parent	
		2011	2010	2011	2010
Net cash from/(used in) operating activities					
Cash provided from:					
Receipts from customers		154,832	137,066	146,563	128,798
Finance income received		1,537	854	1,729	1,088
		156,369	137,920	148,292	129,886
Cash applied to:					
Payments to suppliers and employees		(126,774)	(104,007)	(119,907)	(96,579)
Finance expense paid		(490)	(637)	(251)	(661)
Income tax paid		(7,847)	(4,563)	(7,646)	(4,492)
		(135,110)	(109,206)	(127,804)	(101,732)
	32	21,259	28,714	20,488	28,154
Net cash from/(used in) investing activities					
Cash provided from:					
Sale of term investments		11,200	10,603	11,200	10,603
Sale of shares		3	-	3	-
Sale of biological assets		712	667	90	283
Sale of non-current assets held for sale		8,244	-	8,244	-
Sale of Property, Plant and Equipment		4,091	160	3,882	144
Repayment of advances to subsidiaries		-	-	2,125	565
		24,249	11,430	25,544	11,595
Cash applied to:					
Acquisition of term investments		(15,000)	(11,200)	(15,000)	(11,200)
Advance of term loan	17	(10,000)	-	(10,000)	-
Acquisition of shares		(760)	(98)	(724)	(145)
Acquisition of intangibles		(7,531)	(4,516)	(7,531)	(4,415)
Acquisition of Property, Plant and Equipment		(12,576)	(4,946)	(12,162)	(4,724)
Acquisition of biological assets		(550)	(236)	(550)	(236)
Advances to subsidiaries		-	-	(270)	(469)
		(46,417)	(20,996)	(46,237)	(21,190)
		(22,168)	(9,566)	(20,693)	(9,595)
Net cash from/(used in) financing activities					
Cash provided from:					
Co-operative Shares paid up		524	1,104	524	1,104
		524	1,104	524	1,104
Cash applied to:					
Repurchase of Co-operative Shares		(846)	(509)	(846)	(509)
Dividends paid to Shareholders of the Group		(6,928)	(12,381)	(6,928)	(12,381)
Interest paid on Co-operative Shares		(376)	(410)	(376)	(410)
		(8,150)	(13,300)	(8,150)	(13,300)
		(7,626)	(12,196)	(7,626)	(12,196)
Net increase/(decrease) in cash balances		(8,535)	6,952	(7,831)	6,363
Cash balances at beginning of period		24,908	18,034	22,947	16,584
Effect of exchange rate changes on cash held		(91)	(79)	-	-
Closing cash balances		16,282	24,908	15,117	22,947

Consolidated Statement of Changes in Equity
For the year ended 31 May 2011

Consolidated

Attributable to equity holders of the Parent

In thousands of New Zealand dollars

Balance at 1 June 2009

Total comprehensive income for the period

Profit

Other comprehensive income

Foreign currency translation differences for foreign operations

Effective portion of changes in fair value of cash flow hedges

Reclassification adjustments for gains/(losses) included in profit and loss

Net change in fair value of available for sale financial assets

Revaluation of property plant and equipment

Total other comprehensive income

Total comprehensive income for the period

Transactions with owners, recorded directly in equity

Contributions by and distributions to owners

Dividends to equity holders

Total contributions by and distributions to owners

Balance at 31 May 2010

Balance at 1 June 2010

Total comprehensive income for the period

Profit

Other comprehensive income

Foreign currency translation differences for foreign operations

Effective portion of changes in fair value of cash flow hedges

Reclassification adjustments for gains/(losses) included in profit and loss

Net change in fair value of available for sale financial assets

Transfer to retained earnings for land & buildings sold during year

Revaluation of property plant and equipment

Total other comprehensive income

Total comprehensive income for the period

Transactions with owners, recorded directly in equity

Contributions by and distributions to owners

Dividends to equity holders

Total contributions by and distributions to owners

Balance at 31 May 2011

LIC Investment Shares	Foreign Currency Translation Reserve	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
58,464	123	93	131	27,934	92,411	179,155
-	34	-	-	-	-	34
-	-	89	-	-	-	89
-	-	(93)	-	-	-	(93)
-	-	-	(133)	-	-	(133)
-	-	-	-	(1,293)	-	(1,293)
-	34	(4)	(133)	(1,293)	-	(1,396)
-	34	(4)	(133)	(1,293)	8,349	6,953
-	-	-	-	-	(12,381)	(12,381)
-	-	-	-	-	(12,381)	(12,381)
58,464	156	89	(2)	26,641	88,379	173,727
58,464	156	89	(2)	26,641	88,379	173,727
-	(156)	-	-	-	17,634	17,634
-	-	-	-	-	-	(156)
-	-	(15)	-	-	-	(15)
-	-	(89)	-	-	-	(89)
-	-	-	87	-	-	87
-	-	-	-	(3,155)	3,155	-
-	(156)	(104)	87	575	-	575
-	(156)	(104)	87	(2,580)	3,155	403
-	(156)	(104)	87	(2,580)	20,789	18,036
-	-	-	-	-	(6,928)	(6,928)
-	-	-	-	-	(6,928)	(6,928)
58,464	-	(15)	85	24,061	102,239	184,834

Consolidated Statement of Changes in Equity (continued)
For the year ended 31 May 2011

Parent

In thousands of New Zealand dollars

Balance at 1 June 2009									
Total comprehensive income for the period									
Profit									
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	89	-	-	-	-	-	-	89
Reclassification adjustments for gains/(losses) included in profit and loss	-	(93)	-	-	-	-	-	-	(93)
Revaluation of property plant and equipment	-	-	-	(1,314)	-	(1,314)	-	-	(1,314)
Total other comprehensive income	-	(4)	-	(1,314)	-	(1,314)	-	-	(1,318)
Total comprehensive income for the period	-	(4)	-	(1,314)	-	(1,314)	10,222	-	8,904

Transactions with owners, recorded directly in equity

Contributions by and distributions to owners									
Dividends to equity holders	-	-	-	-	-	-	(12,381)	-	(12,381)
Total contributions by and distributions to owners	-	-	-	-	-	-	(12,381)	-	(12,381)
Balance at 31 May 2010	58,464	89	-	24,879	-	24,879	94,688	-	178,120

Balance at 1 June 2010

Total comprehensive income for the period

Profit	58,464	89	-	24,879	-	24,879	94,688	-	178,120
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	(15)	-	-	-	-	-	-	(15)
Reclassification adjustments for gains/(losses) included in profit and loss	-	(89)	-	-	-	-	-	-	(89)
Transfer to retained earnings for land & buildings sold during year	-	-	-	(3,155)	-	(3,155)	3,155	-	-
Revaluation of property plant and equipment	-	-	-	501	-	501	-	-	501
Total other comprehensive income	-	(104)	-	(2,654)	-	(2,654)	3,155	-	398
Total comprehensive income for the period	-	(104)	-	(2,654)	-	(2,654)	21,220	-	18,462

Transactions with owners, recorded directly in equity

Contributions by and distributions to owners									
Dividends to equity holders	-	-	-	-	-	-	(6,928)	-	(6,928)
Total contributions by and distributions to owners	-	-	-	-	-	-	(6,928)	-	(6,928)
Balance at 31 May 2011	58,464	(15)	-	22,226	-	22,226	108,979	-	189,654

Notes to the Financial Statements
For the year ended 31 May 2011

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 1996, 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 2011, comprise LIC and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in providing genetics, herd testing and farm solutions to its 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 27 July 2011.

The accounting policies have been applied consistently throughout the Group for the purposes of these financial statements.

(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 costs to sell;
- 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 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.

(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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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.

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 finance 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(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.

Accumulated depreciation on revalued assets is eliminated against the gross carrying amount of the asset.

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

· Buildings	30-40 years
· Plant and Equipment	5-7 years
· Vehicles	5 years
· Furniture and Fittings	5-10 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 fair 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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.

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 include 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(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 assets, other than biological assets, inventories, goodwill and indefinite life intangibles are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

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

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

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

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

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 Group's obligation along with the Group's risk premium. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(ii) Short-term benefits

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

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

(iii) Defined contribution plans

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

(k) *Provisions*

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

(i) ACC Partnership Programme

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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.

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, except where the borrowing costs are associated with qualifying assets, in which case they are capitalised.

(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 other comprehensive income, in which case it is recognised in the Statement of Comprehensive Income.

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 in respect of 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

(p) *Discontinued operations*

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

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

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

(r) *Earnings per share*

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

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

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

Improvements to NZ IFRSs 2010 – NZ IFRS 7 Financial Instruments: Disclosures

Effective date - periods beginning on or after: 1 January 2011

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

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

Improvements to NZ IFRSs 2010 – NZ IAS 1 Presentation of Financial Statements

Effective date - periods beginning on or after: 1 January 2011

The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

Improvements to NZ IFRSs 2010 – Amendments to NZ IFRS 3 Business Combinations

Effective date - periods beginning on or after: 1 January 2011

The amendments:

- clarify that contingent consideration arising in a business combination previously accounted for in accordance with NZ IFRS 3 (2004) that remains outstanding at the adoption date of NZ IFRS 3 (2008) continues to be accounted for in accordance with NZ IFRS 3 (2004);
- limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and
- expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards.

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

Improvements to NZ IFRSs 2010 – Amendments to NZ IAS 27 Consolidated and Separate Financial Statements

Effective date - periods beginning on or after: 1 January 2011

The amendments clarify that the consequential amendments to NZ IAS 21 The Effects of Changes in Foreign Exchange Rates, NZ IAS 28 Investments in Associates and NZ IAS 31 Interests in Joint Ventures resulting from NZ IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering.

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

Disclosures – Transfers of Financial Assets (Amendments to NZ IFRS 7)

Effective date - periods beginning on or after: 1 July 2011

The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

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

Presentation of Items of Other Comprehensive Income (Amendments to NZ IAS 1)

Effective date - periods beginning on or after: 1 July 2012

The amendments:

- require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other NZ IFRSs continue to apply in this regard.

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

NZ IFRS 9 Financial Instruments

Effective date - periods beginning on or after: 1 January 2013

Standard issued in November 2009 (NZ IFRS 9 (2009))

NZ IFRS 9 (2009) is the first standard issued as part of a wider project to replace NZ IAS 39.

NZ IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in NZ IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

Standard issued in October 2010 (NZ IFRS 9 (2010))

NZ IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009.

It also includes those paragraphs of NZ IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of NZ IFRIC 9 Reassessment of Embedded Derivatives.

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

NZ IFRS 10 Consolidated Financial Statements

Effective date - periods beginning on or after: 1 January 2013

NZ IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is reassessed as facts and circumstances change.

NZ IFRS 10 supersedes NZ IAS 27 (2008) and NZ SIC-12 Consolidation—Special Purpose Entities.

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

NZ IFRS 11 Joint Arrangements

Effective date - periods beginning on or after: 1 January 2013

NZ IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case).

- distinguishes joint arrangements between joint operations and joint ventures; and
- always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation.

NZ IFRS 11 supersedes NZ IAS 31 and NZ SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers.

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

NZ IFRS 12 Disclosure of Interests in Other Entities

Effective date - periods beginning on or after: 1 January 2013

NZ IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

NZ IFRS 13 Fair Value Measurement

Effective date - periods beginning on or after: 1 January 2013

NZ IFRS 13 replaces the fair value measurement guidance contained in individual NZ IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other NZ IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards

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

NZ IAS 19 Employee Benefits (amended 2011)

Effective date - periods beginning on or after: 1 January 2013

The amended NZ IAS 19 includes the following requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under NZ IAS 19; and
- expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

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

NZ IAS 27 Separate Financial Statements (2011)

Effective date - periods beginning on or after: 1 January 2013

NZ IAS 27 (2011) supersedes IAS 27 (2008). NZ IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

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

NZ IAS 28 Investments in Associates and Joint Ventures (2011)

Effective date - periods beginning on or after: 1 January 2013

NZ IAS 28 (2011) supersedes NZ IAS 28 (2008). NZ IAS 28 (2011) makes the following amendments: NZ IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

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

FRS 44 New Zealand Additional Disclosures

Effective date - annual reporting periods beginning on or after: 1 July 2011

This standard prescribes the New Zealand specific disclosures which are required in addition to those required under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs). FRS 44 contains the New Zealand specific disclosure requirements which have been relocated from existing NZ IFRSs and have been retained because they are considered important in the New Zealand environment.

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

Notes to the 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 have been determined by using a direct comparison methodology and the fair value of buildings has been determined by using a capitalised rental 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 EBIT earnings multiple methodology, and recent arms length transactions. The earnings 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).

Notes to the financial statements

5. Operating Segments

Information about reportable segments

For the purposes of NZ IFRS 8 LIC Group has determined its Chief Operating Decision Maker (CODM) to be its CEO. This has been determined on the basis that it is the CEO that determines the allocation of resources to segments and assesses their performance.

The operating segments of LIC Group have been determined on the components of the entity that the CODM monitors in making decisions about operating matters. Such components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources, and to assess the performance of the LIC Group.

LIC Group has determined it has three operating segments which are reportable under NZ IFRS 8, all other operating segments have been included in 'Other segments'. The three reportable segments which are described below, are the Group's strategic business

- Genetics. Includes the provision of bovine and cervine genetic breeding material and related services predominately to dairy and deer farmers.
- Herd Testing. The provision of herd testing and animal recording for pastoral farmers.
- Farm Software. Includes the provision of data recording and farm management information services.

Other operating segments includes international operations, research & development, farm automation, diagnostic services, animal evaluation, human resources, corporate services, leadership and governance support services for the Group. None of these segments meet any of the quantitative thresholds for determining reportable segments in 2011 or 2010.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment profit before interest, finance expenses and income tax. Segment profit is used to measure performance as CODM believes that such information is the most relevant in evaluating the results of certain segments. The strategic business units offer different products and services and are managed separately because they require different technology and operational strategies. Inter-segment pricing is determined on an arm's length basis.

Notes to the financial statements

5. Operating Segments (continued)

<i>In thousands of New Zealand dollars</i>	Genetics		Herd Testing		Farm Software		Total Reportable Segments		Other		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	69,166	65,481	23,319	19,700	34,497	28,367	126,981	113,549	38,611	22,983	-	-	165,592	136,532
Inter-segment revenue	5,138	2,176	-	-	-	-	5,138	2,176	43	50	(5,181)	(2,226)	-	-
Total revenue	74,304	67,657	23,319	19,700	34,497	28,367	132,120	115,724	38,654	23,033	-	-	165,592	136,532
Depreciation & amortisation	(1,037)	(1,186)	(1,502)	(1,835)	(1,585)	(953)	(4,124)	(3,975)	(5,723)	(5,071)	-	-	(9,846)	(9,046)
Reportable segment profit before income tax	39,481	22,151	9,769	5,480	16,551	11,210	65,801	38,841	(39,877)	(19,169)	-	-	25,924	18,741
Unallocated Amounts														
Net finance income/expenses														792
Impairment														(1,507)
Share on loss of equity accounte														(84)
Fair value adjustments-biological assets														828
Consolidated profit before income tax														25,954
														15,320

Geographical segments

The Group operates in five principal geographical areas; New Zealand, Australia, United Kingdom, Ireland and North America

The Group's revenue from external customers and information about its segment assets (non-current assets excluding investments in associates, other financial assets and tax assets) by geographical location (of customer) are detailed below:

Geographical information

<i>In thousands of New Zealand dollars</i>	Revenues		Revenues		Non current assets		Non current assets	
	2011	2010	2011	2010	2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010
New Zealand	152,605	125,230	171,530	158,890				
Australia	2,862	3,479	99	1,886				
Ireland	2,817	2,577	445	324				
United Kingdom	3,210	2,912	394	299				
Other Countries	4,099	2,334	88	74				
Total	165,592	136,532	172,555	161,472				

Information about major customers

The Group is not dependent on any one major customer in any of its reportable segments.

Notes to the Financial Statements

6 Non-current assets held for sale

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Land and Buildings - Feilding	-	3,294	-	3,294
Investments in available-for-sale financial assets	-	5,179	-	5,179
	-	8,473	-	8,473

Land and associated buildings in Feilding classified as held for sale in 2010 were disposed of by way of sale in 2011. The loss on disposal of \$0.229 million was recognised in other expenses in the Income Statement.

The investments in available-for-sale financial assets related to the portion of the investment in Tru-Test that was sold during the 2011 year.

7 Revenue

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Sales of goods	99,998	83,582	92,710	75,789
Services - Herd testing, MINDA, Farmwise, Animal Evaluation, Genemark	65,594	52,859	65,227	52,671
Total revenues	165,592	136,441	157,937	128,460

8 Other income

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Net gain on sale of property, plant and equipment	-	90	-	89
	-	90	-	89

9 Impairment

In thousands of New Zealand dollars

	Note	Consolidated		Parent	
		2011	2010	2011	2010
Impairment of goodwill	15	620	-	-	-
Impairment of intellectual property	15	-	-	168	-
Revaluation of land & buildings		887	-	887	-
Impairment of investment		-	1,905	-	1,905
		1,507	1,905	1,055	1,905

During 2011 the goodwill held by the Group in relation to Northern Feed Systems (NFS) was written off, \$0.620 million. Revaluation of land & buildings saw a downwards revaluation of Innovation Farm of \$0.887 million.

Notes to the financial statements

10 Expenses

The following items of expenditure are included in other expenses:

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2011	2010	2011	2010
Donations (primarily for Christchurch earthquake)	102	5	102	5
Net loss on sale of property, plant and equipment	253		303	
Auditors' remuneration comprises:				
KPMG – audit services	130	130	130	130
KPMG – other audit-related services	5	5	5	5
Other Auditors	29	24	-	-

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2011	2010	2011	2010
Included in expenses:				
Research and Development	3,619	4,345	3,619	4,345

11 Staff expenses

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2011	2010	2011	2010
Wages and salaries	61,664	55,619	58,902	52,924
Contributions to employee superannuation	2,470	2,234	2,443	2,206
Other employee expenses	5,228	3,316	4,919	3,039
	69,362	61,170	66,264	58,169

12 Finance income and expense

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2011	2010	2011	2010
Interest income on loans and receivables	1,475	982	1,694	1,258
Dividend income on available-for-sale financial assets	13	29	13	-
Finance income	1,488	1,011	1,707	1,258
Interest expense	(110)	(70)	(100)	(74)
Dividend paid on Co-operative Control Shares	(376)	(410)	(376)	(410)
Net foreign exchange loss	(210)	(927)	(269)	(585)
Finance expense	(696)	(1,407)	(745)	(1,069)
Net finance income	792	(396)	962	189

Notes to the financial statements

13 Income tax expense in the income statement

In thousands of New Zealand dollars

Current tax expense

Current period
Adjustments for prior periods

Deferred tax expense

Origination and reversal of temporary differences
Reduction in tax rate
Removal of depreciation on buildings
Recognition of tax offset from subsidiary
Recognition of previously unrecognised tax losses
Adjustments for prior periods

Income tax expense

Total income tax expense

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% (2010: 30%)

Effect of tax rates in foreign jurisdictions
Reduction in tax rate
Non-deductible expenses
Recognition of tax offset from subsidiary
Removal of depreciation on buildings
Current year losses for which no deferred tax asset was recognised
Under/(over) provided in prior periods

Total income tax expense

Income tax recognised directly in equity

In thousands of New Zealand dollars

Revaluation of buildings
Total income tax recognised directly in equity

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 paid
Imputation credits at 31 May

The imputation credits are available to shareholders of the Company:

Through the Company
Through subsidiaries

Consolidated		Parent	
2011	2010	2011	2010
8,650	5,793	8,318	5,929
-	(312)	-	(907)
8,650	5,481	8,318	5,022
(435)	(324)	(128)	(166)
-	(1,448)	-	(1,415)
-	3,262	-	3,030
-	-	(146)	-
14	-	-	-
91	-	(27)	-
(330)	1,490	(301)	1,449
8,320	6,971	8,017	6,471
8,320	6,971	8,017	6,471

Consolidated		Parent	
2011	2010	2011	2010
17,634	8,349	18,065	10,222
8,320	6,971	8,017	6,471
25,954	15,320	26,082	16,693
7,786	4,596	7,825	5,008
(43)	(34)	-	-
-	(1,448)	-	(1,415)
486	768	365	755
-	-	(146)	-
-	3,262	-	3,030
-	139	-	-
91	(312)	(27)	(907)
8,320	6,971	8,017	6,471

Consolidated		Parent	
2011	2010	2011	2010
288	(306)	259	(306)
288	(306)	259	(306)

Consolidated		Parent	
2011	2010	2011	2010
4,006	5,150	3,511	4,654
9,292	4,469	9,022	4,469
(3,130)	(5,612)	(3,130)	(5,612)
10,168	4,006	9,403	3,511
9,403	3,511	9,403	3,511
765	495	-	-
10,168	4,006	9,403	3,511

Notes to the financial statements

14 Fixed assets

Consolidated

In thousands of New Zealand dollars

	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
Cost or fair value							
Balance at 1 June 2009	35,305	25,755	25,248	11,812	1,959	12,653	112,732
Additions	660	258	3,016	602	22	489	5,049
Increases/(decreases) resulting from revaluations	(600)	(8,753)	-	-	-	-	(9,353)
Disposals	-	(39)	(196)	(602)	(21)	(225)	(1,083)
Transfer to non-current assets held for sale	(3,120)	(174)	-	-	-	-	(3,294)
Forex Impact	-	-	(13)	(63)	(10)	(5)	(91)
Balance at 31 May 2010	32,245	17,047	28,055	11,750	1,950	12,913	103,960
Balance at 1 June 2010	32,245	17,047	28,055	11,750	1,950	12,913	103,959
Additions	4,492	848	2,880	2,888	247	1,346	12,702
Increases/(decreases) resulting from revaluations	(1,496)	1,111	-	-	-	-	(385)
Disposals	(3,724)	(568)	(755)	(1,690)	(59)	(147)	(6,943)
Forex impact	-	-	(12)	(22)	(1)	1	(34)
Balance at 31 May 2011	31,517	18,438	30,168	12,926	2,138	14,113	109,300
Depreciation and impairment losses							
Balance at 1 June 2009	-	(7,285)	(20,689)	(7,520)	(1,838)	(10,403)	(47,735)
Depreciation for the year	-	(661)	(1,846)	(1,505)	(47)	(1,191)	(5,250)
Adjustment due to revaluations	-	7,753	-	-	-	-	7,753
Disposals	-	3	192	479	21	225	920
Forex impact	-	-	8	28	7	3	45
Balance at 31 May 2010	-	(190)	(22,335)	(8,518)	(1,857)	(11,366)	(44,267)
Balance at 1 June 2010	-	(190)	(22,335)	(8,518)	(1,857)	(11,366)	(44,267)
Depreciation for the year	-	(813)	(2,128)	(1,562)	(76)	(1,086)	(5,664)
Adjustment due to revaluations	-	464	-	-	-	-	464
Disposals	-	186	652	1,531	52	115	2,536
Forex Impact	-	-	6	(5)	2	(1)	2
Balance at 31 May 2011	-	(353)	(23,804)	(8,554)	(1,879)	(12,338)	(46,929)
Carrying amounts							
At 1 June 2009	35,305	18,470	4,559	4,292	121	2,250	64,997
At 31 May 2010	32,245	16,857	5,719	3,232	93	1,547	59,693
At 1 June 2010	32,245	16,857	5,719	3,232	93	1,547	59,693
At 31 May 2011	31,517	18,086	6,364	4,372	259	1,775	62,373

Notes to the financial statements

14 Fixed assets (continued)

Parent

In thousands of New Zealand dollars

	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
Cost or fair value							
Balance at 1 June 2009	30,425	24,440	24,530	10,661	1,840	12,583	104,479
Additions	660	196	2,981	399	21	477	4,734
Increases/(decreases) resulting from revaluations	(600)	(8,578)	-	-	-	-	(9,178)
Disposals	-	(39)	(186)	(407)	(21)	(183)	(836)
Transfer to non-current assets held for sale	(3,120)	(174)	-	-	-	-	(3,294)
Balance at 31 May 2010	27,365	15,845	27,325	10,653	1,840	12,877	95,905
Balance at 1 June 2010	27,365	15,845	27,325	10,653	1,840	12,877	95,905
Additions	4,492	830	2,839	2,634	228	1,276	12,299
Increases/(decreases) resulting from revaluations	(1,496)	1,009	-	-	-	-	(487)
Disposals	(3,724)	(568)	(550)	(1,433)	(7)	(147)	(6,429)
Balance at 31 May 2011	26,637	17,116	29,614	11,854	2,061	14,006	101,288
Depreciation and impairment losses							
Balance at 1 June 2009	-	(7,090)	(20,241)	(6,916)	(1,742)	(10,355)	(46,344)
Depreciation for the year	-	(579)	(1,736)	(1,340)	(41)	(1,183)	(4,879)
Adjustment due to revaluations	-	7,558	-	-	-	-	7,558
Disposals	-	3	186	381	21	183	774
Balance at 31 May 2010	-	(108)	(21,791)	(7,875)	(1,762)	(11,355)	(42,891)
Balance at 1 June 2010	-	(108)	(21,791)	(7,875)	(1,762)	(11,355)	(42,891)
Depreciation for the year	-	(697)	(2,093)	(1,421)	(68)	(1,031)	(5,310)
Adjustment due to revaluations	-	464	-	-	-	-	464
Disposals	-	186	537	1,372	7	115	2,217
Balance at 31 May 2011	-	(155)	(23,347)	(7,924)	(1,823)	(12,271)	(45,520)
Carrying amounts							
At 1 June 2009	30,425	17,350	4,289	3,745	98	2,228	58,135
At 31 May 2010	27,365	15,737	5,534	2,778	78	1,522	53,014
At 1 June 2010	27,365	15,737	5,534	2,778	78	1,522	53,014
At 31 May 2011	26,637	16,961	6,267	3,930	238	1,735	55,767

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2011. These were performed by independent registered valuers, John Dunckley from Darroch Limited, Ron Lockwood of Fergusson Lockwood & Associates 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 \$49 million.

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

Consolidated

In thousands of New Zealand dollars

Land	10,667
Buildings	14,162

Notes to the financial statements

15 Intangible assets

Consolidated

In thousands of New Zealand dollars

Cost

	Goodwill	Database	Software	Total
Balance at 1 June 2009	4,002	10,500	26,396	40,898
Acquisitions – internally developed	-	-	4,416	4,416
Acquisitions – business combinations	50	-	-	50
Disposals	-	-	(45)	(45)
Balance at 31 May 2010	4,052	10,500	30,767	45,319

Balance at 1 June 2010	4,052	10,500	30,767	45,319
Acquisitions – internally developed	-	-	7,531	7,531
Balance at 31 May 2011	4,052	10,500	38,298	52,850

Amortisation and impairment losses

Balance at 1 June 2009	2,229	-	16,417	18,646
Amortisation for the year	-	-	3,798	3,798
Disposals	-	-	(45)	(45)
Balance at 31 May 2010	2,229	-	20,170	22,399

Balance at 1 June 2010	2,229	-	20,170	22,399
Amortisation for the year	-	-	4,182	4,182
Impairment	620	-	-	620
Balance at 31 May 2011	2,849	-	24,352	27,201

Carrying amounts

At 1 June 2009	1,773	10,500	9,979	22,252
At 31 May 2010	1,823	10,500	10,597	22,920
At 1 June 2010	1,823	10,500	10,597	22,920
At 31 May 2011	1,203	10,500	13,946	25,650

Notes to the financial statements

15 Intangible assets (continued)

Parent	Intellectual Property	Database	Software	Total
<i>In thousands of New Zealand dollars</i>				
Cost				
Balance at 1 June 2009	168	10,500	26,396	37,064
Acquisitions – internally developed	-	-	4,416	4,416
Disposals	-	-	(45)	(45)
Balance at 31 May 2010	168	10,500	30,767	41,435
Balance at 1 June 2010	168	10,500	30,767	41,435
Acquisitions – internally developed	-	-	7,531	7,531
Balance at 31 May 2011	168	10,500	38,298	48,966
Amortisation and impairment losses				
Balance at 1 June 2009	-	-	16,417	16,417
Amortisation for the year	-	-	3,797	3,797
Disposals	-	-	(45)	(45)
Balance at 31 May 2010	-	-	20,169	20,169
Balance at 1 June 2010	-	-	20,169	20,169
Amortisation for the year	-	-	4,182	4,182
Impairment loss	168	-	-	168
Balance at 31 May 2011	168	-	24,351	24,519
Carrying amounts				
At 1 June 2009	168	10,500	9,979	20,647
At 31 May 2010	168	10,500	10,597	21,265
At 1 June 2010	168	10,500	10,597	21,265
At 31 May 2011	-	10,500	13,947	24,447

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:

<i>In thousands of New Zealand dollars</i>	Consolidated	
	2011	2010
New Zealand Genetics	353	353
New Zealand Farm Software	850	1,470
	1,203	1,823

Notes to the financial statements

15 Intangible assets (continued)

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

<i>In thousands of New Zealand dollars</i>	Consolidated	
	2011	2010
New Zealand Farm Software	10,500	10,500
	10,500	10,500

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

The New Zealand Farm Software 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 for five years 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 post tax; 2010: 8.7 percent post tax); and
- Future projected cashflows (incorporates inflation of 3.5 percent; 2010: 3.5 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 2009	73,713	1,201	1,003	75,917
Increase due to acquisitions	-	-	236	236
Decrease due to sales	-	-	(667)	(667)
Change in fair value less estimated point-of-sale costs	(1,029)	(1,019)	931	(1,117)
Balance at 31 May 2010	72,684	182	1,503	74,369
Non-current	72,684	182	-	72,866
Current	-	-	1,503	1,503
Balance at 31 May 2010	72,684	182	1,503	74,369
Balance at 1 June 2010	72,684	182	1,503	74,369
Increase due to acquisitions	-	-	550	550
Decrease due to sales	-	-	(712)	(712)
Change in fair value less estimated point-of-sale costs	164	(182)	845	828
Balance at 31 May 2011	72,848	-	2,186	75,035
Non-current	72,848	-	-	72,848
Current	-	-	2,187	2,187
Balance at 31 May 2011	72,848	-	2,187	75,035

Notes to the Financial Statements

16 Biological assets (continued)

Parent

In thousands of New Zealand dollars

	Elite breeding bulls	Other livestock	Total
Balance at 1 June 2009	73,713	-	73,713
Increase due to acquisitions	-	236	236
Decrease due to sales	-	(283)	(283)
Change in fair value	(1,029)	166	(863)
Balance at 31 May 2010	72,684	119	72,803
Non-current	72,684	-	72,684
Current	-	119	119
Balance at 31 May 2010	72,684	119	72,803
Balance at 1 June 2010	72,684	119	72,803
Increase due to acquisitions	-	550	550
Decrease due to sales	-	(90)	(90)
Change in fair value less estimated point-of-sale costs	164	57	221
Balance at 31 May 2011	72,848	635	73,483
Non-current	72,848	-	72,848
Current	-	635	635
Balance at 31 May 2011	72,848	635	73,483

At 31 May 2011, Elite breeding bulls comprised 937 bulls (2010: 985 bulls)

At 31 May 2011, Elite breeding stags comprised 4 stags (2010: 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	8.7 percent post tax (2010: 8.7 percent post tax)
Inflation rate on expenses	3.5 percent (2010: 3.5 percent)
Inflation rate on revenue	0 percent 2011 and 2012 years, 2 percent 2013 year onwards (2010: 2 percent)
Tax rate	30 percent 2011 year, 28 percent 2012 year onwards (2010: 30 percent)

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

Animal Health

The Group's elite teams are exposed to the risk of a major disease outbreak in the New Zealand bovine and cervine 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 industry.

The Group is exposed to risks arising from market fluctuations in the price of the sale of other livestock.

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

Term Deposits

Investment in derivatives

Non-current investments

Investment in Subsidiaries

Investment in Associates & Joint Ventures

Term Loan

Available-for-sale financial assets

Total Investments

Consolidated		Parent	
2011	2010	2011	2010
15,252	11,360	15,252	11,360
(19)	106	(19)	106
15,233	11,466	15,233	11,466
-	-	12,313	8,493
43	77	-	3
10,067	-	10,067	-
1,574	738	1,056	335
11,683	815	23,436	8,831
26,916	12,281	38,669	20,297

The term loan is to Agria NZ for a period of 18 months, maturing 28th October 2012, and secured over the shares in PGW held by Agria Singapore (fair value as at 31 May 2011 was \$87 million). The security is second ranking.

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

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Fixed assets	-	-	(3,073)	(3,134)	(3,073)	(3,134)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(20,186)	(20,480)	(20,186)	(20,480)
Inventories	-	-	(54)	(49)	(54)	(49)
Provisions	1,137	1,147	(38)	(53)	1,099	1,094
Other items	111	271	(157)	(4)	(46)	267
Tax (assets)/liabilities	1,248	1,418	(26,448)	(26,660)	(25,200)	(25,242)
Net tax (assets)/liabilities	1,248	1,418	(26,448)	(26,660)	(25,200)	(25,242)

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	
	2011	2010	2011	2010	2011	2010
Fixed assets	-	-	(2,927)	(2,973)	(2,927)	(2,973)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(20,058)	(20,268)	(20,058)	(20,268)
Inventories	-	-	(40)	(49)	(40)	(49)
Provisions	1,126	1,131	(38)	(53)	1,088	1,078
Other items	111	269	(80)	(5)	31	264
Tax (assets)/liabilities	1,237	1,400	(26,083)	(26,288)	(24,846)	(24,888)
Net tax (assets)/liabilities	1,237	1,400	(26,083)	(26,288)	(24,846)	(24,888)

Movement in temporary differences during the year

Consolidated

In thousands of New Zealand dollars

	Balance 1 June 2009	Recognised in profit or loss	Recognised in equity	Balance 31 May 2010	Recognised in profit or loss	Recognised in equity	Balance 31 May 2011
Fixed assets	(388)	(3,051)	306	(3,134)	349	(288)	(3,073)
Intangible assets	(3,150)	210	-	(2,940)	-	-	(2,940)
Biological assets	(21,951)	1,471	-	(20,480)	294	-	(20,186)
Inventories	(73)	24	-	(49)	(5)	-	(54)
Provisions	1,374	(280)	-	1,094	5	-	1,099
Other items	131	136	-	267	(313)	-	(46)
	(24,058)	(1,490)	306	(25,242)	330	(288)	(25,200)

Parent

In thousands of New Zealand dollars

	Balance 1 June 2009	Recognised in profit or loss	Recognised in equity	Balance 31 May 2010	Recognised in profit or loss	Recognised in equity	Balance 31 May 2011
Fixed assets	(403)	(2,874)	306	(2,973)	305	(259)	(2,927)
Intangible assets	(3,150)	210	-	(2,940)	-	-	(2,940)
Biological assets	(21,510)	1,242	-	(20,268)	210	-	(20,058)
Inventories	(65)	16	-	(49)	9	-	(40)
Provisions	1,304	(226)	-	1,078	10	-	1,088
Other items	81	183	-	264	(233)	-	31
	(23,745)	(1,449)	306	(24,888)	301	(259)	(24,846)

Notes to the Financial Statements

19 Inventories

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Semen	1,616	1,311	1,271	1,128
Equipment	4,236	4,526	4,236	4,149
Other	362	412	311	349
	6,214	6,250	5,818	5,627

In 2011, Inventories utilised and expensed during the period amounted to: \$12.366 million (2010: \$11.208 million).
Inventories written off in 2011 totalled \$0.185 million (2010: \$0.048 million).

20 Trade receivables

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Trade receivables due from related parties	43	6	8,126	5,768
Trade debtors	15,514	12,527	10,200	8,177
Other trade receivables	6,246	1,159	6,246	1,159
	21,803	13,692	24,573	15,104

See note 28 with respect to impairment of trade receivables.

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

<i>In thousands</i>	2011	2010
Euro	1,775	1,470
Australian Dollars	435	943
British Pounds	1,833	1,687
US Dollars	1,518	979

21 Cash and cash equivalents

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Bank balances	6,736	14,813	5,571	12,852
Call deposits	9,545	10,095	9,545	10,095
Cash and cash equivalents in the statement of cash flows	16,281	24,908	15,117	22,947

The effective interest rate on call deposits in 2011 was 4.2 percent (2010: 3.4 percent).

22 Capital and reserves

Share capital - Investment shares

In thousands of shares

	2011	2010
On issue at 1 June	29,528	29,528
On issue at 31 May	29,528	29,528

Notes to the Financial Statements

22 Capital and reserves (continued)

The Parent had 29,528,590 (2010: 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 not 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, where the functional currency is not New Zealand dollars.

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:

<i>In thousands of New Zealand dollars</i>	2011	2010
23.46 cents Final Investment Share dividend – paid in 2011 (2010 : 41.93 cents)	6,928	12,381

After 31 May 2011 the following dividends were proposed by the Directors for 2011. The dividends have not been provided for and there are no income tax consequences.

<i>In thousands of New Zealand dollars</i>	2011	2010
44.97 cents per Investment share (2010 : 23.46 cents)	13,279	6,928

23 Co-operative Control Shares

<i>In thousands of shares</i>	Consolidated		Parent	
	2011	2010	2011	2010
On issue at 1 June	4,650	4,054	4,650	4,054
Own shares acquired	(846)	(509)	(846)	(509)
Issue of shares	524	1,104	524	1,104
On issue at 31 May	4,328	4,650	4,328	4,650

The Parent had 4,328,207 (2010: 4,649,774) 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.

Notes to the Financial Statements

24 Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 May 2011 was based on the profit attributable to Investment shareholders of \$17.634 million (2010: \$8.349 million) and a weighted average number of shares outstanding of 29,528 million (2010: 29,528 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 59.7 cents per Investment Share (2010: 28.3 cents per Investment Share).

Profit attributable to investment shareholders

In thousands of New Zealand dollars

	2011	2010
Net profit for the period	17,634	8,349

Weighted average number of Investment shares In thousands of shares

	2011	2010
Issued Investment shares at 1 June	29,528	29,528
Weighted average number of Investment shares at 31 May	29,528	29,528

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

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	
	2011	2010	2011	2010
Current liabilities				
Co-operative Control Shares	4,328	4,650	4,328	4,650
	4,328	4,650	4,328	4,650

LIC constitution provides for LIC Co-operative Control Shareholders to receive a dividend in preference to LIC Investment Shareholders. This preference dividend is based on Westpac's farm first mortgage rate.

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	Other	Total
Balance at 1 June 2010	3,853	2,299	279	7	6,438
Additional provision made	3,201	436	(70)	-	3,567
Amount utilised	(3,144)	(1,243)	-	(2)	(4,388)
Balance at 31 May 2011	3,910	1,492	209	5	5,616
Non-current	2,762	1,126	52	4	3,944
Current	1,148	366	157	2	1,672
Balance at 31 May 2011	3,910	1,492	209	5	5,616

Notes to the Financial Statements

26 Provisions (continued)

Parent

In thousands of New Zealand dollars

	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2010	3,671	2,139	279	7	6,096
Additional provision made	3,217	428	(70)	-	3,575
Amount utilised	(3,075)	(1,148)	-	(2)	(4,226)
Balance at 31 May 2011	3,812	1,419	209	5	5,445
Non-current	2,687	1,053	52	4	3,795
Current	1,125	366	157	2	1,650
Balance at 31 May 2011	3,812	1,419	209	5	5,445

Provision for employee entitlements

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

Provision for sire proving rebate

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

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 193 percent 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, Mark Weaver from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the Group's liability, and the valuation is effective 31 May 2011. 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 percent and 4.2 percent. A IBNR rate is calculated using a discount of 6.1 percent. A reopen discount rate of 6.23 percent has been used.

Notes to the financial statements

27 Trade and other payables

In thousands of New Zealand dollars

	Consolidated		Parent	
	2011	2010	2011	2010
Trade payables due to related parties	-	-	880	805
Other trade payables	11,624	8,863	11,019	7,928
Non-trade payables and accrued expenses	2,016	2,335	1,805	1,942
	13,640	11,198	13,704	10,674

Payables denominated in currencies other than the functional currency comprise:

	2011	2010
Euro	183	338
Australian Dollars	183	639
British Pounds	161	327

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 and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

(a) 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 except for the loan receivable from Agria NZ, refer note 17. 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. 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 2011 (2010: \$0). As per last year there is no exposure to credit risk arising from amounts receivable under forward exchange contracts.

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:

	Consolidated		Parent	
<i>In thousands of New Zealand dollars</i>	2011	2010	2011	2010
New Zealand	16,101	8,345	19,712	11,446
Australia	435	943	440	530
United Kingdom	1,833	1,687	1,384	900
Other European countries	1,775	1,470	1,228	981
North America	785	337	935	337
South Africa	125	252	125	252
South America	733	640	733	640
Other regions	16	17	16	17
Trade and other receivables	21,802	13,691	24,573	15,104

Notes to the financial statements

28 Financial instruments (continued)

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

Consolidated

In thousands of New Zealand dollars

	Gross receivable 2011	Impairment 2011	Gross receivable 2010	Impairment 2010
Trade receivables				
Not past due	20,126	-	11,088	-
Past due 0-30 days	850	-	1,407	-
Past due 31-120 days	672	36	874	27
Past due 121-360 days	278	102	656	318
Past due more than 1 year	24	10	22	11
Total	21,950	148	14,047	356

Parent

In thousands of New Zealand dollars

	Gross receivable 2011	Impairment 2011	Gross receivable 2010	Impairment 2010
Trade receivables				
Not past due	22,897	-	12,304	-
Past due 0-30 days	850	-	1,407	-
Past due 31-120 days	672	36	874	27
Past due 121-360 days	260	84	656	122
Past due more than 1 year	24	10	22	11
Total	24,703	130	15,264	160

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

	Consolidated		Parent	
<i>In thousands of New Zealand dollars</i>	2011	2010	2011	2010
Gross trade receivables	21,950	14,047	24,703	15,264
Collective impairment	(148)	(356)	(130)	(160)
Net trade receivables	21,802	13,691	24,573	15,104

In the case of insolvency of a debtor 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

	2011		2010	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other payables	13,640	13,640	11,198	11,198
Co-operative control shares	4,328	4,328	4,650	4,650
Total non derivative liabilities	17,968	17,968	15,848	15,848

Notes to the financial statements

28 Financial instruments (continued)

Parent

In thousands of New Zealand dollars

	2011		2010	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other payables	13,704	13,704	10,674	10,674
Co-operative control shares	4,328	4,328	4,650	4,650
Total non derivative liabilities	18,032	18,032	15,324	15,324

(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
2010				
Foreign currency risk				
Trade receivables	979	943	1,687	1,470
Cash balances	1,149	826	342	546
Trade and other payables	-	(639)	(327)	(338)
Net balance sheet exposure before hedging activity	2,128	1,130	1,701	1,678
Forward exchange contracts				
Notional amounts	(2,231)	(19)	-	-
Net un-hedged exposure	(103)	1,111	1,701	1,678
2011				
Foreign currency risk				
Trade and other receivables	1,517	435	1,833	1,775
Cash balances	481	549	196	364
Trade and other payables	-	(183)	(161)	(183)
Net balance sheet exposure before hedging activity	1,999	801	1,869	1,956
Forward exchange contracts				
Notional amounts	(2,546)	(392)	-	350
Net un-hedged exposure	(548)	410	1,869	2,306

Notes to the financial statements

28 Financial instruments (continued)

(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

Fixed rate instruments

Cash and cash equivalents

Short term deposits & loans

Total fixed rate instruments

2011		2010	
Total	6 months or less	Total	6 months or less
16,281	16,281	24,908	24,908
25,319	15,252	11,360	11,360
41,599	31,532	36,268	36,268

Parent

In thousands of New Zealand dollars

Fixed rate instruments

Cash and cash equivalents

Short term deposits & loans

Total fixed rate instruments

2011		2010	
Total	6 months or less	Total	6 months or less
15,117	15,117	22,947	22,947
25,319	15,252	11,360	11,360
40,436	30,369	34,307	34,307

Other investments of the Group relate to:

In thousands of New Zealand dollars

Equity securities available-for-sale

Consolidated		Parent	
2011	2010	2011	2010
1,574	5,917	1,056	5,514
1,574	5,917	1,056	5,514

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.

Notes to the financial statements

28 Financial instruments (continued)

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 2011 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately \$0.312 million (2010: \$0.363 million).

It is estimated that a general increase of 100 basis points (1 percent) in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit before income tax by approximately \$0.050 million for the year ended 31 May 2011 (2010: \$0.037 million). The forward exchange contracts have been included in this calculation.

(iii) Hedging

Forecast transactions

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2011 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 2011 is a net liability of \$0.019 million (2010: \$0.106 million), comprising assets of \$0.038 million (2010: \$0.106 million) and liabilities of \$0.057 million (2010: \$0.0 million).

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
2011							
Assets							
Investments	17	-	-	1,574	-	1,574	1,574
Derivatives	17	(19)	-	-	-	(19)	(19)
Trade and other receivables	20	-	21,802	-	-	21,802	21,802
Short term deposits & Loans	17	-	25,319	-	-	25,319	25,319
Cash and cash equivalents	21	-	16,281	-	-	16,281	16,281
		(19)	63,402	1,574	-	64,957	64,957
Liabilities							
Co-operative control shares	23	-	-	-	4,328	4,328	4,328
Trade and other payables	27	-	-	-	13,640	13,640	13,640
		-	-	-	17,968	17,968	17,968

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements

28 Financial instruments (continued)

Group 2011	Level 1	Level 2	Level 3	Total
Asset held for sale	-	-	-	-
Derivatives - designated at fair value through profit or loss	(19)	-	-	(19)
Derivatives - available for sale financial assets	946	268	360	1,574

Reconciliation of investments defined as level 3:

Opening balance	273
Movements in fair value through reserves	87
	<u>360</u>

2010

Asset held for sale	-	Level 2	Level 3	Total
Derivatives - designated at fair value through profit or loss	93	5,179	-	5,179
Derivatives - available for sale financial assets	187	-	-	93
		278	273	738

Reconciliation of investments defined as level 3:

Opening balance	7,834
Movements in fair value through reserves	(133)
Transfer to held for sale	(7,150)
Transfer to level 2	(268)
	<u>283</u>

28 Financial instruments (continued)

Parent
In thousands of New Zealand dollars

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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								
	2010								
Assets									
Investments	17	-	-	738	-	738	-	738	738
Non-current asset held for sale	6	-	-	5,179	-	5,179	-	5,179	5,179
Derivatives	17	93	-	-	-	93	-	93	93
Trade and other receivables	20	-	13,691	-	-	13,691	-	13,691	13,691
Short term deposits	17	-	11,360	-	-	11,360	-	11,360	11,360
Cash and cash equivalents	21	-	24,908	-	-	24,908	-	24,908	24,908
		93	49,959	5,917	-	55,969	-	55,969	55,969
Liabilities									
Co-operative control shares	23	-	-	-	-	4,650	4,650	4,650	4,650
Trade and other payables	27	-	-	-	-	11,198	11,198	11,198	11,198
		-	-	-	-	15,848	15,848	15,848	15,848

Notes to the financial statements

28 Financial instruments (continued)

Classification and fair values

Parent									
<i>In thousands of New Zealand dollars</i>									
	Note								
2010									
Assets									
Investments	17	-	-	335	-	335	-	335	335
Non-current asset held for sale		-	-	5,179	-	5,179	-	5,179	5,179
Derivatives	17	106	-	-	-	106	-	106	106
Trade and other receivables	20	-	15,104	-	-	15,104	-	15,104	15,104
Short term deposits	17	-	11,360	-	-	11,360	-	11,360	11,360
Cash and cash equivalents	21	-	22,947	-	-	22,947	-	22,947	22,947
Related party loans	33	-	6,323	-	-	6,323	-	6,323	6,323
		106	55,734	5,514	-	61,354	-	61,354	61,354
Liabilities									
Co-operative control shares	23	-	-	-	-	-	4,650	4,650	4,650
Trade and other payables	27	-	-	-	-	-	10,674	10,674	10,674
		-	-	-	-	-	15,324	15,324	15,324

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	
	2011	2010	2011	2010
Less than one year	739	671	686	554
Between one and five years	540	906	504	844
More than five years	-	-	-	-
	1,279	1,577	1,190	1,398

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 2011 \$0.834 million was recognised as an expense in the income statement in respect of operating leases (2010: \$0.776 million). \$0.129 million was recognised as income in respect of subleases (2010: \$0.231 million).

30 Capital commitments

As at 31 May 2011 the Group had entered into contracts to purchase, property, vehicles, plant and equipment for \$1.741 million (2010: \$6.818 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 material 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	
	2011	2010	2011	2010
Profit for the period	17,634	8,349	18,065	10,222
Adjustments for:				
Depreciation	5,664	5,248	5,310	4,876
Amortisation of intangible assets	4,182	3,798	4,182	3,797
Share of loss in associate	84	2	2	2
Change in deferred taxation	(42)	1,184	(42)	1,143
Change in fair value of biological assets	(828)	1,117	(222)	863
Impairment	1,507	1,905	1,055	1,905
Loss on sale of property, plant and equipment	253	-	303	-
Gain on sale of property, plant and equipment	-	(90)	-	(89)
	10,821	13,164	10,589	12,498
Change in inventories (increase)/decrease	36	1,171	(191)	1,083
Change in trade receivables (increase)/decrease	(8,111)	1,331	(9,469)	408
Change in assets held for sale (increase)/decrease	8,473	(8,473)	8,473	(8,473)
Change in biological assets (increase)/decrease	(683)	(501)	(516)	(119)
Change in other current assets (increase)/decrease	(1,489)	14	(1,492)	3
Change in trade and other payables increase/(decrease)	2,442	3,322	3,030	2,974
Change in provisions increase/(decrease)	(8)	906	(117)	515
Items reclassified to/from Investing/Financing activities	(7,856)	9,431	(7,885)	9,042
	(7,197)	7,201	(8,167)	5,434
Net cash from operating activities	21,258	28,714	20,487	28,154

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:

<i>In thousands of New Zealand dollars</i>	2011	2010
Short term employee benefits	3,380	2,843
Defined Contribution Superannuation Plans	83	53
	3,463	2,896

<i>In thousands of New Zealand dollars</i>	Transaction value		Balance outstanding	
	2011	2010	2011	2010
Sale of goods and services				
Sale of goods and services to directors and key management personnel	508	430	28	27

Notes to the financial statements

33 Related parties (continued)

	Co-operative Shares		Investment Shares	
	2011	2010	2011	2010
Shareholding of Related Parties				
A J Reid	4,557	5,452	74,310	74,310
B R Guy	1,898	1,885	11,976	11,352
E G Coats	613	680	5,641	5,440
M Dewdney	413	674	13,259	13,124
M E Jagger	1,176	1,062	21,019	20,633
M King	3,460	3,804	11,938	11,432
P J Lynskey (Retired June 10)	-	2,712	-	62,583
S Poole (Elected June 10)	1,356	-	15,039	-
S B Bay	2,276	2,656	49,640	48,892

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.

<i>In thousands of New Zealand dollars</i>	Transaction value		Balance outstanding	
	2011	2010	2011	2010
Sale of goods and services to subsidiaries	3,120	2,176	8,126	6,317

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 \$0.500 million (2010: \$0.295 million).

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 \$0.092 million of costs in running the scheme for the year (2010: \$0.055 million).

In March 2011 the LIC Board and the Employee Share Scheme Unit Trust Holders resolved to wind up the unit trust scheme, effective on 31 March 2011, and transfer residual net assets to a custodial company, Custodial Services Limited. The increase in the cost for 2011 over 2010 for the Scheme includes legal advice, preparation and filing of all statutory documentation for the wind up of the Unit Trust and the creation of the Custodial scheme. The ongoing costs of the Scheme are expected to be less than \$15,000 per annum.

Notes to the financial statements

34 Group Investments

The Group has the following significant subsidiaries:

Subsidiaries

Name	Country of Incorp	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2011 %	2010 %		
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31-May	Holding Company
Livestock Improvement Corporation (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
LIC Ireland 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 – non-trading
FarmKeeper Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
Overland Corner Holding Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
LIC USA Ltd	USA	Ordinary	100	100	31-May	Marketing Support

Associates

Name	Country of Incorp	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2011 %	2010 %		
Dairy Grazing Services Consulting, LLC	USA	Ordinary	49	49	31-Dec	Consulting Services
Technical Farm Solutions Ltd	NZ	Ordinary	25	25	31-Mar	Animal Management Systems

Total loss reported for Dairy Grazing Services Consulting, LLC was \$167,165 (2010: \$0). LIC's 49% has been reported on the income statement using the equity method.

Total loss reported for Technical Farm Solutions Ltd was \$9,737 (2010: \$7,897). LIC's 25% 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.

Independent Auditor's Report

To the Shareholders of Livestock Improvement Corporation Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Livestock Improvement Corporation Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 1 to 50. The financial statements comprise the statements of financial position as at 31 May 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion the financial statements on pages 1 to 50:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company and the group as at 31 May 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Livestock Improvement Corporation Limited as far as appears from our examination of those records.



27 July 2011

Hamilton

LIC DIRECTORS REPORT

Overview

Although the 2010/11 year was a challenging one climatically on most New Zealand dairy farms, national production reached level records buoyed by a forecast dairy payout which restored much needed confidence to an industry which had retrenched during the previous, recessionary, year. LIC moved quickly to announce that prices would be held at 2007 levels to help farmers manage their recovery and enable them to invest in essential products and services which would position their businesses to take advantage of the solid market recovery as it came.

The LIC annual result benefited accordingly with a lift in sales across the wide range of herd and farm improvement offerings to levels that exceeded the 2009 season.

Financial Result

Revenue for the 2010/11 year was \$166 million (2009/2010 \$136.4 million), which represents an increase of 21.4%.

Increased sales volumes resulted in an increase in earnings before interest, taxation and fair value adjustments on biological assets of \$7.5 million or 45% to \$24.3 million.

LIC continues to report a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$236.8 million, an increase of \$13.2 million over last year with the equity ratio of 78% staying stable.

Cash Flows from operations were strong for the 2010/11 year generating \$21.3 million. Investments during the year were \$22.1 million.

Dividend

LIC will pay a record dividend to shareholders of \$13.6 million representing 80% of underlying earnings to its Co-operative and Investment Shareholders. This contrasts with the dividend paid in 2010 of \$7.3 million and \$12.8 million in 2009.

The 2010/11 net dividend translates to 8.4 cents per Co-operative Control Share and 44.9 cents per Investment Share. This represents a gross yield of 17.6% on Investment Shares compared to 11.2% last year.

The fully imputed dividend payments will be made to shareholders on 25 August 2011.

Appreciation

On behalf of the Board, I would like to thank CEO Mark Dewdney, Senior Management and all LIC staff for an excellent result and for their commitment to continue working hard for our co-operative for the year ahead.

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

Summary

The 2010/11 year was a very successful one for LIC in terms of sales and service activity. In the dairy genetics area record volumes of DNA proven semen were sold in New Zealand. Farmers around the world recognise that high genomic merit yearling bulls are now the new revolution in animal breeding and LIC has, accordingly, strengthened its leadership as a developer of profitable dairy genetics.

Strong growth was also generated in the area of farm automation with LIC's range of Protrack systems firmly established as the market leader in New Zealand. Farmer uptake of new software, customised milk testing, DNA animal identification and disease diagnostics also increased.

Our partnership with our farmer owners is delivering an ever-growing range of products which not only make farming more productive and profitable – but which also make farming lifestyles more satisfying, enjoyable and sustainable.

LIC is positioned very well for the year ahead as we continue to invest, innovate and deliver exciting new and updated products to our farmers and look for strategic opportunities to grow the business.

A handwritten signature in dark ink, appearing to read 'Stuart Bay', is positioned above the printed name and title.

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 :

- 1 The Company will remain a Co-operative Company;
- 2 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;
- 3 Core products and services are made available to all Shareholders at fair commercial prices;
- 4 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
- 5 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:

- 1 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;
- 2 The development and commercial application of artificial breeding for livestock; and
- 3 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 Appointed Directors. Elected Directors hold office for a period of four years and Appointed Directors for up to three years. A retiring Director is eligible for re-election as a Director of the Company.

Election of Directors

The Director representing the Northern region (Mr M Jagger) retired by rotation in 2011. Mr M Jagger being eligible stood for re-election and with no other nominations received he was declared re-elected.

Appointed Director Mr P Lough retired by rotation and was re-elected for a further three year term at the 2010 Annual Meeting.

Committees

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

Audit Finance & Risk Committee

A Sub-Committee of the Board, the Audit Finance and Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. Six Directors are on the Committee, which is chaired by Appointed Director, Mr J Dale.

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

Remuneration and Appointment Committee

A Sub-Committee of the Board comprising four Directors and chaired by Appointed 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 five 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 2010/11.

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 58 of the report.

STATUTORY REQUIREMENTS

Nature of LIC Business

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

ENTRIES IN THE INTERESTS REGISTER

All Elected Directors of the Company – are customers and Shareholders of Livestock Improvement Corporation Limited

Directorships and Memberships

S Bay:

Member of Governance Group of Pastoral 21.

E Coats:

Director of: New Zealand Animal Evaluation Ltd and Animal Health Board. Member of MAF Farms On Line Project Steering Committee, Chairman of NAIT Establishment Board

M King:

Director of: Milktech Ltd, Scott Milktech Ltd, South Island Dairying Development Centre (SIDDC), Waimea Community Dam Limited

P Lough:

Director of: Dairy Equity Ltd, Methven Ltd, Quotable Value NZ Ltd, Oceania Group, Port of Nelson.

S Poole:

Trustee of: Waimate West demonstration Farm

A Reid:

Director of: Opuha Water Partnership Ltd, South Island Dairying Development Centre (SIDDC) Board, WA Systems Ltd, Farm Electric Ltd, Kakahu Irrigation Ltd, Totara Valley Irrigation Ltd, Conical Hill Dairy Ltd, Tagit Enterprise Ltd.

J Waldvogel:

Director of: Global Dairy Concepts (USA), Global Dairy Platform (USA), Dairiconcepts (USA), Focal Dairies LLC (USA). Vice President Dairy Farmers of America.

DIRECTORS AND REMUNERATION

Directors of the Parent received the following remuneration:

	Fees \$000
S Bay	105
E Coats	41
J Dale	48
B Guy	41
M Jagger	41
M King	41
P Lough	48
S Poole	41
A Reid	41
J Waldvogel	41
	488

ENTRIES IN THE INTEREST REGISTER

(a) Directors Interest

28 July 2010 Board

PGG Wrightson - Mr J Dale declared a conflict of interest and left the meeting.

Mr P Lough declared that a Trust he had involvement in, had a small shareholding in the company.

Cooperative Share Surrenders - Mr A Reid declared an interest.

22 September 2010 Board

PGW Agritech - Mr P Lough declared an interest and this declaration remains for this and future discussions.

- Mr J Dale declared an interest and left the meeting.

23 March 2011 Board

Genomics Discussion - Mr E Coats declared his interest as a director of NZAEL.

NAIT - Mr E Coats declared his interest as the Chair of the NAIT Establishment Board.

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2011/2012 season.

Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
S Bay	11	\$88,000
B Guy	16	\$120,000
M Jagger	1	\$8,000
S Poole	3	\$24,000
A Reid	9	\$72,000

(b) Share Dealings by Directors

The Directors other than the Appointed 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	2011		2010	
	Co-operative Control Shares	Investment Shares	Co-operative Control Shares	Investment Shares
S Bay	2,276	49,640	2,656	48,892
E Coats	613	5,641	680	5,440
B Guy	1,898	11,976	1,885	11,352
M Jagger	1,176	21,019	1,062	20,633
M King	3,460	11,938	3,804	11,432
S Poole	1,356	15,039	-	-
A Reid	4,557	74,310	5,452	74,310

Any increase in holding results from participation in LIC's voluntary investment scheme. No Director traded Investment Shares during the year.

(c) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

(d) Directors Indemnity and Insurance

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

(e) Use of Company information

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

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	12	4	16
110,000 – 119,999	16	2	18
120,000 – 129,999	10	1	11
130,000 – 139,999	7		7
140,000 – 149,999	5		5
150,000 – 159,999	4		4
160,000 – 169,999	1		1
170,000 – 179,999	2		2
180,000 – 189,999		1	1
190,000 – 199,999		3	3
220,000 – 229,999	2		2
230,000 – 239,999	2	1	3
250,000 – 259,999	1		1
260,000 – 269,999	1		1
270,000 – 279,999	1		1
280,000 – 289,999	1		1
670,000 – 679,999	1		1
Total	66	12	78

**RESOLUTION OF DIRECTORS
DATED 14 JUNE 2011 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 2011.

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 percent of the voting rights attached to shares in the Company are held by transacting Shareholders.

Shareholder Information as at 31 May 2011

Size of Shareholding

Holdings	Shareholders	Investments Share Held	% of Total
1-999	1,940	923,622	3.13
1,000-1,999	1,803	2,724,332	9.23
2,000-2,999	1,686	4,158,136	14.08
3,000-3,999	1,074	3,711,596	12.57
4,000-4,999	694	3,094,077	10.48
5,000-9,999	1,158	7,816,144	26.47
Over 10,000	335	7,100,683	24.05
Total	8,690	29,528,590	100%

Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total Shares
Anglesea Consulting Limited	536,555	1.82%
Christopher John Procter + Donna Leigh Procter + BSN Trustees Limited - Tara Trust	189,886	0.64%
William Terence Leonard	128,942	0.44%
Hammond Limited	121,519	0.41%
Twin Terraces Limited	100,046	0.34%
Custodial Services Limited - Employee Share Scheme	94,745	0.32%
James Austin Wilkins + Donna Maree Wilkins - Jad Wilkins Partnership Trust	91,634	0.31%
D B Douglas Limited	86,189	0.29%
Mark Francis Slee + Devon Mathieson Slee	81,524	0.28%
Shirley Ann Dunlop + Brian Douglas Dunlop + Gary Bruce Dunlop	76,574	0.26%
Farnley Tyas Farms Limited	72,357	0.25%
Peter John Lynskey + Carole Joyce Lynskey + Neil Taylor - Maolla Trust	63,488	0.22%
Malrose Properties Limited	61,884	0.21%
Christopher John Stark + Alan James Hubbard - Deebury Pastoral Partnership - Ealing	50,848	0.17%
Stuart Bruce Bay + Doris Beth Bay - Bay Family Trust	49,640	0.17%
Rotokaia Farm Limited	48,930	0.17%
Broad Acres Farms Limited	48,494	0.16%
Allan James Hubbard + Allan John Pye + Andrew Paul Turney - Balrath Farm Partnership	47,882	0.16%
South Hilton Limited	45,070	0.15%
Browns Farm Limited	43,360	0.15%
		<u>6.91%</u>

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 totalling \$101,708 (primarily Christchurch earthquake) during the year ended 31 May 2011.

Non- Standard Listing

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule 5.1.3, 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 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 person.
Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any other person who is entitled to hold the Securities to which the Right or offer relates.
- 2 Rule 3.2.2 to allow for the following aspects of the Company’s corporate governance structure:
 - (a) Directors to be nominated by Co-operative Control Shareholders, by region, pursuant to clause 26.4(b) and Schedule 3 of the Constitution;
 - (b) Certain qualifications to be required of directors as set out in paragraphs 1(a) and 2 of Schedule 3;
 - (c) The nomination procedure for directors as set out in paragraph 1(b) of Schedule 3.
- 3 Rule 3.2.3 to permit the provisions of paragraph 1(e) of Schedule 3 to allow for the filling of casual vacancies by the Board, where the position becomes vacant less than 8 months before the date on which the director is due to retire by way of rotation.
- 4 Rule 3.2.6 to allow for the rotation of Elected Directors as set out in clause 27 of the Constitution and clauses 1(c) and (d) of Schedule 3 whereby Elected Directors are due to retire on the 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 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 co-operative 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 percent 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 percent 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), 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 Co-operative 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 4.3.2(b)(i), 7.3.3(b) and 7.6.3(a) 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. Craigs Investment Partners Ltd (Craigs) 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 Craigs.

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 \$60,000.

In relation to the financial assistance provided for the Dividend Plan, the Livestock Improvement Board resolved on 27 July 2011 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 Craigs at the NZAX market price and participating shareholders will pay the average NZAX market price paid by Craigs 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: 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 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. Craigs 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 Craigs.

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 \$19,500.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 27 July 2011 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:

- (a) 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;
- (b) The VIS Assistance is available to all shareholders, giving equal opportunity to participate in the benefits of the Investment Scheme;
- (c) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the VIS Scheme;
- (d) The additional Investment Shares will be purchased by Craigs at the NZAX market price and participating Shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;

- (e) 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;
- (f) The VIS Scheme enables LIC to offer Shareholders a mechanism to invest 4 percent 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
- (g) 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") which from the 1 April 2011 is managed Craig Investment Partners Limited, with Custodial Services Limited acting as custodian . LIC proposes to pay the Manager's and Custodian's fees and expenses (including brokerage) estimated to be \$12,000. 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 \$12,000.

The Board of LIC resolved on 27 July 2011 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:

- (a) 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;
- (b) 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;
- (c) Shareholders will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Employee Scheme;
- (d) The additional Investment Shares will be purchased through Craigs at the NZAX market price;
- (e) 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.