



LEFT: AgResearch Grasslands senior scientist Dr Scott Knowles is researching new ways to enrich the nutritional content of fresh milk to provide more value for consumers and for farmers.

FINANCIAL STATEMENTS CONTENTS

Corporate Governance	44	15. Intangible Assets	65
Income Statement	45	16. Provisions	66
Statement of Recognised Income and Expenditure	45	17. Reconciliation of Net Surplus/ (Deficit) after Tax with Net Cash Flow from Operating Activities	68
Balance Sheet	46	18. Contingent Liabilities and Commitments	68
Cash Flow Statement	47	19. Investments in Subsidiaries	69
Statement of Accounting Policies	48	20. Investments in Associates	70
Notes to and Forming Part of the Financial Statements	55	21. Other Investments	71
1. Other Revenue	55	22. Joint Venture Investments	72
2. Operating Expenditure	55	23. Transactions with Related Parties	73
3. Other Gains and (Losses)	55	24. Financial Instruments	74
4. Finance Costs	55	25. Term Loans	78
5. Result before Strategic Investment (Reinvestment)	56	26. Capital Management	78
6. Taxation	56	27. Significant Events after Balance Date	78
7. Equity	59	28. Effect of Transition to NZ IFRS	78
8. Trade and Other Receivables	60	Audit Report	85
9. Biological Assets – Livestock	61	Statutory Reporting	86
10. Biological Assets – Forestry	62	Statement of Responsibility	87
11. Inventory	62	Executive Management Committee	88
12. Derivative Financial Instruments	62	Directory	89
13. Trade and Other Payables	63		
14. Property, Plant and Equipment	63		

CORPORATE GOVERNANCE

The Board promotes the highest standards of corporate governance practice and ethical conduct by all directors and employees of AgResearch Limited and its subsidiaries.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' 'Code of Proper Practice for Directors'. It has only independent directors on the Board, whose skills and experience bring balance and diversity to decision making.

ROLE OF THE BOARD

The Board is responsible to shareholders for charting the direction of the Group by the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework.

The Board delegates the conduct of the day-to-day affairs of the Company to the Chief Executive Officer within this framework. The Board is responsible for the appointment, from time to time, of the CEO. It annually reviews the CEO's performance.

The workings of the Board and its code of conduct are governed by the Companies Act and AgResearch's constitution, the Crown Research Institutes Act, the Crown Entities Act, the annual Statement of Corporate Intent and a Board Manual. This manual sets out all the functions and operating procedures of the Board. The policies approved by the Board clearly set out those matters on which only the Board can make decisions. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual financial statements, appointment of directors to subsidiaries and associates, major capital expenditure and acquisitions.

Each year, the Company produces a three-year Strategic Plan, a Statement of Corporate Intent and an operating budget, which are reviewed and approved by the Board. Operating and financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and three-year Plan.

INDEPENDENT PROFESSIONAL ADVICE

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings to assist in fulfilling their duties and responsibilities as directors.

DIRECTOR EDUCATION

The Board had a budget of \$10,000 to assist directors with the financial costs of attending courses and conferences on governance matters. Directors who attend report back at Board meetings on matters learnt that would improve the governance of the Company. The Chairman authorises expenditure from this budget.

BOARD MEMBERSHIP

The constitution currently sets the size of the Board at a minimum of two directors and a maximum of nine directors. The Board in the financial year consisted of the Chairman and six other directors. Directors are generally appointed for a three-year term and may be reappointed for further terms.

P Andrews retired on 30 June 2007. J Adams was appointed to the Board from 1 July 2007. R Christie retired on 30 June 2008. S Robinson was appointed as Chairman and A MacPherson was appointed to the Board from 1 July 2008. From 1 July 2008 the Board has the Chairman and seven other directors.

The constitution does not permit directors to hold shares in the Company.

DIRECTORS' MEETINGS

The table below sets out the Board and committee meetings attended by directors during the course of the financial year.

BOARD OF DIRECTORS	MEETINGS HELD	MEETINGS ATTENDED
Rick Christie (Chair)	13	13
Graham Fraser	13	13
Dr Jane Adams	13	13
Danny Chan	13	12
Richard Davison	13	13
Susan Huria	13	11
Dr Robert Welch	13	13

BOARD COMMITTEES

The Board has established two standing committees to guide and assist the Board with overseeing certain aspects of corporate governance – the Audit and Risk Committee and the Remuneration Committee. The Board and each Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

AUDIT AND RISK COMMITTEE	MEETINGS HELD	MEETINGS ATTENDED
Graham Fraser (Chair)	6	6
Danny Chan	6	5
Susan Huria	6	6

REMUNERATION COMMITTEE	MEETINGS HELD	MEETINGS ATTENDED
Richard Davison (Chair)	2	2
Rick Christie	2	2
Susan Huria	2	2

INCOME STATEMENT

For the year ended 30 June 2008

\$ 000's	Note	GROUP			COMPANY		
		ACTUAL 2008	BUDGET 2008	ACTUAL 2007	ACTUAL 2008	BUDGET 2008	ACTUAL 2007
Revenue							
Foundation of Research Science and Technology and Ministry of Research Science and Technology contracts		63,181	64,089	57,225	62,375	63,239	55,840
Commercial		70,204	82,174	62,462	72,901	84,244	65,315
Farm produce		6,214	6,791	5,700	6,153	6,765	5,633
Other revenue	1	9,690	8,814	8,718	2,990	2,842	2,963
Total operating revenue		149,289	161,868	134,105	144,419	157,090	129,751
Operating expenditure	2	(152,301)	(160,660)	(135,496)	(148,702)	(154,884)	(130,990)
Other gains and (losses)	3	7,904	2,100	(921)	7,540	2,100	(714)
Finance costs	4	(1,828)	(1,707)	(902)	(1,819)	(1,707)	(947)
Share of surplus/(deficit) of associates	20	22	(444)	30	–	–	–
Surplus/(deficit) before tax		3,086	1,157	(3,184)	1,438	2,599	(2,900)
Tax expense/(tax benefit)	6	37	591	901	710	591	(1,615)
Net surplus/(deficit) after tax for the year		3,049	566	(4,085)	728	2,008	(1,285)
Attributable to:							
Equity holders of the parent		3,300	659	(3,919)	728	2,008	(1,285)
Minority interest		(251)	(93)	(166)	–	–	–
		3,049	566	(4,085)	728	2,008	(1,285)

The statement of accounting policies and the accompanying notes form an integral part of these financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENDITURE

For the year ended 30 June 2008

\$ 000's	Note	GROUP			COMPANY		
		ACTUAL 2008	BUDGET 2008	ACTUAL 2007	ACTUAL 2008	BUDGET 2008	ACTUAL 2007
Net surplus/(deficit) after tax for the year		3,049	566	(4,085)	728	2,008	(1,285)
Income and expense recognised directly in equity:							
Gain/(loss) in asset revaluation reserve	7	–	–	8,333	–	–	8,333
Gain/(loss) in cash flow hedge reserve	7	(69)	–	69	(69)	–	69
Transfers from asset revaluation reserve	7	–	–	6,444	–	–	6,444
Net income recognised directly in equity		(69)	–	14,846	(69)	–	14,846
Total recognised income and expense		2,980	566	10,761	659	2,008	13,561
Total recognised income attributable to:							
Equity holders of the parent		3,231	659	10,927	659	2,008	13,561
Minority interest		(251)	(93)	(166)	–	–	–
		2,980	566	10,761	659	2,008	13,561

The statement of accounting policies and the accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 30 June 2008

	Note	GROUP			COMPANY		
		ACTUAL 2008	BUDGET 2008	ACTUAL 2007	ACTUAL 2008	BUDGET 2008	ACTUAL 2007
\$ 000's							
Current Assets							
Cash and cash equivalents		7,370	4,927	6,553	5,796	4,323	4,546
Trade and other receivables	8	27,962	24,854	30,955	28,987	24,522	31,786
Prepayments		1,191	1,345	1,345	1,171	1,308	1,308
Biological assets – livestock	9	5,095	3,234	4,517	5,095	3,234	4,517
Taxation	6	612	(3)	538	80	134	667
Inventory	11	974	1,054	1,054	684	782	782
Derivative financial instruments	12	52	–	173	52	–	173
Total Current Assets		43,256	35,411	45,135	41,865	34,303	43,779
Non-Current Assets							
Investments in subsidiaries	19	–	–	–	4,293	8,843	5,640
Investments in associates	20	345	2,597	2,540	245	3,017	2,516
Other investments	21	6,886	12,199	6,615	5,018	6,962	4,581
Joint venture investments	22	–	–	–	125	–	–
Property, plant and equipment	14	187,845	167,459	182,537	187,545	166,825	182,350
Biological assets – forestry	10	1,416	1,316	1,515	1,416	1,316	1,515
Derivative financial instruments	12	–	–	60	–	–	60
Other receivable	24	1,988	–	–	1,988	–	–
Deferred tax	6	–	470	–	–	272	–
Intangible assets	15	4,608	7,863	7,232	3,624	6,452	6,016
Total Non-Current Assets		203,088	191,904	200,499	204,254	193,687	202,678
Total Assets		246,344	227,315	245,634	246,119	227,990	246,457
Less :							
Current Liabilities							
Bank overdraft	25	–	–	3,035	–	–	3,035
Trade and other payables	13	21,060	22,491	17,244	24,493	23,297	19,443
Derivative financial instruments	12	9	–	–	9	–	–
Other loans	24	380	150	150	380	150	150
Provisions	16	6,291	5,147	9,084	6,151	5,027	8,965
Total Current Liabilities		27,740	27,788	29,513	31,033	28,474	31,593
Non-Current Liabilities							
Deferred tax	6	4,215	–	4,339	4,476	–	4,538
Term loans	25	20,000	20,000	20,000	20,000	20,000	20,000
Provisions	16	905	1,120	1,120	885	1,102	1,102
Total Non-Current Liabilities		25,120	21,120	25,459	25,361	21,102	25,640
Net Assets		193,484	178,407	190,662	189,725	178,414	189,224
Equity							
Share capital	7	47,268	47,073	47,073	47,268	47,073	47,073
Asset revaluation reserve	7	90,464	77,355	90,464	90,464	77,489	90,464
Available-for-sale asset revaluation reserve	7	591	–	944	591	–	944
Cash flow hedge reserve	7	–	–	69	–	–	69
Minority interest		(291)	–	(40)	–	–	–
Retained earnings	7	55,452	53,979	52,152	51,402	53,852	50,674
Total Equity		193,484	178,407	190,662	189,725	178,414	189,224

The statement of accounting policies and the accompanying notes form an integral part of these financial statements.



Sam Robinson – Chairman
28 August 2008



Graham Fraser – Director
28 August 2008

CASH FLOW STATEMENT

For the year ended 30 June 2008

	Note	GROUP			COMPANY		
		ACTUAL 2008	BUDGET 2008	ACTUAL 2007	ACTUAL 2008	BUDGET 2008	ACTUAL 2007
\$ 000's							
Cash received from operating activities							
Cash from revenue proceeds		152,262	167,107	123,568	147,532	161,169	120,402
Interest received		667	182	1,007	434	182	800
Dividends received		8	–	5	12	–	5
GST received		9,784	9,874	7,033	9,746	9,863	7,167
Total cash received from operating activities		162,721	177,163	131,613	157,724	171,214	128,374
Cash disbursed on operating activities							
Payments to employees		68,128	70,285	63,445	67,150	68,558	62,537
Payments to suppliers		68,223	76,614	60,850	62,183	71,150	59,036
Restructuring		1,493	1,562	2,235	1,493	1,562	2,235
GST paid		10,057	7,457	6,943	10,057	7,768	6,943
Income tax paid		51	80	114	4	–	–
Interest paid		1,828	1,707	769	1,819	1,707	811
Total cash disbursed on operating activities		149,780	157,705	134,356	142,706	150,745	131,562
Net cash flow from operating activities	17	12,941	19,458	(2,743)	15,018	20,469	(3,188)
Cash received from investing activities							
Disposal of property, plant and equipment		134	11,500	8,258	132	11,500	8,257
Disposal of investments and intangible assets		7,315	–	268	7,315	–	268
Repayment of loans from subsidiaries & associates		–	–	150	–	–	150
Total cash received from investing activities		7,449	11,500	8,676	7,447	11,500	8,675
Cash disbursed on investing activities							
Investment in property, plant and equipment		14,889	22,999	38,216	14,797	22,607	38,201
Purchase of other investments and intangible assets		2,074	6,550	5,492	3,808	6,550	5,537
Total cash disbursed on investing activities		16,963	29,549	43,708	18,605	29,157	43,738
Net cash flow from investing activities		(9,514)	(18,049)	(35,032)	(11,158)	(17,657)	(35,063)
Cash received from financing activities							
Term loans		–	–	20,000	–	–	20,000
Other loans		230	–	150	230	–	150
Increase in share capital		195	–	–	195	–	–
Total cash received from financing activities		425	–	20,150	425	–	20,150
Net cash flow from financing activities		425	–	20,150	425	–	20,150
Total net cash flow		3,852	1,409	(17,625)	4,285	2,812	(18,101)
Cash at beginning of the year		3,518	3,518	21,143	1,511	1,511	19,612
Cash at end of the year		7,370	4,927	3,518	5,796	4,323	1,511

The statement of accounting policies and the accompanying notes form an integral part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

REPORTING ENTITY

AgResearch Limited (the Company) is a profit oriented entity incorporated in New Zealand. Operating as a Crown Research Institute its principal activity is research and development in the pastoral sector of New Zealand. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Crown Research Institutes Act 1992, and the Public Finance Act 1989.

The Company is a limited liability company incorporated and domiciled in New Zealand. The Company, its subsidiaries, associates, and joint ventures comprise the Group.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-orientated entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 28 August 2008.

BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Group changed its accounting policies on 1 July 2006 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards', with 1 July 2006 as the date of transition. An explanation of how the transition from superseded policies to NZ IFRS has affected the Group and Company's Balance Sheet, Income Statement and Statement of Cash Flows is discussed in Note 28.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2008, the comparative information presented in these financial statements for the year ended

30 June 2007, and in the preparation of the opening NZ IFRS Balance Sheet at 1 July 2006 (as disclosed in Note 28), the Group and Company's date of transition.

Standards, amendments and interpretations not yet effective have not been early adopted by the Group.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective as at 28 August 2008 as they are not expected to have a significant impact on the disclosures required by the Group:

- NZ IFRS 3 (Amendment) 'Business Combinations' (effective for accounting periods beginning on or after 1 July 2009). The amendment includes a number of updates including the requirement that all costs relating to a business combination must be expensed and subsequent remeasurement of the business combination must be put through profit or loss. The impact will be dependent on changes in business combinations.

- NZ IFRS 8 'Operating Segments' (effective for accounting periods beginning on or after 1 January 2009) replaces NZ IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This will not impact on the Group as the Group's securities are not publically traded and the non reporting of segments will have minimal impact on the user's interpretation of the financial statements.

- NZ IAS 1 (Amendment) 'Presentation of Financial Statements' (effective for accounting periods beginning on or after 1 January 2009). The amendment requires a number of changes to the presentation and disclosures in financial statements.

- NZ IAS 23 (revised) 'Borrowing Costs' (effective for accounting periods beginning on or after 1 January 2009). NZ IAS 24 (July 2004) permits an entity to either expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under NZ IAS 23 (revised) 2007, entities are no longer permitted to choose between alternate treatments and must capitalise borrowing costs relating to qualifying assets. The Group does not currently have any borrowing costs directly attributable to an acquisition.

- NZ IFRIC 12 'Service Concession Arrangements' (effective for accounting periods beginning on or after 1 January 2008).

- NZ IFRIC 13 'Customer Loyalty Programmes' (effective for accounting periods beginning on or after 1 July 2008).

- NZ IFRIC 14 NZ IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding

Requirements and their Interaction' (effective for accounting periods beginning on or after 1 January 2008).

- IFRIC 15 'Agreements for the Construction of Real Estate' (effective for accounting periods beginning on or after 1 January 2009).

- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for accounting periods beginning on or after 1 October 2008).

- Amendments to NZ IFRS 2 'Share-Based Payment' – Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009).

- NZ IAS 27 'Consolidated and Separate Financial Statements' – revised 2008 (effective for accounting periods beginning on or after 1 July 2009).

- Revised Amendments to NZ IAS 32 'Financial Instruments: Presentation' and NZ IAS 1 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009).

- Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009).

- Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008 (effective for accounting periods beginning on or after 1 January 2009).

- Omnibus Amendments (effective for accounting periods beginning on or after 1 January 2008).

Critical Accounting Estimates and Assumptions

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant accounting policy or in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to estimated impairment of assets, income taxes, fair value of financial instruments and revenue recognition. In respect to the impairment of assets, an asset impairment methodology has been developed to guide the accounting estimate and assumptions for the assessment of impairment.

Fair Value Estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation and presentation of the financial statements are as follows:

(A) BASIS OF CONSOLIDATION

The consolidated financial statements comprise AgResearch Limited (the Company), together with its subsidiaries (the Group) as defined in NZ IAS 27 'Consolidated and

Separate Financial Statements' and the Group's interest in associates and through limited partnerships. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the Group's share of identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit or loss in the period of acquisition.

Subsidiaries held for sale are recognised and measured at fair value less costs to sell.

The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interests' share of post acquisition surpluses.

All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

Investments in subsidiaries are recorded at cost in the Company's financial statements.

A list of subsidiaries appears in Note 19.

Investments in Associates

An associate is an investee, not being a subsidiary or joint venture, over which the Group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The Group financial statements incorporate the Group's interest in associates, using the equity method, as from the date that significant influence commenced or until the date the significant influence ceased. The investments are initially recorded at cost and subsequently at the lower of carrying value and recoverable amount. Associates held for sale are accounted for in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The Group recognises its share of the associate's post acquisition net surplus or deficit for the year in its profit or loss. The Group's share of associates' surplus or deficit

is adjusted to align the accounting policies of the associate with that of the Group. The Group recognises its share of other post-acquisition movements in reserves in equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the Balance Sheet the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post-acquisition reserves of the associates. In assessing the Group's share of earnings of associates, the Group's share of any unrealised profits between Group companies and associates is eliminated.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Whenever there is an indication that the goodwill may be impaired any impairment is recognised immediately in profit or loss and is not subsequently reversed.

A list of associates appears in Note 20.

Interests In Joint Ventures

Joint ventures are joint arrangements between the Group and another party in which there is a contractual agreement to undertake a specific business project in which the venturers share several liability in respect of costs and liabilities of the project and share in any resulting output. The Group's share of the assets, liabilities, revenues and expenses of joint ventures are incorporated into the Group financial statements on a line by line basis using the proportionate method. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Joint Ventures held for sale are accounted for in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

Business combinations that occurred prior to the date of transition to NZ IFRS have not been restated retrospectively.

A list of joint ventures appears in Note 22.

(B) REVENUE RECOGNITION

Sale of Goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

completion of the contract at the balance sheet date. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Dividend and Interest Revenue

Dividend revenue from investments is recognised in the financial period in which the right to receive payment is established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(C) INCOME TAX

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences

associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to the income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net tax basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited to equity, in which case the deferred tax or current tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Foreign Tax Liabilities and Assets

Exchange differences on deferred foreign tax liabilities or assets recognised in profit or loss for the period are classified as deferred tax expense or income.

Foreign deferred tax assets that result from operating losses in respect of subsidiaries, associates, joint venture entities or interests in joint venture operations are recognised in the financial statements, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the future.

(D) FOREIGN CURRENCY

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each group entity are expressed in New Zealand dollars ('NZ\$'), which is the functional currency of the Company and the presentation currency for the Group financial statements.

In preparing the financial statements of the individual entities, transactions in currencies

other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into forward foreign exchange contracts to manage its exposure to foreign exchange rate risk and interest rate swaps to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in Note 12 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedge item arising from the hedge risk is amortised to profit or loss from that date.

Currently the Group does not have any items in this category.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity is recognised immediately in profit or loss.

The Group's cash flow hedges are detailed in Note 12.

Net Investment Hedge

Hedges of net investment in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the foreign currency translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

Derivatives that do not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(F) FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial Assets at Fair Value through Profit or Loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading if they are not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in Note 24.

Held to Maturity Investments

Financial instruments purchased with the intention of being held for the long term or until maturity are recorded at amortised cost using the effective interest rate method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated

future cash receipts through the expected life of the financial asset, or where appropriate a shorter period, to the net carrying amount of the financial asset.

Available-For-Sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Certain shares held by the Group are classified as being available-for-sale and are stated at fair value less impairment. Fair value is determined in the manner described in Note 24. Gains or losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are stated at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, as significant or prolonged decline in the fair value of the security below its costs is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available-for-sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or

• it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets,

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Assets Carried at Fair Value

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in the fair value are recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

(G) PAYABLES

Trade payables and other accounts payable

are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(H) INVENTORIES

Inventories are valued at the lower of cost, determined on a first in first out basis, and net realisable value. Inventory comprises feedstock, cereal crops, wool, breeder seed, farm sundry consumables and property and plant maintenance consumables. The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

(I) PROPERTY, PLANT AND EQUIPMENT

The Group has the following classes of property, plant and equipment:

- Land – Campus
- Land – Farm
- Land Improvements
- Buildings – Campus
- Buildings – Farm
- Leasehold Improvements
- Vehicles
- Plant and Equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings are revalued at least every 3 years or whenever there has been a significant movement in the fair value. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

All other assets are recorded at cost less accumulated depreciation and accumulated impairment.

Capital work in progress is recorded at cost.

Depreciation is provided for on a straight line basis on all tangible property, plant and equipment, other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost or other revalued amount over their estimated useful lives. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Land Improvements	40 years
Buildings (Including Farms)	10-80 years
Leasehold Improvements	5 years
Vehicles	3-10 years
Plant and Equipment	
Computer Hardware	3-5 years
Other Plant and Equipment	5-10 years

(J) BIOLOGICAL ASSETS

Livestock

Livestock are valued at their fair value less estimated point-of-sale costs by reference to the most relevant active market. An allowance is made for diminution in value of certain livestock held for research trials. Changes in the valuation of livestock are recognised in profit or loss for the period. Gains or losses for livestock held throughout the year are recorded as holding gains and losses and are included in the fair value changes recognised in profit or loss.

Forestry Assets

Forests are recorded at their fair value less point-of-sale costs based on an annual basis using anticipated harvesting timing and yield and an applicable discount rate. Changes in the valuation of forests are accounted for through profit or loss.

(K) LEASED ASSETS

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

Group as Lessor

Amounts due from leases under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term.

Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Group as Lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term, whichever is the shorter.

Operating lease payments are included in profit or loss in equal instalments over the lease term.

(L) INTANGIBLE ASSETS

Purchased Intangible Assets

Purchased intangible assets such as intellectual property, patents, trademarks and licences are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives, which varies between 3 and 7 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (between 3 and 5 years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Internally-Generated Intangible Assets – Research and Development Expenditure

Research expenditure is expensed in the period incurred.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only.

Development expenditure is expensed in the period incurred unless all of the following conditions have been demonstrated:

- the intention to complete the intangible asset and use or sell it;
- how the asset created will generate future economic benefits;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development;
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it; and
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally-generated intangible assets that satisfy the asset recognition criteria above, are amortised on a straight line basis over future periods from which benefits are expected to accrue. These future periods are between 5 and 7 years.

Computer software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 5 years).

Goodwill on Acquisition

Goodwill, which represents the excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities, acquired at the time of acquisition of a business, is not amortised, but tested for impairment annually. Whenever there is an indication that the goodwill may be impaired any impairment is recognised immediately in profit or loss and is not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected

to benefit from the business combination in which the goodwill arose.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in Associates' above.

Other Intangible Assets

Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment. Where there is an active market for an intangible asset, the asset is recorded at a revalued amount, being fair value less any subsequent accumulated amortisation and subsequent accumulated impairment losses. Revaluations are for each intangible asset, not for a class of asset.

Disposal of Intangible Assets

Realised gains and losses arising from disposal of intangible assets are recognised in profit or loss in the period in which the transaction occurs.

(M) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are recorded at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(N) INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(O) IMPAIRMENT OF ASSETS

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets that are subject to amortisation or depreciation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2008

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

(P) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

All provisions are recorded at the best estimate of the expenditure required to settle the obligation at balance date. Where the effect is material, the expected expenditures are discounted to their present value using pre-tax discount rates.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

A provision for an onerous contract is recognised where the economic benefits expected to be derived from a contract are less than the unavoidable costs of meeting the Group's obligation under the contract. Present obligations arising under onerous

contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(Q) BORROWINGS

Borrowings are recorded at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

(R) BORROWING COSTS

Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

(S) EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, retirement leave/gratuities and sick leave where it is probable that settlement will be made and they are capable of being measured reliably.

Provision for employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rates as at the reporting date and are recorded as current liabilities.

Provision for employee benefits which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date and are recorded as non-current liabilities.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Defined Contribution Plan

There are a small number of employees that are a part of Crown Defined Benefit Superannuation Plan. Future benefits are generated by the Crown and the Group has no legal or financial contribution liability for future benefits. The Group's contributions to the plan are expensed when incurred.

(T) GOODS AND SERVICES TAX

The financial statements are prepared on a GST exclusive basis with the exception of receivables and payables which include GST.

(U) STATEMENT OF CASH FLOWS

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, demand deposits and other highly liquid investments readily convertible into cash. Bank overdrafts are shown as current liabilities in the Balance Sheet.

Operating Activities

Operating activities include all transactions and other events that are not investing or financing activities.

Investing Activities

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing Activities

Financing activities are those activities relating to changes in the equity and debt structure of the Group.

(V) SEGMENTAL REPORTING

The Group operates in one segment.

(W) INSURANCE CONTRACTS

The Group has elected to join the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of 4 years up to a specified maximum. At the end of the 4 year period, the Group pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes back to ACC.

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

(X) BUDGET FIGURES

The budget figures are those approved by the Board. They have been prepared using the same accounting policies as for these financial statements.

CHANGES IN ACCOUNTING POLICIES

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	Note	GROUP		COMPANY	
		2008	2007	2008	2007
1 OTHER REVENUE					
Interest from bank deposits		667	875	434	669
Dividends		12	22	12	22
Royalties		7,241	6,227	765	678
Rental		1,770	1,594	1,779	1,594
		9,690	8,718	2,990	2,963
2 OPERATING EXPENDITURE					
Employee benefit expense – salary and wages		67,895	63,368	66,901	62,421
Employee benefit expense – defined contribution plans		764	807	753	797
Depreciation	14	8,883	7,430	8,804	7,376
Operating lease expenses		4,002	3,450	3,911	3,231
Other operating expenses		26,005	26,702	24,895	25,830
Site and property expenses		6,968	6,051	6,962	6,034
Supplies		11,773	11,434	10,250	10,407
Science 3rd party sub-contracts		19,226	10,565	17,490	9,597
Auditors' remuneration – for services as auditors		280	213	241	159
Bad debts		31	24	31	24
Change in provision for doubtful debts		(150)	94	(150)	94
Directors' fees		362	267	297	247
Donations		303	297	303	297
Financial and legal expenses		2,271	2,582	1,898	2,230
Amortisation of intangible assets	15	1,791	1,796	1,577	1,530
Impairment of intangible assets	15	1,551	–	1,436	–
Impairment of investments in subsidiaries	19	–	–	2,896	329
Impairment of investments in associates	20	–	–	–	31
Impairment of available-for-sale financial assets	21	166	–	–	–
Impairment reversal of property, plant and equipment	14	(243)	–	(40)	–
Impairment reversal of investments in associates	20	–	–	(165)	(48)
Write down of assets		423	416	412	404
		152,301	135,496	148,702	130,990
3 OTHER GAINS AND (LOSSES)					
Net gain/(loss) from foreign currency exchange		233	(313)	237	(226)
Net gain/(loss) on derivatives		(90)	(138)	(90)	(138)
Net gain/(loss) on sale of property, plant and equipment		47	(261)	48	(262)
Net gain/(loss) on sale of investments in subsidiaries		380	–	–	–
Net gain/(loss) on sale of investments in associates		6,753	–	6,764	–
Net gain/(loss) on sale of intangible assets		–	(121)	–	–
Change in fair value of forestry	10	(204)	(34)	(204)	(34)
Change in fair value of livestock	9	785	(54)	785	(54)
		7,904	(921)	7,540	(714)
4 FINANCE COSTS					
Interest on bank overdrafts and loans		1,828	902	1,790	907
Interest payable on intercompany loans		–	–	29	40
		1,828	902	1,819	947

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
5 RESULT BEFORE STRATEGIC INVESTMENT (REINVESTMENT)				
As per the Minister's Operating Framework, Crown Research Institutes (CRIs) may seek extraordinary strategic investments that lower their rate of return but which will, or quite probably will, advantage the CRI and New Zealand in the longer term. The Minister will actively contemplate a lower rate of return in such circumstances, especially when the science involved in such a strategic investment is higher risk than normal.				
The effect of these strategic investments are:				
Surplus/(deficit) before tax	3,086	(3,184)		
Add back strategic investments				
National good activities	1,225	2,228		
Commercial with a lower than average rate of return	3,753	4,263		
Total strategic investments	4,978	6,491		
Adjusted surplus before tax and reinvestment	8,064	3,307		

6 TAXATION

TAX EXPENSE COMPRISES:

	2008	2007	2008	2007
Current tax expense/(benefit)	357	(208)	584	(354)
Adjustments recognised in the current year in relation to the current tax of prior years	(396)	228	(46)	235
Prior period tax losses offset for no consideration	–	–	53	(2,374)
Deferred tax expense relating to the origination and reversal of temporary differences	52	500	119	502
	(344)	728	126	(1,637)
Effect of changes in tax rates and laws	24	381	–	376
Total tax expense/(benefit)	37	901	710	(1,615)
Attributable to:				
Continuing operations	37	901	710	(1,615)

The total charge for the year can be reconciled to the accounting profit as follows:

	2008	2007	2008	2007
Profit from Operations	3,086	(3,184)	1,438	(2,900)
Income tax expense calculated at 33%	1,018	(1,051)	475	(957)
Effect of revenue that is exempt from taxation	(370)	(69)	–	–
Donations	100	98	100	98
Foreign surplus not recognised for tax	13	(31)	–	–
Effect of expenses that are not deductible in determining taxable profit	1,572	951	2,334	1,047
Loss on sale of investment not deductible for tax	76	–	–	–
Non assessable capital gain	(2,206)	261	(2,206)	262
Effect of deferred tax transferred on sale of revalued asset	–	(302)	–	(302)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	415	435	–	–
Effect of previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	(209)	–	–	–
Effect on deferred tax balances due to the change in income tax rate from 33% to 30%	24	381	–	376
	433	673	703	524
Adjustments recognised in the current year in relation to the current tax of prior years	(396)	228	(46)	235
Prior period tax losses transferred for no consideration	–	–	53	(2,374)
Income tax expense recognised in profit or loss	37	901	710	(1,615)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
6 TAXATION CONTINUED				
INCOME TAX RECOGNISED DIRECTLY IN EQUITY				
Deferred tax				
Arising on income and expenses taken directly to equity:				
Revaluations of available-for-sale financial assets	(151)	27	(151)	27
Revaluation of financial instruments treated as cash flow hedges	(30)	(51)	(30)	(51)
Total deferred tax recognised directly in equity	(181)	(24)	(181)	(24)
CURRENT TAX ASSETS				
Tax refund receivable	43	39	–	–
Unutilised tax losses	569	499	80	667
	612	538	80	667

\$ 000's	GROUP					
	Opening Balance	Charged to Income	Charged to Equity	Acquisitions /Disposals	Changes in Tax Rates	Closing Balance
DEFERRED TAX BALANCES						
Deferred tax assets/(liabilities) arise from the following:						
2008						
Temporary differences						
Cash flow hedges	(30)	–	30	–	–	–
Biological assets	(376)	(4)	–	–	–	(380)
Property, plant & investments	(6,259)	774	–	19	(11)	(5,477)
Intangible assets	(206)	51	–	–	–	(155)
Available-for-sale financial assets	(405)	–	151	–	–	(254)
Provisions	2,363	(361)	–	–	(11)	1,991
Doubtful debts	76	(52)	–	–	–	24
Other financial liabilities	21	(21)	–	–	–	–
	(4,816)	387	181	19	(22)	(4,251)
Unused tax losses and credits						
Tax losses	477	(439)	–	–	(2)	36
	(4,339)	(52)	181	19	(24)	(4,215)
2007						
Temporary differences						
Cash flow hedges	(81)	–	51	–	–	(30)
Biological assets	(445)	69	–	–	–	(376)
Property, plant & investments	(6,186)	184	–	–	(257)	(6,259)
Intangible assets	444	(650)	–	–	–	(206)
Available-for-sale financial assets	(378)	–	(27)	–	–	(405)
Provisions	2,895	(410)	–	–	(122)	2,363
Doubtful debts	45	31	–	–	–	76
Other financial liabilities	167	(146)	–	–	–	21
	(3,539)	(922)	24	–	(379)	(4,816)
Unused tax losses and credits						
Tax losses	57	422	–	–	(2)	477
	(3,482)	(500)	24	–	(381)	(4,339)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	COMPANY					
	Opening Balance	Charged to Income	Charged to Equity	Acquisitions / Disposals	Changes in Tax Rates	Closing Balance
\$ 000's						
6 TAXATION CONTINUED						
DEFERRED TAX BALANCES						
Deferred tax assets/(liabilities) arise from the following:						
2008						
Temporary differences						
Cash flow hedges	(30)	–	30	–	–	–
Biological assets	(376)	(4)	–	–	–	(380)
Property, plant & investments	(6,242)	662	–	–	–	(5,580)
Intangible assets	(249)	94	–	–	–	(155)
Available-for-sale financial assets	(405)	–	151	–	–	(254)
Provisions	2,233	(364)	–	–	–	1,869
Doubtful debts	76	(52)	–	–	–	24
Other financial liabilities	21	(21)	–	–	–	–
	(4,972)	315	181	–	–	(4,476)
Unused tax losses and credits						
Tax losses	434	(434)	–	–	–	–
	(4,538)	(119)	181	–	–	(4,476)
2007						
Temporary differences						
Cash flow hedges	(81)	–	51	–	–	(30)
Biological assets	(445)	69	–	–	–	(376)
Property, plant & investments	(6,160)	179	–	–	(261)	(6,242)
Intangible assets	302	(551)	–	–	–	(249)
Available-for-sale financial assets	(378)	–	(27)	–	–	(405)
Provisions	2,866	(518)	–	–	(115)	2,233
Doubtful debts	45	31	–	–	–	76
Other financial liabilities	167	(146)	–	–	–	21
	(3,684)	(936)	24	–	(376)	(4,972)
Unused tax losses and credits						
Tax losses	–	434	–	–	–	434
	(3,684)	(502)	24	–	(376)	(4,538)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	GROUP		COMPANY	
	2008	2007	2008	2007
\$ 000's				
6 TAXATION CONTINUED				
UNRECOGNISED DEFERRED TAX ASSETS				
The following deferred tax assets have not been recognised at the balance sheet date:				
Tax losses	59	59	–	–
UNRECOGNISED TAXABLE TEMPORARY DIFFERENCES ASSOCIATED WITH INVESTMENTS AND INTERESTS				
Taxable temporary differences in relation to investments in subsidiaries, branches and associates and interest in joint ventures for which deferred tax liabilities have not been recognised are attributable to the following:				
Foreign subsidiaries	479	376	–	–
IMPUTATION CREDITS				
Balance at beginning of year	1,473	1,481	–	–
Attached to dividends received	(12)	–	–	–
Prior period adjustments	(359)	–	–	–
Taxation paid/(refund)	47	(8)	–	–
Balance at end of year	1,149	1,473	–	–
Imputation credits available directly and indirectly to shareholders of the parent company through:				
Subsidiaries	1,149	1,473	–	–
7 EQUITY				
SHARE CAPITAL				
Capital consists of 47,268,000 authorised ordinary shares fully paid to \$1.00 each (2007: 47,073,000 authorised ordinary shares).				
RETAINED EARNINGS				
Balance at beginning of year	52,152	49,627	50,674	45,515
Net surplus/(deficit) attributable to equity holders of the parent	3,300	(3,919)	728	(1,285)
Transfer from asset revaluation reserve	–	6,444	–	6,444
Balance at end of year	55,452	52,152	51,402	50,674
RESERVES				
Total reserves				
Balance at the beginning of the year	91,477	89,457	91,477	89,457
Current year movement	(422)	2,020	(422)	2,020
Balance at end of year	91,055	91,477	91,055	91,477
Asset revaluation reserve				
Balance at beginning of year	90,464	88,576	90,464	88,576
Revaluation increases	–	8,332	–	8,332
Transfer to retained earnings	–	(6,444)	–	(6,444)
Balance at end of year	90,464	90,464	90,464	90,464

The asset revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the asset revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
7 EQUITY CONTINUED				
Available-for-sale revaluation reserve				
Balance at beginning of year	944	881	944	881
Revaluation increases/(decreases)	(504)	90	(504)	90
Transfer to deferred tax	151	(27)	151	(27)
Balance at end of year	591	944	591	944

The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss.

Cash flow hedge reserve

Balance at beginning of year	69	–	69	–
Gain recognised	–	99	–	99
Transfer to initial carrying value of hedged item	(69)	–	(69)	–
Transfer to deferred tax	–	(30)	–	(30)
Balance at end of year	–	69	–	69

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy. There are no forecast transactions for which hedge accounting had previously been used which are no longer expected to occur.

8 TRADE AND OTHER RECEIVABLES

Trade receivables	22,489	16,590	19,267	13,675
Reimbursement provision receivable	–	2,450	–	2,450
Receivables from associates	1,854	8,500	1,854	8,500
Receivables from subsidiaries	–	–	4,327	3,143
Receivables from other related parties	3,698	3,644	3,618	4,247
Total receivables	28,041	31,184	29,066	32,015
Less provision for doubtful debts	79	229	79	229
Net receivables	27,962	30,955	28,987	31,786

The reimbursement provision receivable arises from the Crown's agreement to reimburse the Group for costs that the Group incurs in removing contamination from the Wallaceville Campus. The Group has recognised, as a liability, the anticipated cost of removing the contamination (refer to Note 16).

The fair value of trade and other receivables is approximately equal to their carrying value.

Terms of trade vary according to individual customer contracts. Trade receivables are assessed for impairment on an individual basis. The only receivables impaired are provided for within doubtful debts. As of 30 June 2008, trade receivables of \$898,196 (2007: \$1,150,233) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of defaults. The ageing analysis of trade receivables is as follows:

1 to 2 months	21,512	15,211	18,353	12,622
2 to 3 months	245	772	182	477
Over 3 months	732	607	732	576
	977	1,379	914	1,053

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP AND COMPANY				
	Sheep	Beef Cattle	Dairy Cattle	Deer	Total

9 BIOLOGICAL ASSETS – LIVESTOCK

The Group's livestock consists of sheep, beef cattle, dairy cattle and deer.

2008

Reconciliation of changes in the carrying value

Balance at beginning of year	1,151	897	1,958	511	4,517
Increases due to acquisitions	227	336	372	–	935
Decreases due to sales	(937)	(888)	(300)	(267)	(2,392)
Net increase due to births and deaths	530	350	227	143	1,250
Changes in fair value less estimated point-of-sale costs	(89)	(67)	890	51	785
Balance at end of year	882	628	3,147	438	5,095

Quantity of stock at end of year	17,211	1,631	2,059	1,064
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2007

Reconciliation of changes in the carrying value

Balance at beginning of year	1,854	1,430	1,565	292	5,141
Increases due to acquisitions	400	336	234	24	994
Decreases due to sales	(1,424)	(1,583)	(132)	(183)	(3,322)
Net increase due to births and deaths	608	797	220	133	1,758
Changes in fair value less estimated point-of-sale costs	(287)	(83)	71	245	(54)
Balance at end of year	1,151	897	1,958	511	4,517

Quantity of stock at end of year	21,803	1,761	2,033	1,580
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Livestock valuation method

Livestock was valued by independent valuers by reference to market evidence of recent transactions for similar livestock.

Financial risk management strategies

The Group is exposed to financial risks arising from changes in livestock prices. Generally the Group takes normal commercial industry measures to manage the risks of a decline in livestock prices except where livestock is held for research purposes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP & COMPANY	
	2008	2007
10 BIOLOGICAL ASSETS – FORESTRY		
The Group has radiata pine tree crops at Whatawhata, Flockhouse, Ballantrae and Invermay.		
Reconciliation of changes in the carrying value		
Balance at beginning of year	1,515	1,463
Increases due to capitalised expenditure	112	114
Decreases due to harvesting	(7)	(28)
Changes in fair value less estimated point-of-sale costs	(204)	(34)
Balance at end of year	1,416	1,515
Area (ha) of forest at end of year	464	457

Forestry valuations

Forestry was valued by Alan Bell and Associates as at 30 June 2008 based on pre-tax cash flows, taking into account anticipated harvest timing and yield. The value of forestry at 30 June 2008 was \$1,416,151 (2007: \$1,515,080). Forestry includes AgResearch Limited's share of forestry held as part of the Tainui Forestry Joint Venture.

Financial risk management strategies

The Group is exposed to financial risks arising from changes in timber prices. The Group is a long-term forestry investor and does not expect timber prices to decline significantly in the foreseeable future, therefore, has not taken any measures to manage the risks of a decline in timber prices.

11 INVENTORY

Inventory comprises consumables held for farm and textiles operations.

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
12 DERIVATIVE FINANCIAL INSTRUMENTS				
ASSETS				
Forward exchange rate agreements				
Cash flow hedges	8	157	8	157
Interest rate swaps				
Cash flow hedges	44	76	44	76
	52	233	52	233
Represented by:				
Current assets	52	173	52	173
Non-current assets	–	60	–	60
	52	233	52	233
LIABILITIES				
Forward exchange rate agreements				
Fair value hedges	7	–	7	–
Cash flow hedges	2	–	2	–
	9	–	9	–
Represented by:				
Current liabilities	9	–	9	–

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate of New Zealand. The Group settles the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
13 TRADE AND OTHER PAYABLES				
Trade payables	14,372	11,917	13,408	10,612
Payables to associates	–	19	–	19
Payables to subsidiaries	–	–	4,222	3,256
Payables to other related parties	56	8	4	–
Goods and services tax (GST)	902	1,175	1,125	1,436
Payables to Directors	3	19	3	19
Revenue in advance	4,218	3,558	4,238	3,558
Accrued salaries and wages	1,509	548	1,493	543
Total payables	21,060	17,244	24,493	19,443

The fair value of payables is approximately equal to their carrying value as all amounts are expected to be settled within 90 days. No interest is charged on trade payables.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

\$ 000's	GROUP					Total
	Land & Land Improvements	Buildings	Leasehold Improvements	Plant & Equipment	Vehicles	
14 PROPERTY, PLANT AND EQUIPMENT						
2008						
Balance at beginning of year	90,158	73,913	772	17,687	7	182,537
Additions	917	9,896	51	3,465	48	14,377
Disposals	(14)	(347)	–	(68)	–	(429)
Impairment losses reversed	–	–	–	243	–	243
Depreciation	(362)	(3,040)	(65)	(5,407)	(9)	(8,883)
Balance at end of year	90,699	80,422	758	15,920	46	187,845
Cost or valuation	91,378	85,954	1,346	61,027	167	239,872
Accumulated depreciation	(679)	(5,532)	(588)	(45,107)	(121)	(52,027)
Balance at end of year	90,699	80,422	758	15,920	46	187,845
2007						
Balance at beginning of year	83,660	56,569	787	11,529	–	152,545
Additions	5,662	20,710	46	11,182	7	37,607
Disposals	(7,170)	(813)	–	(535)	–	(8,518)
Revaluations	8,333	–	–	–	–	8,333
Depreciation	(327)	(2,553)	(61)	(4,489)	–	(7,430)
Balance at end of year	90,158	73,913	772	17,687	7	182,537
Cost or valuation	90,476	76,456	1,295	58,120	119	226,466
Accumulated depreciation	(318)	(2,543)	(523)	(40,433)	(112)	(43,929)
Balance at end of year	90,158	73,913	772	17,687	7	182,537
1 July 2006						
Cost or valuation	83,660	56,569	1,249	49,870	121	191,469
Accumulated depreciation	–	–	(462)	(38,341)	(121)	(38,924)
Balance at 1 July 2006	83,660	56,569	787	11,529	–	152,545

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	COMPANY					Total
	Land & Land Improvements	Buildings	Leasehold Improvements	Plant & Equipment	Vehicles	
14 PROPERTY, PLANT AND EQUIPMENT CONTINUED						
2008						
Balance at beginning of year	90,158	73,913	766	17,506	7	182,350
Additions	917	9,896	51	3,471	48	14,383
Disposals	(14)	(347)	–	(63)	–	(424)
Impairment losses reversed	–	–	–	40	–	40
Depreciation	(362)	(3,040)	(63)	(5,330)	(9)	(8,804)
Balance at end of year	90,699	80,422	754	15,624	46	187,545
Cost or valuation	91,378	85,954	1,333	60,149	167	238,981
Accumulated depreciation	(679)	(5,532)	(579)	(44,525)	(121)	(51,436)
Balance at end of year	90,699	80,422	754	15,624	46	187,545
2007						
Balance at beginning of year	83,660	56,569	778	11,310	–	152,317
Additions	5,662	20,710	46	11,169	7	37,594
Disposals	(7,170)	(813)	–	(535)	–	(8,518)
Revaluations	8,333	–	–	–	–	8,333
Depreciation	(327)	(2,553)	(58)	(4,438)	–	(7,376)
Balance at end of year	90,158	73,913	766	17,506	7	182,350
Cost or valuation	90,476	76,456	1,282	57,421	119	225,754
Accumulated depreciation	(318)	(2,543)	(516)	(39,915)	(112)	(43,404)
Balance at end of year	90,158	73,913	766	17,506	7	182,350
1 July 2006						
Cost or valuation	83,660	56,569	1,236	49,184	121	190,770
Accumulated depreciation	–	–	(458)	(37,874)	(121)	(38,453)
Balance at 1 July 2006	83,660	56,569	778	11,310	–	152,317

Land and buildings were revalued at 30 June 2006 by DTZ New Zealand Limited, independent valuers not connected with the Group, by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The class of Land – Campus, including the Wallaceville campus which is being considered for sale, was revalued as at 30 June 2007.

Had the Group's land and buildings (other than land and buildings classified as held for sale or included in a disposal group) been measured on a historical cost basis, their carrying amount would have been as follows:

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
Land and Land Improvements	20,448	19,685	20,448	19,685
Buildings	46,269	45,897	46,269	45,897

Impairment Adjustment

Property, plant and equipment held by the Group was reviewed for impairment. An impairment reversal for property, plant and equipment of \$243,137 (Company: \$39,683) was made in 2008 (2007: \$0; Company \$0) in the Income Statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	Note	GROUP			Total
		Intellectual Property	Patents & Licences	Software	
15 INTANGIBLE ASSETS					
2008					
Balance at beginning of year		5,649	34	1,549	7,232
Amortisation	2	(1,175)	(1)	(615)	(1,791)
Capitalised		39	20	–	59
Purchased		–	–	895	895
Impairment	2	(1,436)	–	(115)	(1,551)
Asset write down		–	(37)	–	(37)
Disposal on derecognition of a subsidiary		–	(10)	(129)	(139)
Disposal		–	–	(60)	(60)
Balance at end of year		3,077	6	1,525	4,608
Cost		13,764	84	6,131	19,979
Accumulated amortisation		(10,687)	(78)	(4,606)	(15,371)
Balance at end of year		3,077	6	1,525	4,608
2007					
Balance at beginning of year		6,802	17	1,793	8,612
Amortisation	2	(1,201)	(5)	(590)	(1,796)
Capitalised		48	–	–	48
Purchased		–	22	346	368
Balance at end of year		5,649	34	1,549	7,232
Cost		15,161	111	5,741	21,013
Accumulated amortisation		(9,512)	(77)	(4,192)	(13,781)
Balance at end of year		5,649	34	1,549	7,232
2006					
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
16 PROVISIONS				
Balance at beginning of year	10,204	9,453	10,067	9,366
Provisions made during the year	7,336	8,075	7,192	7,954
Provisions used during the year	(9,176)	(6,576)	(9,055)	(6,506)
Provisions reversed during the year	(1,168)	(748)	(1,168)	(747)
Balance at end of year	7,196	10,204	7,036	10,067
Represented by:				
Current liabilities	6,291	9,084	6,151	8,965
Non-current liabilities	905	1,120	885	1,102
Total provisions	7,196	10,204	7,036	10,067

The resulting outflows of all provisions except for Long Term Employee Entitlements are expected to be paid within the following financial year. The provisions made are based on the best current estimate of outflows expected to settle these obligations.

Restructuring Provision

Balance at beginning of year	1,012	2,958	1,012	2,958
Provision made during the year	50	–	50	–
Provision used during the year	(880)	(1,321)	(880)	(1,321)
Provision reversed during the year	–	(625)	–	(625)
Balance at end of year	182	1,012	182	1,012

Represented by:

Current liabilities	182	1,012	182	1,012
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The restructuring provision represents the anticipated cost of the closure of the Wallaceville Campus which is near completion.

Remediation Provision

Balance at beginning of year	2,650	–	2,650	–
Provision made during the year	–	2,650	–	2,650
Provision used during the year	(1,481)	–	(1,481)	–
Provision reversed during the year	(969)	–	(969)	–
Balance at end of year	200	2,650	200	2,650

Represented by:

Current liabilities	200	2,650	200	2,650
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The remediation provision represents the anticipated cost of removing contamination from the Wallaceville Campus. The provision reversed during the year is offset by a reversal in the reimbursement provision receivable (refer to Note 8).

Employee Entitlements Provision

Balance at beginning of year	6,180	6,162	6,046	6,077
Provision made during the year	6,700	5,019	6,562	4,901
Provision used during the year	(6,372)	(4,878)	(6,256)	(4,810)
Provision reversed during the year	(199)	(123)	(199)	(122)
Balance at end of year	6,309	6,180	6,153	6,046

Represented by:

Current liabilities	5,404	5,060	5,268	4,944
Non-current liabilities	905	1,120	885	1,102
	6,309	6,180	6,153	6,046

Employee entitlements represents annual leave, alternative days leave, sick leave, long service leave and performance pay.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
16 PROVISIONS CONTINUED				
ACC Provision				
Balance at beginning of year	362	333	359	331
Provision made during the year	586	406	580	403
Provision used during the year	(443)	(377)	(438)	(375)
Balance at end of year	505	362	501	359
Represented by:				
Current liabilities	505	362	501	359

ACC PARTNERSHIP PROGRAMME

Liability valuation

An independent actuarial valuer has calculated the Group's liability as at 30 June 2008. The valuer has attested satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding liability.

The Group has chosen a stop loss limit of 175% of risk which equates to 183% of the industry premium. The stop loss limit means that the Group will only carry the total cost of claims up to \$176,000. Pre-valuation date claim inflation has been taken as 50% of movements in the CPI and 50% of the movements in the Average Weekly Earnings (AWE) Index. Post-valuation date claim inflation has been taken as 4% per annum. A discount rate of 6.8% has been used.

The value of the liability is not material for the Group's financial statements, therefore, any changes in assumptions will not have a material impact on the financial statements.

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

Objectives for managing risks

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
17 RECONCILIATION OF NET SURPLUS/(DEFICIT) AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES				
Net surplus/(deficit) after tax	3,049	(4,085)	728	(1,285)
Non-cash items				
Depreciation	8,883	7,430	8,804	7,376
Intangible assets amortisation and impairment	3,342	1,796	3,013	1,530
Intangible assets capitalisation	(59)	(48)	–	–
Provision for long term staff liabilities	(215)	(29)	(217)	(31)
Equity accounted profit	(22)	(30)	–	–
Investment write down and revaluation	166	–	2,731	312
Change in fair value of forestry	204	34	204	34
Asset impairment/write down	423	416	412	404
Provision for doubtful debts	(150)	94	(150)	94
Unrealised loss on derivative financial instruments	90	138	90	138
Change in tax	(74)	(324)	587	(1,849)
Change in deferred tax	(124)	857	(62)	854
Movements in working capital				
Change in inventory	80	(90)	98	(75)
Change in livestock	(578)	624	(578)	624
Change in receivables	2,993	(13,433)	2,799	(14,805)
Change in prepayments	154	(172)	137	(143)
Change in provisions	(2,793)	981	(2,814)	953
Change in payables	3,816	3,245	5,050	2,921
Items classified as investing activities				
Net (gain)/loss on sale of property, plant and equipment	(47)	261	(48)	262
Net (gain)/loss on sale of investments and intangible assets	(7,133)	121	(6,764)	–
Accrual of plant and equipment, intangible assets and investments (net)	936	(529)	998	(502)
Net cash flow from operating activities	12,941	(2,743)	15,018	(3,188)

18 CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments				
Asset purchases committed and contracted for at balance date	8,199	16,246	8,199	16,246
Capital commitments to joint ventures	408	11	408	11
Total capital commitments	8,607	16,257	8,607	16,257

Litigation and other contingent liabilities

There are no known other contingent liabilities or pending litigation.

Non-cancellable operating leases

Payable no later than one year	3,827	4,125	3,743	4,099
Payable later than one, not later than two years	2,900	3,515	2,818	3,506
Payable later than two, not later than five years	5,542	7,304	5,540	7,295
Payable later than five years	8,401	8,879	8,401	8,879
Total non-cancellable operating leases	20,670	23,823	20,502	23,779

All significant operating lease commitments relate to land and buildings.

The significant land lease with Tainui Group Holdings Limited is in perpetuity but with rights of renewal that are executable by AgResearch Limited. The lease has a restriction in respect of the right to occupy in perpetuity, which only continues if AgResearch Limited is using the land primarily for agricultural purposes and/or research and development purposes.

The significant building leases are for at least ten years or have rights of renewal for at least that period. All leases have normal provisions for periodic rent reviews to market rates.

Refer to Note 2 where the operating lease expense for the year is disclosed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

19 INVESTMENTS IN SUBSIDIARIES

Subsidiary companies	Balance date	% Interest held 2008	% Interest held 2007	Principal activity
Celentis Limited	30 June	100	100	Holding company
AgResearch Plant Bio Holding Limited	30 June	100	100	Not trading
Celcom One Limited	30 June	100	100	Not trading
Celcom Two Limited (now Encoate Holdings Limited)*	30 June	27.23	100	Joint venture participating company
Celcom Three Limited	30 June	100	100	Not trading
Grasslanz Technology Limited	30 June	100	100	Cultivar development and management
AgResearch (USA) Limited	30 June	100	100	Managing Grasslanz Technology's interests in the US
AgResearch (Pastoral Genomics Consortia) Limited	30 June	100	100	Joint venture participating company
AgResearch (Meat Biologics Consortia) Limited	30 June	100	100	Joint venture participating company
AgResearch (PPGR Consortia) Limited	30 June	100	100	Joint venture participating company
AgResearch Shelf Four Limited	30 June	100	100	Not trading
AgResearch Strategic Investments Limited	30 June	100	100	Not trading
AgResearch (Johnes' Disease Research Consortium) Limited (formerly Monestra Venture Capital Limited)	30 June	100	100	Joint venture participating company
Phytagro New Zealand Limited	30 June	100	100	Not trading
ContainerScan Limited	30 June	100	100	Developing and marketing container screening biosecurity applications
Biosteel New Zealand Limited	30 June	100	100	Not trading
Farmax Limited **	30 June	50	50	Distribution of farm management software
Phytagro Incorporated ***	31 December	80	80	Develop and licence IP in non-forage crops

* Celcom Two Limited amalgamated with Ballance Spone Limited and Encoate Limited on 4 October 2007. The continuing entity, Celcom Two Limited's name changed to Encoate Holdings Limited. Immediately after amalgamation, a new shareholder invested resulting in a dilution of the Group's shareholding. Refer to list of associate companies under Note 20.

** Due to a change in control, Farmax Limited ceased to be a subsidiary on 1 July 2007 and is now classified as an incorporated joint venture.

*** Phytagro Incorporated's balance date is different from the Group's due to being incorporated in the United States.

All subsidiary companies are incorporated in New Zealand, except Phytagro Incorporated which is incorporated in the US.

AgResearch Plant Bio Holding Limited; Celcom One Limited; Celcom Two Limited (now Encoate Holdings Limited); Celcom Three Limited and Grasslanz Technology Limited are direct subsidiaries of Celentis Limited. AgResearch (USA) Limited is a direct subsidiary of Grasslanz Technology Limited. All other subsidiary companies are direct subsidiaries of AgResearch Limited.

Impairment of subsidiaries

During the year, investments in subsidiaries were impaired by \$2,895,981 being: AgResearch (Pastoral Genomics Consortia) Limited, AgResearch (Meat Biologics Consortia) Limited, AgResearch (PPGR Consortia) Limited, Phytagro Incorporated and ContainerScan Limited. (2007: \$329,496 in AgResearch (Pastoral Genomics Consortia) Limited, AgResearch (Meat Biologics Consortia) Limited and ContainerScan Limited).

The Group invests predominantly in start up biotechnology companies. Such companies have a high cash utilisation and often are unable to carry intellectual property as an asset.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

20 INVESTMENTS IN ASSOCIATES

Associate companies	Balance date	% Interest held 2008	% Interest held 2007	Principal activity
Clone International Pty Limited	30 June	25	25	Cloning high value horses, cattle and sheep
Ovita Limited	30 June	50	50	Developing technology from intellectual property for on-farm application of sheep genome research
Catapult Genetics Pty Limited	30 June	–	25.27	Delivering breeding and genetic solutions and marketing gene marker tests and genetic evaluation data
Paraco Limited	30 June	33.33	33.33	Undertaking commercialisation around parasite intellectual property
Covita Limited	30 June	25.1	25.1	Funding receptacle for programmes related to the 'parasite leads' and myostatin business
Ultrafine Merino Limited	30 June	20	40	Breeding sheep which produce high quality fine wool
Velvet Antler Research New Zealand Limited	30 September	50	50	Managing investments in velvet antler research and commercialising the intellectual property
DeeResearch Limited	30 June	50	50	Research and development relevant to deer farming and processing for deer products (except deer velvet)
BioPacific Management Limited	30 June	50	50	Managing fund investing into life sciences, biotechnology, medicine, food and agriculture
Biopolymer Network Limited	30 June	33.33	33.33	To create high performance bio based products
Genetic Engine Holding Company Limited	30 June	25	25	Holding assets related to Genetic Engine software
Encoate Holdings Limited (formerly Celcom Two Limited) *	30 June	27.23	100	To develop the intellectual property used in the joint venture and undertake ongoing research

* Encoate Holdings Limited (formerly Celcom Two Limited) amalgamated with Ballance Spone Limited and Encoate Limited on 4 October 2007. The continuing entity, Celcom Two Limited's name changed to Encoate Holdings Limited. Immediately after amalgamation, a new shareholder invested resulting in a dilution of the Group's shareholding. Refer to list of subsidiary companies under Note 19.

All associates are incorporated in New Zealand except for Clone International Pty Limited and Catapult Genetics Pty Limited which are incorporated in Australia. There are no restrictions on the ability of any associate to pay dividends, repay loans or otherwise transfer funds to the investor company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007

20 INVESTMENTS IN ASSOCIATES CONTINUED

Movement in the carrying amount of the Group's investments in associates

Balance at beginning of the year	2,540	80	2,516	68
Purchases	231	2,430	–	2,431
Disposals	(2,448)	–	(2,436)	–
Share of profits of associates	22	30	–	–
Impairments	–	–	–	(31)
Impairment reversals	–	–	165	48
Balance at end of year	345	2,540	245	2,516

Represented by:

Non-current assets	345	2,540	245	2,516
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Summarised financial information in respect of the Group's associates

Total assets	5,549	17,455
Total liabilities	4,114	9,157
Net assets	1,435	8,298
Group's share of net assets of associates	345	2,540
Total revenue	17,414	14,388
Total profit for the period	380	213
Group's share of profits of associates	22	30

Disposals

During the period, the Group disposed of 50% of its shares in Ultrafine Merino Limited and all shares in Catapult Genetics Pty Limited (2007: no disposals).

21 OTHER INVESTMENTS

Available-for-sale financial assets	6,886	6,615	5,018	4,581
Details of other investments				
Fonterra Cooperative Group	2,393	2,666	2,393	2,666
BioPacific Ventures Fund	2,183	1,622	2,183	1,622
Finistere-AgResearch Strategic Investment Fund Limited Partnership	1,868	2,034	–	–
Other investments	442	293	442	293
	6,886	6,615	5,018	4,581

Impairment of other investments

During the year, the Finistere-AgResearch Strategic Investment Fund Limited Partnership, through which AgResearch Limited holds investments classified as available-for-sale, recognised an impairment of \$165,994 of its investment in Cibus LLC. (2007: no impairments of other investments).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007

22 JOINT VENTURE INVESTMENTS

Joint ventures		–	–	125	–
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Joint ventures (and joint venture participant where relevant)	Balance date	% Interest held 2008	% Interest held 2007	Principal activity
Innervision	30 June	50	50	Provision of CT Scanning services to the sheep breeding industry
Meat Biologics Consortia (AgResearch [Meat Biologics Consortia] Limited)	30 June	16	16	To undertake research to create, develop and exploit intellectual property relating to Meat Biologics
Pastoral Genomics Consortia (AgResearch [Pastoral Genomics Consortia] Limited)	30 June	9	9	To undertake research into clover genomics and exploit any resulting intellectual property
Pastoral Greenhouse Gases Consortia (AgResearch [PPGR Consortia] Limited)	30 June	22.2	22.3	To undertake research into greenhouse gases produced by ruminants and exploit any resulting intellectual property
Encoate (Celcom Two Limited)	30 June	–	50	Develop the intellectual property used in the joint venture and undertake ongoing research
Grasslands Innovation Limited *	30 June	50	50	To identify, develop and exploit product opportunities in proprietary forage cultivars and other forage technologies
Tainui Forestry **	Not yet established accounted to 30 June	50	50	Hold and exploit a forestry right held jointly
Farmax Limited ***	30 June	50	50	Distribution of farm management software

* Grasslands Innovation Limited 50% interest is held by Grasslanz Technology Limited.

** The parties have agreed to form a joint venture which was formally established subsequent to balance date.

*** Due to a change in control, Farmax Limited ceased to be a subsidiary on 1 July 2007 and is now classified as an incorporated joint venture.

Summarised financial information in respect of the Group's joint ventures

The following amounts are included in the Group financial statements as a result of the proportionate consolidation of Innervision, Meat Biologics Consortia, Pastoral Genomics Consortia, Pastoral Greenhouse Gases Consortia, Grasslands Innovation Limited and Farmax Limited (2007: Innervision, Meat Biologics Consortia, Pastoral Genomics Consortia, Pastoral Greenhouse Gases Consortia, Encoate and Grasslands Innovation Limited).

\$ 000's	GROUP	
	2008	2007
Current assets	2,465	2,676
Non-current assets	194	58
Total assets	2,659	2,734
less:		
Current liabilities	1,672	1,033
Non-current liabilities	527	502
Net assets	460	1,199
Income	2,928	2,902
Expenses	3,170	4,368

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

23 TRANSACTIONS WITH RELATED PARTIES

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other Crown Entities, State Owned Enterprises and Government Departments, which are carried out on a commercial and arms length basis. A summary of the transactions is detailed below:

Transactions with the Crown

\$ 000's	SALE OF SERVICES		DUE FROM	
	2008	2007	2008	2007
Research, development and other services	80,704	69,524	5,751	3,716

\$ 000's	PURCHASE OF SERVICES		DUE TO	
	2008	2007	2008	2007
Research, development and other services	20,801	14,288	1,193	438

Key management personnel compensation

The compensation of the Directors and Executives, being the key management personnel of the AgResearch Group comprised:

\$ 000's	GROUP		COMPANY	
	2008	2007	2008	2007
Salaries and other short term employee benefits	3,223	3,034	2,866	2,738

Key management personnel have had the following direct interests in transactions with entities in the Group:

- Rick Christie (Chairman to 30 June 2008) is a director on the NZ Pork Industry Board of which the Group had sales of \$24,500 during the year (2007: \$1,657).
- Graham Fraser (Director) is a director of Livestock Improvement Corporation Limited of which the Group had sales of \$14,144 during the year (2007: \$137,030) and purchases of \$86,737 (2007: \$74,044).

Equity interest in related parties

Details of the percentage of interests held in related parties are disclosed in Notes 19 to 22 to the financial statements.

Transactions with related parties

Transactions between AgResearch Limited and related parties are disclosed below:

\$ 000's	SALE OF SERVICES		DUE FROM	
	2008	2007	2008	2007
Subsidiaries				
Research, development and management services	7,038	2,720	338	671
Associates				
Research, development and management services	–	410	–	349
Jointly controlled entities				
Research, development and management services	1,155	1,112	331	1,234
Other related parties				
Research, development and management services	2,361	6,251	3,263	2,664

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

23 TRANSACTIONS WITH RELATED PARTIES CONTINUED

\$ 000's	PURCHASE OF SERVICES		DUE TO	
	2008	2007	2008	2007
Subsidiaries				
Research, development and management services	55	–	45	24
Jointly controlled entities				
Research, development and management services	18	57	4	1

The amounts outstanding are unsecured, on normal trade terms and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

During the year, AgResearch Limited made interest payments of \$28,686 (2007: \$40,176) to its subsidiaries on intercompany loans. The weighted average interest rate on the loans is 5.85% (2007: 5.85%).

Subsidiary companies are party to the covenanting group in respect of borrowing by AgResearch Limited. Details of the borrowing facility are reflected under Note 25. At 30 June 2008 the financial covenants have been met and subsidiary companies have no liability under the negative pledge covenant agreement (2007: Nil).

24 FINANCIAL INSTRUMENTS

Financial instruments carried on the Balance Sheet include cash and bank balances, bank debt, term loans, other loans, investments, receivables and trade creditors. The particular recognition methods adopted are disclosed in the accounting policies where relevant.

FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risk from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

CREDIT RISK

Financial instruments which potentially subject the Group to credit risk principally include cash, short term deposits, forward rate agreements and accounts receivable.

Credit risk with respect to cash and short term deposits is reduced by investing with (S&P A Grade) registered banks. The Group has a treasury policy which limits the counterparty risk to a maximum of \$10 million with any one bank. While accounts receivable are unsecured they are subject to established credit control procedures. No collateral is held.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Balance Sheet.

There has been no change during the year to the Group's exposure to credit risks or the manner in which it manages and measures the risks.

MARKET RISK

Currency risk

Revenues and expenses in foreign currency are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Currency risk in respect of the Group's transactions is managed in accordance with a treasury policy approved by the Board and may include forward exchange contracts being taken out for foreign currency exposure.

It is estimated that a 10% decrease in the New Zealand dollar would increase profit and equity by \$294,418 (2007: \$230,927). It is estimated that a 10% increase in the New Zealand dollar would reduce profit and equity by \$240,887 (2007: \$188,940).

Cash flow hedges

For those exposures less certain in their timing and extent, such as future sales and purchases, it is the Group's policy to manage the risk on a group wide basis and cover a maximum of 75% of anticipated exposures for a maximum of 12 months forward.

The Group uses foreign currency forward exchange contracts to manage these exposures.

There has been no change during the year to the Group's exposure to currency risks or the manner in which it manages and measures the risks.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

24 FINANCIAL INSTRUMENTS CONTINUED

Interest rate risk

The Group has borrowings as outlined in Note 25. The interest on the term loan is on a floating basis and resets quarterly. This risk is managed through the use of interest rate swaps in accordance with the Group's treasury policy.

Interest rate risk in respect of the Group's transactions is managed in accordance with a treasury policy approved by the Board.

By managing interest rate risk the Group aims to moderate the impact of short-term fluctuations in interest rates. It is estimated that a one percent fluctuation in average interest rates would increase or reduce profit and equity by \$100,000 (2007: \$100,000).

There has been no change during the year to the Group's exposure to interest rate risks or the manner in which it manages and measures the risks.

LIQUIDITY RISK

Liquidity risk represents the Group's ability to meet its financial obligations on time. For the most part the Group generates sufficient cash flows from its operating activities to make timely payments. It does however maintain committed credit lines to cover any shortfalls. The Group has a multi-option credit facility of up to \$15 million (2007: \$15 million). As at 30 June 2008 \$0 (2007: \$3.035 million) was drawn by the Group.

Liquidity is managed by monitoring short term and long term cash flows for up to 3 years.

There has been no change during the year to the Group's exposure to liquidity risks or the manner in which it manages and measures the risks.

MATURITY ANALYSIS – FINANCIAL LIABILITIES

\$ 000's	GROUP				Total
	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	
2008					
Trade and other payables	–	21,060	–	–	21,060
Other loans	–	380	–	–	380
Term loan	–	1,790	21,800	–	23,590
	–	23,230	21,800	–	45,030
2007					
Trade and other payables	–	17,244	–	–	17,244
Other loans	–	150	–	–	150
Term loan	–	1,750	21,850	–	23,600
	–	19,144	21,850	–	40,994

\$ 000's	COMPANY				Total
	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	
2008					
Trade and other payables	–	24,493	–	–	24,493
Other loans	–	380	–	–	380
Term loan	–	1,790	21,800	–	23,590
	–	26,663	21,800	–	48,463
2007					
Trade and other payables	–	19,443	–	–	19,443
Other loans	–	150	–	–	150
Term loan	–	1,750	21,850	–	23,600
	–	21,343	21,850	–	43,193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

24 FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUE

Cash and cash equivalents, bank overdraft, term loans, trade receivables, other receivables and payables

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair value.

Investments

Investments, except for other shares and investments valued at fair value, are carried at cost. It is not practical to estimate the fair values of unlisted subsidiaries and associates.

Derivative financial instruments

Foreign currency contracts and interest rate swaps are shown at fair value.

CATEGORIES OF FINANCIAL INSTRUMENTS

\$ 000's	Note	GROUP					Total
		Loans and receivables	Designated at fair value	Available -for-sale	Financial liabilities at amortised cost	Investments in associates accounted for using the equity method	
2008							
Financial Assets							
Cash and cash equivalents		7,370	–	–	–	–	7,370
Trade and other receivables	8	27,962	–	–	–	–	27,962
Derivative financial instruments	12	–	52	–	–	–	52
Other receivable *		1,988	–	–	–	–	1,988
Investments in associates	20	–	–	–	–	345	345
Other investments	21	–	–	6,886	–	–	6,886
		37,320	52	6,886	–	345	44,603
Financial Liabilities							
Trade and other payables	13	–	–	–	15,940	–	15,940
Other loans		–	–	–	380	–	380
Term loans	25	–	–	–	20,000	–	20,000
		–	–	–	36,320	–	36,320
2007							
Financial Assets							
Cash and cash equivalents		6,553	–	–	–	–	6,553
Trade and other receivables	8	30,955	–	–	–	–	30,955
Derivative financial instruments	12	–	233	–	–	–	233
Investments in associates	20	–	–	–	–	2,540	2,540
Other investments	21	–	–	6,615	–	–	6,615
		37,508	233	6,615	–	2,540	46,896
Financial Liabilities							
Trade and other payables	13	–	–	–	12,511	–	12,511
Other loans		–	–	–	380	–	380
Term loans	25	–	–	–	20,000	–	20,000
		–	–	–	32,891	–	32,891

* The other receivable is part of the settlement proceeds from the sale of the Catapult Genetics Pty Limited shareholding held in escrow under the terms of the sale and purchase agreement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

24 FINANCIAL INSTRUMENTS CONTINUED

CATEGORIES OF FINANCIAL INSTRUMENTS

\$ 000's	Note	COMPANY					Total
		Loans and receivables	Designated at fair value	Available -for-sale	Financial liabilities at amortised cost	Investments carried at cost	
2008							
Financial Assets							
Cash and cash equivalents		5,796	–	–	–	–	5,796
Trade and other receivables	8	28,987	–	–	–	–	28,987
Other receivable *		1,988	–	–	–	–	1,988
Derivative financial instruments	12	–	52	–	–	–	52
Investments in subsidiaries		–	–	–	–	4,293	4,293
Investments in associates	20	–	–	–	–	245	245
Other investments	21	–	–	5,018	–	–	5,018
		36,771	52	5,018	–	4,538	46,379
Financial Liabilities							
Trade and other payables	13	–	–	–	19,130	–	19,130
Other loans		–	–	–	380	–	380
Term loans	25	–	–	–	20,000	–	20,000
		–	–	–	39,510	–	39,510
2007							
Financial Assets							
Cash and cash equivalents		4,546	–	–	–	–	4,546
Trade and other receivables	8	31,786	–	–	–	–	31,786
Derivative financial instruments	12	–	233	–	–	–	233
Investments in subsidiaries	19	–	–	–	–	5,640	5,640
Investments in associates	20	–	–	–	–	2,516	2,516
Other investments	21	–	–	4,581	–	–	4,581
		36,332	233	4,581	–	8,156	49,302
Financial Liabilities							
Trade and other payables	13	–	–	–	14,449	–	14,449
Other loans		–	–	–	150	–	150
Term loans	25	–	–	–	20,000	–	20,000
		–	–	–	34,599	–	34,599

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

25 TERM LOANS

The Group has a term loan (\$20 million) secured by way of a negative pledge covenant agreement. The Group had outstanding borrowings of \$20 million at 30 June 2008 (2007: \$20 million). In addition AgResearch Limited has a multi-option credit facility of up to \$15 million secured by way of a negative pledge covenant agreement against which \$0 (2007: \$3.035 million) was drawn at 30 June 2008.

The interest on the term loan is on a floating basis and resets quarterly. At 30 June 2008 the loan carries interest at 9.15% per annum (2007: 8.25% per annum). This loan is repayable on 3 January 2010. Interest only is repayable until maturity date. The weighted average effective interest rate was 8.54% (2007: 8.12%).

26 CAPITAL MANAGEMENT

The Group's capital is its equity which is made up of share capital, asset revaluation reserve, available-for-sale asset revaluation reserve, cash flow hedge reserve, minority interest and retained earnings.

The Crown Research Institutes Act 1992 requires AgResearch Limited to maintain its financial viability in order to undertake research for the benefit of New Zealand.

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

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

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

27 SIGNIFICANT EVENTS AFTER BALANCE DATE

Subsequent to balance date AgResearch Limited acquired:

- 74.9% of the shareholding in Covita Limited giving AgResearch Limited 100% ownership;
- 33.3% of the shareholding in Paraco Limited giving AgResearch Limited 66.66% ownership; and
- plant and equipment from Keratec Limited.

There were no other significant events after balance date that would have a material effect on the financial statements.

28 EFFECT OF TRANSITION TO NZ IFRS

The Group's financial statements for the year ending 30 June 2008 are the Group's first annual financial statements that comply with NZ IFRS.

The adoption of NZ IFRS has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current and prior periods in these consolidated financial statements.

Deferred Tax NZ IAS 12
Biological Assets NZ IAS 41
Financial Instruments NZ IAS 39
Employee Benefits NZ IAS 19
Property, Plant and Equipment NZ IAS 16

The impact of these changes in the accounting policies are described in this note.

In adopting NZ IFRS the Group has applied NZ IFRS 1 which requires an entity to use the same accounting policies in its opening NZ IFRS balance sheet and throughout all periods presented in its first NZ IFRS financial statements. As such, prior year comparatives have been restated.

The following NZ IFRS 1 optional exemption has been applied:

Business Combinations – The Group has not retrospectively applied NZ IFRS 3 Business Combinations to past business combinations.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED

\$ 000's	Note	GROUP		COMPANY	
		2007	2006	2007	2006
Reconciliation of net surplus/(deficit) after tax for the year					
Net surplus after tax and before minority interest under previous NZ GAAP		4,917		7,717	
Revaluation of investments transfer to available-for-sale reserve	d	(1,273)		(1,273)	
Gain on disposal of property under previous NZ GAAP	b	(6,386)		(6,386)	
Loss on disposal of property under NZ IFRS	b	(361)		(361)	
Impairment reversals on revaluation of land & buildings	b	(32)		(32)	
Depreciation increase on revalued buildings	b	(1,121)		(1,121)	
Net decrease in livestock revaluation	e	(130)		(130)	
Decrease in ACC actuarial provision	h	2		2	
Net increase in forestry revaluation	e	(13)		(13)	
Reversal of gain on financial instruments completed	c	(271)		(271)	
Gain on revaluation of financial instruments	c	133		133	
Change in tax expense on transition	f	450		450	
Total NZ IFRS adjustments		(9,002)		(9,002)	
Net surplus/(deficit) after tax for the year		(4,085)		(1,285)	

\$ 000's	Note	GROUP		COMPANY	
		2007	2006	2007	2006
Reconciliation of equity					
Opening equity under previous NZ GAAP		100,716	95,881	99,280	91,646
Revaluation of investments	d	1,349	1,259	1,349	1,259
Revaluation of land and buildings	b	99,685	98,099	99,685	98,099
Valuation of financial instruments	c	99	–	99	–
Forestry revaluation reserve transfer to net surplus/(deficit) for the year (Decrease)/increase in net surplus/(deficit)	e	83	–	83	–
Deferred tax liability on revaluations	f	(9,656)	(9,901)	(9,656)	(9,901)
Transfers from asset revaluation reserve	b	6,444		6,444	
Total NZ IFRS adjustments		89,946	90,401	89,944	90,399
Opening Equity under NZ IFRS		190,662	186,282	189,224	182,045
Reconciliation of Equity line items impacted					
Total equity under previous NZ GAAP		100,716	95,881	99,280	91,646
Asset revaluation reserve	b	90,464	88,576	90,464	88,576
Available-for-sale asset revaluation reserve	d	944	881	944	881
Forestry revaluation	e	(363)	(446)	(363)	(446)
Cash flow hedge reserve	c	69	–	69	–
Retained earnings		(1,168)	1,390	(1,170)	1,388
Total Equity under NZ IFRS		190,662	186,282	189,224	182,045

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED
EFFECT OF NZ IFRS ON THE BALANCE SHEET AS AT 1 JULY 2006

	Note	GROUP			COMPANY		
		Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS	Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS
\$ 000's							
Current Assets							
Cash and cash equivalents		21,143	–	21,143	19,612	–	19,612
Trade and other receivables		17,616	–	17,616	16,981	–	16,981
Prepayments		1,173	–	1,173	1,165	–	1,165
Biological assets - livestock	e	5,141	–	5,141	5,141	–	5,141
Taxation	f	515	–	515	(880)	–	(880)
Inventory		964	–	964	707	–	707
Property held for sale	b	1,276	(1,276)	–	1,276	(1,276)	–
Derivative financial instruments	c	–	271	271	–	271	271
Investments in associates		19	(19)	–	12	(12)	–
Total Current Assets		47,847	(1,024)	46,823	44,014	(1,017)	42,997
Non-Current Assets							
Investments in subsidiaries		–	–	–	4,339	–	4,339
Investments in associates		61	19	80	56	12	68
Other investments	d	2,407	1,259	3,666	1,815	1,259	3,074
Property, plant and equipment	b	51,795	100,750	152,545	51,343	100,974	152,317
Property held for sale	b	2,300	(2,300)	–	2,300	(2,300)	–
Biological assets - forestry	e	1,417	46	1,463	1,417	46	1,463
Deferred tax	f	6,484	(6,484)	–	6,283	(6,283)	–
Intangible assets	g	6,819	1,793	8,612	5,748	1,567	7,315
Total Non-Current Assets		71,283	95,083	166,366	73,301	95,275	168,576
Total Assets		119,130	94,059	213,189	117,315	94,258	211,573
Less :							
Current Liabilities							
Trade and other payables	h	17,377	(3,404)	13,973	19,852	(3,374)	16,478
Provisions	h	4,723	3,581	8,304	4,684	3,549	8,233
Total Current Liabilities		22,100	177	22,277	24,536	175	24,711
Non-Current Liabilities							
Deferred tax	f	–	3,481	3,481	–	3,684	3,684
Provisions		1,149	–	1,149	1,133	–	1,133
Total Non-Current Liabilities		1,149	3,481	4,630	1,133	3,684	4,817
Net Assets		95,881	90,401	186,282	91,646	90,399	182,045
Equity							
Share capital		47,073	–	47,073	47,073	–	47,073
Forestry revaluation reserve	e	446	(446)	–	446	(446)	–
Asset revaluation reserve	b	–	88,576	88,576	–	88,576	88,576
Available-for-sale asset revaluation reserve	d	–	881	881	–	881	881
Minority interest		125	–	125	–	–	–
Retained earnings		48,237	1,390	49,627	44,127	1,388	45,515
Total Equity		95,881	90,401	186,282	91,646	90,399	182,045

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED
EFFECT OF NZ IFRS ON THE INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	GROUP			COMPANY		
		Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS	Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS
\$ 000's							
Revenue							
Foundation of Research Science and Technology and Ministry of Research Science and Technology contracts		57,225	–	57,225	55,840	–	55,840
Commercial	i	64,912	(2,450)	62,462	67,765	(2,450)	65,315
Farm produce		5,700	–	5,700	5,633	–	5,633
Other revenue		8,718	–	8,718	2,963	–	2,963
Total operating revenue		136,555	(2,450)	134,105	132,201	(2,450)	129,751
Operating expenditure	j	(135,543)	47	(135,496)	(131,037)	47	(130,990)
Other gains and (losses)	b, c, d	6,128	(7,049)	(921)	6,335	(7,049)	(714)
Finance costs		(902)	–	(902)	(947)	–	(947)
Share of surplus/(deficit) of associates		30	–	30	–	–	–
Surplus/(deficit) before tax		6,268	(9,452)	(3,184)	6,552	(9,452)	(2,900)
Tax expense/(tax benefit)	f	1,351	(450)	901	(1,165)	(450)	(1,615)
Net surplus/(deficit) after tax for the year		4,917	(9,002)	(4,085)	7,717	(9,002)	(1,285)
Attributable to:							
Equity holders of the parent		5,083	(9,002)	(3,919)	7,717	(9,002)	(1,285)
Minority interest		(166)	–	(166)	–	–	–
		4,917	(9,002)	(4,085)	7,717	(9,002)	(1,285)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED
EFFECT OF NZ IFRS ON THE BALANCE SHEET AS AT 30 JUNE 2007

	Note	GROUP			COMPANY		
		Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS	Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS
\$ 000's							
Current Assets							
Cash and cash equivalents		6,553	–	6,553	4,546	–	4,546
Trade and other receivables		30,955	–	30,955	31,786	–	31,786
Prepayments		1,345	–	1,345	1,308	–	1,308
Biological assets – livestock	e	4,647	(130)	4,517	4,647	(130)	4,517
Taxation	f	508	30	538	638	29	667
Inventory		1,054	–	1,054	782	–	782
Property held for sale	b	2,215	(2,215)	–	2,215	(2,215)	–
Forestry held for sale	e	721	(721)	–	721	(721)	–
Derivative financial instruments	c	–	173	173	–	173	173
Investments in associates		26	(26)	–	12	(12)	–
Total Current Assets		48,024	(2,889)	45,135	46,655	(2,876)	43,779
Non-Current Assets							
Investments in subsidiaries		–	–	–	5,640	–	5,640
Investments in associates		2,514	26	2,540	2,504	12	2,516
Other investments	d	6,540	75	6,615	4,506	75	4,581
Property, plant and equipment	b	80,891	101,646	182,537	80,447	101,903	182,350
Property held for sale	b	1,581	(1,581)	–	1,581	(1,581)	–
Biological assets - forestry	e	595	920	1,515	595	920	1,515
Derivative financial instruments	c	–	60	60	–	60	60
Deferred tax	f	5,346	(5,346)	–	5,147	(5,147)	–
Intangible assets	g	5,683	1,549	7,232	4,725	1,291	6,016
Total Non-Current Assets		103,150	97,349	200,499	105,145	97,533	202,678
Total Assets		151,174	94,460	245,634	151,800	94,657	246,457
Less :							
Current Liabilities							
Bank overdraft		3,035	–	3,035	3,035	–	3,035
Trade and other payables	h	20,941	(3,697)	17,244	23,091	(3,648)	19,443
Other loans		150	–	150	150	–	150
Provisions	h	5,212	3,872	9,084	5,142	3,823	8,965
Total Current Liabilities		29,338	175	29,513	31,418	175	31,593
Non-Current Liabilities							
Deferred tax	f	–	4,339	4,339	–	4,538	4,538
Term loans		20,000	–	20,000	20,000	–	20,000
Provisions		1,120	–	1,120	1,102	–	1,102
Total Non-Current Liabilities		21,120	4,339	25,459	21,102	4,538	25,640
Net Assets		100,716	89,946	190,662	99,280	89,944	189,224
Equity							
Share capital		47,073	–	47,073	47,073	–	47,073
Forestry revaluation reserve	e	363	(363)	–	363	(363)	–
Asset revaluation reserve	b	–	90,464	90,464	–	90,464	90,464
Available-for-sale asset revaluation reserve	d	–	944	944	–	944	944
Cash flow hedge reserve	c	–	69	69	–	69	69
Minority interest		(40)	–	(40)	–	–	–
Retained earnings		53,320	(1,168)	52,152	51,844	(1,170)	50,674
Total Equity		100,716	89,946	190,662	99,280	89,944	189,224

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED
EFFECT OF NZ IFRS ON THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	GROUP			COMPANY		
		Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS	Superseded Policies	Effect of transition to NZ IFRS	NZ IFRS
\$ 000's							
Cash received from investing activities							
Disposal of property, plant and equipment		8,258	–	8,258	8,257	–	8,257
Disposal of investments and intangible assets		268	–	268	268	–	268
Repayment of loans from subsidiaries & associates		150	–	150	150	–	150
Total cash received from investing activities		8,676	–	8,676	8,675	–	8,675
Cash disbursed on investing activities							
Investment in property, plant and equipment	g	38,567	(351)	38,216	38,432	(231)	38,201
Purchase of other investments and intangible assets	g	5,141	351	5,492	5,306	231	5,537
Total cash disbursed on investing activities		43,708	–	43,708	43,738	–	43,738
Net cash flow from investing activities		(35,032)	–	(35,032)	(35,063)	–	(35,063)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

28 EFFECT OF TRANSITION TO NZ IFRS CONTINUED

a) Profit Oriented Entity

AgResearch Limited has had to consider whether to classify itself as a Public Benefit Entity or a Profit Oriented Entity for the adoption of NZ IFRS. The classification is important as the accounting policies applied for some components of the financial statements are different. AgResearch Limited has concluded that it is a Profit Oriented Entity for the purpose of NZ IFRS based on the fact that it undertakes research on a commercial fee-for-service basis and does not make its research findings available free of charge or at a nominal cost; it is required to generate an expected financial surplus equivalent to a specified target rate of return, determined after benchmarking against commercial entities; and it competes for funding from government and private sources and revenue is derived through selling research services in a competitive environment.

b) Property, Plant and Equipment

AgResearch Limited previously recorded property, plant and equipment at cost less accumulated depreciation. For the NZ IFRS opening balance sheet AgResearch Limited has revalued land and buildings to fair value and depreciation is based on this fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts. Land and buildings will be revalued at least every 3 years or whenever there has been a significant movement in the fair value. There is no property held for sale under NZ IFRS as the held for sale criteria is not met. In the Income Statement under previous NZ GAAP other gains included the gain on sale of Tara Hills. On transition to NZ IFRS this gain was not recognised in the Income Statement.

c) Financial Instruments

AgResearch Limited uses derivative financial instruments to hedge against forecasted future positions. The fair values of these derivative financial instruments were not recognised in the Balance Sheet under previous NZ GAAP but were disclosed in the notes. Under NZ IFRS there is a requirement to recognise all derivative financial instruments in the Balance Sheet at fair value. On date of transition all outstanding derivative financial instruments were valued

and recognised at fair value on the Balance Sheet. Thereafter, where the derivative financial instruments do not meet the requirements for hedge accounting, any mark to market revaluation is recognised in the Income Statement, otherwise the effective portion is recognised through the Cash Flow Hedge Reserve.

d) Investments

AgResearch Limited has investments in subsidiaries, associates, joint venture entities and other entities. Under NZ IFRS, investments in subsidiaries will continue to be consolidated, associates will continue to be equity accounted and joint ventures will continue to be consolidated under the proportional consolidation method. Investments in other entities are required to be recorded at fair value on transition to NZ IFRS and then revalued every year. Investments that are categorised as available-for-sale are revalued through the available-for-sale revaluation reserve under NZ IFRS.

e) Biological Assets

AgResearch Limited owns forests and livestock which are classified as Biological Assets under NZ IAS 41. These are valued at fair value less estimated point-of-sale costs with the change in value being recorded in the Income Statement rather than through the forestry revaluation reserve under previous NZ GAAP. There is no forestry held for sale under NZ IFRS as the held for sale criteria is not met.

f) Deferred Tax

Under previous NZ GAAP, the Group accounted for deferred tax on a comprehensive basis using the liability method. This method involved recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the Balance Sheet. This is also known as the Income Statement method. Under NZ IFRS deferred tax is recognised on all temporary differences between the accounting and tax values of each asset or liability. This is known as the Balance Sheet approach. The transition from an Income Statement method to a Balance Sheet approach requires the recognition of additional deferred tax assets and liabilities.

g) Intangible Assets

The Group included software under property, plant and equipment. Under NZ IFRS software has been reclassified to intangible assets. In the Cash Flow statement purchases of software in 2007 have been reclassified from property, plant and equipment to intangible assets.

h) Payables and Provisions

The Group previously included annual leave under payables. The annual leave provision has been transferred to provisions. The Group has recognised a provision for sick leave on transition, in accordance with NZ IAS 19.

i) Revenue

Under previous NZ GAAP, the reimbursement revenue receivable in respect of the Wallaceville campus contamination was not able to be offset against the remediation expense. Under NZ IFRS, the reimbursement revenue is offset against the remediation expense in operating expenditure.

j) Operating Expenditure

Refer to the reconciliation of net surplus/ (deficit) after tax for the year.

AUDIT REPORT TO THE READERS OF AGRESEARCH LIMITED AND GROUP'S FINANCIAL STATEMENTS

For the year ended 30 June 2008

The Auditor-General is the auditor of AgResearch Limited (the Company) and Group. The Auditor-General has appointed me, Graham Naylor, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 30 June 2008.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Company and Group on pages 45 to 84:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of:
 - the Company and Group's financial position as at 30 June 2008; and
 - the results of operations and cash flows for the year ended on that date.
- Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 28 August 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

AUDIT PROCEDURES GENERALLY INCLUDE:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE AUDITOR

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2008 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Research Institutes Act 1992.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.



Graham Naylor

Deloitte

On behalf of the Auditor-General
Hamilton, New Zealand

This audit report relates to the financial statements of AgResearch Limited for the year ended 30 June 2008 included on AgResearch Limited's web-site. AgResearch Limited's Board of Directors is responsible for the maintenance and integrity of AgResearch Limited's web site. We have not been engaged to report on the integrity of AgResearch Limited's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 August 2008 to confirm the information included in the audited financial statements presented on this web site. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATUTORY REPORTING

For the year ended 30 June 2008

TO OUR SHAREHOLDERS AND STAKEHOLDERS

The Directors are pleased to report that AgResearch Limited met its obligations in all material aspects under the Crown Research Institutes Act 1992 for the year ended 30 June 2008.

REVENUE AND SURPLUS

Total revenue was \$149.3 million (all numbers in brackets relate to 2007 unless noted otherwise: \$134.1 million). Net operating surplus before tax was \$3.1 million (deficit \$3.2 million).

COMPARISON OF SURPLUS WITH STATEMENT OF CORPORATE INTENT

Net operating surplus before tax of \$3.1 million compared to the \$1.2 million projected in the Statement of Corporate Intent.

PERFORMANCE RATIOS

Net operating surplus before tax represented 2.1% (- 2.4%) of total revenue (excluding interest). Net operating surplus before tax was 1.6% (-1.7%) of average shareholders funds.

DIVIDENDS

No dividend has been declared.

CAPITAL STRUCTURE

Issued and paid-up capital increased by \$0.195 million to \$47.3 million. The net surplus after tax of \$3.0 million was transferred to retained earnings. This amount, when added to reserves, left total shareholders' funds at \$193.5 million (\$190.7 million). At the end of the financial year, shareholders' funds as a percentage of total assets were 78.5% (77.6%).

DIRECTORS' INTERESTS

Directors' other business interests at 30 June 2008 are listed on page 39.

The Board received no notices during the year from Directors requesting the use of company information that would not otherwise have been available to them. There were no share dealings by Directors with the Company.

DIRECTORS' REMUNERATION

Remuneration and other benefits paid or due and payable to Directors for services as a Director, including membership of Board Committees, during the year were as follows:

	2008	2007
J Adams	\$32,264	–
P Andrews	–	\$28,680
D Chan	\$37,733	\$33,540
R Christie	\$67,527	\$60,024
R Davison	\$35,235	\$31,320
G Fraser	\$51,273	\$45,576
S Huria	\$40,704	\$36,180
R Welch	\$32,264	\$11,950

REMUNERATION GREATER THAN \$100,000

During the year ended 30 June 2008, 98 staff (95 Company) received remuneration of or exceeding \$100,000 per annum as follows:

	GROUP	COMPANY
\$100,000 to \$109,999	37	37
\$110,000 to \$119,999	18	17
\$120,000 to \$129,999	9	9
\$130,000 to \$139,999	7	6
\$140,000 to \$149,999	10	10
\$150,000 to \$159,999	2	2
\$160,000 to \$169,999	4	4
\$170,000 to \$179,999	2	1
\$190,000 to \$199,999	3	3
\$220,000 to \$229,999	2	2
\$240,000 to \$249,999	3	3
\$460,000 to \$469,999	1	1

Remuneration included performance awards, superannuation benefits, vehicle benefits and severance payments.

Remuneration above was received by Science (71), Commercialisation (12) and Corporate Staff (15).

TERMINATION PAYMENTS

During the year, the Group made the following payments to former employees in respect of termination of their employment with the Group.

Number of Employees	Amount
26	\$901,417

DONATIONS

Donations of \$0.3 million (\$0.3 million) were paid during the year.

DIRECTORS AND EMPLOYEES' INDEMNITY AND INSURANCE

During the year, the Company indemnified Directors and certain employees to the fullest extent permissible by law. The Company also has Directors and Officers' insurance.

AUDITOR

Mr Graham Naylor of Deloitte is the appointed auditor of the Company under contract from the Office of the Controller and Auditor-General and under Section 21 of the Crown Research Institutes Act 1992.

STATEMENT OF RESPONSIBILITY

AgResearch Limited certifies that:

1. The Board of AgResearch Limited accepts responsibility for the preparation of the annual financial statements and the judgements used in them;
2. The Board of AgResearch Limited accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
3. In the opinion of the Board of AgResearch Limited, the annual financial statements for the financial year ended 30 June 2008 fairly reflect the financial position and operations of AgResearch Limited.



Sam Robinson
Chairman
28 August 2008



Graham Fraser
Director
28 August 2008

EXECUTIVE MANAGEMENT COMMITTEE



Geoff Balme
Chief Financial Officer



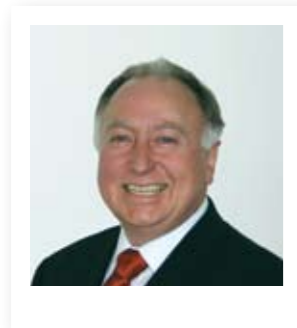
Peter Benfell
Science & Technology
General Manager,
Agriculture & Environment



Dr Ian Boddy
General Manager
Commercial Services



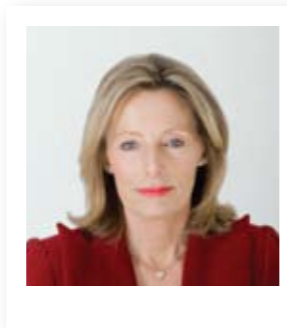
Ellen Dunster
Group Manager
Human Resources



Dr Robert Finch
Science & Technology
General Manager,
Food & Textiles



Dr Travis Glare
General Manager
Science Strategy Services



Allanah James
Group Manager
Corporate Affairs



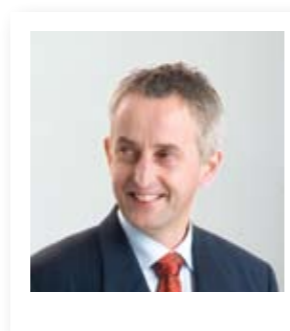
Dr Phillip Lindsay
Chief Information Officer



Scott Mataga
Company Secretary,
Group Manager Legal



Dr Jimmy Suttie
Science & Technology
General Manager,
Applied Biotechnologies



Dr Andrew West
Chief Executive Officer

DIRECTORY

BOARD OF DIRECTORS

Rick Christie
Chairman (Until 30 June 2008)

Sam Robinson
Chairman (From 1 July 2008)

Graham Fraser
Deputy Chairman

Danny Chan
Director

Dick Davison
Director

Susan Huria
Director

Dr Robert Welch
Director

Dr Jane Adams
Director

Andrew MacPherson
Director (From 1 July 2008)

INFORMATION

Auditors
Deloitte

Bankers
Westpac Banking
Corporation

Solicitors
Buddle Findlay
Auckland

Patent Attorney
James & Wells
Hamilton

CONTACT DETAILS

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AgResearch Ruakura: Ruakura Research Centre

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Hamilton 3240.
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Fax: 64 7 838 5012

AgResearch Grasslands and Hopkirk Research Institute: Grasslands Research Centre

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Fax: 64 6 351 8032
Hopkirk
Tel: 64 6 351 8600
Fax: 64 6 353 7853

National Centre for Biosecurity and Infectious Diseases (NCBID) – Wallaceville

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Tel: 64 4 529 0300
Fax: 64 4 529 0380

AgResearch Lincoln: Lincoln Research Centre

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Private Bag 4749, Christchurch 8140.
Tel: 64 3 321 8800
Fax: 64 3 321 8811

AgResearch Invermay: Invermay Agricultural Centre

Puddle Alley, Private Bag 50034,
Mosgiel 9053.
Tel: 64 3 489 3809
Fax: 64 3 489 3739

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