



## ANNUAL REPORT 2004 - 2005





Livestock Improvement is a dairy farmer owned co-operative providing a comprehensive range of herd improvement services to the dairy industry. Its subsidiaries deliver breeding solutions for a range of animal species, including bovine, deer, sheep, pigs, goats, dogs and horses, both domestically and internationally.

**ANNUAL REPORT 2004-2005**

The Directors are pleased to present the Annual Report of Livestock Improvement Corporation Limited for the year ended 31 May 2005.

For and on behalf of the Board of Directors



**SB Bay**, Chairman  
August 2005



**Ron Jackways**, Director  
August 2005



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## OVERVIEW AND COMPANY STRUCTURE



### MISSION

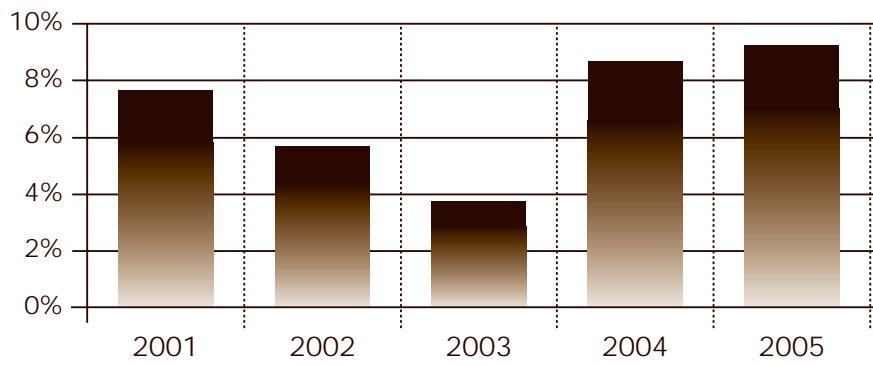
Leading the world with genetics and knowledge to create wealth for pastoral dairy farmers.

### VISION

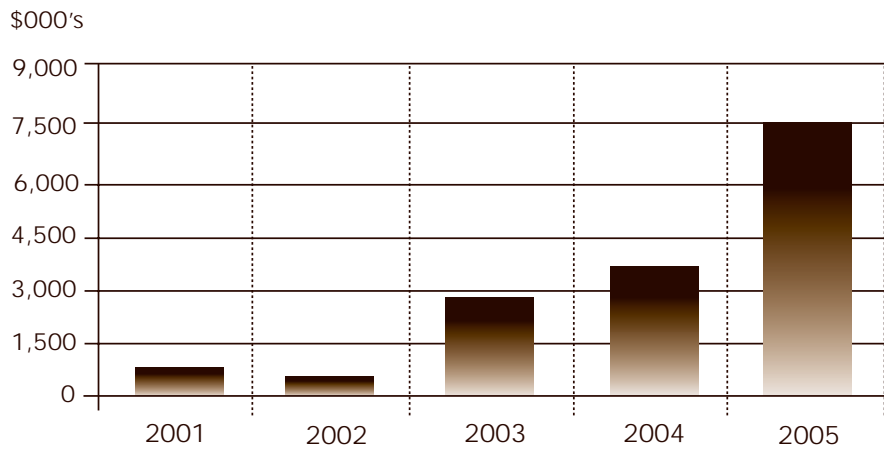
Leadership in pastoral livestock solutions.

STRATEGIC OBJECTIVES	CORE VALUES	COMPANY STRUCTURE
<p><b>By 2006</b></p> <p><b>Innovation</b> Increase profit to \$10 million.</p> <p><b>Performance</b> Return on capital of 10% after tax.</p> <p><b>Customer focus</b> Achieve Silver Business Excellence Award.</p>	<p><b>Integrity</b> Expressed by being ethical; honest; trustworthy; fair; responsible and accountable; responsive and reliable.</p> <p><b>Customer focus</b> Expressed by the above, and by putting the client first; demonstrating empathy with dairy farming; providing solutions to our farming clients and consistently providing a quality service.</p> <p><b>Innovation</b> Expressed through innovative solutions which add value to our clients' business; consistently looking for better ways to do things, and a focus on quality and excellence in everything we do.</p> <p><b>Teamwork</b> Expressed through leadership; professionalism - consistently demonstrating standards of excellence; balancing work and home life and empathy and support for colleagues.</p>	<p><b>Operational Divisions</b> Genetics - Information - International - Sales</p> <p><b>Support Groups</b> Corporate Services Innovation/Research and Development Strategic Development Secretariat</p> <p><b>Subsidiaries</b> Livestock Improvement (New Zealand) Corporation Ltd - New Zealand Genetics™ (Australia) Pty Ltd - Livestock Improvement (UK) Ltd  Animal Breeding Services Ltd  Deer Improvement Ltd</p> <p><b>Associates</b> New Zealand Genetics (IRE) Ltd</p>

RETURN ON CAPITAL EMPLOYED




NEW REVENUE





STUART BAY  
CHAIRMAN

 For the first time in the history  
of Livestock Improvement  
revenues exceeded \$100 million.



# CHAIRMAN'S REPORT

## Financial Performance

The financial result for the year ended 31 May 2005 was an operating surplus before tax and biotechnology of \$8.722 million. This represented a 3.3% increase on the prior financial year, with a 9.7% profitability improvement. For the first time in the history of Livestock Improvement revenues exceeded \$100 million.

## Dividend

In July, subsequent to Balance Date, the Board announced a total dividend of 19.8 cents per Investment Share, representing a dividend yield of 13.6%, and a priority dividend of 8.35 cents per Co-operative Control Share.

Shareholders received an interim dividend on their Investment Shares, of 8.2 cents, in February 2005 and will receive the balance, of 11.6 cents per Investment Share, along with the Co-operative Control Share dividend, in July 2005.

The total dividends paid represented 70% of the surplus of \$8.7m, and 115% of the net surplus, before biotechnology.

## Balance sheet

The Company retains a strong balance sheet and liquidity position. A feature of our business is extreme seasonality with 48% of revenues earned in October and November each year. As a consequence liquidity fluctuates materially through the course of the year, with the low point occurring around October.

The strong balance sheet allows the Company to invest in high risk but important future technologies, the principle current effort being biotechnology, where we are committed to some \$11m over a three year period.

The Company's objectives, endorsed by the National Council and Livestock Improvement Board, are to improve the value of this business over the long term. Our strategic plan has identified international sales, biotechnology, other species and farm automation as areas where we have capabilities and competitive growth, and where there is potential for investment, growth and competitive returns for our shareholders. We have already invested in these areas through Deer Improvement, GeneMark, Protrack and an Australian progeny testing programme.

Your Board continues to analyse and investigate other business both here and overseas. Such opportunities are assessed against the alternative of returning capital to shareholders.

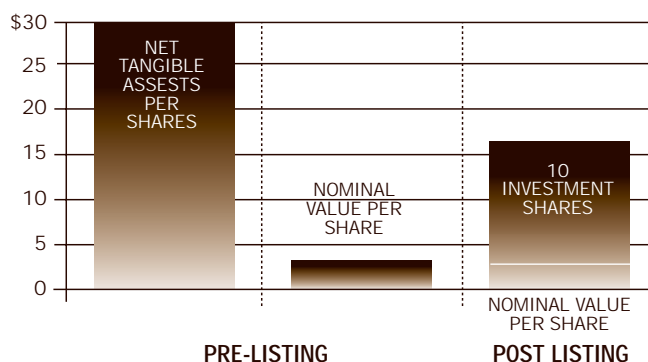
## Shareholding

On 16 April 2004 the existing Co-operative Shares were subdivided into 1 Co-operative Control Share and 10 Investment Shares at no cost to shareholders. In total 29,528,590 Investment Shares were created and these were listed on the Alternative Board of the New Zealand Exchange on 19 April 2004. Thus, Livestock Improvement became the first co-operative to list on the Stock Exchange in New Zealand.

Between listing and 31 May 2005 there have been 554 trades of nearly 901,000 Investment Shares for a value of \$1.25m. This equates to an average trading price of \$1.39. At balance date shares were trading at \$1.46 per Investment Share.

The purpose of the dual share structure was to release some of the value that shareholders owned in the Company, but which they could not access under the previous \$1 nominal value Co-operative Control Share. The Board is delighted with the results to date, which equates (at balance date) to \$15.60 for each previous \$1 nominal value share, giving a market capitalisation on individual farmers' balance sheets of \$43m.

**SHAREHOLDERS ACCESS TO CAPITAL VALUE OF LIVESTOCK IMPROVEMENT CORPORATION LIMITED**



## CHAIRMAN'S REPORT

### Governance

In accordance with the Constitution and the rotation schedule determined by the Board of Directors, Stuart Bay (Region 3), Ted Coats (Region 4) and John Bicknell (Region 5) retired by rotation on 1 June 2005. Being eligible for re-election they were nominated and re-elected unopposed.

The term of office for independent Directors is three years. Messrs Graham Fraser and Phil Lough were appointed in October 2002 and the National Council has approved their reappointment. The Board and the National Council jointly recommend to shareholders the ratification of the appointment, as Directors, of Messrs Fraser and Lough.

A joint sub-committee of the Board and National Council has reviewed the present Governance and Representation structure with the aim of identifying an efficient and effective structure to take your Co-operative forward. The recommendations from this sub-committee have been considered and are supported by Liaison Farmer groups, the National Council and shareholders at the Information Days.

A recommendation will be presented to Shareholders for consideration and voting at the Annual Meeting later this year. I acknowledge the contribution of Liaison Farmer members, past and present, National Councillors and the Directors who have considered and supported these changes even though a number of them will no longer hold office if shareholders vote to adopt this recommendation.

### Farmer Feedback

It is inherent in the principles of a co-operative to seek and utilise the opinion of our shareholders. We do this in a number of ways.

- On an annual basis Livestock Improvement engages an independent market research company to survey farmers on their level of satisfaction with our products and services. And, because it is important to understand how the Company sits within the rural community, the survey also benchmarks us against competitors and other agribusinesses like dairy companies and stock and station agents.
- Customer interviews are held with major farming customers.
- Focus groups with farmer shareholders are an integral part of the prelaunch of any prospective new product and service.
- Regular Liaison Farmer and National Council meetings.

- Nine regional Shareholder Information Days were held during 2004/2005.
- Annual Meeting.
- The National Council is a conduit for two way communication between the Company and shareholders.

### Concerned Dairymen's Association

As this Annual Report goes to press, an Appeal Court decision in favour of the Company has been announced in the protracted law suit taken against Livestock Improvement and NZ Dairy Board by the Concerned Dairymen's Association (CDA), Levels Gentech and Brenco Livestock.

Livestock Improvement has been vindicated in the establishment of a world leading animal evaluation system that ranks dairy cattle across breeds on their productivity and profitability for pastoral farming.

### Appreciations

My special thanks go to the Board, Chief Executive, Senior Management and all our staff who have contributed greatly to this year's results, setting new milestones with added value products and services, financial results and business excellence.

We have a company that all shareholders and staff can rightly feel proud of.



Stuart Bay  
Chairman

Livestock  
Improvement



STUART GORDON  
CHIEF EXECUTIVE

● ● ● ● ● ● ● ● Livestock Improvement has had a very strong year of performance in terms of delivering core products to farmer shareholders.

## CHIEF EXECUTIVE'S REPORT

### Looking Back

Livestock Improvement has had a very strong year of performance in terms of delivering core products to farmer shareholders, developing new and innovative products and services, and addressing the cost of running the business.

### Core products

Livestock Improvement's core products, as defined by the Dairy Industry Restructuring Act 2001, are herd testing, herd recording and artificial breeding. These products remain the core of the Company's strategic plan and it is pleasing to report that, during 2004/2005, we again improved delivery and turnaround times on all core products.

The Company is committed to improving the weighted average cost of capital of its core products through the development of new and innovative products and services.

### New products and services

The Board's expectation of return from all business units spearheaded new impetus to developing products and services which are tuned to the demands of the industry in the future.

A cursory look at Livestock Improvement's history since its beginnings in the early 1900s testifies to its level of innovation. Livestock Improvement has always invested in research and development and today spends nearly 26% (\$26m) of its revenues in this area – contrasting with the majority of New Zealand companies which spend less than 1%.

The drive to create solutions for tomorrow's dairy farmers continues and the 2004/2005 year saw this formalised with an internal programme designed to encourage and support innovation from staff and shareholders alike.

This, and other initiatives have added a diverse range of products and services to the Company's range - Once-a-Day Index and bulls, KiwiCross™ and Short Gestation bulls, Customate, MINDALink and MINDApro, DNA Calf Trace and Protrack to name a few.

These new products are being delivered at a time when we have unparalleled service in turnaround times, query resolution and genetic gain.

### The challenge of traceability

Traceability is the buzz word for agriculture right now with industries around the world developing comprehensive databases which record births, deaths, matings and movement of animal species to support any required response to outbreak of exotic disease.

Dairying is ahead of other animal industries in New Zealand in terms of traceability, by virtue of Livestock Improvement's Database. The almost 100% cover provided by this service is all the more remarkable because it is voluntary – farmers choosing to record their cow and herd records on MINDA.

The Company has an enviable level of expertise in the development and maintenance of animal databases and plans to be a lead player as other species develop traceability systems.

### Finally, changes to herd testing

Finally, the face of herd testing is about to change with new technology being trialled in the field during the 2005/2006 season ready for commercial release in the 2006 season. In the future farmers will have options on the technology they employ to herd test and in the number of tests required to give sound, robust information.

### Biotechnology

Identifying gene markers is the black box of animal breeding. It promises the potential to identify markers for certain traits and the ability to breed niche animals. This will have a favourable impact on the cost of breeding in the future.

Already our biotechnology venture, BoviQuest, has yielded two markers, Optimum and Quantum, concerned with milk composition, and we are confident of further discoveries which will add demonstrable value on-farm.

### Changing the traditional face of dairying

Increasing numbers of dairy farmers are embracing Once-a-Day milking and the Company has developed an exclusive Breeding Index to enable them to breed animals suited to Once-a-Day milking.

### Cost of business

Change is a constant in all businesses as technology introduces new avenues for efficiencies. During the 2004/2005 year, Livestock Improvement put the business under the scrutiny of Business Process Improvement (BPI) which applied unbiased and objective analysis to how we do things.

That scrutiny resulted in structural and process change within the business which delivered improved processes and systems – and savings in the region of \$6m.

This commitment to a lean and mean business structure underpins all our strategies and is in keeping with the farming culture.

### International growth

Livestock Improvement's progeny test programme in Australia will bear fruit in coming years when Australian farmers are provided with semen from elite Livestock Improvement bulls proven in their own country.

The Company is also investigating the potential for utilising its expertise in sire proving, semen technology and artificial breeding in other emerging dairy nations, like China.

### Attracting and retaining staff

The increasing mobility of the workforce places pressure on all employers, to attract and retain the best people. Livestock Improvement has an enviable record as a good employer but accepts the need to come up with innovative and attractive retention and training packages which ensure we attract and retain the talent necessary to grow this business.

### Appreciation of team's achievement

Organisational culture is the biggest driver to profitability with statistics confirming that those companies which have a concerted drive to foster high performance cultures, achieve significantly higher productivity and profitability.

Today, Livestock Improvement's culture is more customer, investment, employment and revenue focused than it has ever been – and it shows in the balance sheet as much as it does in the quality of our staff.

The 2004/2005 year was a challenging one for everyone in the Livestock Improvement team with stretched targets across the business. Achievement of those targets is immensely satisfying from a personal and company perspective. I am proud to acknowledge and salute the depth of commitment, towards pushing the boundaries of excellence and customer service, which exists across this Company. It is a rare quality which underpins all our successes.

The depth and diversity of the Livestock Improvement team bodes well for even more success in the future.



Stuart Gordon  
Chief Executive

## DIVISIONAL REPORTS



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In a world first Livestock Improvement produced a team of proven crossbred (KiwiCross™) bulls. The bulls are (left to right) Scotts Northsea, Numans Lord Nelson, McGregors Gladiator and Dixons Ngarua.



## GENETICS



**Livestock Improvement's Genetics Division is responsible for producing elite dairy genetics for New Zealand and international pastoral farmers.**

### ACTIVITIES

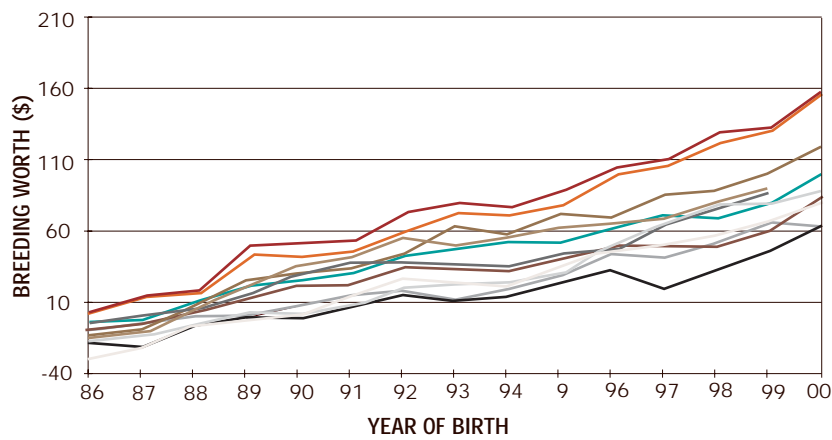
- Sire Proving Scheme
- Artificial Breeding
- Premier Sires, Alpha Nominated
- Artificial Breeding Technician Service
- Kamar Sales

The Genetics Division breeds approximately three quarters of the nation's dairy cows. This is a vital role because, not only is cumulative genetic gain essential to farm profitability, but New Zealand's seasonal dairy industry is only possible thanks to artificial breeding. Livestock Improvement's Genetics Division's elite sires, semen technology and technician service achieve what bulls could never do, without the attendant risks of disease transmission, damage to equipment and danger to staff.

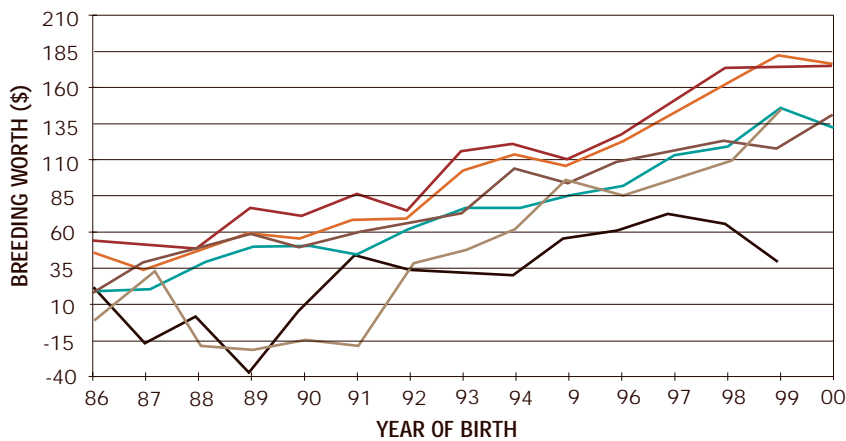
### HIGHLIGHTS 2004/2005

- Genetics' profitability was further improved to \$4.9m (up from \$3.7m and \$2.6m).
  - A new record was set for inseminations carried out (over 3 million).
  - Both PREMIER SIREs and ALPHA NOMINATED contributed to an overall market share gain of 1.3%.
  - Lameness incident data, which has been collected for two years, led to the development of a Mobility Breeding Value.
  - Actions were taken to diminish the risk of valuable progeny test daughters being exported.
  - For the first time the Company's Sire Proving Scheme graduated 300 bulls as a result of a decision made several years ago to lift the number from 235 (up 28%).
  - KiwiCross™, the world's first crossbred bull progeny test programme, was launched.
  - Customate *Plus* software was made available to farmers wanting to optimise the results of individual matings.
  - The Once-A-Day (OAD) Breeding Index was launched to enable OAD farmers to identify suitable cows and breed replacements.
  - The unique Short Gestation Length programme captured the imagination of farmers and tens of thousands of inseminations were carried out.
  - Livestock Improvement's increased investment in genetic improvement through the testing of more bulls and greater use of technology was rewarded by an exceptional showing on the Ranking of Active Sires (RAS) list.
- At the time of publication of this Annual Report, Livestock Improvement holds every one of the top 15 places on the Holstein-Friesian list and 44 of the top 50.
- Continued improvement was seen in Traits Other than Production (TOP).
  - The popular inbreeding management service provided by Artificial Breeding (AB) Technicians using the DataMate handheld computers, was extended to include nominated service in addition to PREMIER SIREs.
  - Performance measurement of AB Technicians took a step forward with the introduction of a more sophisticated Non-Return-Rate calculation.

HOLSTEIN-FRIESIAN GENETIC TRENDS - NOVEMBER 2004



JERSEY GENETIC TRENDS - NOVEMBER 2004



— USA — ITALY — NETHERLANDS — DENMARK — AUSTRALIA — FRANCE  
 — NZL — LIC — GREAT BRITAIN — CANADA — GERMANY

## INFORMATION





**Livestock Improvement's Information Division is responsible for the delivery of information based products and services used by farmers.**

**ACTIVITIES**

- MINDA
- FarmWise
- Herd Testing
- GeneMark
- Animal Health
- Protrack

**MINDA**

The origins of the MINDA herd recording are found in the earliest days of Livestock Improvement at the start of last century. Farmers use MINDA to record details of the cows in their herds, gaining benefit from a wide range of management reports that can be used for profitable on-farm decision making. While used primarily by dairy farmers, MINDA is also used by beef farmers, and easily adapted to meet the needs of deer and sheep farmers.

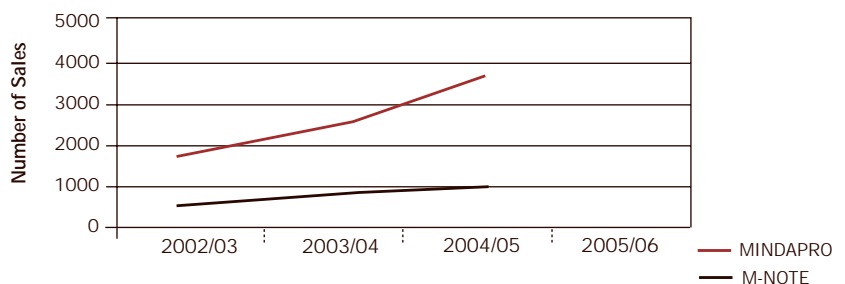
Farmers using MINDA are supported by a team of friendly and knowledgeable staff in the Company's modern 25 seat 0800 Contact Centre. Based in Hamilton, the Contact Centre performs extremely well by any widely accepted industry standards. The entire MINDA operation is certified to ISO 9001 standards.

MINDA operates one of New Zealand's two officially approved animal identification schemes, and supplies eartags to the majority of New Zealand dairy farmers.

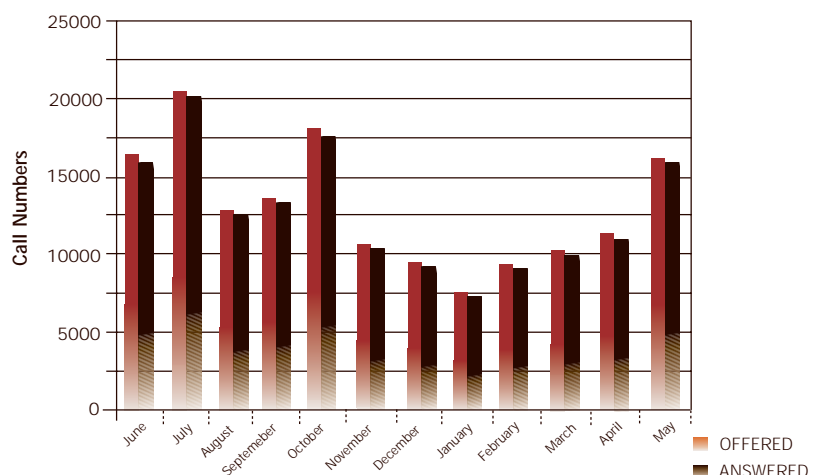
**HIGHLIGHTS 2004/2005**

- MINDA remains the herd recording service of choice for New Zealand dairy farmers, with more than 90% of herds using the service.
- The use of MINDA software for herd recording has continued to grow, with 70% of cows on MINDA now recorded electronically. After a major upgrade of computer infrastructure, the turnaround times for processing data received electronically has reduced to an average of less than 10 minutes.
- The MINDA Contact Centre received 154,000 phone calls, meeting the service target of 80% of calls answered within 20 seconds in every week of the season.

**SALES OF MINDA PRODUCTS**



**CALLS OFFERED FOR 2004/2005 SEASON**



## HERD TESTING

Herd Testing is the business upon which Livestock Improvement was founded at the beginning of last century.

While technology, and its uptake, has improved dramatically in intervening years, the outcomes remain the same. The Herd Testing team provides a service for collecting and analysing milk samples from individual cows, and (with MINDA) delivers information on the production and health of individuals within a herd.

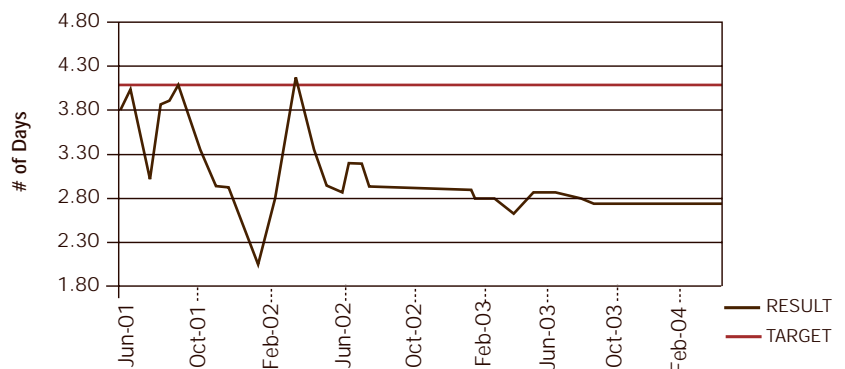
Herd Testing is operated from regional depots based around New Zealand. Samples are transported to the Company's Testlink Milk Analysis laboratories in Hamilton and Christchurch, where world leading robotic technology is used, in conjunction with FOSS milk analysis equipment, to produce accurate and repeatable analysis results.

Livestock Improvement is a certified herd tester under New Zealand dairy herd testing regulations. Field operations are certified to ISO 900 standards, and laboratory operations to ISO 17025 standards.

### HIGHLIGHTS 2004/2005

- Livestock Improvement Herd Testing was the service of choice for New Zealand dairy farmers, with more than 9 million milk samples collected, analysed and updated onto the MINDA database during the 2004/2005 season.
- Significant changes to the organisational structure of Herd Testing were implemented to realise opportunities for operational efficiencies in the business.
- Two new herd testing technology options, with the potential to reduce test-day hassle, were trialled in the northern Waikato. One option, based on the current Tru-Test milk meters but making use of barcoded flasks and a handheld barcode reader, has been adopted for a limited roll out in Waikato and Canterbury in the 2005/06 season under the EZ Link brand.

HERD TESTING TURNAROUND



## ANIMAL HEALTH

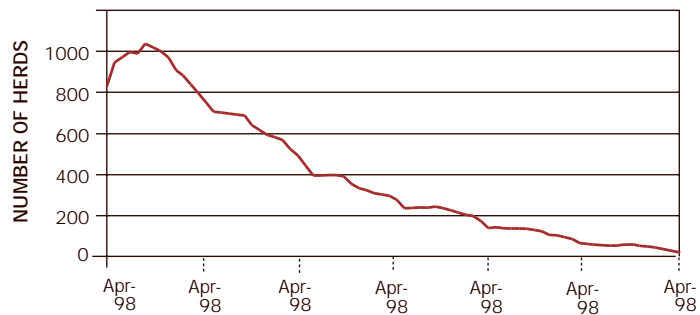
Livestock Improvement's involvement in the field of animal health began in the early 1990s, when the organisation assumed responsibility for the Enzootic Bovine Leucosis (EBL) eradication scheme for the New Zealand dairy industry. This has been the primary focus of the group, and its activities have, over the last decade, seen the incidence of EBL reduce from over 900 herds to just one herd.

In recent years the focus of the group has broadened to consider opportunities for animal health testing and disease control activities that utilise existing competencies, and deliver value from the Company's integrated system for collecting data and reporting information. Animal Health's laboratory activities are certified to an ISO 17025 standard.

### HIGHLIGHTS 2004/2005

- The incidence of EBL in New Zealand dairy herds declined to a level where the dairy industry now meets international standards for freedom from the disease.
- The Animal Health laboratory was the first commercial laboratory in New Zealand to be certified to carry out disease testing of animals destined for live export. Subsequently, a number of consignments of testing were carried out for cattle being exported to China, South America, and other destinations.

HERD EBL ERADICATION



## FARMWISE

The FarmWise Consulting Service comprises 20 user pays consultants located in all of New Zealand's major dairying regions. The service was formed in the early 1990s. FarmWise Consultants not only help farmers to make profitable decisions on their farms, but also contribute to Livestock Improvement's ongoing efforts to develop products and services that are of value to New Zealand dairy farmers.

### HIGHLIGHTS 2004/2005

- FarmWise retained its position as New Zealand's largest specialist dairy consulting group.
- A range of new software tools was developed for FarmWise Consultants to use with their customers.
- FarmWise Consultants had a significant input into Livestock Improvement product development activities in Herd Testing, Protrack, and in the international market.

## GENEMARK

The GeneMark DNA testing service was established in the late 1990s to provide farmers with DNA based tests for animal parentage as well as known genes that have a significant impact on health and production in dairy cattle. DNA is extracted from hair, blood, tissue and semen samples. Microsatellite marker technology is primarily used for analysis.

The GeneMark service is operated from the Company's modern laboratory facilities in Hamilton, and is certified to ISO 9001 standards. It is considered a major vehicle for delivering the benefits of Livestock Improvement's ongoing biotechnology research and development investment to farmers.

### HIGHLIGHTS 2004/2005

- Commercial sample volumes more than doubled on the 2004/05 season, as farmer interest in DNA testing increased. Growing uptake of the Calf Trace service has contributed to this result.
- For the first time parentage tests for deer and sheep were developed, and offered commercially.

GENEMARK EXTERNAL SALES



## PROTRACK

The newest business in the Information Division, Protrack, provides Radio Frequency Identification (RFID) based farm automation solutions to New Zealand dairy farmers.

Protrack has grown out of a need in larger dairy herds for systems that can be used to simplify the management of animals, including both the handling of the animals as well as recording and reporting of information about those animals.

Significant technical challenges have been encountered and overcome to get the Protrack business to its current position, and Livestock Improvement now proudly occupies a position as market leader in the emerging field of dairy farm automation.

### HIGHLIGHTS 2004/2005

- Launch of the mid-range Vector system, offering a touch screen based system for automated drafting of dairy cows.
- A significant increase in staff numbers offering service and support to new and existing Protrack users.
- Steady progress was made towards the goal of full integration of Protrack with MINDA to further simplify animal recording.





## SALES



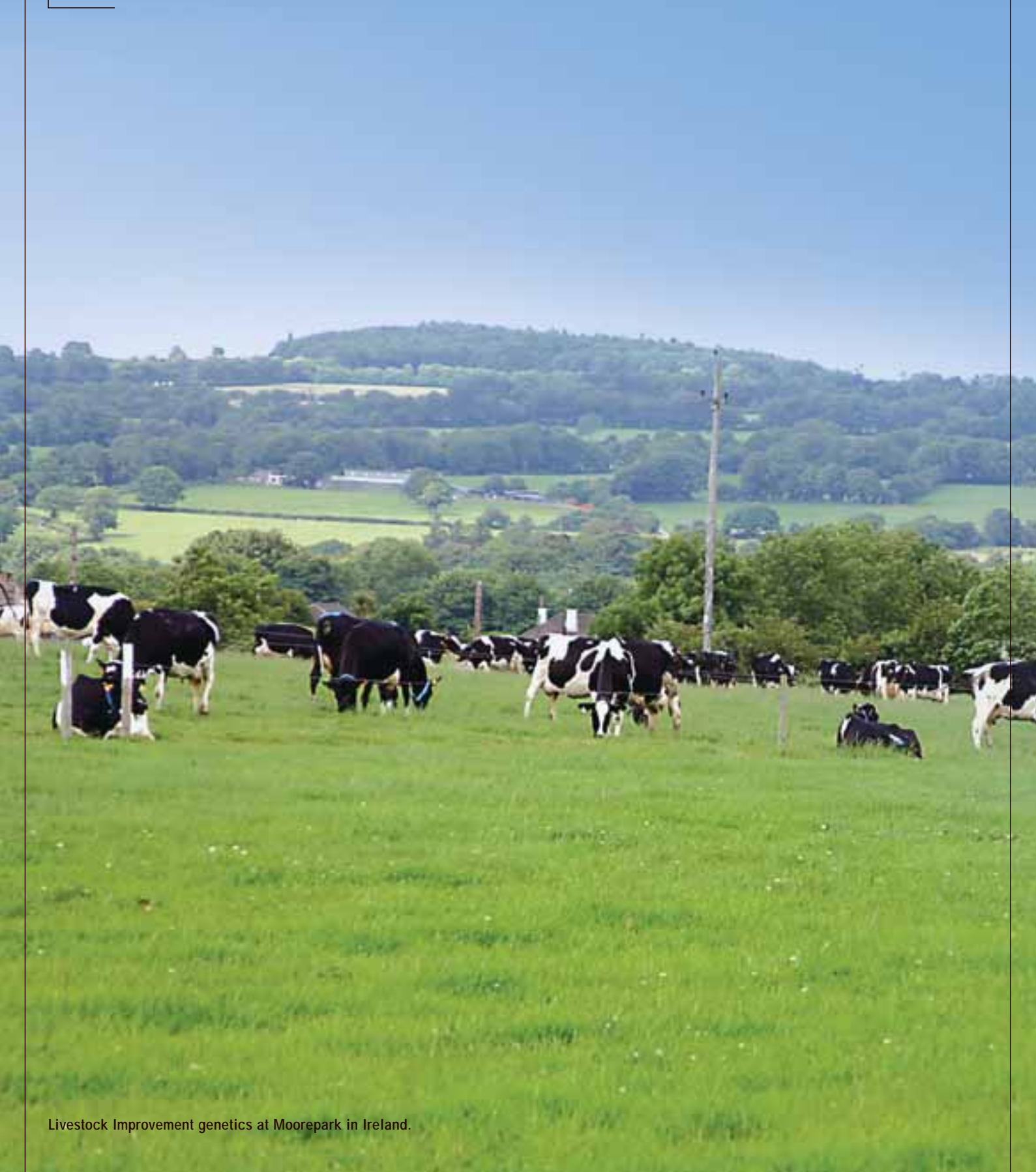
**Livestock Improvement's Sales Division brings the Company to the farm. Its team of six Regional Managers, 60 District Managers and 62 part time Sales Representatives provide a nationwide, personal service, to farmer clients.**

### ACTIVITIES

Nationwide sales and service of Livestock Improvement products

### HIGHLIGHTS 2004/2005

- Livestock Improvement's sales team comprises District Managers and Sales Representatives who report to Regional Managers.
- During the year under review District Manager Only areas were introduced – where previously all sales areas had a combination of District Managers and Sales Representatives – with a reduced client base. On average, both market share and District Manager satisfaction subsequently increased in these areas, as a result of the single point of call for farmers and increased farmer contact.
- Areas with District Managers and Sales Representatives have around 300 farmer clients; District Manager Only areas average 160 clients.
- A realignment was conducted of Regional Manager resource by combining the Wellington/Hawkes Bay region with Taranaki and splitting the South Island into two regions (where formally it had been one). Good sales growth resulted from the lower South Island as intended while the new combined Wellington/Hawkes Bay Taranaki region made gains on already high market share.
- 'Sales best practice' was introduced to focus attention on sales planning, customer service and account management. Significant sales growth was achieved in targeted clients.
- Annual awards, known as The Golden Cow Awards, were initiated to encourage and celebrate exceptional performance in the District Manager team.



Livestock Improvement genetics at Moorepark in Ireland.

## INTERNATIONAL

### ACTIVITIES

- International semen marketing, sales and distribution.
- Fully owned subsidiaries in Australia and United Kingdom.
- Joint venture (50/50) marketing, selling and distributing semen in Ireland.
- Working through local partners in other markets.
- Progeny testing programme in Australia.

### HIGHLIGHTS 2004/2005

- Gross revenue of NZ\$5.5 million.
- A record year for the number of units sold.
- Semen sales to over 17 countries.

**Australia** Livestock Improvement's 'Future First' progeny testing programme in Australia enjoyed excellent support in the market and is on target to consolidate the Company's position as a world leader in the supply of efficient and profitable dairy genetics – proven in Australia.

The Australian market is still sluggish, recovering from the effect of the drought, however, sales have increased. The Livestock Improvement product is performing well in the local index, the Australian Breeding Value (ABV).

**United Kingdom** A solid increase in sales has resulted in a good return from the UK operation. The business was restructured last year to reduce costs and operational complexity. The management focus on sales continues, and staff are taking up the challenge to lift sales still further. The UK is a valuable market for Livestock Improvement.

**Ireland** The Joint Venture, New Zealand Genetics (Ireland) Ltd, has had a successful year with another year on year increase in sales despite overall decline in the Irish artificial insemination market. Livestock Improvement bulls continue to perform very well in the Irish breeding index (EBI), demonstrating that the Company's sires are a profitable choice for Irish farmers.

**South Africa** Livestock Improvement's partner in South Africa, Genimex, is doing an excellent job representing the Company's product and has had a very successful year growing sales in this market. Livestock Improvement will be working closely with Genimex over the coming year to develop sales strategies to build upon this year's success.

**USA** Livestock Improvement's partner in the United States, Taurus Service Inc, has a good sales operation and considerable effort has been put into educating the large number of independent sales agents active in the American market. Sales growth is slower than anticipated, but the efficiency and fertility of the Livestock Improvement product is well recognised by our customers.

**Other markets** Argentina, represented by Sr. Edgardo Rubio, seems to be recovering a little and Chile, working with our agents Cooprinsem, is stable. Brazil has been very disappointing.

INTERNATIONAL REVENUE





CORPORATE SERVICES

## CORPORATE SERVICES



**Livestock Improvement's Corporate Services Group provides support services to support and accelerate the business.**

### ACTIVITIES

- Administrative, business planning, monitoring and coordination functions within a composite group of shared business services.
- Around 100 professionals supply the business with a full array of services within the disciplines of human resources, procurement, finance, communications, facilities management and information technology.

The Corporate Services Group aims for leadership in technology solutions, professional expertise and business support practice.

Its Mission is to provide business infrastructure and advice that enables Livestock Improvement to achieve its goals. Its Vision is to be first choice for services that accelerate the business.

In the 2004/2005 year the Group accordingly applied a focus to create a cohesive group approach to servicing its internal customers and ensure its services are as good or better than can be obtained from third parties.

Independent surveys conducted at year end confirmed the importance business managers place on the services they receive internally and confirmed a high level of satisfaction with expected value.

### HIGHLIGHTS 2004/2005

#### Human Resources

- Full deployment of a competency based personal performance system called Performance Plus. All Livestock Improvement staff undergo six monthly performance reviews using this system – setting and assessing achievement of objectives.
- 360° reviews are another tool to drive performance where peers and contemporaries give objective critique of performance. In 2004/2005 more than 100 staff benefited from this assessment.
- Sixteen managers took part in the internal Leadership Development Programme – focussing on climate and motivation – bringing the total to 63 managers who have participated in the training.
- Company-wide Coaching and Mentoring training was introduced to support the Leadership programme.
- A Remuneration Matrix was introduced to guide appropriate salary levels and provide greater consistency, clarity and alignment to personal performance.

#### Procurement

- During 2004/2005 strategic procurement was applied to the myriad of items required to drive the business, delivering savings in the region of \$1.5million pa. Strategic procurement reviews were conducted of fleet management, fuel, advertising, computers, eartags, Kamars, insurance, phones, photocopying and travel.

#### Finance

- Balanced Scorecards, which focus and monitor business performance, were introduced across the organisation.
- Revised models for Activity Based Management cost allocations for pricing and for 5 year Financial Projections were introduced.
- Systems were initiated to handle share registry updates, interim dividends and payment options associated with Investment Shares.

### Communications

- Dr Patrick Shannon's contributions to the dairy industry were celebrated at a 50th Anniversary Science Day. A commemorative book is being published.
- Livestock Improvement's previous General Manager, Glenn Whittaker, was successfully nominated for a New Zealand Honour.
- Record number of schools and participants in Livestock Improvement's [www.calfclub.co.nz](http://www.calfclub.co.nz) website and annual promotion of calf club.
- The Company enjoyed extremely high positive public profile due to its proactive approach with media, and commitment to transparency and accountability in its public profile.

### Facilities / Administration

- A review of land resource was conducted resulting in a plan of requirements for the next five years.
- The Company's New Plymouth building was sold and a smaller, more suitable replacement leased.
- The Te Awamutu depot was sold and leased back, and the lease cancelled on a second building.
- New contracts were executed for the cafeteria, cleaning and security at Newstead to deliver raised levels of service and cost effectiveness.

### I.T. / Computer Services

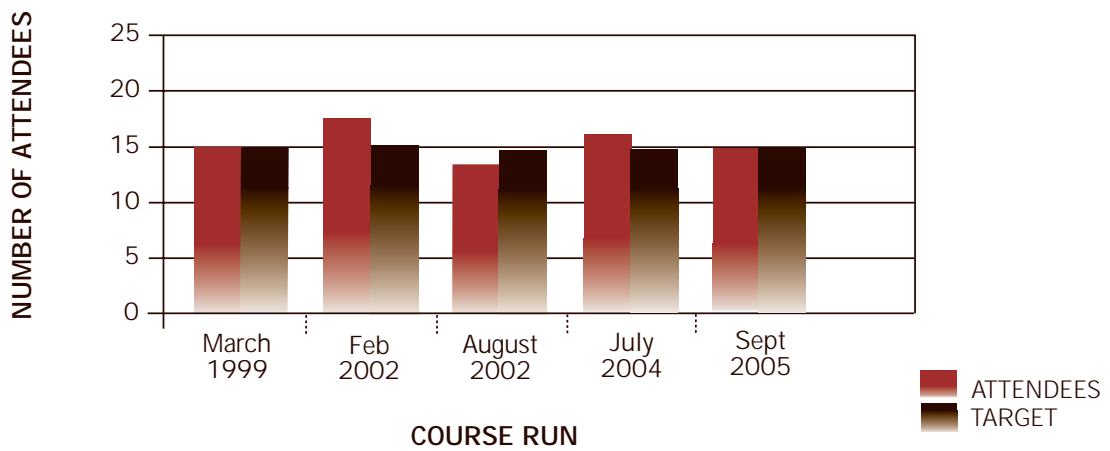
- In the last ten years the team has more than halved the average capital expenditure - from \$1.7 million to \$800 thousand.
- Help desk clearance rates have continued to improve - from 81% last year to 86% this year.
- Nearly 6000 hours of effort were applied to improving and enhancing operational systems.
- 5.65 terabytes (5,650 gigabytes) of data is now stored (up from 4.4 terabytes).
- 18 new system products were developed and 12 major system enhancements were delivered.

### Other activities

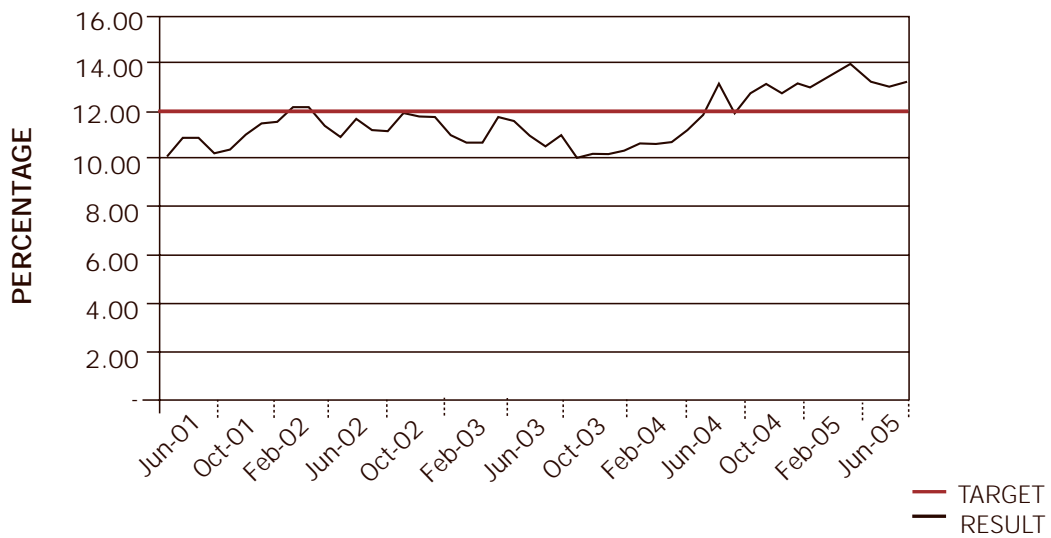
- Overview of corporate wide restructuring which has delivered efficiencies and cost savings in the region of \$1 million p.a.
- Culture change – significant increase in workforce involvement and subsequent improvement in climate towards a high performance culture.
- Expansion of programme of business process improvement which, on an ongoing basis, puts the Company's systems and processes under objective analysis.

# CORPORATE SERVICES

## NUMBER OF MANAGERS RECEIVING LEADERSHIP TRAINING



## STAFF TURNOVER





INNOVATION

The Knex machine promises to increase the availability of the best bulls by using 25% fewer sperm while maintaining fertility.



## INNOVATION



Livestock Improvement's Innovation Group is responsible for the development of new and improved products and services for New Zealand dairy farmers and business process improvements to enhance the profitability of the Company's core business.

### ACTIVITIES

- INNOVATION PROCESS
- SCIENTIFIC RESEARCH:
  - Gene discovery programme
  - Quantitative genetics
  - Reproductive technologies
  - Animal health and welfare

## I-2-I INNOVATION PIPELINE

- INNOVATION PROCESS:  
Building and managing i-2-i (ideas to implementation) integrated product development pipeline, together with establishment of a project management office, to lay the foundations for consistent project management practices across the business.

### HIGHLIGHTS 2004/2005

i-2-i (ideas to implementation) processes have been embedded as standard operating procedures for product development and process improvement throughout the organisation.

A number of key performance indicators were developed, including:

- 'Customer Watch' visits to a range of farms, resulting in many useful suggestions that are being investigated.
- The ability for customers and suppliers to submit ideas to Livestock Improvement via the Company's website, [www.lic.co.nz](http://www.lic.co.nz).
- Capturing ideas directly from staff.
- Business Process Improvement (BPI) analysis to capture efficiencies and potential 'breakthrough' initiatives.
- Other forums, such as National Councillor and Liaison Farmer meetings, which generated in excess of 200 ideas during 2004/2005.

## RESEARCH AND DEVELOPMENT

Research in the 2004/2005 year covered the following main areas of interest:

### Gene discovery programme

Livestock Improvement is undertaking an extensive research programme to identify genes and chromosomal regions (QTL) controlling animal productivity traits. As these genes and QTL are identified they are used to enhance selection in the breeding scheme, and also to assist farmers in on-farm cow selection and mating decisions.

### HIGHLIGHTS 2004/2005

- Crossbred Trial: The genotyping of the crossbred trial herd was completed in August 2004. Fifteen broadly defined traits have been analysed and thousands of phenotypes defined from the Crossbred Trial. Fine mapping has begun for a number of QTL for traits of particular interest to customers.
- Fertility and Protein Outliers: This project aims to identify genetic markers for selection for these key performance traits through the genomic analysis of genetic differences between high and low fertility cows. Livestock Improvement has identified and is now fine-mapping and verifying a small number of QTL for fertility and protein.
- Transcriptome Mapping: The Company has launched a major new biotechnology research initiative aimed at studying the genes that regulate transcription of a large number of other genes in the area of fertility. This project will involve microarray analyses of samples from the Crossbred Trial herd, and will involve collaboration with scientists from the United States and Auckland University. Technology New Zealand has agreed to provide a major funding contribution for this project over the next two years.

## QUANTITATIVE GENETICS

Livestock Improvement's quantitative genetics programme supports Dairy InSight's Animal Evaluation Limited, by developing breeding values for new traits for potential incorporation into the National Breeding Objective.

### HIGHLIGHTS 2004/2005

- Somatic Cell Count was incorporated as the seventh trait in Breeding Worth (BW) since February 2005. The lowest ranked bulls in the population lose approximately \$20 from their BW.
- State-of-the-art Test Day Model software has been developed as part of the Somatic Cell Count project.
- The Fertility Breeding Value has been improved by increasing the amount of data used in Breeding Value (BV) estimation and incorporating body condition score and milk volume as predictors of fertility. The result is more accurate fertility proofs and better ability to differentiate between superior and inferior bulls.
- Preliminary BVs for Body Condition Score (BCS) are now available. Genetic evaluation of BCS has been done using the new Test Day Model software.
- The Dexcel Holstein-Friesian Strain Trial has been completed and Livestock Improvement scientists had a major involvement in the economic and fertility analyses. The fertility of modern New Zealand strains of Holstein-Friesians (less than 30% overseas genetics) is comparable to levels of fertility thirty years ago, with the exception of the interval from calving to first oestrus, which has extended. Most aspects of the fertility of modern overseas strains were found to be inferior to the strains of New Zealand Holstein-Friesians.

In addition, the Quantitative Genetics team provided technical support for other business units on projects such as Customate Plus, Once-A-Day Milking Breeding Values, and to Deer Improvement.

## REPRODUCTION

Livestock Improvement continues to invest significantly in male reproductive research and during the spring of 2004, several semen research field trials were carried out to improve various aspects of semen processing procedures. The following is a summary of the main findings from these trials.

### HIGHLIGHTS 2004/2005

- A major trial examined the effects of new and improved processes and packaging for deep-freeze (DF) semen, and results indicate considerable potential in the new technology. In the coming year, research will be focused on identifying the key components that could lead to improved bull use while maintaining fertility.
- Other trials examined the effects of further process/ingredient improvements for Livestock Improvement's world-leading liquid semen technology. The trials provided valuable insights into the potential benefits of these improvements.
- GENERate: In the area of embryo technology research, the GENERate team, together with GeneMark, has developed biopsy systems for determining the gender of a single embryo and for the reliable detection of other gene markers using Single-nucleotide polymorphism (SNP) technology.

## ANIMAL HEALTH AND WELFARE

In the area of Animal Health and Welfare, Innovation Group staff have played significant roles in:

- The continuing work on eradicating EBL;
- The scientific review of selenium testing;
- Developing Livestock Improvement's disease testing for export capability.



STRATEGIC DEVELOPMENT

## STRATEGIC DEVELOPMENT



The Strategic Development Group supports Livestock Improvement with business development, strategy, quality, information analysis and marketing services.

### ACTIVITIES

- Market Research
- Business Development
- Corporate Marketing
- Business Excellence
- Business Continuance

#### Customer Watch

The Customer Watch programme, designed to provide greater understanding of our customers' businesses and future herd improvement needs, was launched during 2004/2005. The aim of the programme is to help farmers improve their operations and become more profitable by providing products and services that are targeted, customised and more efficient.

During the season, around fifteen staff spent more than twenty visit days on a range of customer farms, looking for insights into problems that the Company could solve or product needs which could be met.

Already Customer Watch has resulted in the generation of many ideas – by either farmers or staff – which have been fed into the Company's product development programme or business support processes. Overall an extremely beneficial process valued highly by staff and farmers.

#### Market Research

The Strategic Development Group is responsible for running market research at Livestock Improvement. This is the eleventh consecutive year of customer research.

It is pleasing to report that, during 2004/2005, customers reported high levels of satisfaction with the service and quality of products being delivered.

Trends for satisfaction are good with core products. When benchmarked externally, Livestock Improvement also performs very well against other New Zealand agribusiness companies.

#### Once-a-Day support

Once-a-Day (OAD) milking has captured the imagination of many dairy farmers this year. Livestock Improvement has led in the development of genetics products and gathering OAD performance data from the market.

To assist in providing support information, the Strategic Development Group produced the Essential Once-a-Day Handbook, which was distributed to every farmer in New Zealand and at OAD seminars throughout the country.

#### Fieldays 2005

The Livestock Improvement Marketing Team has worked hard over the last three years to improve the Company's presence at the National Agricultural Fieldays in Hamilton with a single, larger, comprehensive site in a prime location.

The new site has enabled the Company to present and demonstrate new products and services and enhance its ability to extend hospitality to customers.

With more than 1000 exhibitors at Fieldays 2005, the Marketing Team was justifiably delighted when Livestock Improvement won the 'Best Large Site' Award.

## STRATEGIC DEVELOPMENT

### Intellectual Property

Livestock Improvement opposed a patent application by an overseas company during 2004/2005. The patent application proposed patenting the numbering systems used in animal eartags.

Livestock Improvement believed this patent, if left unchallenged, could have significantly affected dairy farmers who purchased the tags as much as tag suppliers like Livestock Improvement.

The Company's efforts over the last eighteen months have seen the scope of the original proposed patent significantly narrowed, meaning the final patent will have little, if any, impact on farmers.

### Environmental support

Conscious of the need to foster environmentally sustainable farming practices, Livestock Improvement increased its support for the Ballance Farm Environment Awards. These awards do an excellent job of showcasing examples of practical, sustainable and profitable dairy farming operations.

The Company also made its own environmental contribution with a change to recycled envelopes - which is not only good for the environment but financially beneficial for the Company.

### Data Warehouse

The Livestock Improvement Data Warehouse was established to provide a single, highly reliable source of data to support its business. This project has made steady progress and now supports critical business operations including Artificial Breeding Operations, bull selection and sales with more than 70 reports in operation.

### Business Continuance

The Strategic Development Group is responsible for managing business recovery processes for Livestock Improvement, aware that the Company's market leadership in dairy herd improvement carries a responsibility for ensuring continuity of services to dairy farmers. (One indication of the importance of ensuring continuity is the fact that three out of every four AB calves born in New Zealand result from semen and insemination services provided by Livestock Improvement).

The Livestock Improvement Database is of vital importance to New Zealand dairy farmers. A 'copy' or 'warm site' is maintained as back-up and this was moved from Wellington to Auckland during 2004/2005. A full-scale computer system restoration test was undertaken shortly after the move to test the new back-up facility. The test was successful giving the Company confidence in its ability to maintain business continuity of the Database.

The Foot and Mouth scare on Waiheke Island in June 2005 also provided Livestock Improvement with a real life scenario to successfully test its business recovery relative to the Company's preparedness to respond to an exotic disease outbreak.

### Quality and ISO Audits

All ISO surveillance and re-certification audits have been passed this year and Livestock Improvement was also recertified to the New Zealand Herd Test Standard NZS8100.

### Customer Contact

Last year an internal project began to consolidate customer feedback and complaints from a range of sources into one comprehensive system. This project is now complete, and the data aggregation process is working well. Feedback from a range of customer contacts is regularly updated between Newstead and field staff meaning enhanced communication with shareholders.

### Business Excellence

Livestock Improvement has been working with the Business Excellence framework since 1998 to benchmark its business processes against the best companies in the world, to identify areas for improvement and, by progressing through the Awards process, achieve world standards of business excellence.

The Awards focus on seven areas of business operation: Leadership, Strategic planning, Customer and Market Focus, Measurement Analysis and Knowledge Management, Human Resources focus, Process Management and Overall Business results.

Livestock Improvement's 2005 Business Excellence application was submitted in late June, with Audit visits and final feedback being provided in November. The Company is confident of making continued progress against the criteria.

SECRETARIAT





**Livestock Improvement's Secretariat Group is responsible for maintaining shareholder relations, the share registry, governance and compliance.**

## ACTIVITIES

- Support to Board of Directors, National Council and Liaison Farmer Network.
- Legal Services
- Share Registry

## HIGHLIGHTS 2004/2005

### Share Registry

The development and implementation of the hybrid Co-operative Structure with its concurrent listing of the Investment Shares on the New Zealand Stock Exchange Alternative Market (NZAX) has been the highlight of a very busy year.

For many of the Company's Shareholders this has been their first experience of holding tradable shares and resulted in a heightened workload answering Shareholder queries, especially from those who were exiting the industry.

While information on the shares and their processes has been published and is also available on the Company website, many farmers have felt more comfortable asking questions directly of the team. Farmer contact is a priority for Livestock Improvement and share enquires are considered no different. The desire to answer queries promptly and professionally has been appreciated by those who have been in contact, with more than 1000 hours in the 2004/05 season spent addressing Shareholder queries.

Between listing on 19 April 2004 and 31 May 2005, there were 554 trades on the NZAX totalling 900,881 Investment Shares for a value of \$1,253,473. The share price has been volatile ranging between \$1.14 and \$1.86 with the average price for the trades made at \$1.39. As dairy farmers have become aware of the attractiveness of the Investment Shares (high dividend yield, high asset backing), demand for shares has often exceeded supply to the extent that on some occasions no shares have been available for sale.

However, in the next 12 months nearly 1,000 Shareholders who ceased farming during 2003/04 season, but hold approximately 1.7 million Investment Shares, will have to sell them as the Constitution prohibits the retention of Investment Shares after two years of ceasing to be a Co-operative Control Shareholder. Thereafter there will annually be a group of Shareholders who will have to sell having reached the two-year threshold.

When developing the Hybrid Structure it was recognised that there would initially be an imbalance between the number of natural sellers and natural buyers. This is known as a liquidity bubble and in Livestock Improvement's case, the natural sellers far outweighed the natural buyers. While initially that appeared the case with the share price declining, the high dividend yields have seen sellers retain their shares for as long as possible and together with ABN AMRO Craig, our lead brokers, the Company has made efforts to ensure Shareholders are aware of the value of their Co-operative to generate interest in buying and retaining Investment Shares.



### **Legal**

The Concerned Dairymen's Association (CDA) claims against the NZ Dairy Board and Livestock Improvement were heard in the High Court in July 2003 and the Company's defence was successful. In July 2004, the CDA appealed on two causes of action to the Court of Appeal and a decision was released on 20 June 2005 in favour of Livestock Improvement.

### **Governance and Representation**

In July 2004 14 new National Councillors took office and underwent training. The Council has a crucial role in representing Shareholders and it is a credit to both the existing and new Councillors how quickly they got up to speed and actively fulfilled their roles.

During 2004/05 the Board of Directors and National Council have been considering the most effective and efficient structure for Governance and Representation. The results of their deliberations, together with Liaison Farmer and shareholder feedback, have resulted in recommendations for Shareholders' consideration at this year's Annual Meeting. If those recommendations are adopted, the changes will come into effect on 1 June 2006.

## BOARD OF DIRECTORS



### The Livestock Improvement Board, 2004/2005

Left to right

John Lynskey  
Ron Jackways  
Jay Waldvogel  
Graham Fraser  
Alvin Reid  
Stuart Bay (Chairman)  
Kevin Straight  
John Bicknell  
Murray Jagger  
Bryan Guy  
Phil Lough  
Ted Coats



# 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 Company will operate.

## Responsibility

The Board is responsible for setting the strategic direction, approving significant expenditures and determining policy and stewardship of the Company's assets pursuant to the Constitution. The Board and the Shareholders shall not, except with the written consent of the Minister, exercise any of their rights, directions and powers under or alter the Constitution so as to cause or permit the Company to cease to be a co-operative supplying goods and services to Shareholders, and operating the core database for the benefit of a large number of Shareholders who continue to be representative of New Zealand dairy farmers (including Shareholders) and who are entitled to elect the majority of the Directors on a regional or other basis.

## Co-operative Principles

The Constitution records the following Principles:

- the Company will remain a Co-operative Company;
- the Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company's qualifying products and services;
- 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 core products and services are made available to all Shareholders at fair commercial prices;
- Shareholders co-operate with the Company and each other including the sharing of information to promote their common interests.

## Pricing of Products and Services

The Constitution provides that in setting prices to be paid for products and services the Company should seek to create wealth for the Company and its Shareholders and accordingly should, supply goods and services at commercial prices reflecting market conditions, taking into account the Company's co-operative principles and key strategic objectives set by the Board and approved by the National 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:

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

## Board Composition

The Constitution prescribes nine Elected Directors representing the regions and up to three Independent Directors.

## Re-election

Each Elected Director holds office as a Director for a period of three years. One third of Elected Directors retire from office each year. A retiring Director is eligible for re-election as a Director of the Company.

The following Directors retired by rotation in 2005 and were re-elected unopposed:

- Region 3            S B Bay
- Region 4            E G Coats
- Region 5            J E Bicknell

## Committees

### Audit Finance & Risk Committee

This is a sub-committee of the Board comprising five Directors and chaired by Independent Director, Mr G Fraser. It is constituted to monitor the veracity of the financial data produced by the Company and its Subsidiaries and ensures controls are in place to minimise the opportunities for fraud or material error in the accounts.

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

### Internal Audit

The Committee has appointed PricewaterhouseCoopers as internal auditors to audit critical systems and procedures.

### Remuneration and Executive Appointment

This is a sub-committee of the Board comprising three Directors and is chaired by Independent Director, Mr P Lough. The committee is constituted to approve 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 Company's employees.

### Insider Trading

All Directors of the Company 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.

### Meetings

The Board met eight times in 2004/05 plus the Elected Directors had one additional meeting to consider the Governance and Representation Review's Committee's recommendations.

### Shareholding

#### Co-operative Control Shares

An Elected Director shall hold the Co-operative Control Shareholding requirement.

#### Investment Shares

An Elected Director shall hold not less than the minimum Investment Shareholding requirement, which shall be twice the number of Co-operative Control Shares held.

### Interests Register

A Directors' Interest Register is maintained and directors interest in transactions during the financial year are outlined on page 75 of the report.

## ● ● ● ● ● ● ● The National Council

### Left to right

**Back (4th) row.** Gerard Van Beek, David Davison, Don Blumhardt, Robert Slack, Brian Power, John Van Polanen, Jim Wafelbakker  
**3rd row.** Alistair White, Lloyd McCallum, Alan Morris, Murray King, Spencer Holmes, Julie Hamilton, Alan Davie-Martin, Ian Storey  
**2nd row.** John Scrimgeour, Brian Aspin, Jim Galloway, Diane Jellyman, Ron Monk  
**Front row.** Wayne Berry, Jeanette Quin, Hamish Anderson (Chairman), Peter Le Heron, Christine Finnigan, Gary Stokes  
**Absent.** Gordon Glentworth, Ken Polglase, Geoffrey Stevenson, Bruce Wilton, David Hopkins



## NATIONAL COUNCIL REPORT

As Chairman of the National Council of Livestock Improvement it is my pleasure to present the Council's report for the year 2004/2005.

The Council, on behalf of all Shareholders, is charged with representing the voice of farmer Shareholders. Amongst other activities it is charged with:

- Approving the Company's Mission statement and key strategic objectives as proposed by the Board.
- Reviewing the Board's business plans.
- Receiving and commenting on reports about the Company's key business unit operations.
- Considering, and in consultation with the Board, proposing to Shareholders changes for the constitution.

### National Council activities

The year has seen a major change in Council members with a total of 14 new Shareholder representatives. This has required extra training to smoothly integrate the new Councillors. Six Councillors will attend a NZ Co-operatives course in the coming year.

The National Council has been an equal and active participant in the Governance and Representation Review process, including the drafting of the Constitutional changes which will be voted on at the Annual Meeting. It is imperative that Shareholders understand these changes and exercise their right to vote and decide the future direction of Livestock Improvement.

### Council perspective on Board and business performance

The three key objectives of the Board are, by 2006

- Innovation – increase profits to \$10m
- Performance – 10% ROCE after tax
- Customer Focus – achieve Silver Business Award status

The achievement of some of these objectives by the elevation of prices may seem to be at odds with what Shareholders want but the Council has not noted a lot of anguish over rising prices. Customer satisfaction seems to be very high.

The Council has indicated to the Board that the retained earnings in reserves are of concern. If the Board is unable to find a long term productive and beneficial investment with a good Internal Rate of Return (IRR) and discounted cashflows, then the question arises 'should the money be returned to shareholders?' The Council will continue to monitor these issues and ask pertinent questions on behalf of Shareholders.

Overall the Council is happy with the performance of the Board and the Company. The Shareholders, we are sure, can look forward to a diversifying and growing business, which will benefit all.

### Summary

The National Council will continue to represent the interests of all Shareholders and provide a voice for you within the Livestock Improvement organisation. We are committed to you, the Shareholders, but I implore you to be proactive and give us feedback, attend Information Days and meetings which Livestock Improvement runs. Shareholders should give consideration to stand and serve on Council and, if you feel you have the skills and attributes necessary to add value to the Board, then contest Director elections.

I am sure I speak for all National Councillors when I say it is a gratifying task to represent you.



Hamish Anderson  
Chairman  
National Council

A photograph of three Highland sheep standing in a lush green field. The sheep are positioned in the middle ground, with a wire fence and rolling hills in the background. The sheep on the right is the largest and has a white face, while the two on the left are smaller and have darker faces. The text 'ANIMAL BREEDING SERVICES LIMITED' is overlaid in the top right corner of the image.

ANIMAL BREEDING SERVICES LIMITED

Highlander sheep from Rissington Breedlines' maternal sheep programme.

## ANIMAL BREEDING SERVICES LIMITED



**Animal Breeding Services' mission is to maximise the breeding potential of high genetic merit animals.**

Embryo recoveries and transfers are carried out on cattle, sheep, goats and deer while semen collections, and in some cases artificial inseminations, are carried out on all of the foregoing plus pigs, horses and dogs.

Apart from the standard Multiple Ovulation Embryo Transfer (MOET) and cervical Artificial Insemination (AI) techniques, Animal Breeding Services also offers clients the choice of In Vitro Production (IVP/TVR) of embryos in cattle and Laparoscopic AI in sheep, goats and deer.

Animal Breeding Services's mission is to maximise the breeding potential of high genetic merit animals on behalf of clients. Over the 2004/2005 year these services have been undertaken in New Zealand, Australia, USA, China, Brazil, Argentina, Chile and Uruguay, making Animal Breeding Services a global company.

In addition to the practical services provided, Animal Breeding Services also collects and sells embryos to international markets. Throughout the 2004/2005 year in excess of 6,300 embryos were exported either on behalf of clients or directly by Animal Breeding Services. This amount comes from a total of over 12,500 embryos produced by the Company. New Zealand's relatively disease free status, combined with an emphasis on high genetic merit breeding programmes, makes it a popular export centre for large parts of the developing world.

The major highlight of the year was the successful completion of a programme to produce sheep embryos for both domestic and international use on behalf of Rissington Breedline Limited (RBL).

A total of 8,388 embryos were produced over a period of four months which was a considerable undertaking for the Company. This was achieved with the support of an enthusiastic team of people from all areas of the business. Of the total embryos produced under this programme, 3,800 were implanted in five locations throughout New Zealand with the remainder either already exported, or due to be exported to Chile, Uruguay, Brazil and Paraguay.

This was the second year that embryos have been exported to South American countries on behalf of RBL to set up a composite breeding programme in those countries. The first scanning of recipients implanted has occurred in Chile with a resultant pregnancy rate achieved of up to 81%. When this is compared with pregnancy rates achieved by other operators in these countries (as low as 40-50%), this confirms the expertise of the Animal Breeding Services team.

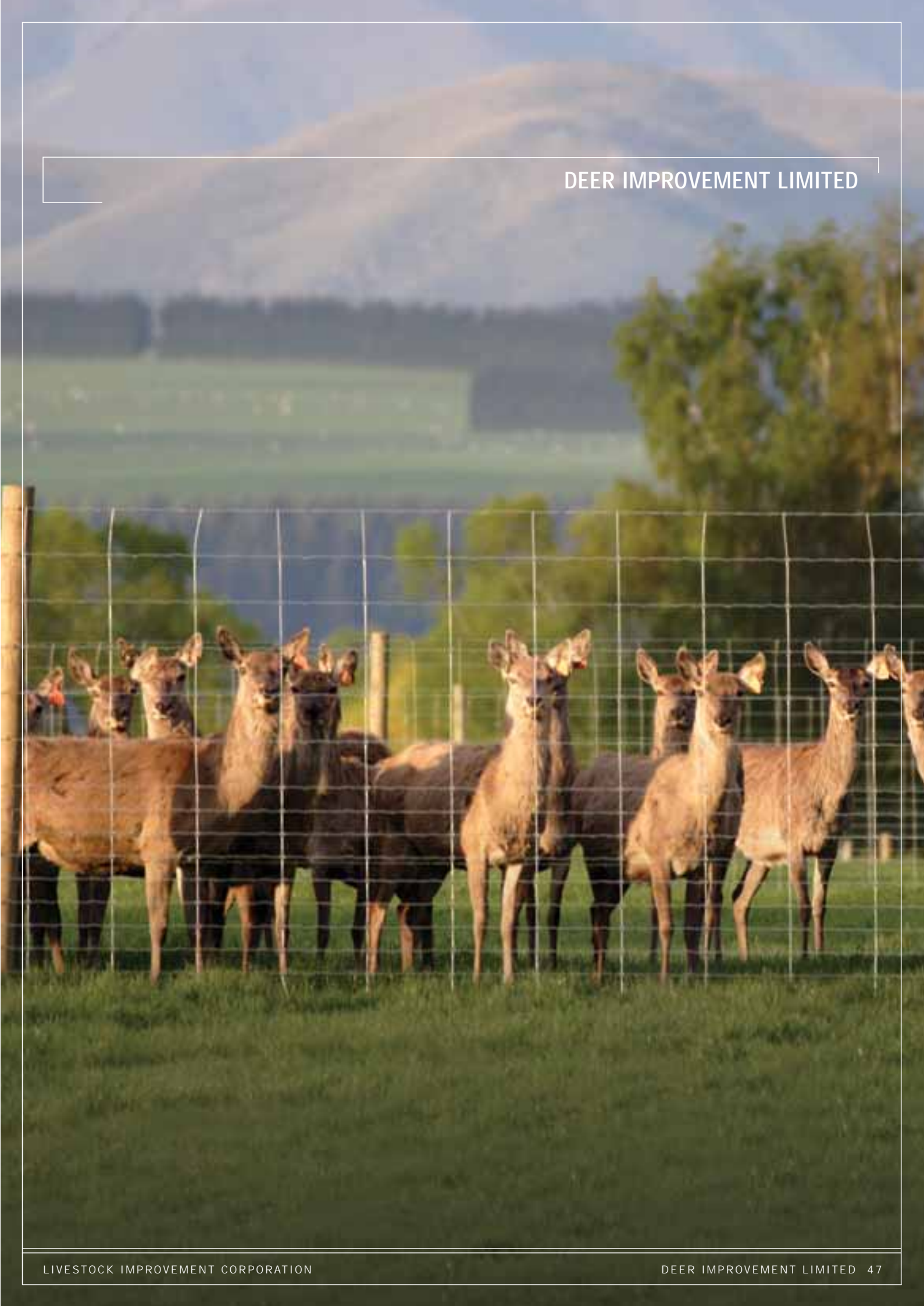
Animal Breeding Services runs the GENErate, Trans Vaginal Recovery/In Vitro Production (TVR/IVP) programme on behalf of Livestock Improvement. Over the past year Animal Breeding Services collected oocytes from a group of specially selected, high genetic merit dairy cows. From these oocytes embryos were produced and transferred resulting in 117 bull pregnancies. This follows on from the successful production of 108 bull calves the previous year. The major benefit of using this technology is the ability to produce large numbers of embryos and therefore pregnancies in a narrow timeframe.

An additional benefit of this technology is the ability to utilise a number of different sires within any given TVR/IVP session which has the result of maximizing the genetic selection ability from each donor cow.

Further refinements and developments within this platform continues with Animal Breeding Services now having the ability to biopsy embryos for gene testing in conjunction with GeneMark. The further development of this technology has enabled Animal Breeding Services to expand the customer base utilising this service with a number of commercial donor cows now being collected outside the Livestock Improvement programme.

At the end of the financial year the Semen Collection Centre had a record collection month. The Pig Centre continues to grow at an outstanding rate with growth of 28% throughout the year. This comes on the back of growth sustained the previous year of 34%. Semen collected in the Bull Centre was on target with dairy goat semen collections and sales exceeding expectations.

DEER IMPROVEMENT LIMITED





## DEER IMPROVEMENT LIMITED



**Deer Improvement's goal is to apply Livestock Improvement's core capabilities to improve the profitability of deer farming.**

The deer stud stock industry has achieved substantial genetic progress in antler traits for velvet and trophy, but venison production efficiency has received little attention. We believe this represents an opportunity to apply our knowledge of quantitative genetics and reproductive technologies to increase the rate of genetic gain and disseminate elite genes through the use of Artificial Insemination.

Deer Improvement's breeding objective is to provide genetics capable of achieving slaughter weight (100kg) at six months of age. This would obviate the need to winter the animals, or at least to ensure the attainment of slaughter weight prior to the traditional spring schedule peak. This is important because deer physiology severely limits weight gain during winter regardless of feeding levels.

The Company's decision to enter the deer industry was made when it was already apparent that venison was in a cyclical trough. The schedule remains at historic lows but current kill rates (up 50% on two years ago) are unsustainable and the supply/demand equation is expected to result in improved farmgate prices in 2006.

Much has been achieved since the launch of Deer Improvement only eighteen months ago:

- A diverse range of genetic material has been secured as the foundation of our genetic improvement programme.
- Semen collection is now routinely providing the volumes we need to ensure commercial viability (unlike bulls, stags produce only seasonally).
- Experienced bovine AB Technicians from the Livestock Improvement team have been trained on deer and found to perform to a high standard.
- Our exclusive fresh semen technology has been found to function very well in deer and will enable us to achieve the necessary straw volumes from limited raw material.
- In-calf rates average around 70% despite dependence on oestrous synchrony for artificial insemination.
- Our first progeny were born in November and a small proportion reached slaughter weight prior to winter, proving the potential to achieve our breeding goal.

Deer Improvement has been designed as a lean and efficient operation with only four full-time staff, who spend most of their time communicating with farmers to explain the value proposition. This is a huge task as few deer farmers are familiar with the use of Breeding Values or reproductive technologies. Business growth projections indicate profitability from 2006/07 onward.

## FINANCIAL STATEMENTS



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# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MAY 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total operating revenue	1	104,041	98,317	96,571	91,471
Total operating expenses	2	(95,319)	(89,872)	(86,200)	(82,017)
<b>Operating surplus before biotechnology research and income tax</b>		8,722	8,445	10,371	9,454
Biotechnology research		(3,426)	(3,645)	(3,426)	(3,645)
<b>Operating surplus before income tax</b>		5,296	4,800	6,945	5,809
Income Tax	3	-	(16)	-	-
<b>Net surplus for the year</b>		5,296	4,784	6,945	5,809
<b>Net surplus comprises</b>					
Parent interest		5,211	4,800	6,945	5,809
Minority interest		85	(16)	-	-

FOR THE YEAR ENDED 31 MAY 2005

## STATEMENT OF MOVEMENTS IN EQUITY

	Note	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Total recognised revenues and expenses</b>					
Net surplus for the year:					
parent interest		5,211	4,800	6,945	5,809
minority interest		85	(16)	-	-
Translation difference		15	4	-	-
		5,311	4,788	6,945	5,809
<b>Contributions from owners</b>					
Shares issued		457	470	457	470
		457	470	457	470
<b>Distributions to owners</b>					
Dividends:					
parent interest		(7,465)	-	(7,465)	-
Repurchase of shares		(423)	(526)	(423)	(526)
Share purchase from minority shareholders		(410)	(4)	-	-
		(8,298)	(530)	(7,888)	(526)
<b>Movements in equity for the period</b>		(2,530)	4,728	(486)	5,753
<b>Equity at beginning of year</b>		<b>97,764</b>	<b>93,036</b>	<b>97,715</b>	<b>91,962</b>
Comprising:					
parent interest		97,439	92,691	97,715	91,962
minority interest		325	345	-	-
<b>Equity at end of year</b>		<b>95,234</b>	<b>97,764</b>	<b>97,229</b>	<b>97,715</b>
Comprising:					
parent interest		95,234	97,439	97,229	97,715
minority interest		-	325	-	-

# STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current Assets</b>					
Cash balances		25,115	22,109	24,310	21,164
Intra-group receivables		-	-	5,156	4,075
Trade receivables		12,532	10,561	7,849	7,338
Inventories		5,595	4,968	4,580	4,063
Other current assets	4	945	1,041	853	881
		<b>44,187</b>	<b>38,679</b>	<b>42,748</b>	<b>37,521</b>
<b>Non-current Assets</b>					
Investments	5	213	214	2,450	2,282
Bulls and database		22,500	22,500	22,500	22,500
Fixed assets	6	43,754	49,031	42,947	48,285
Goodwill	7	381	545	-	-
Development costs	8	183	233	171	224
Intragroup loans		-	-	968	-
Loans		84	130	84	130
		<b>67,115</b>	<b>72,653</b>	<b>69,120</b>	<b>73,421</b>
<b>Total Assets</b>		<b>111,302</b>	<b>111,332</b>	<b>111,868</b>	<b>110,942</b>
<b>Current Liabilities</b>					
Intra-group payables		-	-	204	141
Trade payables		8,374	6,536	7,233	6,172
Provisions	9	3,309	2,950	3,086	2,855
Prepaid receivables		425	469	425	469
		<b>12,108</b>	<b>9,955</b>	<b>10,948</b>	<b>9,637</b>
<b>Non-current Liabilities</b>					
Provisions	9	3,960	3,590	3,691	3,590
Other non-current liabilities		-	23	-	-
		<b>3,960</b>	<b>3,613</b>	<b>3,691</b>	<b>3,590</b>
<b>Total Liabilities</b>		<b>16,068</b>	<b>13,568</b>	<b>14,639</b>	<b>13,227</b>
<b>Net Assets</b>		<b>95,234</b>	<b>97,764</b>	<b>97,229</b>	<b>97,715</b>
<b>Equity</b>	10	<b>95,234</b>	<b>97,764</b>	<b>97,229</b>	<b>97,715</b>

Director



SB Bay, Chairman

Date: 12 July 2005

Director



Ron Jackways, Director

Date: 12 July 2005

FOR THE YEAR ENDED 31 MAY 2005

## STATEMENT OF CASH FLOWS

	Note	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Net cash from/(used in) operating activities</b>					
Cash provided from:					
Receipts from customers		100,900	96,052	93,637	88,667
Interest income received		1,418	1,152	1,481	1,279
		102,318	97,204	95,118	89,946
Cash applied to:					
Payments to suppliers and employees		(86,651)	(84,778)	(79,015)	(77,744)
Interest expense paid		(37)	(15)	(11)	(13)
Income tax paid		-	(41)	-	-
		(86,688)	(84,834)	(79,026)	(77,757)
	11	15,630	12,370	16,092	12,189
<b>Net cash from/(used in) investing activities</b>					
Cash provided from:					
Proceeds from sale of other non-current assets		457	1,076	457	1,059
		457	1,076	457	1,059
Cash applied to:					
Acquisition of shares		(396)	(4)	(1,091)	(479)
Acquisition of non-current assets		(5,254)	(9,420)	(4,881)	(8,940)
		(5,650)	(9,424)	(5,972)	(9,419)
		(5,193)	(8,348)	(5,515)	(8,360)
<b>Net cash from/(used in) financing activities</b>					
Cash provided from:					
Shares paid up		457	470	457	470
		457	470	457	470
Cash applied to:					
Repurchase of shares		(423)	(526)	(423)	(526)
Dividends paid to shareholders of the Group		(7,465)	(1,760)	(7,465)	(1,774)
		(7,888)	(2,286)	(7,888)	(2,300)
		(7,431)	(1,816)	(7,431)	(1,830)
<b>Net increase (decrease) in cash balances</b>		<b>3,006</b>	<b>2,206</b>	<b>3,146</b>	<b>1,999</b>
Cash balances at beginning of year		22,109	19,903	21,164	19,165
Cash balances at end of year		25,115	22,109	24,310	21,164

### (a) BASIS OF PREPARATION

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

Financial statements for the Parent and consolidated financial statements are presented. The consolidated financial statements comprise the Parent, its subsidiaries and interests in associates.

The financial statements comprise statements of the following: significant accounting policies; financial performance; movements in equity; financial position; cash flows; as well as the notes to these statements. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. Where no financial reporting standard exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined with regard to other forms of authoritative support.

### (b) GENERAL ACCOUNTING POLICIES

The general accounting policies for the measurement and reporting of earnings and financial position on an historical cost basis have been followed in the preparation of these accounts, except that livestock inventories (other than the breeding bulls) are stated at valuation. The financial statements have been prepared based on the going concern concept.

### (c) PARTICULAR ACCOUNTING POLICIES

The following particular accounting policies which materially affect the measurement of earnings and financial position have been applied.

#### (i) Foreign Currencies

Transactions involving foreign currencies are translated at rates of exchange ruling at the date of the transaction. Monetary amounts outstanding at balance date are converted using the year-end rate. All exchange differences are taken to the Statement of Financial Performance.

Short-term transactions covered by forward exchange contracts are translated at the exchange rates specified in those contracts.

#### *Translation of the financial statements of independent foreign operations*

The assets and liabilities of the Group's and associate's overseas operations, being independent foreign operations, are translated at the exchange rates ruling at balance date. The revenues and expenses of these entities are translated at rates approximating the exchange rates ruling at the dates of the transactions. Exchange differences arising on the translation of independent foreign operations are recognised directly in the foreign currency translation reserve.

## (ii) Fixed Assets and Depreciation

All owned items of property, plant and equipment are initially recorded at cost and, except for land, depreciated. Initial cost includes the purchase consideration, or fair value in the case of donated assets, and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete. All feasibility costs are expensed as incurred. The useful economic lives of depreciating assets have been assessed as:

Buildings	40 years
Plant and Equipment	5 years
Vehicles	5 years
Office Equipment	5 years
Field-based Laptop Computers	3 years
Other Personal Computers	4 years
Other Computer Equipment	5 years
Computer Software	4 years

*Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated initially at an amount equal to the present value of the future minimum lease payments, and are depreciated as described above.

## iii) Bulls and Database

These assets are comprised of the pool of Breeding Bulls and the Parent's database and are included at the cost attributed to the assets when acquired.

*Breeding Bulls*

The pool of Breeding Bulls was acquired in May 1988 and it is the Parent's policy to maintain this pool. The composition of the pool constantly changes with the average bull having a productive breeding life of three years. All costs incurred in maintaining the pool including the costs of replacement bulls are expensed as they are incurred.

Accordingly, on the basis that the pool will be maintained, there is no defined economic life of this asset. Thus it is not considered appropriate to amortise the cost of this asset unless there is a permanent impairment in its value.

*Livestock Improvement database*

In May 1988, 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 Industry Restructuring Act 2001, the core database, covering some 40 fields of animal data, was defined. While the Livestock Improvement database includes these defined fields, no value is attributed, specifically, to the core database.

All costs of maintaining and enhancing the Livestock Improvement database are expensed when incurred as a period cost. Accordingly there is no defined economic life of this asset. Thus it is not considered appropriate to amortise the cost of this asset unless there is a permanent impairment in its value.



## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MAY 2005

### (iv) Inventories

Inventories are valued at the lower of cost or their net realisable value on a first in first out basis. The cost of frozen semen includes the direct cost of production.

Livestock inventories, other than breeding bulls, are revalued annually to market rates.

### (v) Accounts Receivable

Accounts Receivable are stated at estimated net realisable value.

### (vi) Taxation

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Future tax benefits and provisions for deferred tax are not offset if they arise in different tax jurisdictions.

Any income tax effect of movements in reserves is recognised directly against the related reserve and allocated to deferred or current tax.

### (vii) Basis of Preparing Consolidated Financial Statements

#### *Subsidiaries*

Subsidiaries are those entities controlled, directly or indirectly, by the Parent. The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

#### *Associates*

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group's share of the net surplus/net deficit of associates is recognised as a component of operating revenue/expense in the statement of financial performance, after adjusting for the amortisation of goodwill arising on acquisition. Dividends received from associates are credited to the carrying amount of the investment in associates. The unamortised balance of goodwill arising on acquisition is included in the carrying amount of the associate.

#### *Partnerships*

Partnerships are those relationships that the Group has with other persons whereby the partners carry on a business in common with a view to profit. Where the Group has a controlling interest in a partnership it is accounted for in the consolidated financial statements as a subsidiary. Where the Group has significant influence over the operating and financial policies of the partnership it is accounted for in the consolidated financial statements as an associate.

*Joint Ventures*

Joint ventures are joint arrangements with other parties in which the Parent has several liability in respect of costs and liabilities, and shares in any resulting output. The Parent's share of the assets, liabilities, revenues and expenses of joint ventures are incorporated into the Parent and consolidated financial statements on a line-by-line basis using the proportionate method.

*Goodwill Arising on Acquisition*

Goodwill arising on the acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the period during which benefits are expected to be derived - a period not exceeding five years.

*Transactions Eliminated on Consolidation*

The effects of intragroup transactions are eliminated in preparing the consolidated financial statements.

*(viii) Derivative Financial Instruments*

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. Where a hedge of an anticipated purchase or sale transaction is undertaken the exchange difference on the hedging transaction up to the date of the purchase or sale transaction, and any costs associated with the hedge transaction to that date, are deferred and included in the measurement of the purchase or sale transaction.

Derivative financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

Where a derivative financial instrument, which is a hedge of an anticipated transaction, is terminated early but the anticipated transaction is still expected to occur, the deferred gain or loss that arose prior to termination continues to be deferred and is recognised as part of the transaction when it occurs. If the transaction is no longer expected to occur, the deferred gain or loss is recognised in the Statement of Financial Performance immediately. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

*(ix) Research and Development Expenditure*

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenditure is expenditure on the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services.

All research expenditure, including biotechnology research, is expensed in the Statement of Financial Performance as incurred.

## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MAY 2005

Development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the product or service will commence. Development expenditure recognised as an asset is stated at cost and amortised on a straight-line basis over 5 years, being the period of expected benefits. Amortisation begins at the time that commercial production commences. All other development expenditure is recognised in the Statement of Financial Performance as incurred.

### (x) Operating Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased asset. Lease incentives received are recognised as an integral part of the total lease payments made.

### (xi) Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash balances (net of bank overdrafts) and demand deposits. Cash excludes bank bills that are not used as part of the Group's day-to-day cash management.

### (xii) Changes in Accounting Policies

Uniform accounting policies have been applied throughout the Group on a consistent basis with those of the previous year.

### (xiii) Comparative Information

Certain comparative information has been reclassified in order to provide a more consistent basis for comparison.

## 1. Operating Revenue

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Operating revenue comprises</b>				
Related-party sales revenue	-	-	1,134	1,226
External sales revenue	102,423	97,056	93,756	88,896
Interest income	1,618	1,198	1,681	1,325
Net foreign exchange gain	-	34	-	-
Gain on disposal of fixed assets	-	29	-	24
<b>Total Operating Revenue</b>	<b>104,041</b>	<b>98,317</b>	<b>96,571</b>	<b>91,471</b>

Biotechnology research is net of contract revenues received of \$1.4 million (2004 \$1.8 million).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

### 2. Operating Expenses

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Operating expenses include:</b>				
Interest expense	37	15	11	13
Equity accounted losses of associates	7	133	-	-
Depreciation of fixed assets:				
Buildings	528	540	526	540
Plant and Equipment	3,149	3,121	2,988	2,994
Furniture and Fittings	211	205	142	188
Vehicles	1,379	1,398	1,318	1,345
Computers and Software	4,378	3,665	4,360	3,653
Amortisation of development costs	53	56	53	56
Amortisation of goodwill	164	163	-	-
Amounts incurred and expensed for research – excluding biotechnology research	3,203	3,655	2,291	3,871
Doubtful debts:				
Written off	149	78	57	42
- Increase/(decrease) in provision	-	-	-	-
Increase/(decrease) in provisions				
Employee Entitlements	74	63	(12)	34
Employee Retirement Allowances	21	(34)	21	(34)
Operating lease expenses	842	693	541	526
Net foreign exchange loss	205	-	38	-
Loss on disposal of fixed assets	559	-	559	-
Employee remuneration:				
Fees to Directors	432	356	432	356
Staff Salaries and Wages	42,138	42,349	39,229	39,557
Auditor's remuneration:				
KPMG - audit services	50	46	50	46
KPMG - listing services	-	75	-	75
- other services	87	75	87	75
Clifford Fry & Co - audit services	8	9	-	-
Donations	-	-	-	-

## 3. Taxation

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Income Tax Expense</b>				
Operating surplus before income tax	5,296	4,800	6,945	5,809
Permanent differences:				
Deductions arising from change in tax status	(1,959)	(2,097)	(1,959)	(2,097)
Other	534	1,088	152	917
Tax losses from prior years	(5,939)	-	(5,842)	-
Timing differences not recognised	739	(5,700)	704	(5,745)
Tax loss not recognised	1,329	1,964	-	1,116
	<b>(5,296)</b>	<b>(4,745)</b>	<b>(6,945)</b>	<b>(5,809)</b>
Taxable income	-	55	-	-
Tax expense @ 33%	-	18	-	-
Income tax over provided in prior year	-	(2)	-	-
Total income tax expense:	-	16	-	-
Current taxation	-	16	-	-
Deferred taxation	-	-	-	-
<b>(b) Imputation Credits</b>				
Balance at beginning of year			-	-
Income tax paid			-	-
Balance at end of year			-	-
The imputation credits are available to shareholders of the parent:				
Through the parent	-	-		
Through subsidiaries	172	214		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

### (c) Tax Losses

Unrecognised tax losses available for offset against future assessable income:

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Tax losses	22,226	26,836	19,241	25,083
Tax saving thereon	7,335	8,856	6,349	8,277

A future tax saving will also arise over approximately four years from the ability to depreciate certain fixed assets from a higher cost or book value for tax purposes than applies for accounting purposes. The associated contingent tax benefit has reduced the current year's tax by \$0.646 million (2004: \$0.692 million) and the balance, which has not been recognised in the financial statements, is \$2.04 million (2004: \$2.686 million).

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

### (d) Deferred Tax

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Deferred tax liability not recognised	265	509	332	564

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

## 4. Inventories

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Semen	1,536	1,730	1,442	1,649
Artificial Breeding Tradeable Products	783	492	703	492
Livestock	1,264	990	872	681
National Milk Analysis Centre	121	200	121	200
Herd Testing Brackets and Bolts	89	112	89	112
Equipment	687	764	687	764
Sundry	-	6	-	6
Drugs and Consumables	237	129	-	-
Stockfeed	14	4	-	-
Embryos	198	382	-	-
Farm Automation Systems	666	159	666	159
	<b>5,595</b>	<b>4,968</b>	<b>4,580</b>	<b>4,063</b>

Only that semen projected to be sold in the next financial year has been valued at cost and included in the accounts on the assumption that it is fully useable. All other semen stock has been included at nil realisable value. The unrealised gain arising from the revaluation of livestock is \$0.222 million for the Group, \$0.181 million for the Parent.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

## 5. Investments

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Non-current investments</b>				
Shares in listed companies	3	4	3	4
Shares in unlisted companies	47	40	47	40
Investments in subsidiaries	-	-	2,400	2,238
Investment in associates	163	170	-	-
	<b>213</b>	<b>214</b>	<b>2,450</b>	<b>2,282</b>

The market value of shares in listed companies at balance date is \$0.003 million (2004: \$0.002 million).

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
<b>(a) Carrying amount of associates</b>		
Carrying amount at beginning of year	170	407
Disposal of associate	-	(104)
Share of total recognised revenues and expenses	(7)	(133)
Equity accounted value of investment	163	170
<b>(b) Included within the above carrying value is goodwill relating to investment in associate</b>		
Goodwill arising on acquisition of associate	271	271
Accumulated amortisation	(253)	(199)
Net carrying amount	18	72
<b>(c) Results of associates</b>		
Equity accounted earnings comprise:		
Share of surplus (loss) before income tax	47	(78)
Income tax	-	-
Share of net surplus (loss)	47	(78)
Amortisation of goodwill	(54)	(55)
Total recognised revenues and expenses	(7)	(133)

The Group has equity accounted the unaudited result of NZ Genetics (IRE) Limited for the year.

## 6. Fixed Assets

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Land</b>				
At cost	6,534	6,591	6,534	6,591
<b>Buildings</b>				
At cost	20,509	20,238	20,509	20,238
Accumulated depreciation	(4,985)	(4,487)	(4,985)	(4,487)
	15,524	15,751	15,524	15,751
<b>Plant and Equipment</b>				
At cost	25,607	25,931	24,936	25,367
Accumulated depreciation	(18,335)	(16,162)	(17,965)	(15,905)
	7,272	9,769	6,971	9,462
<b>Furniture and Fittings</b>				
At cost	1,970	2,327	1,929	2,290
Accumulated depreciation	(1,699)	(1,930)	(1,666)	(1,906)
	271	397	263	384
<b>Vehicles</b>				
At cost	9,642	9,300	9,088	8,848
Accumulated depreciation	(6,265)	(5,622)	(6,088)	(5,545)
	3,377	3,678	3,000	3,303
<b>Computers and Software</b>				
At cost	24,155	24,465	23,930	24,327
Accumulated depreciation	(13,379)	(11,620)	(13,275)	(11,533)
	10,776	12,845	10,655	12,794
<b>Total net carrying amount</b>	<b>43,754</b>	<b>49,031</b>	<b>42,947</b>	<b>48,285</b>

In June 2005 land and buildings were independently valued at \$38.4 million.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

## 7. Goodwill

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	545	708	-	-
Amortised	(164)	(163)	-	-
Balance at end of year	381	545	-	-

## 8. Development Costs

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	233	233	224	233
Costs capitalised	3	56	-	47
Amortisation	(53)	(56)	(53)	(56)
Balance at end of year	183	233	171	224

## 9. Provisions

		CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current					
Employee Entitlements	9(a)	2,062	1,967	1,881	1,872
Sire Proving Rebates	9(b)	1,247	983	1,205	983
Dividends	9(c)	-	-	-	-
		3,309	2,950	3,086	2,855
Non Current					
Employee Entitlements	9(a)	1,099	1,099	1,099	1,099
Sire Proving Rebates	9(b)	2,861	2,491	2,592	2,491
		3,960	3,590	3,691	3,590

A dividend was declared post balance date and therefore does not reflect in year end accounts.

## (a) Provision for Employee Entitlements

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	3,066	3,037	2,971	2,971
Additional provision made	3,167	3,129	2,957	3,022
Amount utilised	(3,072)	(3,100)	(2,948)	(3,022)
Balance at end of year	<b>3,161</b>	<b>3,066</b>	<b>2,980</b>	<b>2,971</b>
Current	2,062	1,967	1,881	1,872
Non-current	1,099	1,099	1,099	1,099

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

## (b) Provision for Sire Proving Rebates

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	3,474	3,723	3,474	3,723
Additional provision made	2,026	688	1,715	688
Amount utilised	(1,392)	(937)	(1,392)	(937)
Balance at end of year	<b>4,108</b>	<b>3,474</b>	<b>3,797</b>	<b>3,474</b>
Current	1,247	983	1,205	983
Non-current	2,861	2,491	2,592	2,491

The provision for sire proving rebates relates to the (rebated in the case of the Parent) 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 3 years.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

### (c) Provision for Dividends

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	-	1,783	-	1,783
Additional provision made	7,465	-	7,465	-
Amount utilised	(7,465)	(1,774)	(7,465)	(1,774)
Unused provision reversed	-	(9)	-	(9)
Balance at end of year	-	-	-	-
Current	-	-	-	-
Non-current	-	-	-	-

The Directors declared a final dividend in relation to the current year on 12 July 2005 (\$3.7 million). The final plus interim dividend represented 70% of the operating surplus before biotechnology research. However, since the declaration was made after balance date, no provision has been made in this year's accounts. Provisions were made during the year for the 2004 final dividend (\$5.044 million) and the 2005 interim dividend (\$2.421 million). However, these dividends were paid in July 2004 and February 2005, and the provision cleared.

### 10. Capital

The Parent had 2,979,964 Co-operative Control shares on issue at balance date. The shares have a nominal value of \$1 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution.

The Parent also had 29,528,590 Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Investment Shares were created by a sub-division of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004. The Constitution prescribes the minimum and maximum shareholding limits for Investment Shares and the requirement that all Shareholders must sell their total holding of Investment Shares within 2 years of ceasing to be a Co-operative Control Shareholder.

**11. Net Cash Flow From (Used In) Operating Activities**

The following is a reconciliation between the surplus after income tax shown in the Statement of Financial Performance and the net cash flow from/(used in) operating activities.

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Surplus after income tax</b>	5,296	4,784	6,945	5,809
<b>Items classified as investing/ financing activities</b> (Gain)/loss on sale of other non-current assets	559	(29)	559	(24)
<b>Non-cash items</b>				
Depreciation	9,698	8,985	9,387	8,776
Equity accounted losses	7	133	-	-
Goodwill amortised	164	163	-	-
<b>Movement in working capital</b>				
(Increase)/decrease in inventories	(627)	(866)	(517)	(651)
Decrease/(increase) in other receivables	(1,875)	(1,226)	(1,564)	(1,839)
(Decrease)/increase in other payables	2,408	426	1,282	118
<b>Net cash from/(used by) operating activities</b>	<b>15,630</b>	<b>12,370</b>	<b>16,092</b>	<b>12,189</b>

**12. Foreign Currency Translation Reserve**

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of year	17	13	-	-
Difference arising on translation of independent foreign operations	15	4	-	-
Balance at end of year	<b>32</b>	<b>17</b>	-	-

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2005

### 13. Operating Lease Commitments

The Group has the following future operating lease commitments:

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	677	588	438	435
Later than one year but not later than two years	456	494	365	375
Later than two years but not later than five years	927	1,091	896	964
Later than five years	626	881	626	881
	<b>2,686</b>	<b>3,054</b>	<b>2,325</b>	<b>2,655</b>

### 14. Financial Instruments

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

#### (a) Foreign Currency Risk

Foreign currency risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of transactions that are denominated in a currency other than the respective Parent's functional currency. Such transactions, which would typically expose the Group to foreign currency risk include exported sales, imported purchases, purchases of certain plant and machinery and offshore investments, which include subsidiaries and associates. The currencies, giving rise to currency risk, in which the Group primarily deals are Great British Pounds, United States Dollars, Australian Dollars and Euros.

The Group's policy is to hedge 100% of all existing net foreign currency exposures more than 3 months out. The Group hedges its exposures by using forward exchange contracts. At balance date the Group had the following unhedged currency exposure arising on foreign currency monetary assets that fall due within the next 12 months.

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Trade Debtors</b>				
US Dollars (USD)	345	-	-	-
<b>Cash Balances</b>				
US Dollars (USD)	126	-	126	-
Great British Pounds (GBP)	11	-	11	-
Australian Dollars (AUD)	380	-	-	-

#### (b) Interest Rate Risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and advances.

**(c) Credit Risk**

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through the normal trade credit cycle, advances to third parties and through the use of derivative financial instruments. No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Reputable financial institutions are used for investing and cash handling purposes. A sum of \$10.9 million is deposited with Westpac (2004 \$21.2 million) and a further \$10 million with Kiwibank (2004 nil) and \$3 million with ASB (2004 nil). At balance date there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position. The maximum exposure to credit risk arising from amounts receivable under forward exchange contracts is \$0.503 million (2004: \$0.483 million) and for amounts payable under forward exchange contracts is \$0.893 million (2004: \$0.487 million).

**(d) Fair Values**

The fair values of the Group's financial instruments do not differ significantly from their carrying values shown in the Statement of Financial Position.

**15. Contingent Liabilities**

In the normal course of business Livestock Improvement is subject to claims against it. A claim was made by the Concerned Dairyman's Association in relation to the Animal Evaluation Model. Both the High Court and Court of Appeal found for the Parent on all grounds of action and awarded it costs. The Concerned Dairyman's Association has the right to appeal to the Supreme Court.

Any potential action and any other claim will be contested and defended. Having received legal advice and made their own enquiries, the Directors do not expect that the financial outcome of any current or potential claim will have a material adverse effect on the Group's financial position. No provision has been made in the financial statements.

**16. Group Investments**

The Group has the following significant subsidiaries and associates:

Name	Country of Incorporation	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2005 %	2004 %		
<b>Subsidiaries</b>						
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31 May	Semen Sales
Livestock Improvement (UK) Ltd	UK	Ordinary	100	100	31 May	Semen Sales
New Zealand Genetics (Australia) Ltd	Australia	Ordinary	100	100	31 May	Semen Sales
LIC Bovine Ltd	NZ	Ordinary	100	100	31 May	Research
Animal Breeding Services Ltd Animal Breeding Services Ltd has a 60% interest in Equine Fertility Services Ltd which specialises in reproductive technologies for horses. Equine Fertility Services Ltd was placed in voluntary liquidation in November 2004.	NZ	Ordinary	100	70	31 May	Reproductive Technologies
LIC Deer Ltd	NZ	Ordinary	100	100	31 May	Deer Artificial Breeding
<b>Associates</b>						
NZ Genetics (IRE) Ltd	Ireland	Ordinary	50	50	31 August	Semen Sales



**17. Segmental Information**

The Parent and Group predominantly provides goods and services to the New Zealand pastoral farming sector. Any operations conducted outside of New Zealand, only facilitate export sales from domestic operations and are therefore not deemed to be separate geographical segments.

**18. Capital Commitments**

No capital commitments exist at balance date.

**19. Related Party Transactions****(a) Identity of related parties with whom material transactions have occurred**

Note 16 identifies all entities in which the Group has an interest. All of these entities along with the elected Directors are related parties of the Parent.

**(b) Types of related party transaction**

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

- Treasury; and
- Sales and services.

All Directors, excluding Messrs Lough, Fraser and Waldvogel, are customers of the Parent and purchase products and services for their farming activities on an ongoing and arm's length basis.

**20. Events After Balance Date**

On 12 July 2005 the directors declared a final dividend, which along with the interim dividend, represented 70% of the operating surplus before net expenditure on biotechnology research (refer note 9). The Record Date for dividend payment is 28 July and payment (on both Co-operative Control and Investment Shares) will be made on 1 August 2005.

Subsequent to balance date the Group has entered into a contract to acquire a further property for \$3.9 million.



## Audit report

### To the shareholders of Livestock Improvement Corporation Limited

We have audited the financial statements on pages 50 to 72. The financial statements provide information about the past financial performance and financial position of the company and group as at 31 May 2005. This information is stated in accordance with the accounting policies set out on pages 54 to 58.

### 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 2005 and the results of their operations and cash flows for the year ended on that date.

### Auditors' responsibilities

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

### Basis of opinion

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

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

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

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation 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 50 to 72:
  - 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 2005 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 12 July 2005 and our unqualified opinion is expressed as at that date.

A handwritten signature of the KPMG firm, written in a cursive, stylized font.

Hamilton

**Activities**

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

The Parent was previously a wholly owned subsidiary of the New Zealand Dairy Board (NZDB). As part of the dairy industry restructuring, the Parent's ownership was transferred to the farmers who utilise its services on 1 March 2002. The Parent continues the Dairy Herd Improvement activities previously provided by the six Livestock Improvement Associations and the Livestock Improvement Division of the NZDB.

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

**Directors and Remuneration**

Directors of the Parent received the following remuneration:

	Fees \$000
S B Bay	74
J E Bicknell	32
E G Coats	32
B R Guy	32
R D Jackways	32
M E Jagger	32
P J Lynskey	32
A J Reid	32
K D Straight	32
G A Fraser	36
P V Lough	36
J S Waldvogel	30
	<u>432</u>

Directors of the subsidiary companies were not paid fees.

**Entries Recorded in the Interests Register****A Directors' Interests**

The following entries were recorded in the Interest Register of the Parent and its subsidiaries during the year;

**S Bay:** Declared that he was a participant in the Parent's Contract Mating Scheme, which could potentially lead to the sale of two bull calves to the Parent in the 2005/06 season, for \$5,000.00.

**B Guy:** Declared that he was a participant in the Contract Mating Scheme with the Parent, which could potentially lead to the sale of two bull calves to the Parent in the 2005/06 season for \$5,000.00

**J Bicknell:** Declared that he was a participant in the Parent's Contract Mating Scheme, which could potentially lead to the sale of one bull calf to the Parent in the 2005/06 season for \$2,500.00.

**A Reid:** Reaffirmed earlier disclosures that he has been, and remains, a Director of:

- Dexcel Holdings Limited - Director since March 2001
- Dexcel Limited - Director since March 2001
- W A Systems Limited

and will therefore be interested in all transactions between these companies and Livestock Improvement Corporation and/or its subsidiaries.

**G Fraser:** Affirmed that he has been and remains a Director of:

- Skellmax Industries Ltd - Director since May 2002
- AgResearch Limited – Director since December 2003
- LIC Deer Limited

and will therefore be interested in all transactions between these companies and Livestock Improvement Corporation and/or its subsidiaries.

**P Lough:** Affirmed that he has been and remains a Director of:

- Tatua Co-operative Dairy Co Ltd - Director since November 2002
- Meridian Energy Ltd - Director since August 1999
- Chairman of New Zealand Trade & Enterprise since July 2003

and will therefore be interested in all transactions between these companies and Livestock Improvement Corporation and/or its subsidiaries.

**J Waldvogel:** Affirmed he is Chief Operating Officer of Fonterra Co-operative Group Limited and a Director of Bonlac Foods Limited and will therefore be interested in all transactions between these companies and Livestock Improvement Corporation and/or its subsidiaries.

**P J Lynskey:** Affirmed that he is a Director of New Zealand Animal Evaluation Limited and will therefore be interested in all transactions between this company and Livestock Improvement Corporation and / or its subsidiaries.

**E Coats:** Affirmed that he is a Director of New Zealand Animal Evaluation Limited and Dairy InSight Incorporated and will therefore be interested in all transactions between this company and Livestock Improvement Corporation and / or its subsidiaries.

**All Elected Directors of the Parent Company** - are customers and shareholders of Livestock Improvement Corporation Limited and purchase products and services for their farming activities on an ongoing basis.

## STATUTORY INFORMATION

FOR THE YEAR ENDED MAY 2005

### B Share Dealings of Directors

The Directors other than the Independent Directors (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of Livestock Improvement Corporation's products and services are holders of the following shares:

	2005		2004	
	Co-operative Control Shares	Investment Shares	Co-operative Control Shares	Investment Shares
K D Straight	747	7,040	N/a	N/a
S B Bay	1,559	30,000	1,431	14,310
J E Bicknell	449	6,000	600	6,000
E G Coats	586	4,970	497	4,970
B R Guy	1,081	10,050	1,005	10,050
R D Jackways	1,508	14,130	1,413	14,130
M E Jagger	538	14,820	494	4,940
P J Lynskey	1,329	32,600	1,060	10,600
A J Reid	3,189	64,420	2,942	29,420

The following Investment Share purchases were made by Directors, pursuant to the Company's Safe Harbour Regime in accordance with the Securities Market Regulations.

**A J Reid:** Declared that he purchased a further 35,000 Investment Shares between 10 and 18 August 2004.

**M E Jagger:** Declared that he purchased a further 9,880 Investment Shares between 13 October and 22 October 2004.

**P J Lynskey:** Declared that he purchased a further 12,000 Investment Shares on 29 October 2004 and a further 10,000 Investment Shares on 4 March 2005.

**S B Bay:** Declared that he purchased a further 15,690 Investment Shares between 27 July and 4 August 2004.

### C Loans to Directors of the Parent and its Subsidiaries

There have been no loans to Directors during the year.

### D Directors' Indemnity and Insurance

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

### E Use of Company's Information

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

**Executive Employees' Remuneration**

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

100,000 – 109,999	3
110,000 – 119,999	8
120,000 – 129,999	7
130,000 – 139,999	3
140,000 – 149,999	4
150,000 – 159,999	1
160,000 – 169,999	1
170,000 – 179,999	2
180,000 – 189,999	1
190,000 – 199,999	1
200,000 – 209,999	1
210,000 – 219,999	1
220,000 – 229,999	1
310,000 – 319,999	1

**Co-operative Company Resolution**

Pursuant to section 10 of the Co-operative Companies Act 1996, the following resolution was passed unanimously at a meeting of the Directors of the Company held on 12 July 2005.

**That it be recorded:**

- Livestock Improvement Corporation Limited ("Company") was registered as a co-operative company under the provisions of the Co-operative Companies Act 1996 ("Act") on 1 March 2002.
- In the opinion of the Board of Directors, the Company has been a co-operative company from that date to the end of the accounting year ended 31 May 2005.
- The grounds for this opinion are:
  1. The principal activity of the Company involves supplying artificial breeding, herd testing, herd recording and other services to transacting shareholders (as that term is defined in section 4 of the Act). Accordingly, the principal activity of the Company is, and is stated in the Constitution of the Company as being, a co-operative activity (as that term is defined in section 3 of the Act); and
  2. Not less than 60% of the voting rights attached to shares in the Company are held by transacting shareholders.

## STATUTORY INFORMATION

FOR THE YEAR ENDED 31 MAY 2005

### Shareholder Information as at 29 July 2005

#### Twenty Largest Shareholders of Quoted Securities

	Investment Shares Held
Peter John Lynskey, Carole Joyce Lynskey & Other(s)	32,600
Stuart Bruce Bay, Doris Beth Bay	30,000
Waratah Farms Ltd	23,850
John S Wilson, Brian Gallichan, Hugh Earwaker	22,930
Timothy Pearce Watson, Wendy Jane Watson	22,200
Douglas Maxwell Lovelace Bull, Teresa Zita Bull	21,750
Raymond Harvey Colebrook, Laureen Elizabeth Colebrook	21,750
Koromatua Holdings Ltd	21,280
David Philip Jensen, Lesley Kaye Jensen, Philip Peter Jensen	20,925
Graham George Imeson, Judith Anne Imeson & Other(s)	20,220
Clarksfield Holdings (1996) Ltd	20,130
Stephen Hammond, Malcom Hammond, Irene Hammond	19,460
AJ & JG Reid Ltd	19,450
Kevin William Clark, Felicity Ann Clark	19,110
Accord Dairies Ltd	19,080
Watson Agricultural Limited	18,780
Farminco Limited	18,210
Peter Francis Menzies, Peter James Mahoney, Mary Anne Mahoney	18,150
Orini Downs Station Ltd	17,650
Dykshoorn Ltd	17,400
	424,925

### Spread of Shareholdings

Holdings	Shareholders	Investment Shares Held	% of Total
1-1,000	2,194	1,345,466	4.6
1,001-2,000	3,504	5,368,601	18.2
2,001-3,000	2,743	6,749,337	22.9
3,001-4,000	1,488	5,142,805	17.4
4001 - 5,000	716	3,194,987	10.8
5,001-10,000	904	5,886,418	19.9
Over 10,000	138	1,840,976	6.2
Total	11,687	29,528,590	100.0

**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 Markets Act 1988.

**Donations**

The Company made no donations during the year ended 31 May 2005.

**Non Standard Listing**

Livestock Improvement Corporation Limited has been classified as a Non Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule A3.3.3, by reason of it being a co-operative company having a unique constitution which includes provisions having the following effect:

- the acquiring of Investment Shares is restricted to New Zealand dairy farmers who hold Co-operative Control Shares and who purchase qualifying products and services from Livestock Improvement Corporation Limited; and
- holders of Investment Shares have no voting rights (except on matters affecting the rights of Investment Shareholders).

Waivers and Approvals granted by New Zealand Exchange Limited (NZX) in the process of the approval of the Constitution of Livestock Improvement Corporation Limited Waivers and approvals were granted in respect of the following NZAX Listing Rules:

1. Rule A1.1.2 to allow the definition of "Renounceable" to refer to a Right or offer that is transferable to any other person who is entitled to hold the Securities to which the Right or offer relates.
2. Rule 7.6.4 in Appendix 1 to allow clause 3.6.6(c) of the Constitution to permit financial assistance to be given to an Approved Holding Entity.
3. Rule A4.2.1 is not applicable in the case of Livestock Improvement, given its status as a Non Standard NZAX Issuer and as such Livestock Improvement is not required to comply with the restrictions of that rule and clause 20 of the Constitution which provides for a more extensive lien on Securities is allowed.
4. Rule B2.1.2 to allow for the following aspects of the Company's corporate governance structure:
  - (a) Directors to be nominated by Co-operative Control Shareholders by region;
  - (b) certain qualifications to be required of Directors;
  - (c) the nomination procedure for Directors.
5. Rule B2.1.3 to allow for the filling of casual vacancies by the Board where the position becomes vacant less than 8 months before the date on which that Director is due to retire by way of rotation.
6. Rule B2.1.6 to allow for the rotation of Elected Directors as set out in clause 1(f) of schedule 3 of the Constitution whereby one-third are due to retire on the 1st day of June in each year and a rotation schedule is provided for in paragraph 1(g) of schedule 3.



7. Rule A4.6.5 allows an NZAX Issuer to include restrictions on the issue, acquisition or transfer of Equity Securities in its constitution, subject to the prior approval of NZX. NZX approved restrictions in the Constitution as follows:
- (a) Clause 3.2.2 restricts the issue of Voting Securities with the aim of ensuring that Livestock Improvement remains a co-operative company controlled by its Co-operative Control Shareholders (whose control is directly proportionate to the amount of products and services purchased by each such shareholder).
  - (b) Clause 3.2.3 restricts the issue and transfer of Securities so that they are only held by Users (or by other persons in certain specified circumstances). Again, this aims to protect the fundamental nature of a co-operative company.
  - (c) Clauses 10.1(b) and (d) place restrictions on the persons who may hold Investment Shares (so that such shares are only held by a Co-operative Control Shareholder, an Approved Holding Entity or the Company itself, or by other persons in certain specified circumstances).
  - (d) Clauses 10.2 to 10.7 (inclusive) and clause 13.5 relate to the acquisition and disposition of Investment Shares and, in particular, provide for the regulation of the minimum and maximum holding requirements for Investment Shares. Such provisions are intended to regulate the identity and interests of the shareholders, as is common for a co-operative company.
  - (e) Clause 24 lists matters, which require the consent of the Minister for Agriculture and Fisheries (or other relevant Minister). This provision is required by the Dairy Industry Restructuring Act 2001 and must therefore take precedence over all other provisions in the constitution and the Listing Rules.
8. The NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:
- (a) Clause 3.5.1(a) reflects Appendix 1 Rule 7.3.1(a). However that Rule only requires approval to be given by the classes of Quoted Equity Securities. As the Investment Shares are the only class of shares proposed to be quoted, clause 3.5.1(a) requires the approval of each class of Equity Securities, regardless of whether or not they are quoted.
  - (b) The rules in Appendix 1 Rule 7.3.3(b), Appendix 1 Rule 7.6.3(a) and Rule A4.3.2(b)(i) (which all relate to issues of securities before 1995) have not been included in the Constitution because, as a matter of fact, these provisions do not apply to the Company.
  - (c) Where the Listing Rules contain provisions which only apply to the issue of securities to, or holding of securities by, employees of the NZAX Issuer (e.g. Appendix 1 Rules 7.3.2(a), 7.3.6, and 7.6.5(b)), these provisions have not been replicated in the Constitution as employees of the Company are not permitted to own shares in the Company and, to the extent Directors are categorised as employees, it is not proposed that an issue of securities ever be made to Directors as a separate class.
  - (d) Where the Listing Rules refer to Minimum Holdings, these provisions have not been replicated in the Constitution as the minimum and maximum holding requirements in respect of the Co-operative Control Shares and the Investment Shares (and the issue or surrender of shares to meet those requirements) are expressly set out elsewhere in the Constitution. This means that the Rules in Appendix 1 Rule 7.3.4(e), Appendix 1 Rule 7.3.8(c), Appendix 1 Rule 7.6.2 (which is otherwise dealt with in clause 3.6.3) and Appendix 1 Rule 7.6.3 (which is otherwise dealt with in clause 3.6.4(b)) are not included in the Constitution.
  - (e) Clause 21 reflects Appendix 1 Rule 9.1. However, the definition of the "Average Market Capitalisation" has been amended to take account of the fact that it is only the Investment Shares which will have a market capitalisation value and that therefore the nominal value of the Co-operative Control Shares will be added to such value.
  - (f) Paragraph 6.1 of Schedule 1 reflects Rule A5.1.7; however it applies to notices of meetings of shareholders rather than to Quoted Security holders.

