

Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2010



Income Statement
For the year ended 31 May 2010

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2010	2009	2010	2009
Revenue	7	136,441	150,296	128,460	141,217
Other income	8	90	980	89	622
Purchased materials		(16,838)	(18,358)	(13,895)	(15,490)
Staff expenses	11	(61,170)	(66,015)	(58,169)	(62,257)
Depreciation	14	(5,250)	(5,299)	(4,876)	(4,873)
Amortisation	15	(3,798)	(3,193)	(3,797)	(3,193)
Impairment	9	(1,905)	(3,503)	(1,905)	(3,063)
Share of loss of equity accounted associate	34	(2)	(21)	(2)	(21)
Other expenses	10	(30,735)	(33,844)	(28,538)	(31,201)
Earnings before finance activities, taxation and fair value adjustments		16,834	21,042	17,367	21,742
Finance income	12	1,011	2,153	1,258	2,227
Finance expenses	12	(1,407)	(489)	(1,069)	(499)
Fair value adjustments - biological assets	16	(1,117)	12,465	(863)	12,841
Earnings before taxation		15,320	35,171	16,693	36,311
Tax expenses on fair value adjustments - biological assets		335	(3,739)	259	(3,852)
Tax expenses - other		(7,306)	(6,759)	(6,730)	(7,297)
Total Tax Expense	13	(6,971)	(10,498)	(6,471)	(11,150)
Profit for the period		8,349	24,672	10,222	25,162
Earnings per share	24				
Basic and diluted earnings per Investment Share (NZD)		0.283	0.836		

Supplementary note to the Income Statement

Profit for the period	8,349	24,672	10,222	25,162
Loss on fair value of biological assets	1,117	(12,465)	863	(12,841)
Tax effect on profit/(loss) on fair value of biological assets	(335)	3,739	(259)	3,852
Underlying net earnings excluding biological assets and tax thereon	9,131	15,947	10,826	16,173

Statement of Comprehensive Income
For the year ended 31 May 2010

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2010	2009	2010	2009
Profit for the period		8,349	24,672	10,222	25,162
Other comprehensive income (net of income tax)					
Foreign currency translation differences for foreign operations		34	(174)	-	-
Effective portion of changes in fair value of cash flow hedges		89	93	89	93
Reclassification adjustments for gains/(losses) included in profit and loss		(93)	-	(93)	-
Net change in fair value of available for sale financial assets		(133)	131	-	-
Revaluation of property plant and equipment		(1,293)	(2,543)	(1,314)	(2,489)
Other comprehensive income for the period, net of income tax		(1,396)	(2,493)	(1,318)	(2,396)
Total comprehensive income for the period		6,953	22,179	8,905	22,765
Attributable to:					
Owners of the company		6,953	22,179	8,905	22,765
Total comprehensive income for the period		6,953	22,179	8,905	22,765

Balance Sheet
As at 31 May 2010

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2010	2009	2010	2009
Assets					
Fixed assets	14	59,693	64,997	53,014	58,135
Intangible assets	15	22,920	22,252	21,265	20,647
Biological assets	16	72,865	74,914	72,683	73,713
Investments and derivatives	17	815	8,114	8,831	15,822
Loans - related parties		-	-	6,323	6,634
Total non-current assets		156,293	170,277	162,117	174,951
Cash and cash equivalents	21	24,908	18,034	22,947	16,584
Inventories	19	6,250	7,421	5,627	6,710
Biological assets	16	1,503	1,003	119	-
Investments & derivatives	17	11,467	10,696	11,467	10,696
Trade receivables	20	13,692	15,023	15,104	15,512
Non-current assets held for sale	6	8,473	-	8,473	-
Other current assets		1,077	1,091	1,070	1,073
Total current assets		67,370	53,266	64,806	50,575
Total assets		223,663	223,543	226,923	225,526
Equity					
Share capital		58,464	58,464	58,464	58,464
Reserves		26,884	28,280	24,968	26,285
Retained earnings		88,379	92,411	94,688	96,847
Total equity		173,727	179,155	178,120	181,597
Liabilities					
Provisions	26	3,947	4,406	3,657	4,011
Deferred tax liability	18	25,242	24,058	24,888	23,745
Total non-current liabilities		29,189	28,464	28,545	27,756
Co-operative Control Shares	23	4,650	4,054	4,650	4,054
Trade payables	27	11,198	7,876	10,674	7,700
Provision for tax		2,409	1,482	2,495	1,966
Provisions	26	2,491	2,512	2,439	2,453
Total current liabilities		20,747	15,924	20,258	16,173
Total liabilities		49,936	44,388	48,803	43,929
Total equity and liabilities		223,663	223,543	226,923	225,526



Director

Date: 28 July 2010



Director

Date: 28 July 2010

Statement of Cash Flows
For the year ended 31 May 2010

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2010	2009	2010	2009
Net cash from/(used in) operating activities					
Cash provided from:					
Receipts from customers		137,066	152,619	128,798	142,023
Finance income received		854	2,101	1,088	2,221
		137,920	154,720	129,886	144,244
Cash applied to:					
Payments to suppliers and employees		(104,007)	(124,339)	(96,579)	(114,382)
Finance expense paid		(637)	(203)	(661)	(214)
Income tax paid		(4,563)	(3,415)	(4,492)	(3,414)
		(109,206)	(127,958)	(101,732)	(118,010)
	32	28,714	26,763	28,154	26,233
Net cash from/(used in) investing activities					
Cash provided from:					
Sale of term investments		10,603	-	10,603	-
Sale of biological assets		667	24	283	24
Sale of other non-current assets		-	2,704	-	2,704
Sale of Property, Plant and Equipment		160	1,771	144	1,497
Repayment of advances to subsidiaries		-	-	565	75
		11,430	4,499	11,595	4,300
Cash applied to:					
Acquisition of term investments		(11,200)	(10,603)	(11,200)	(10,603)
Acquisition of shares		(98)	(27)	(145)	(25)
Acquisition of intangibles		(4,516)	(2,928)	(4,415)	(2,928)
Acquisition of Property, Plant and Equipment		(4,946)	(7,295)	(4,724)	(6,859)
Acquisition of biological assets		(236)	(204)	(236)	-
Advances to subsidiaries		-	-	(469)	-
		(20,996)	(21,057)	(21,190)	(20,415)
		(9,566)	(16,558)	(9,595)	(16,115)
Net cash from/(used in) financing activities					
Cash provided from:					
Shares paid up		1,104	880	1,104	880
		1,104	880	1,104	880
Cash applied to:					
Repurchase of Co-operative Shares		(509)	(539)	(509)	(539)
Dividends paid to Shareholders of the Group		(12,381)	(6,690)	(12,381)	(6,690)
Interest paid on Co-operative Shares		(410)	(285)	(410)	(285)
		(13,300)	(7,514)	(13,300)	(7,514)
		(12,196)	(6,634)	(12,196)	(6,634)
Net increase/(decrease) in cash balances		6,952	3,570	6,363	3,484
Cash balances at beginning of period		18,034	14,406	16,584	13,100
Effect of Exchange rate changes on cash held		(79)	57	-	-
Closing cash balances		24,908	18,034	22,947	16,584

**Consolidated Statement of Changes in Equity
For the year ended 31 May 2010**

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

In thousands of New Zealand dollars

	LIC Investment Shares	Foreign Currency Translation Reserve	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2008	58,464	297	-	-	30,477	74,426	163,664
Total comprehensive income for the period							
Profit						24,672	24,672
Other comprehensive income (net of income tax)							
Foreign currency translation differences for foreign operations	-	(174)	-	-	-	-	(174)
Effective portion of changes in fair value of cash flow hedges	-	-	93	-	-	-	93
Net change in fair value of available for sale financial assets	-	-	-	131	-	-	131
Revaluation of property plant and equipment	-	-	-	-	(2,543)	-	(2,543)
Total other comprehensive income	-	(174)	93	131	(2,543)	-	(2,493)
Total comprehensive income for the period	-	(174)	93	131	(2,543)	24,672	22,179
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	(6,690)	(6,690)
Total contributions by and distributions to owners	0	0	0	0	0	(6,690)	(6,690)
Balance at 31 May 2009	58,464	123	93	131	27,934	92,411	179,155
Balance at 1 June 2009	58,464	123	93	131	27,934	92,411	179,155
Total comprehensive income for the period							
Profit						8,349	8,349
Other comprehensive income (net of income tax)							
Foreign currency translation differences for foreign operations	-	34	-	-	-	-	34
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)
Net change in fair value of available for sale financial assets	-	-	-	(133)	-	-	(133)
Revaluation of property plant and equipment	-	-	-	-	(1,293)	-	(1,293)
Total other comprehensive income	-	34	(4)	(133)	(1,293)	-	(1,396)
Total comprehensive income for the period	-	34	(4)	(133)	(1,293)	8,349	6,953
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	156	89	(2)	26,641	88,379	173,727

Consolidated Statement of Changes in Equity (continued)
For the year ended 31 May 2010

Parent

In thousands of New Zealand dollars

	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2008	58,464	-	-	28,682	78,378	165,524
Total comprehensive income for the period						
Profit					25,162	25,162
Other comprehensive income (net of income tax)						
Foreign currency translation differences for foreign operations	-	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	93	-	-	-	93
Net change in fair value of available for sale financial assets	-	-	-	-	-	-
Revaluation of property plant and equipment	-	-	-	(2,489)	-	(2,489)
Total other comprehensive income	-	93	-	(2,489)	-	(2,396)
Total comprehensive income for the period	-	93	-	(2,489)	25,162	22,765
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(6,690)	(6,690)
Total contributions by and distributions to owners	-	-	-	-	(6,690)	(6,690)
Balance at 31 May 2009	58,464	93	-	26,193	96,847	181,597
Balance at 1 June 2009	58,464	93	-	26,193	96,847	181,597
Total comprehensive income for the period						
Profit					10,222	10,222
Other comprehensive income (net of income tax)						
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)
Total other comprehensive income	-	(4)	-	(1,314)	-	(1,318)
Total comprehensive income for the period	-	(4)	-	(1,314)	10,222	8,905
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	94,688	178,120

Notes to the Financial Statements
For the year ended 31 May 2010

1. Accounting entity

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

These financial statements of LIC, as at and for the year ended 31 May 2010, comprise LIC and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in providing genetics and farm solutions to its customers.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit oriented entities. These financial statements also comply with the International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 28 July 2010.

The accounting policies have been applied consistently throughout the Group for the purposes of these financial statements, except for NZ IFRS 8 Operating Segments which applies to financial statement periods beginning on or after 1 January 2009. The Group therefore no longer applies NZ IAS 14 Segment Reporting and has adopted NZ IFRS 8 in these financial statements for the first time.

The change in accounting policy has been applied retrospectively in accordance with the transitional provisions. Additionally, NZ IAS 1 (Revised) Presentation of Financial Statements has been adopted which requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity (items of income and expense) are required to be presented in a performance statement. Entities are given the option to present one performance statement (a statement of comprehensive income) or two performance statements (the income statement and a statement of comprehensive income). The Group has elected to present two performance 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:

Notes to the Financial Statements

2. Basis of preparation (continued)

- 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.

3. Significant accounting policies

Except for as described below, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 May 2009.

(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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 the Statement of Comprehensive Income are recognised in the income statement as part of the gain or loss on sale.

(c) *Financial instruments*

(i) Non-derivative financial instruments

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

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

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

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

Available-for-sale financial assets

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 amortised 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.

(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 other comprehensive income. 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(iii) Depreciation

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

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

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

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

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the investment over the 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.

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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(iv) Computer software

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

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

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

(v) Subsequent expenditure

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

(f) *Biological assets*

Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss. Costs to sell 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

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

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

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

(ii) Impairment of fixed assets and intangibles

The carrying amounts of the Group's non-financial assets, (other than biological assets and inventories; see 3.(f) and 3.(h) for treatment), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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

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

(j) *Employee benefits*

(i) Long-term employee benefits

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

(ii) Short-term benefits

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

(iii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(k) Provisions

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

(i) ACC Partnership Programme

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

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

(l) Revenue

(i) Goods sold

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

(ii) Services

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

(m) Lease payments

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

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

(n) Finance income and expenses

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

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

(p) *Discontinued operations*

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

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

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

(r) *Earnings per share*

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IFRS 5 Non Current Assets Held for Sale and Discontinued Operations

Effective date - periods beginning on or after: 1 January 2010

The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in NZ IFRS 5.

The amendments apply prospectively.

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IFRS 8 Operating Segments

Effective date - periods beginning on or after: 1 January 2010

The amendments clarify that segment information with respect to total assets is required only if such information is reported to the chief operating decision maker.

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IAS 1 Presentation of Financial Statements

Effective date - periods beginning on or after: 1 January 2010

The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by issue of equity instruments.

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IAS 7 Statement of Cash Flows

Effective date - periods beginning on or after: 1 January 2010

The amendments clarify that only expenditure that results in the recognition of an asset can be classified as cash flow from investing activities.

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IAS 17 Leases

Effective date - periods beginning on or after: 1 January 2010

The amendments removed the guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. Additionally, the amendments clarify that when a lease includes both land and building elements, an entity should determine the classification of each element based on paragraphs 7-13 of NZ IAS 17, taking account of the fact that land normally has an indefinite economic life.

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 2009 - Amendments to NZ IAS 36 Impairment of Assets

Effective date - periods beginning on or after: 1 January 2010

The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in NZ IFRS 8 before applying the aggregation criteria of NZ IFRS 8.

The amendments apply prospectively.

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

Improvements to NZ IFRSs 2009 - Amendments to NZ IAS 39 Financial instruments: Recognition and Measurement

Effective date - periods beginning on or after: 1 January 2010

The amendments:

- provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated;
- clarify that the scope exemption in NZ IAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and
- clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

The amendments apply prospectively to all unexpired contracts from the date of adoption.

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

NZ IFRS 9 Financial Instruments

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

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

NZ IFRS 9 retained 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 standards for reporting periods beginning before 1 January 2012.

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

NZ IAS 24 Related Party Disclosures (revised 2009)

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

The revised NZ IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

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 are disclosed in the notes specific to that asset or liability.

(a) *Land and buildings*

The fair value of land and buildings is based on market values. Fair values of land has been determined by using a direct comparison methodology and the fair value of buildings has been determined by using a capitalised rental 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. Valuation techniques adopted for the Group are an EBIT earnings multiple methodology, and recent arm length transactions. The earning multiple is determined with reference to known entities in a like sector.

(d) *Derivatives*

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

Notes to the Financial Statements

5. Operating Segments

Information about reportable segments

For the purposes of NZ IFRS 8 the 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.

The 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 units:

- 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 for farmers.
- Farm Software. Includes the provision of data recording and farm management information services.

Other operating segments includes international operations, corporate services, research & development, farm automation, diagnostic services, animal evaluation, human resources and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2009 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 the CODM believes that such information is the most relevant in evaluating the results of certain segments. The strategic business units offer different product 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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	65,481	72,854	19,700	21,614	28,367	24,386	113,549	118,854	22,983	32,421			136,532	151,276
Inter-segment revenue	2,176	2,008	-	-	-	-	2,176	2,008	50	61	(2,226)	(2,069)	-	-
Total revenue	67,657	74,863	19,700	21,614	28,367	24,386	115,724	120,863	23,033	32,483			136,532	151,276
Depreciation & amortisation	(1,186)	(490)	(1,835)	(1,798)	(953)	(467)	(3,975)	(2,755)	(5,071)	(5,736)			(9,046)	(8,491)
Reportable segment profit before income tax	22,151	29,175	5,480	6,459	11,210	9,850	38,841	45,484	(19,169)	(20,917)			19,672	24,567
	Unallocated amounts:													
													(397)	1,664
													(1,905)	(3,503)
													(2)	(21)
													(2,048)	12,465
													15,320	35,171

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 2010	Revenues 2009	Non current assets 2010	Non current assets 2009
New Zealand	125,230	138,793	158,890	168,259
Australia	3,479	4,801	1,886	1,115
Ireland	2,577	2,562	324	547
United Kingdom	2,912	2,822	299	357
Other Countries	2,334	2,298	74	-
Total	136,532	151,276	161,472	170,277

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	
	2010	2009	2010	2009
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 has been classified as held for sale in the current financial year. This land is surplus to operational requirements. The expected disposal by way of sale is expected to be transacted in October 2010 subject to sub-division approval.

Subsequent to balance date a substantial portion of the investment in Tru-Test was disposed of. Refer note 35.

7. Revenue

In thousands of New Zealand dollars

	Consolidated		Parent	
	2010	2009	2010	2009
Sales of goods	83,582	97,166	75,789	88,241
Services - Herd testing, Farm Software, Consultancy, Animal Evaluation, Diagnostics	52,859	53,130	52,671	52,976
Total revenues	136,441	150,296	128,460	141,217

8. Other income

In thousands of New Zealand dollars

	Consolidated		Parent	
	2010	2009	2010	2009
Other	-	354	-	-
Net gain on sale of property, plant and equipment	90	626	89	622
	90	980	89	622

9. Impairment

In thousands of New Zealand dollars

	Note	Consolidated		Parent	
		2010	2009	2010	2009
Impairment of goodwill	15	-	440	-	-
Impairment of investment	17	1,905	3,063	1,905	3,063
		1,905	3,503	1,905	3,063

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	
	2010	2009	2010	2009
Donations	5	9	5	9
Auditors' remuneration comprises:				
KPMG – audit services	130	165	130	165
KPMG – other audit-related services	5	3	5	3
Other Auditors	24	20	-	-

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Included in expenses:				
Research and Development	4,345	3,381	4,345	3,381

11. Staff expenses

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Wages and salaries	55,619	58,265	52,924	54,742
Contributions to employee superannuation	2,234	2,216	2,206	2,182
Other employee expenses	3,316	5,534	3,039	5,333
	61,170	66,015	58,169	62,257

12. Finance income and expense

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Interest income on loans and receivables	982	1,238	1,258	1,539
Net foreign exchange gain	-	528	-	354
Dividend income on available-for-sale financial assets	29	387	-	334
Finance income	1,011	2,153	1,258	2,227
Interest expense	(70)	(204)	(74)	(214)
Dividend paid on Co-operative Control Shares	(410)	(285)	(410)	(285)
Net foreign exchange loss	(927)	-	(585)	-
Finance expense	(1,407)	(489)	(1,069)	(499)
Net finance income	(396)	1,664	189	1,728

Notes to the financial statements

13. Income tax expense in the income statement

In thousands of New Zealand dollars

Current tax expense

Current period
Adjustment for prior periods

Deferred tax expense

Origination and reversal of temporary differences
Reduction in tax rate (2010yr: 30%; 2011yr: 28%)
Removal of depreciation on buildings

Income tax expense

Total income tax expense

	Consolidated		Parent	
	2010	2009	2010	2009
Current tax expense				
Current period	5,793	5,509	5,929	5,228
Adjustment for prior periods	(312)	(16)	(907)	554
	5,481	5,493	5,022	5,782
Deferred tax expense				
Origination and reversal of temporary differences	(324)	5,005	(166)	5,368
Reduction in tax rate (2010yr: 30%; 2011yr: 28%)	(1,448)	-	(1,415)	-
Removal of depreciation on buildings	3,262	-	3,030	-
	1,490	5,005	1,449	5,368
Income tax expense	6,971	10,498	6,471	11,150
Total income tax expense	6,971	10,498	6,471	11,150

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% (2009: 30%)
Effect of tax rates in foreign jurisdictions
Reduction in tax rate (2010yr: 30%; 2011yr: 28%)
Non-deductible expenses
Impact of removal of tax depreciation on buildings
Research and development tax credit
Current year losses for which no deferred tax asset was recognised
Under/(over) provided in prior periods
Total income tax expense

	Consolidated		Parent	
	2010	2009	2010	2009
Profit for the period	8,349	24,672	10,222	25,162
Total income tax expense	6,971	10,498	6,471	11,150
Profit excluding income tax	15,320	35,171	16,693	36,311
Income tax using the Company's domestic tax rate: 30% (2009: 30%)	4,596	10,551	5,008	10,893
Effect of tax rates in foreign jurisdictions	(34)	5	-	-
Reduction in tax rate (2010yr: 30%; 2011yr: 28%)	(1,448)	-	(1,415)	-
Non-deductible expenses	768	1,070	755	858
Impact of removal of tax depreciation on buildings	3,262	-	3,030	-
Research and development tax credit	-	(1,155)	-	(1,155)
Current year losses for which no deferred tax asset was recognised	139	43	-	-
Under/(over) provided in prior periods	(312)	(16)	(907)	554
Total income tax expense	6,971	10,498	6,471	11,150

Income tax recognised directly in statement of comprehensive income

In thousands of New Zealand dollars

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

	Consolidated		Parent	
	2010	2009	2010	2009
Revaluation of buildings	(306)	282	(306)	293
Available-for-sale financial assets	-	-	-	-
Total income tax recognised directly in comprehensive income	(306)	282	(306)	293

Imputation credits

In thousands of New Zealand dollars

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

The imputation credits are available to shareholders of the Company:

Through the Company
Through subsidiaries

	Consolidated		Parent	
	2010	2009	2010	2009
Imputation credits at 1 June	5,150	5,002	4,654	4,507
New Zealand tax payments, net of refunds	4,469	3,415	4,469	3,414
Imputation credits attached to dividends received	-	165	-	165
Imputation credits attached to dividends paid	(5,612)	(3,432)	(5,612)	(3,432)
Imputation credits at 31 May	4,006	5,150	3,511	4,654
The imputation credits are available to shareholders of the Company:				
Through the Company	3,511	4,654	3,511	4,654
Through subsidiaries	495	495	-	-
	4,006	5,149	3,511	4,654

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 2008	38,589	24,311	22,475	11,792	2,194	16,258	115,619
Additions	-	432	2,749	1,945	43	655	5,824
Increases/(decreases) resulting from revaluations	(3,284)	1,012	-	-	-	-	(2,272)
Disposals	-	-	(65)	(1,949)	(204)	(4,253)	(6,471)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-
Forex Impact	-	-	89	24	(74)	(7)	32
Balance at 31 May 2009	35,305	25,755	25,248	11,812	1,959	12,653	112,732
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
Depreciation and impairment losses							
Balance at 1 June 2008	-	(6,662)	(19,137)	(7,614)	(2,004)	(11,781)	(47,198)
Depreciation for the year	-	(623)	(1,565)	(1,582)	(53)	(1,476)	(5,299)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	-	54	1,687	193	2,861	4,795
Forex impact	-	-	(41)	(11)	26	(7)	(33)
Balance at 31 May 2009	-	(7,285)	(20,689)	(7,520)	(1,838)	(10,403)	(47,735)
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
Impairment loss	-	-	-	-	-	-	-
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)
Carrying amounts							
At 1 June 2008	38,589	17,649	3,338	4,178	190	4,477	68,422
At 31 May 2009	35,305	18,470	4,559	4,292	121	2,250	64,997
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

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 deemed cost							
Balance at 1 June 2008	33,598	23,168	21,908	10,547	1,999	15,958	107,178
Additions	-	296	2,679	1,712	35	836	5,558
Increases/(decreases) resulting from revaluations	(3,173)	976	-	-	-	-	(2,197)
Disposals	-	-	(57)	(1,598)	(194)	(4,211)	(6,060)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 May 2009	30,425	24,440	24,530	10,661	1,840	12,583	104,479
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
Depreciation and impairment losses							
Balance at 1 June 2008	-	(6,539)	(18,838)	(6,990)	(1,881)	(11,707)	(45,955)
Depreciation for the year	-	(551)	(1,454)	(1,394)	(48)	(1,426)	(4,873)
Impairment loss	-	-	-	-	-	-	-
Disposals	-	-	51	1,468	187	2,778	4,484
Balance at 31 May 2009	-	(7,090)	(20,241)	(6,916)	(1,742)	(10,355)	(46,344)
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
Impairment loss	-	-	-	-	-	-	-
Disposals	-	3	186	381	21	183	774
Balance at 31 May 2010	-	(108)	(21,791)	(7,875)	(1,762)	(11,355)	(42,891)
Carrying amounts							
At 1 June 2008	33,598	16,629	3,070	3,557	118	4,251	61,224
At 31 May 2009	30,425	17,350	4,289	3,745	98	2,228	58,135
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

Valuations of land and buildings were performed to determine the carrying value of these assets at 31 March 2010. These were performed by independent registered valuers, John Dunckley from DTZ New Zealand Limited MREINZ and Jon G. Newson, and are based on methods/assumptions referred to in Note 4. The total fair value of land and buildings, as valued by independent valuers is \$52 million.

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

Consolidated

In thousands of New Zealand dollars

Land	9,275
Buildings	13,892

Notes to the financial statements

15. Intangible assets

Consolidated

In thousands of New Zealand dollars

	Goodwill	Intellectual Property	Database	Software	Total
Cost					
Balance at 1 June 2008	3,952	-	10,500	23,530	37,982
Acquisitions – internally developed	-	-	-	2,930	2,930
Acquisitions – separately acquired	-	-	-	-	-
Acquisitions – business combinations	50	-	-	-	50
Disposals	-	-	-	(64)	(64)
Balance at 31 May 2009	4,002	-	10,500	26,396	40,898
Balance at 1 June 2009	4,002	-	10,500	26,396	40,898
Acquisitions – internally developed	-	-	-	4,416	4,416
Acquisitions – separately acquired	-	-	-	-	-
Acquisitions – business combinations	50	-	-	-	50
Disposals	-	-	-	(45)	(45)
Balance at 31 May 2010	4,052	-	10,500	30,767	45,319
Amortisation and impairment losses					
Balance at 1 June 2008	1,789	-	-	13,287	15,076
Amortisation for the year	-	-	-	3,193	3,193
Impairment	440	-	-	-	440
Disposals	-	-	-	(63)	(63)
Balance at 31 May 2009	2,229	-	-	16,417	18,646
Balance at 1 June 2009	2,229	-	-	16,417	18,646
Amortisation for the year	-	-	-	3,798	3,798
Impairment	-	-	-	-	-
Disposals	-	-	-	(45)	(45)
Balance at 31 May 2010	2,229	-	-	20,170	22,399
Carrying amounts					
At 1 June 2008	2,163	-	10,500	10,243	22,906
At 31 May 2009	1,773	-	10,500	9,979	22,252
At 1 June 2009	1,773	-	10,500	9,979	22,252
At 31 May 2010	1,823	-	10,500	10,597	22,920

Notes to the financial statements

15. Intangible assets (continued)

Parent	Goodwill	Intellectual Property	Database	Software	Total
<i>In thousands of New Zealand dollars</i>					
Cost					
Balance at 1 June 2008	-	-	10,500	23,530	34,030
Acquisitions – internally developed	-	-	-	2,930	2,930
Acquisitions – separately	-	168	-	-	168
Acquisitions – business combinations	-	-	-	-	-
Disposals	-	-	-	(64)	(64)
Balance at 31 May 2009	-	168	10,500	26,396	37,064
Balance at 1 June 2009	-	168	10,500	26,396	37,064
Acquisitions – internally developed	-	-	-	4,416	4,416
Acquisitions – separately	-	-	-	-	-
Acquisitions – business combinations	-	-	-	-	-
Disposals	-	-	-	(45)	(45)
Balance at 31 May 2010	-	168	10,500	30,767	41,435
Amortisation and impairment losses					
Balance at 1 June 2008	-	-	-	13,287	13,287
Amortisation for the year	-	-	-	3,193	3,193
Impairment loss	-	-	-	-	-
Disposals	-	-	-	(63)	(63)
Balance at 31 May 2009	-	-	-	16,417	16,417
Balance at 1 June 2009	-	-	-	16,417	16,417
Amortisation for the year	-	-	-	3,797	3,797
Impairment loss	-	-	-	-	-
Disposals	-	-	-	(45)	(45)
Balance at 31 May 2010	-	-	-	20,169	20,169
Carrying amounts					
At 1 June 2008	-	-	10,500	10,243	20,743
At 31 May 2009	-	168	10,500	9,979	20,647
At 1 June 2009	-	168	10,500	9,979	20,647
At 31 May 2010	-	168	10,500	10,597	21,265

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	
	2010	2009
Genetics	353	353
Farm Software	1,470	1,420
	1,823	1,773

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	
	2010	2009
Farm Software	10,500	10,500
	10,500	10,500

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

The 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; 2009: 8.7 percent post tax); and
- Future projected cashflows (incorporates inflation of 3 percent; 2009: 3 percent)

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

16. Biological assets

Consolidated

In thousands of New Zealand dollars

	Note	Elite breeding bulls	Elite breeding stags	Other livestock	Total
Balance at 1 June 2008		60,872	1,556	844	63,272
Increase due to acquisitions		-	-	204	204
Decrease due to sales		-	-	(24)	(24)
Change in fair value less estimated costs to sell		12,841	(355)	(21)	12,465
Transferred to inventories		-	-	-	-
Balance at 31 May 2009		73,713	1,201	1,003	75,917
Non-current		73,713	1,201	-	74,914
Current		-	-	1,003	1,003
Balance at 31 May 2009		73,713	1,201	1,003	75,917
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 costs to sell		(1,029)	(1,019)	931	(1,117)
Transferred to inventories		-	-	-	-
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

Notes to the Financial Statements

16. Biological assets (continued)

Parent

In thousands of New Zealand dollars

	Note	Elite Breeding Bulls	Elite Breeding Stags	Other Livestock	Total
Balance at 1 June 2008		60,872	-	24	60,896
Increase due to acquisitions		-	-	-	-
Decrease due to sales		-	-	(24)	(24)
Change in fair value less estimated costs to sell		12,841	-	-	12,841
Transferred to inventories		-	-	-	-
Balance at 31 May 2009		73,713	-	-	73,713
Non-current		73,713	-	-	73,713
Current		-	-	-	-
Balance at 31 May 2009		73,713	-	-	73,713
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 less estimated costs to sell		(1,029)	-	166	(863)
Transferred to inventories		-	-	-	-
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

At 31 May 2010, Elite breeding bulls comprised 985 bulls (2009: 1,100 bulls)

At 31 May 2010, Elite breeding stags comprised 4 stags (2009: 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 (2009: 8.7 percent post tax)
Inflation rate on expenses	3.5 percent (2009: 3.5 percent)
Inflation rate on revenue	0 percent 2011 and 2012 years, 2 percent 2013 year onwards. (2009: 2 percent)
Tax rate	30 percent 2011 year, 28 percent 2012 year onwards. (2009: 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.

Notes to the Financial Statements

16. Biological assets (continued)

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.

Supply and demand risk

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

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

Climate and other risks

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

17. Investments

In thousands of New Zealand dollars

	Consolidated		Parent	
	2010	2009	2010	2009
Current investments				
Term Deposits	11,360	10,603	11,360	10,603
Derivative instruments	106	93	106	93
	11,466	10,696	11,466	10,696
Non-current investments				
Investment in Subsidiaries	-	-	8,493	8,399
Investment in Associates & Joint Ventures	77	4	3	4
Available-for-sale financial assets	738	8,110	335	7,419
	815	8,114	8,831	15,822
Total Investments	12,281	18,810	20,297	26,518

During the year an impairment loss of \$1.905 million (2009: \$3.063 million) was recognised in the investment in Tru-Test, an available for sale financial asset. This was due to a sustained period of lower than expected economic performance by Tru-Test. The portion of Tru-Test shares sold after balance date have been reclassified as non-current assets held for sale. Refer note 6.

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
<i>In thousands of New Zealand dollars</i>						
Fixed assets	-	-	(3,134)	(388)	(3,134)	(388)
Intangible assets	-	-	(2,940)	(3,150)	(2,940)	(3,150)
Biological assets	-	-	(20,480)	(21,951)	(20,480)	(21,951)
Inventories	-	-	(49)	(73)	(49)	(73)
Provisions	1,147	1,706	(53)	(333)	1,094	1,373
Other items	271	131	(4)	-	267	131
Tax loss carry-forwards	-	-	-	-	-	-
Tax (assets)/liabilities	1,418	1,837	(26,660)	(25,895)	(25,242)	(24,058)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	1,418	1,837	(26,660)	(25,895)	(25,242)	(24,058)

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	
	2010	2009	2010	2009	2010	2009
Fixed assets	-	-	(2,973)	(403)	(2,973)	(403)
Intangible assets	-	-	(2,940)	(3,150)	(2,940)	(3,150)
Biological assets	-	182	(20,268)	(21,692)	(20,268)	(21,510)
Inventories	-	-	(49)	(65)	(49)	(65)
Provisions	1,131	1,365	(53)	(61)	1,078	1,304
Other items	269	81	(5)	-	264	81
Tax loss carry-forwards	-	-	-	-	-	-
Tax (assets)/liabilities	1,400	1,628	(26,288)	(25,371)	(24,888)	(23,745)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	1,400	1,628	(26,288)	(25,371)	(24,888)	(23,745)

Movement in temporary differences during the year

Consolidated

In thousands of New Zealand dollars

	Balance 1 June 2008	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 31 May 2009	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 31 May 2010
Fixed assets	278	(384)	(282)	(388)	(3,051)	306	(3,134)
Intangible assets	(3,150)	-	-	(3,150)	210	-	(2,940)
Biological assets	(17,802)	(4,149)	-	(21,951)	1,471	-	(20,480)
Inventories	(21)	(52)	-	(73)	24	-	(49)
Provisions	2,028	(654)	-	1,374	(280)	-	1,094
Other items	(102)	233	-	131	136	-	267
Tax loss carry-forwards	-	-	-	-	-	-	-
	(18,768)	(5,005)	(282)	(24,058)	(1,490)	306	(25,242)

Parent

In thousands of New Zealand dollars

	Balance 1 June 2008	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 31 May 2009	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance 31 May 2010
Fixed assets	252	(362)	(293)	(403)	(2,874)	306	(2,973)
Intangible assets	(3,150)	-	-	(3,150)	210	-	(2,940)
Biological assets	(17,252)	(4,258)	-	(21,510)	1,242	-	(20,268)
Inventories	-	(65)	-	(65)	16	-	(49)
Provisions	2,017	(713)	-	1,304	(226)	-	1,078
Other items	51	30	-	81	183	-	264
Tax loss carry-forwards	-	-	-	-	-	-	-
	(18,082)	(5,368)	(293)	(23,745)	(1,449)	306	(24,888)

Notes to the Financial Statements

19. Inventories

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Semen	1,311	1,472	1,128	1,345
Equipment	4,526	5,443	4,149	4,910
Other	412	506	349	455
	6,250	7,421	5,627	6,710

In 2010 Inventories recognised as an expense during the period amounted to: \$11.208 million (2009: \$12.148 million). Inventories written off in 2010 totalled \$0.048 million (2009: \$0.165 million).

20. Trade receivables

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Trade receivables due from related parties	6	28	5,768	4,247
Trade debtors	12,527	12,669	8,177	8,941
Other trade receivables	1,159	2,324	1,159	2,324
	13,692	15,023	15,104	15,512

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>	2010	2009
Euro	1,470	1,426
Australian Dollars	943	635
British Pounds	1,687	1,273
US Dollars	979	820

21. Cash and cash equivalents

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Bank balances	14,813	4,249	12,852	2,800
Call deposits	10,095	13,785	10,095	13,784
Cash and cash equivalents in the statement of cash flows	24,908	18,034	22,947	16,584

The effective interest rate on call deposits in 2010 was 3.4 percent (2009: 4.5 percent).

Notes to the Financial Statements

22. Capital and reserves

Share capital
Investment Shares
In thousands of shares

	2010	2009
On issue at 1 June	29,528	29,528
Own shares acquired	-	-
Issue of shares	-	-
On issue at 31 May	29,528	29,528

The Parent had 29,528,590 fully paid Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control Shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Investment Shares were created by a subdivision of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004. The Constitution prescribes that it is no longer compulsory to hold Investment Shares and specifies the maximum shareholding limits for Investment Shares. All Shareholders must sell their total holding of Investment Shares within two years of ceasing to be a Co-operative Control Shareholder. Employees of LIC are able to participate in the LIC Employee Share Scheme which is a Unit Trust set up to acquire and hold LIC Investment Shares.

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

Foreign Currency Translation reserve

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

Foreign Currency Hedge reserve

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

Available for Sale Asset reserve

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

Revaluation reserve

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

Dividends

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

<i>In thousands of New Zealand dollars</i>	2010	2009
41.93 cents Final Investment Share dividend – paid in 2010 (2009 : 22.66 cents)	12,381	6,690

After 31 May 2010 the following dividends were proposed by the Directors for 2010. The dividends have not been provided for and there are no income tax consequences.

<i>In thousands of New Zealand dollars</i>	2010	2009
23.46 cents per Investment Share (2009: 41.9 cents)	6,928	12,381

Notes to the Financial Statements

23. Co-operative Control Shares

<i>In thousands of shares</i>	Consolidated		Parent	
	2010	2009	2010	2009
On issue at 1 June	4,054	3,713	4,054	3,713
Own shares acquired	(509)	(539)	(509)	(539)
Issue of shares	1,104	880	1,104	880
On issue at 31 May	4,650	4,054	4,650	4,054

The Parent had 4,649,774 (2009: 4,054,475) Co-operative Control Shares on issue at balance date. The shares have a nominal value of \$1 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution. The Co-operative Control Shares are classified as liabilities.

24. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 May 2010 was based on the profit attributable to Investment Shareholders of \$8.349 million (2009: \$24.672 million) and a weighted average number of shares outstanding of 29.528 million (2009: 29.528 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 28.3 cents per Investment Share (2009: 83.6 cents per Investment Share).

Profit attributable to Investment Shareholders

In thousands of New Zealand dollars

Net profit/(loss) for the period

2010	2009
8,349	24,672

Weighted average number of Investment Shares

In thousands of shares

Issued Investment Shares at 1 June

Effect of own shares acquired

Effect of issue of ordinary shares

Weighted average number of Investment Shares at 31 May

2010	2009
29,528	29,528
-	-
-	-
29,528	29,528

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

Notes to the Financial Statements

25. Loans and borrowings

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Current liabilities				
Co-operative Control Shares	4,650	4,054	4,650	4,054
	4,650	4,054	4,650	4,054

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

26. Provisions

Consolidated

<i>In thousands of New Zealand dollars</i>	Employee Entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2009	3,822	2,766	330	-	6,918
Additional provision made	2,997	857	(51)	9	3,811
Amount utilised	(2,966)	(1,324)	-	(2)	(4,291)
Balance at 31 May 2010	3,853	2,299	279	7	6,438
Non-current	2,733	1,139	70	5	3,947
Current	1,120	1,160	209	2	2,491
Balance at 31 May 2010	3,853	2,299	279	7	6,438

Parent

<i>In thousands of New Zealand dollars</i>	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2009	3,606	2,528	330	-	6,464
Additional provision made	3,024	865	(51)	9	3,845
Amount utilised	(2,959)	(1,253)	-	(2)	(4,214)
Balance at 31 May 2010	3,671	2,139	279	7	6,096
Non-current	2,602	979	70	5	3,657
Current	1,068	1,160	209	2	2,439
Balance at 31 May 2010	3,671	2,139	279	7	6,096

Provision for employee entitlements

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

Provision for sire proving rebate

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

Notes to the financial statements

26. Provisions (continued)

ACC Partnership Programme

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

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

- 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 2010. 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.

27. Trade and other payables

In thousands of New Zealand dollars

	Consolidated		Parent	
	2010	2009	2010	2009
Trade payables due to related parties	-	-	805	650
Other trade payables	8,863	6,386	7,928	6,300
Non-trade payables and accrued expenses	2,335	1,490	1,942	750
	11,198	7,876	10,674	7,700

Payables denominated in currencies other than the functional currency comprise:

	2010	2009
Euro	338	230
Australian Dollars	639	210
British Pounds	327	289

Notes to the financial statements

28. Financial instruments

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates 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.

Credit Risk

- (a) Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through the normal trade credit cycle, advances to third parties and through the use of derivative financial instruments. No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. 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 2010 (2009: \$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:

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
New Zealand	8,345	10,492	11,446	11,849
Australia	943	635	530	742
United Kingdom	1,687	1,273	900	888
Other European countries	1,470	1,426	981	836
North America	337	349	337	349
South Africa	252	339	252	339
South America	640	509	640	509
Other regions	17	-	17	-
Trade and other receivables	13,691	15,023	15,104	15,512

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

Consolidated

In thousands of New Zealand dollars

	Gross	Impairment	Gross	Impairment
	receivable	2010	receivable	2009
	2010		2009	2009
Trade receivables				
Not past due	11,088	-	11,570	-
Past due 0-30 days	1,407	-	1,157	-
Past due 31-120 days	874	27	1,350	40
Past due 121-360 days	656	318	1,396	410
Past due more than 1 year	22	11	-	-
Total	14,047	356	15,473	450

Notes to the financial statements

28. Financial instruments (continued)

Parent

In thousands of New Zealand dollars

	Gross receivable 2010	Impairment 2010	Gross receivable 2009	Impairment 2009
Trade receivables				
Not past due	12,304	-	11,880	-
Past due 0-30 days	1,407	-	1,157	-
Past due 31-120 days	874	27	1,350	40
Past due 121-360 days	656	122	1,396	231
Past due more than 1 year	22	11	-	-
Total	15,264	160	15,783	271

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

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2010	2009	2010	2009
Gross trade receivables	14,047	15,473	15,264	15,783
Individual impairment	-	-	-	-
Collective impairment	(356)	(450)	(160)	(271)
Net trade receivables	13,691	15,023	15,104	15,512

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

Liquidity Risk

- (b) 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:

Consolidated

In thousands of New Zealand dollars

	2010 Total Repayable on demand		2009 Total Repayable on demand	
Trade and other payables	11,198	11,198	7,876	7,876
Co-operative control shares	4,650	4,650	4,054	4,054
Total non derivative liabilities	15,848	15,848	11,930	11,930

Parent

In thousands of New Zealand dollars

	2010 Total Repayable on demand		2009 Total Repayable on demand	
Trade and other payables	10,674	10,674	7,700	7,700
Co-operative control shares	4,650	4,650	4,054	4,054
Total non derivative liabilities	15,324	15,324	11,754	11,754

Notes to the financial statements

28. Financial instruments (continued)

Market Risk

(c) (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 and other 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
2009				
Foreign currency risk				
Trade receivables	820	635	1,273	1,426
Cash balances	312	955	1,283	649
Trade and other payables	-	(210)	(289)	(230)
Net balance sheet exposure before hedging activity	1,132	1,380	2,267	1,845
Forward exchange contracts				
Notional amounts	(1,333)	(283)	-	-
Net un-hedged exposure	(201)	1,097	2,267	1,845

(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

	2010		2009	
	Total	6 months or less	Total	6 months or less
Fixed rate instruments				
Cash and cash equivalents	24,908	24,908	18,034	18,034
Short term deposits	11,360	11,360	10,603	10,603
Total fixed rate instruments	36,268	36,268	28,637	28,637

Notes to the financial statements

28. Financial instruments (continued)

Parent

In thousands of New Zealand dollars

	2010		2009	
	Total	6 months or less	Total	6 months or less
Fixed rate instruments				
Cash and cash equivalents	22,947	22,947	16,584	16,584
Short term deposits	11,360	11,360	10,603	10,603
Total fixed rate instruments	34,307	34,307	27,187	27,187

Other investments of the Group relate to:

	Consolidated		Parent	
	2010	2009	2010	2009
<i>In thousands of New Zealand dollars</i>				
Equity securities available-for-sale	5,917	8,110	5,514	7,423
	5,917	8,110	5,514	7,423

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

Capital management

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

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

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

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

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

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

Sensitivity analysis

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

At 31 May 2010 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately \$0.363 million (2009: \$0.286 million).

It is estimated that a general increase of a hundred 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 \$0.037 million for the year ended 31 May 2010 (2009: \$0.034 million). The forward exchange contracts have been included in this calculation.

Notes to the financial statements

28. Financial instruments (continued)

(iii) Hedging

Forecast transactions

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2010 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 2010 was \$0.106 million (2009: \$0.093 million), comprising assets of \$0.106 million (2009: \$0.093 million) and liabilities of \$0 (2009: \$0).

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

Notes to the financial statements

28. Financial instruments (continued)

Classification and fair values

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

Consolidation

In thousands of New Zealand dollars

	Note	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
2010							
Assets							
Investments	17	-	-	738	-	738	738
Non-current asset held for sale	6	-	-	5,179	-	5,179	5,179
Derivatives	17	106	-	-	-	106	106
Trade and other receivables	20	-	13,691	-	-	13,691	13,691
Short term deposits	17	-	11,360	-	-	11,360	11,360
Cash and cash equivalents	21	-	24,908	-	-	24,908	24,908
		106	49,960	5,917	-	55,983	55,983
Liabilities							
Co-operative control shares	23	-	-	-	4,650	4,650	4,650
Trade and other payables	27	-	-	-	11,198	11,198	11,198
		-	-	-	15,848	15,848	15,848

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

2010

	Level 1	Level 2	Level 3	Total
Asset held for sale	-	5,179	-	5,179
Derivatives - designated at fair value through profit or loss	93	-	-	93
Derivatives - available for sale financial assets	187	268	283	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>

Classification and fair values

Parent

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
2010							
Assets							
Investments	17	-	-	335	-	335	335
Non-current asset held for sale	6	-	-	5,179	-	5,179	5,179
Derivatives	17	106	-	-	-	106	106
Trade and other receivables	20	-	15,104	-	-	15,104	15,104
Short term deposits	17	-	11,360	-	-	11,360	11,360
Cash and cash equivalents	21	-	22,947	-	-	22,947	22,947
Related party loans	33	-	6,323	-	-	6,323	6,323
		106	55,735	5,517	-	61,358	61,358
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)

Classification and fair values

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

Consolidation

In thousands of New Zealand dollars

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

Notes to the financial statements

28. Financial instruments (continued)

Classification and fair values

Parent

In thousands of New Zealand dollars

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

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	
	2010	2009	2010	2009
Less than one year	671	682	554	579
Between one and five years	906	1,335	844	1,068
More than five years	-	-	-	-
	1,577	2,017	1,398	1,648

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 2010 \$0.776 million was recognised as an expense in the income statement in respect of operating leases (2009: \$0.438 million). \$0.231 million was recognised as income in respect of subleases (2009: \$0.150 million).

30. Capital commitments

As at 31 May 2010 the Group had entered into contracts to purchase property, vehicles, plant and equipment for \$6.818 million, including \$6.489 million for the "Innovation Farm" (2009: \$0.661 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 for any claims, 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	
	2010	2009	2010	2009
Profit for the period	8,349	24,672	10,222	25,162
Adjustments for:				
Depreciation	5,248	5,299	4,876	4,873
Amortisation of intangible assets	3,798	3,193	3,797	3,193
Impairment of goodwill	-	440	-	-
Share of loss in associate	2	21	2	21
Change in deferred taxation	1,184	5,290	1,143	5,662
Change in fair value of biological assets	1,117	(12,465)	863	(12,841)
Impairment of investments	1,905	3,063	1,905	3,063
Loss on sale of property, plant and equipment	-	-	-	-
Gain on sale of property, plant and equipment	(90)	(626)	(89)	(622)
	13,164	4,215	12,498	3,349
Change in inventories (increase)/decrease	1,171	(2,752)	1,083	(2,466)
Change in trade receivables (increase)/decrease	1,331	2,246	408	6,161
Change in assets held for sale (increase)/decrease	(8,473)	2,252	(8,473)	2,252
Change in biological assets (increase)/decrease	(501)	(159)	(119)	24
Change in other current assets (increase)/decrease	14	128	3	137
Change in trade and other payables increase/(decrease)	3,322	(4,278)	2,974	(4,213)
Change in provisions increase/(decrease)	906	1,809	515	2,661
Items reclassified to/from Investing/Financing activities	9,431	(1,370)	9,042	(6,835)
	7,201	(2,124)	5,434	(2,278)
Net cash from operating activities	28,714	26,763	28,154	26,233

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>	2010	2009
Short term employee benefits	2,843	2,803
Defined Contribution Superannuation Plans	53	79
Termination Payments	-	101
	2,896	2,983

<i>In thousands of New Zealand dollars</i>	Transaction value		Balance outstanding	
	2010	2009	2010	2009
Sale of goods and services				
Sale of goods and services to directors and key management personnel	430	385	27	13

Notes to the financial statements

33. Related parties (continued)

	Co-operative Shares		Investment Shares	
	2010	2009	2010	2009
Shareholding of Related Parties				
A Reid	5,452	4,394	74,310	74,310
B Guy	1,885	1,625	11,352	10,602
E Coats	680	589	5,440	5,170
M Dewdney	674	798	13,124	12,856
M Jagger	1,062	1,152	20,633	20,211
M King	3,804	4,757	11,432	10,727
P Lynskey	2,712	2,660	62,583	61,504
S Bay	2,656	3,488	48,892	47,835

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	
	2010	2009	2010	2009
Sale of goods and services to subsidiaries	2,176	2,070	6,317	4,247

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 \$0.295 million (2009: \$0.301 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 \$0.055 million of costs in running the scheme for the year (2009: \$0.045 million).

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
			2010 %	2009 %		
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
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	-	31-May	Marketing Support

Associates

Name	Country of Incorp	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2010 %	2009 %		
Technical Farm Solutions Ltd	NZ	Ordinary	25	25	31-Mar	Animal Management Systems

Total loss reported in the Income Statement using the equity method for Associates was \$1,974.

35. Subsequent events

There are four events subsequent to balance date. Firstly, the declaration of the dividend as per note 22. Secondly, LIC purchased the "Innovation Farm" Rukuhia on 1st June for a total price of \$7.1 million (inclusive of the deposit paid in May 2010). The purchase included the land, buildings, Fonterra shares and livestock. Thirdly, LIC sold 6,473,883 shares in Tru-Test for \$5.2 million (refer to note 6). And lastly, LIC has entered into a conditional contract for the sale of surplus land and associated buildings from the Feilding farm subject to subdivision approval (refer to note 6).



Audit report

To the shareholders of Livestock Improvement Corporation Limited

We have audited the financial statements on pages 1 to 49. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2010. This information is stated in accordance with the accounting policies set out on pages 7 to 17.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 31 May 2010 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

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

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

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

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 1 to 49:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 31 May 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 28 July 2010 and our unqualified opinion is expressed as at that date.



Hamilton

LIC DIRECTORS REPORT

Overview

The 2009/10 year was another 'game of two halves' for the dairy industry and LIC. The bulk of LIC's income is derived during the spring peak of each season and this was a low point for the industry with prospects for payout being in the \$4.50 - \$5.00 per kg ms range. The resulting concern and farmer caution was reflected in reduced sales volumes and revenue for LIC.

In that context, this year's result was an extremely good one, reflecting constraint and containment across the entire business, and as an outcome of working closely with our farmer customers.

Where dairy fortunes go, so do our's, and LIC was one of the first to announce a package of support to help farmers manage through the downturn. This support package of additional discounts and deferred, zero interest payment terms cost approximately \$2.5 million for the year. Our priority was on providing essential services to farmers, not on delivering a record profit. It was the right decision.

At the same time, LIC initiated a cost cutting exercise, which saw all budgets revised and a nil annual pay increase for all LIC staff.

Throughout the year, LIC continued to expand our range of diverse products and services and continued to invest significantly in science, technology and product development, which will ensure that New Zealand dairy farmers remain at the leading edge of dairy production in the future.

Financial Result

Revenue for the 2009/10 year was \$136.4 million (2008/2009 \$150.3 million), which represents a decrease of 9.2%.

Reduced sales volumes resulted in a decrease in earnings before interest and tax of \$4.2 million or 20%, to \$16.8 million. Underlying net earnings decreased by \$6.8 million or 43%, to \$9.1 million.

The strength of LIC's balance sheet continues with total assets, including land, buildings, bull and stag teams, of \$223.7 million (increase of \$0.2 million) with an equity ratio approximately 80%.

The 2009/10 year generated strong operating cash flows of \$28.7 million, an increase of 7% over the previous year, and equivalent to 21% of revenue. Investment was \$9.5 million for the year.

The company had no term debt at the end of the year.

Dividend

LIC will distribute a dividend to shareholders of \$7.3 million representing 80% of underlying earnings, to its Cooperative and Investment Shareholders. This translates to 8.65 cents per Cooperative Control Share and 23.5 cents per Investment Share. The fully imputed dividend payment will be made to Shareholders on 27 August 2010. This represents a gross yield of 11.9 % on Investment Shares.

Appreciation

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

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

Summary

The result and investments made in the 2009/10 year position LIC well for the medium to long term as the dairy industry recovers from the current downturn and moves into a growth phase.

The dairy industry is in recovery mode, and though the prospects for the future are good, farmers appreciate that volatility of international milk prices is here to stay. They are very cost conscious and need to see that every dollar invested delivers an acceptable return. That logic is behind everything LIC does.

A handwritten signature in black ink, appearing to read 'Stuart Bay', with a long horizontal flourish extending to the right.

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; 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 Directors representing the Central region (B Guy and J Lynskey) retired by rotation in 2010. Mr Guy being eligible stood for re-election. Messrs J Galloway, G Maughan and S Poole were also nominated and a postal election held. Mr Poole was elected and Mr Guy was re-elected.

Appointed Director Mr J Waldvogel retired at the 2009 Annual Meeting. Mr J Dale had been approved by the LIC Shareholder Council and appointed by the Board as replacement for retired Director Mr G Fraser in October 2008. Co-operative Control Shareholders ratified Messrs Dale's and Waldvogel's appointments for a three year term at the 2009 Annual Meeting.

Committees

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

Audit Finance & Risk Committee

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

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

Remuneration and Executive Appointment Committee

A Sub-Committee of the Board comprising four Directors and chaired by 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 ten times in 2009/10.

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 57 of the report.

STATUTORY REQUIREMENTS

Nature of LIC Business

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

ENTRIES IN THE INTERESTS REGISTER

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

Directorships and Memberships

S Bay:

Member of Governance Group of Pastoral 21.

E Coats:

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

M Dewdney:

Director of Tru-Test Ltd.

M King:

Director of: Milktech Ltd, Scott Milktech Ltd , South Island Dairying Development Centre (SIDDC).

P Lough:

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

P Lynskey:

Director of New Zealand Animal Evaluation Ltd

A Reid:

Director of: Opuha Water Partnership Ltd, South Island Dairying Development Centre (SIDDC) Board, WA Systems Ltd, Farm Electric Ltd, Kakahu Irrigation Ltd, and 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) and 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
B Guy	41
J Dale	48
M Jagger	41
M King	41
P Lynskey	41
A Reid	41
P Lough	48
J Waldvogel	41
	488

ENTRIES IN THE INTEREST REGISTER

(a) Directors Interest

22 July 2009 Board

Herd Improvement Database Review. Mr T Coats declared an interest.

16 November 2009 Board

Dairy Grazing Services Consultancy (DGSC) JV with Dairy Farmers of America. Mr J Waldvogel declared a conflict of interest as an employee of Dairy Farmers of America.

10 February 2010 Board

Feilding Farm. Mr B Guy declared a potential conflict of interest given he personally knew parties negotiating to purchase the farm.

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2010/2011 season.

Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
S Bay	2	\$16,000
B Guy	2	\$16,000
M Jagger	2	\$16,000
M King	1	\$8,000
J Lynskey	4	\$32,000
A Reid	3	\$24,000

(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	2010		2009	
	Co-operative Control Shares	Investment Shares	Co-operative Control Shares	Investment Shares
S Bay	2,656	48,892	3,488	47,835
E Coats	680	5,440	589	5,170
B Guy	1,885	11,352	1,625	10,602
M Jagger	1,062	20,633	1,152	20,211
M King	3,804	11,432	4,757	10,727
J Lynskey	2,712	62,583	2,660	61,504
A Reid	5,452	74,310	4,394	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.

Executive Employees' Remuneration

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

Remuneration Range	Returning	Cessations	Total
100,000 – 109,999	17		17
110,000 – 119,999	10		10
120,000 – 129,999	18		18
130,000 – 139,999	4		4
140,000 – 149,999	3		3
150,000 – 159,999	1		1
160,000 – 169,999	2		2
190,000 – 199,999	1		1
200,000 – 209,999	3		3
210,000 – 219,999	1		1
220,000 – 229,999	2		2
250,000 – 259,999	1		1
660,000 – 669,999	1		1
Total	64	0	64

**RESOLUTION OF DIRECTORS
DATED 28 JULY 2010 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 2010.

The grounds for this opinion are:

1

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 2010

Size of Shareholding

Holdings	Shareholders	Investments Share Held	% of Total
1-999	2,121	1,013,773	3.43
1,000-1,999	1,979	2,990,762	10.13
2,000-2,999	1,851	4,558,518	15.44
3,000-3,999	1,160	4,007,417	13.57
4,000-4,999	706	3,147,454	10.66
5,000-9,999	1,120	7,533,817	25.51
Over 10,000	308	6,276,849	21.26
Total	9,245	29,528,590	100%

Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total Shares
Anglesea Consulting Limited	464,337	1.57%
Christopher John Procter, Donna Leigh Procter, BSN Trustees Limited - Tara Trust	197,146	0.67%
NZGT LIC Nominees Limited - Employee Share Scheme	94,464	0.32%
Mark Francis Slee, Devon Mathieson Slee	81,524	0.28%
Shirley Ann Dunlop, Brian Douglas Dunlop, Gary Bruce Dunlop	74,574	0.25%
Hammond Limited	72,537	0.25%
D B Douglas Limited	67,559	0.23%
Twin Terraces Limited	63,046	0.21%
Peter John Lynskey, Carole Joyce Lynskey, Neil Taylor - Maolla Trust	62,583	0.21%
Rotokaia Farm Limited	48,930	0.17%
Stuart Bruce Bay, Doris Beth Bay - Bay Family Trust	48,892	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%
Deebury Pastoral (Ealing) Limited	47,326	0.16%
Browns Farm Limited	43,360	0.15%
South Hilton Limited	42,070	0.14%
Rakaia Island Dairies Limited	40,580	0.14%
William Terence Leonard	39,545	0.13%
Allan James Hubbard, Christopher John Stark - Deebury Pastoral Partnership - Maronan	38,986	0.13%
Farmenco Limited	38,481	0.13%
		<u>5.63%</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 \$5,000 during the year ended 31 May 2010.

Non- Standard Listing

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule 5.1.4 , by reason of it being a co-operative company having a Constitution which includes provisions having the following effect:

The acquiring of Investment Shares is restricted to New Zealand dairy farmers who hold Co-operative Control Shares and who purchase qualifying products and services from Livestock Improvement Corporation Limited; and

Holders of Investment Shares have no voting rights (except on matters affecting the rights of Investment Shareholders).

WAIVERS AND APPROVALS GRANTED BY NEW ZEALAND EXCHANGE LIMITED (“NZX”) IN THE PROCESS OF LIVESTOCK IMPROVEMENT CORPORATION LIMITED

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

- 1 Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any 1. Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any other person who is entitled to hold the Securities to which the Right or offer relates.
- 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 cooperative company;
 - (c) Clause 3.2.3A prohibits third party interests by prohibiting a Shareholder from holding Shares on behalf of any person who is not a User (subject to exceptions in the case of Family Trusts and the Employee Share Purchase Scheme);
 - (d) Clauses 10.1(b) and (d) place restrictions on the persons who may hold Investment Shares so that such shares are only held by a Co-operative Control Shareholder, or the Company or Approved Holding Entity or an Employee Scheme Holder (or by other persons in certain limited specified circumstances);
 - (e) Clauses 10.2 to 10.7 (inclusive) place restrictions on how Investment Shares may be held. Clause 10.3 imposes a Maximum Investment Shareholding of not more than 5 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) above or would otherwise be in breach of the Constitution, and clause 13.5A empowers the Board to require proof that shares are not being acquired for the benefit of third parties;
 - (h) Clause 24 list matters which require the consent of the Minister for Agriculture and Fisheries (or other relevant Minister). This provision is required by the Dairy Industry Restructuring Act 2001 and must therefore take precedence over all other provisions in the Constitution and the Listing Rules.
- 8 NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:
 - (a) The definition in clause 2.1 of “Average Market Capitalisation” has been amended to take account of the fact that it is only the Investment Shares, which will have a market capitalisation value, and therefore the nominal value of the Cooperative Control Shares will be added to that value. This definition is relevant in relation to section 9 of the Listing Rules in relation to Major Transactions and Material Transactions;

- (b) Rules 7.3.3(b), 7.6.3(a) and 4.3.2(b)(i) which all relate to issues of securities before 1995, have not been included in the Constitution because, as a matter of fact, these provisions do not apply to the Company;
- (c) Clause 3.5.1(a) reflects Rule 7.3.1(a). However that Rule only requires approval to be given by the classes of Quoted Equity Securities. As the Investment Shares are the only class of shares proposed to be quoted, the definition in the Constitution excludes the word "Quoted" so that under clause 3.5.1(a) the approval of each class of Equity Securities is required regardless of whether or not they are Quoted;
- (d) Clause 3.5.2(a) of the Constitution provides for the reference in Rule 7.3.1(a) to "Quoted Equity Securities" to be deemed a reference to "Equity Securities", as the Co-operative Control Shares are not Quoted;
- (e) Clause 3.5.2(b) of the Constitution provides for the reference in Rule 7.3.4(ba) to "Equity Securities carrying Votes" to be deemed a reference to "Investment Shares" as Investment Shares do not have voting rights (except in very limited circumstances);
- (f) Paragraph 6.1 of Schedule 1 reflects Rule 6.2.5; however it applies to notices of meetings of Shareholders rather than of Quoted Security holders.

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

A Dividend Reinvestment Plan: Livestock Improvement has provided financial assistance to those Shareholders who elect to participate in the Dividend Reinvestment Plan ('Dividend Plan') by agreeing to pay to the Guardian Trust Company of New Zealand Limited ('Guardian Trust') as the Approved Holding Entity the services and administration fees and brokerage and commission costs incurred for the purposes of the Dividend Plan. 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 \$47,000.

In relation to the financial assistance provided for the Dividend Plan, the Livestock Improvement Board resolved on 28 July 2010 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 Investment Partners Ltd (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: Livestock Improvement Corporation Limited ("LIC") proposes to provide financial assistance to those Shareholders who elect to participate in the Voluntary Investment Scheme ("Investment Scheme") by agreeing to pay to The New Zealand Guardian Trust Company Limited ("Guardian Trust") as the Approved Holding Entity the annual services fee and other fees, brokerage costs, and commission incurred for the purposes of the Investment Scheme. 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 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 \$17,500.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 28 July 2010 that LIC should provide the financial assistance referred to above ("VIS Assistance"), and that the giving of the VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- (i) The VIS Assistance enables LIC to provide shareholders with an efficient means of acquiring additional Investment Shares in LIC without incurring transaction costs which they would otherwise incur;

- (ii) The VIS Assistance is available to all shareholders, giving equal opportunity to participate in the benefits of the Investment Scheme;
- (iii) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the VIS Scheme;
- (iv) The additional Investment Shares will be purchased by Craigs at the NZAX market price and participating Shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;
- (v) The VIS Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to sell Investment Shares;
- (vi) The VIS Scheme enables LIC to offer Shareholders a mechanism to invest 4 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
- (vii) The amount of financial assistance is minimal in comparison to the benefits arising out of the VIS Scheme for Shareholders and Livestock Improvement.

C LIC Employee Share Scheme: LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme ("Employee Scheme") under which Guardian Trust is the Trustee and LIC is the Manager. LIC proposes to pay the Trustee's fees and expenses (including brokerage) estimated to be \$45,000. Against this payment can be offset the Manager's fee of 10 percent of the gross dividends (including any imputation credits) on the Investment Shares received by the Employee Scheme for the relevant financial year. The amount of the Manager's fee will depend on how many employees participate in the Employee Scheme and the level of their contribution. An estimate of the net amount of the financial assistance is \$42,000.

The Board of LIC resolved on 28 July 2010 that LIC should provide the financial assistance referred to above ("Employee Scheme Assistance") and that the giving of the Employee Scheme Assistance is in the best interests of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Employee Scheme Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- (viii) The Employee Scheme will be a valuable addition to the benefits available to the employees of LIC and will assist in retaining them as valuable staff;
- (ix) The Employee Scheme is a method of aligning the interests of employees with the interests of Shareholders and is an effective means of motivating future performance of the employees. This is expected to bring about an increase in the value of the Investment Shares;
- (x) Shareholders will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Employee Scheme;
- (xi) The additional Investment Shares will be purchased through Craigs at the NZAX market price;
- (xii) The Employee Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for Shareholders wishing to sell those Shares;

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