

Annual Report & Corporate Governance 2009

Farmlands Trading Society Limited

Contents

Chairman's Report _____	2
Chief Executive's Annual Statement _____	3
Members' Trading Statement _____	4
Auditors' Report _____	5
Income Statement _____	6
Statement of Changes in Equity _____	6
Balance Sheet _____	7
Statement of Cash Flows _____	8
Notes to the Financial Statements _____	9
Directors' Report _____	17
Environmental Policy _____	18
Corporate Governance _____	19



Chairman's Report

I am pleased to present the 47th Annual Report of the Farmlands Trading Society on behalf of my fellow Directors. This year we will return \$34.9 million in monthly rebates and loyalty rebates to our shareholders which is another excellent achievement.

Total sales generated for the year were \$531 million, up 20% on last year. The company generated a \$4.6 million profit for the year, pre tax and loyalty rebate.

The monthly rebates and loyalty rebates consist of:

- Trading rebates to members, \$29,936,000
- Loyalty rebates to members, \$4,432,000
- Credit payments in lieu of loyalty rebates \$498,000

It seems that the only constant, is change. The East Coast of the North Island has battled through its third drought in as many years. The majority of farms have wintered well albeit from a very low base of stock carried. This, along with the dramatic change in the dairy payout, has led to some significant concern around short term cashflow and farm profitability.

The first three quarters of the trading year provided very robust results. The last quarter, however, was less than desirable. This was a direct result of people looking to rationalise and limit spending where possible. More recently there has been some more positive market information that would suggest that the long term health of the industry remains solid.

As a board we are mindful of managing the impact of the current economic malaise whilst ensuring that we don't lose focus on longer term goals within the business.

We are constantly driving for all shareholders to direct a greater percentage of their spend through the Co-operative and as a consequence have a greater reward for that loyalty and support. We will continue to achieve this through a quality offering, the best products brought to you by great people.

Recently, I had the pleasure of attending the Farmlands Annual Supplier's Function in Taupo. In a brief address, I made mention of three strands, (Enthusiasm, Engagement and Innovation) that would ensure that Suppliers continued to add value to Farmlands and its customers.

These are very pertinent points that can be filtered through all aspects of the business. It is always work in progress but we have made great strides in this area over the past twelve months. So much of this falls under the umbrella of 'Organisational Culture'. Much of the credit for this should go to Peter Ellis and his senior management team. Their style is to lead from the front and 'pull' rather than 'push', preferring empowerment and encouragement as motivational tools.

Over the last 2 months we have taken several opportunities to acknowledge the achievements of Graeme Clinton. Graeme leaves us after 37 years. He has dedicated the majority of this working life to Farmlands and many of the internal disciplines that are evident within Farmlands are as a result of Graeme's effort. We wish Graeme and his wife Bonny all the best in retirement.

What does the future hold for Farmlands?

We have numerous initiatives that are designed to achieve the following outcomes

- reinforce our position as a significant player in the rural supplies market
- deliver core card and store offerings in a more focused manner
- complete the roll out of new stores in locations where Farmlands currently has limited exposure
- fund this development through a combination of borrowing and sale of some existing properties
- extend our reach and service offering in the Horticulture sector, leveraging our existing store network
- continuously develop the relationship that we have with our shareholders so that we understand what they need on a day to day basis
- put the best interests of our customers at the core of our decision making
- continuously fine tune our retail offering to ensure that we maintain our position as 'best of class' in the rural supplies market
- nurture our people to cement them as industry leaders for knowledge and delivery of service.
- strengthen our relationships with suppliers to optimise supply chain efficiencies

There is an awareness that we need to continuously improve and to adapt to stay ahead of the game.

The strategy of extending our geographic coverage has continued. Taupo and Te Kuiti were opened in the autumn and have been very well received. We look forward to their successes. New Plymouth and Kaitia have recently opened and are trading well.

There has been no change in either the senior management team or the board over the last year. I would take this opportunity to thank all concerned for their efforts. We have a large team of dedicated and passionate people, striving hard. Thank you

We look forward to the coming year.



Lachie Johnstone
Chairman

Chief Executive's Annual Statement

Dear Shareholder,

Despite a slowdown in the New Zealand rural merchandise market in the last quarter of the financial year, Farmlands has made solid progress in its objective of becoming the preferred supplier of rural merchandise in the North Island:

- \$531 million turnover, an increase of 20% over the year
- \$34.9 million of rebates to members, an increase of \$5.8 million over the previous year
- \$4.4 million year end loyalty rebates
- 24,500 shareholders an increase of 1,400 over the year
- An estimated 5% increase in our market share of rural merchandise in the North Island

Underpinning this achievement has been the singular focus of the business to provide innovative and cost effective solutions to our shareholders needs. This has been supported by our expanding retail store network with new stores opening in Te Kuiti and Taupo and a full year contribution from Skeltons our horticultural advisory business.

In the last year significant effort has been expended to ensure that we have the right management structure to support the expanding business' needs:

- The retail business of 37 stores operating at balance date is now managed in six distinct regions each headed by a regional manager, reporting to our GM Operations Tom Hamilton. This robust structure ensure that we can implement and manage the disciplines required to run a high performance retail business
- Our Farmlands Card team has been refocused to create greater awareness to the unique benefits available to shareholders through use of their Card, to ensure that it becomes 'front of wallet', when shareholders are make purchasing decisions
- Our Head Office support teams have been realigned to ensure we have the right people in the right place to support the needs across our growing business
- A roll out of the Skeltons horticulture model in Gisborne, Horowhenua, Manawatu and the Wairarapa

In the current year as part of our 3 year strategy we are continuing our geographic expansion, with new store openings in New Plymouth, Hautapu, Kaitaia and Taihape and a rebuild of our Marton store already announced.

We are aware of the pressures currently facing many sectors of New Zealand agriculture but are hopeful that this is just a readjustment phase on the journey to a brighter future for all primary sector producers. We remain totally focused therefore on our core objective of reducing the cost of farm inputs, to assist you as shareholders navigate this journey.

We would not be able to deliver on our promises without our staff, they are integral to the Farmlands offering and I would be remiss if I did not recognise the contribution that they have made to last year's result. They are a very motivated and focused group and embrace the Farmlands vision and desire to add value to our shareholders businesses.

I trust that the coming of spring brings success to your respective businesses and we at Farmlands all look forward to the opportunity of assisting you to exploit these opportunities as they arise.



Peter Ellis
Chief Executive Officer

Members Trading Statement

For the year ended 30 June 2009

How the dollars were made and spent

GROSS SALES - before Trading rebates to Members

GROSS PROFIT

Other Income

Less Expenses

Interest paid

Surplus before Tax & Rebates

Less: Trading Rebates to Members

Loyalty Rebates to Members

Credit card payments in lieu of loyalty rebate

Total Rebates to Members

Surplus before Tax

Less Taxation

Leaving surplus/(deficit) after Tax and rebates

	2009 \$000	2008 \$000
	530,736	441,756
	67,132	55,153
	2,932	2,027
	70,064	57,180
	33,979	27,435
	1,074	401
	35,011	29,344
	29,936	24,177
	4,432	4,461
	498	435
	34,866	29,073
	145	271
	508	759
	(363)	(488)

Auditors' Report

To the Members of Farmlands Trading Society Limited

We have audited the financial statements on pages 6 to 16. The financial statements provide information about the past financial performance of Farmlands Trading Society Limited ('the Society') and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 9 to 10.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

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

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

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

Our firm has also provided other services to the Society in relation to taxation and assistance with NZ IFRS and the Statement of Cash Flows. Partners and employees of our firm may also purchase goods from the Society on normal terms and in the ordinary course of business. These matters have not impaired our independence as auditors of the Society. The firm has no other relationships with, or interest in, the Society.

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records;
- the financial statements on pages 6 to 16:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with New Zealand equivalents to International Financial Reporting Standards
 - give a true and fair view of the financial position of the Society as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

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



BDO Spicers
Chartered Accountants & Advisers

BDO Spicers Hawke's Bay

BDO Spicers Hawke's Bay
Chartered Accountants
Napier, New Zealand

Income Statement

For the year ended 30 June 2009

In thousands of New Zealand dollars

	2009 \$000	2008 \$000
Revenue (Note 4)	498,832	417,579
Cost of Sales	461,636	386,603
GROSS PROFIT	37,196	30,976
Other Income (Note 5)	1,694	1,303
Operating Expenses (Note 6)	34,477	27,870
Operating Profit before Net Finance Income	4,413	4,409
Finance Income	1,238	724
Finance Expense	1,074	401
Net Finance Income	164	323
Net Profit before Loyalty Rebate and Tax	4,577	4,732
Loyalty Rebate (Note 23)	4,432	4,461
Net Profit before Tax	145	271
Tax expense (Note 8)	508	759
PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS	(363)	(488)

Statement of Changes in Equity

For the year ended 30 June 2009

	2009 \$000	2008 \$000
Equity at start of period	36,704	35,323
Profit (loss) for the period	(363)	(488)
Total income and expense recognised directly in equity	-	-
Total recognised income and expenses	(363)	(488)
Bonus shares issued	1,862	1,240
Net contribution from Members	627	629
EQUITY AT END OF PERIOD (Note 14)	38,830	36,704

These statements should be read in conjunction with the Notes to the Accounts

Balance Sheet

As at 30 June 2009

In thousands of New Zealand dollars

NON CURRENT ASSETS

Property Plant & Equipment (Note 9)

Intangible Assets (Note 10)

Investments (Note 7)

Deferred Tax Asset (Note 8)

TOTAL NON CURRENT ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Note 15)

Trade and Other Receivables (Note 16)

Taxation Refund

Inventories (Note 12)

TOTAL CURRENT ASSETS

TOTAL ASSETS

EQUITY

Issued Share Capital (Note 14)

Retained Earnings (Note 14)

TOTAL EQUITY (Note 14)

CURRENT LIABILITIES

Short Term Bank Borrowings (Note 15)

Trade and Other Payables (Note 13)

Employee Entitlements

Loyalty Rebate Payable (Note 23)

TOTAL CURRENT LIABILITIES

NON CURRENT LIABILITIES

Term Loan (Note 17)

Employee Entitlements

TOTAL NON CURRENT LIABILITIES

TOTAL EQUITY AND LIABILITIES

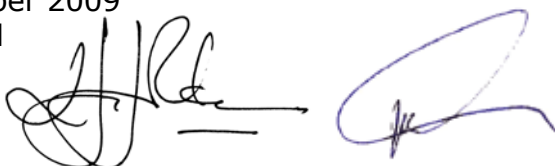
	2009	2008
	\$000	\$000
NON CURRENT ASSETS		
Property Plant & Equipment (Note 9)	21,938	16,626
Intangible Assets (Note 10)	3,736	3,164
Investments (Note 7)	10	10
Deferred Tax Asset (Note 8)	208	434
TOTAL NON CURRENT ASSETS	25,892	20,234
CURRENT ASSETS		
Cash and Cash Equivalents (Note 15)	5,858	24
Trade and Other Receivables (Note 16)	42,391	45,554
Taxation Refund	229	159
Inventories (Note 12)	24,877	25,652
TOTAL CURRENT ASSETS	73,355	71,389
TOTAL ASSETS	99,247	91,623
EQUITY		
Issued Share Capital (Note 14)	20,017	17,528
Retained Earnings (Note 14)	18,813	19,176
TOTAL EQUITY (Note 14)	38,830	36,704
CURRENT LIABILITIES		
Short Term Bank Borrowings (Note 15)	-	12,631
Trade and Other Payables (Note 13)	34,496	36,158
Employee Entitlements	1,451	1,635
Loyalty Rebate Payable (Note 23)	4,432	4,461
TOTAL CURRENT LIABILITIES	40,379	54,885
NON CURRENT LIABILITIES		
Term Loan (Note 17)	20,000	-
Employee Entitlements	38	34
TOTAL NON CURRENT LIABILITIES	20,038	34
TOTAL EQUITY AND LIABILITIES	99,247	91,623

These financial statements were authorised for issue by the Board on 22nd September 2009

For and on behalf of the Board

LJC Johnstone - Director

D P Jensen - Director



These statements should be read in conjunction with the Notes to the Accounts

Statement of Cash Flows

For the year ended 30 June 2009

In thousands of New Zealand dollars

CASH FLOW FROM OPERATING ACTIVITIES

Cash was provided from

- Receipts from members & customers
- Interest Received

Cash was applied to

- Payments to suppliers, employees & GST
- Interest Paid
- Income Tax Paid

Net Cash used in Operating Activities (Note 21)

CASH FLOW FROM INVESTING ACTIVITIES

Cash was provided from

- Sale of Property, plant & equipment

Cash was applied to

- Purchase of Property, plant and equipment
- Purchase of Business
- Purchase of Investments

Net Cash used in Investing Activities

CASH FLOW FROM FINANCING ACTIVITIES

Cash was provided from

- Issue of Shares
- Term loan drawdown

Cash was applied to

- Repayment of Capital
- Bonus Rebate Benefits paid

Net Cash provided by Financing Activities

NET INCREASE/(DECREASE) IN CASH HELD

Opening Cash Balance brought forward

CLOSING CASH BALANCE CARRIED FORWARD

The closing Cash Balance comprised

- Short Term Bank Borrowings
- Cash Deposits and Bank

	2009 \$000	2008 \$000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash was provided from		
- Receipts from members & customers	503,689	406,620
- Interest Received	1,238	724
	504,927	407,344
Cash was applied to		
- Payments to suppliers, employees & GST	(495,853)	(406,475)
- Interest Paid	(1,074)	(401)
- Income Tax Paid	(352)	(609)
	(497,279)	(407,485)
Net Cash used in Operating Activities (Note 21)	7,648	(141)
CASH FLOW FROM INVESTING ACTIVITIES		
Cash was provided from		
- Sale of Property, plant & equipment	2,689	135
Cash was applied to		
- Purchase of Property, plant and equipment	(9,846)	(5,822)
- Purchase of Business	(50)	(2,500)
- Purchase of Investments	-	(10)
Net Cash used in Investing Activities	(7,207)	(8,197)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash was provided from		
- Issue of Shares	722	1,028
- Term loan drawdown	20,000	-
Cash was applied to		
- Repayment of Capital	(95)	(399)
- Bonus Rebate Benefits paid	(2,603)	(1,832)
Net Cash provided by Financing Activities	18,024	(1,203)
NET INCREASE/(DECREASE) IN CASH HELD	18,465	(9,541)
Opening Cash Balance brought forward	(12,607)	(3,066)
CLOSING CASH BALANCE CARRIED FORWARD	5,858	(12,607)
The closing Cash Balance comprised		
- Short Term Bank Borrowings	-	(12,631)
- Cash Deposits and Bank	5,858	24
	5,858	(12,607)

These statements should be read in conjunction with the Notes to the Accounts

Notes to the Financial Statements

1. Reporting Entity

Farmlands Trading Society Limited (the "Society") is a Society registered under the Industrial and Provident Societies Act 1908 and domiciled in New Zealand. Farmlands Trading Society Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993.

Farmlands Trading Society Limited is in the business of providing goods and services to farmers and its major purpose is to reduce farmers' input costs by means of a collective buying group.

Farmlands Trading Society Limited has a 100% owned subsidiary, Skelton Ivory (2008) Ltd. This is non-trading therefore these accounts represent the parent and group.

2. Basis of Preparation

- Statement of compliance

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

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

The Directors have the power to amend these statements once issued.

- Basis of Measurement

The financial statements have been prepared on the historical cost basis.

- Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Society's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

- Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Farmlands has made estimates relating to bad debt provisioning, impairment of goodwill, and inventory net realisable value. Details are included in the relevant policies and notes to the accounts.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Financial instruments

The Society's financial instruments include cash and cash equivalents, accounts receivable, investments, accounts payable, and borrowings. These are carried at fair value. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

Accounts receivable

Trade receivables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost, less allowance for impairment.

Investments

The Society's investments are classified as available-for-sale financial assets. Subsequent to initial recognition the investments are recorded at fair value and any changes therein, other than impairment losses, are recognised directly in equity.

Accounts payable

Trade and other payables represent liabilities for goods and services provided to the Society prior to the end of the financial year which are unpaid. The amounts are unsecured and usually payable within 30 days of recognition. Trade and other payables are initially stated at fair value plus directly attributable transaction costs. They are subsequently stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts which are an integral part of the Society's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method.

Borrowing costs

Borrowing costs are expensed in the period that they are incurred.

Loyalty Rebates to members

Loyalty rebates are recognised as an expense and as a liability at the time the entitlement to the rebate has been approved by Directors. Members are entitled to a share in this rebate according to their support. The loyalty rebates are distributed by way of share capital and/or cash at the sole discretion of the Directors.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of replacing part of an item of property, plant, and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The costs of the day to day servicing of property, plant, and equipment are recognised in the income statement as incurred. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the income statement.

Depreciation

Depreciation for property, plant and equipment is recognised in the income statement on a diminishing value basis over the estimated useful lives of each item. Buildings are depreciated on a straight line basis. Land is not depreciated.

The depreciation rates are:	2009	2008
Buildings	2% to 3%	2% to 3%
Plant & Machinery	15% to 24%	15% to 24%
Other plant & fittings	15% to 40%	15% to 40%
Motor vehicles	20% to 30%	30%
Computers & Telephones	25% to 60%	33% to 60%

Depreciation methods, useful lives and residual value of assets are reassessed annually.

Intangible assets

- Goodwill

Goodwill is recorded at cost less impairment losses. Goodwill arises from the purchase of a business where the fair value of the identifiable net assets acquired is less than the cost to the Society. It is not amortised. Instead, it is tested for impairment annually and whenever there is an indication that the assets may be impaired the carrying amount is reduced and the loss included in the income statement.

- Software

Software is measured at cost less accumulated amortisation and accumulated impairment losses. The amortisation period used ranges between 2 and 5 years. Where the periods of expected benefit or recoverable values have diminished, due to technical change or market conditions, amortisation is accelerated or the carrying amount is written down due to impairment.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss when incurred.

Leases - operating leases

Operating leases are leases in which a significant portion of the risks and rewards of ownership are retained by the lessor. Operating leases are not recognised on the Society's balance sheet. Operating lease payments are recognised in the income statement on a straight line basis over the term of the lease.

Inventories

The cost of inventories is determined on a weighted average basis. Inventory is valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Due allowance has been made for obsolete inventory where appropriate.

Impairment - non financial assets

The carrying amount of the Society's non financial assets, other than deferred tax assets and inventories, are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the assets recoverable amount is estimated. Goodwill

is tested annually for impairment, irrespective of changes in circumstances.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment - financial assets

The carrying amount of the Society's financial assets are reviewed at each balance sheet date to determine whether there is any evidence of impairment.

Investments in equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in the fair value below the original purchase price. For this purpose, prolonged is regarded as any period longer than nine months, and significant as more than 20 percent of the original purchase price of the equity instrument. If there is evidence of impairment, the value of the asset is written down through the profit and loss.

For receivables which are not significant on an individual basis, collective impairment is assessed based on the number of days overdue, taking into account the historical loss experience with similar amounts with similar days overdue. Significant receivables are reviewed for impairment on an individual basis and an allowance for impairment is established when there is objective evidence that the Society will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the estimated future cash flows discounted at the asset's original effective interest rate. Any impairment is recognised in the income statement within operating expenses.

Provisions

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

Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of rebates, returns and discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods.

Farmlands may receive discounts or rebates from third party suppliers of goods and services, in addition to the discounts or rebates passed on to shareholders.

Foreign currencies

Transactions in foreign currencies are converted at the NZD rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to NZD using the exchange rate ruling on that date. Foreign exchange gains and losses resulting from the settlement of foreign exchange currency transactions are recognised in the income statement.

Finance income and expenses

Finance income consists of interest income. It is recognised as it accrues, using the effective interest rate method.

Finance expenses comprise interest expenses and they are recognised in the income statement using the effective interest rate method.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither the accounting nor taxable profit, and the differences relating to investment in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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

Deferred tax assets and deferred tax liabilities have been offset as the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the income tax levied is in the same taxation authority.

Employee entitlements

Employee benefits include salaries and wages, annual leave, long service leave and other benefits. Employee benefits expected to be settled within one year are measured on an undiscounted basis. Employee benefits payable later than one year have been measured at the present value of the benefit obligation at the end of the reporting period. The present value is determined using the Projected Unit Credit Method.

Segmental Reporting

The Society operates in one industry segment being the rural supplies sector.

The Society's operations are carried out predominantly in one geographical segment, North Island, New Zealand. Segment reporting disclosures required are presented in the balance sheet, income statement and statement of cashflows.

Goods and services tax (GST)

The financial statements are prepared on a GST exclusive basis with the exception of accounts receivable and accounts payable which are stated GST inclusive.

Cash flow statement

For the purpose of the Cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of any outstanding bank overdrafts.

- Operating Activities:

Transactions and other movements that are not investing or financing activities

- Investing Activities:

Activities relating to acquisition, holding and disposal of property, plant and equipment, and of investments, not falling within the definition of cash

- Financing Activities:

Activities that change the equity and debt capital structure of the entity

New standards and interpretations not yet adopted

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations which in the Directors' opinion are the only ones likely to impact the Society, that are applicable to the business of the entity and may have an impact on future financial statements:

- NZ IAS 1 Presentation of financial statements (effective 1 July 2009)
- NZ IAS 23 Borrowing costs (effective 1 July 2009)
- NZ IFRS 8 Operating segments (effective 1 July 2009)
- NZ IFRS 3 Business combinations (effective 1 July 2009)

All these Standards and Interpretations will be adopted at their effective date. Application of these standards and interpretations is not expected to have a material impact on the Society's financial position and results in the period of initial application.

	2009	2008
4 Revenue		
Sale of goods	\$000	\$000
Stores	210,365	160,808
Card Partners	288,467	256,771
	<u>498,832</u>	<u>417,579</u>
5 Other Income		
Other Income consisted of the following:		
Rebates Forfeited	980	597
Bad Debts Recovered	4	10
Other income	710	696
	<u>1,694</u>	<u>1,303</u>
6 Operating Expenses		
Operating expenses consisted of the following:		
Fees paid to auditors		
Audit services	55	33
Other services related to audit	22	7
Taxation services	7	-
Other services	2	-
Rental on property	2,715	2,526
Occupancy	1,817	1,507
Member relations and communications	5,424	4,071
Bad debts written off	283	126
Allowance for impairment of trade receivables	569	47
Depreciation		
Buildings	129	109
Plant	717	640
Motor vehicles	42	241
Computer & telephones	329	315
Amortisation of software	110	122
Loss on disposal	500	5
Directors fees	279	232
Employee benefits	19,266	15,301
Other operating expenses	2,211	2,588
	<u>34,477</u>	<u>27,870</u>
7 Investments		
Shares in unlisted companies	10	10
	<u>10</u>	<u>10</u>
Investments comprise shares in Independent Cropcare Distributors Limited.		
8 Income tax expense in the income statement		
Current tax expense		
Current period	282	907
	<u>282</u>	<u>907</u>
Deferred tax expense		
Origination and reversal of temporary differences		
Employee entitlements	(17)	11
Provisions	(171)	(16)
Intangible assets	-	19
Property, plant, and equipment	414	(205)
Reduction in tax rate	-	43
	<u>226</u>	<u>(148)</u>
Income tax expense	508	759
Reconciliation of effective tax rate		
Profit for the period	(363)	(488)
Total income tax expense	<u>508</u>	<u>759</u>
Income tax using company tax rate of 30%	145	271
Non deductible expenditure	44	89
Change in unrecognised temporary differences	26	627
Change in unrecognised temporary differences	438	
Effect of change in tax rate	-	43
Income tax expense	<u>508</u>	<u>759</u>
Deferred tax asset		
Balance at end of year	208	434
Comprising tax effect of:		
Employee entitlements	392	375
Provisions	227	56
Intangible assets	(17)	(17)
Property, plant, and equipment	(394)	20
	<u>208</u>	<u>434</u>
Imputation Credit Account		
Opening balance at start of year	8,539	8,541
Net credits from tax paid during year	351	609
Net credits issued during year	(917)	(611)
Closing balance at end of year	<u>7,973</u>	<u>8,539</u>

9 Property, plant, and equipment

Cost

In thousands of New Zealand dollars	Land \$000	Buildings \$000	Plant \$000	Motor vehicles \$000	Computers & telephones \$000	Work in progress \$000	Total \$000
Balance at 1 July 2007	4,198	3,905	8,508	681	3,031	-	20,323
Acquisition through business combination	150	950	52	57	24	-	1,233
Other additions	1,523	-	1,176	1,400	391	-	4,490
Disposals	-	-	(15)	(118)	-	-	(133)
Balance at 30 June 2008	5,871	4,855	9,721	2,020	3,446	-	25,913
Balance at 1 July 2008	5,871	4,855	9,721	2,020	3,446	-	25,913
Acquisition through business combination	-	-	-	-	-	-	-
Additions	540	2,821	2,128	1,092	560	2,571	9,712
Disposals	(27)	(4)	(1,120)	(2,908)	(10)	-	(4,069)
Balance at 30 June 2009	6,384	7,672	10,729	204	3,996	2,571	31,556

Depreciation and impairment losses

In thousands of New Zealand dollars	Land	Buildings	Plant	Motor vehicles	Computers & telephones	Work in progress	Total
Accumulated depreciation at 1 July 2007	-	96	4,957	260	2,664	-	7,977
Depreciation for the year	-	109	639	241	315	-	1,304
Impairment loss	-	-	-	-	-	-	-
Disposals	-	-	1	4	1	-	6
Accumulated depreciation at 30 June 2008	-	205	5,597	505	2,980	-	9,287
Accumulated depreciation at 1 July 2008	-	205	5,597	505	2,980	-	9,287
Depreciation for the year	-	129	717	42	329	-	1,217
Impairment loss	-	-	-	-	-	-	-
Disposals	-	-	(433)	(445)	(8)	-	(886)
Accumulated depreciation at 30 June 2009	-	334	5,881	102	3,301	-	9,618

Carrying amounts

At 1 July 2007	4,198	3,809	3,551	421	367	-	12,346
At 30 June 2008	5,871	4,650	4,124	1,515	466	-	16,626
At 30 June 2009	6,384	7,338	4,848	102	695	2,571	21,938

Land and buildings were revalued by a registered valuer on 20 July 2007. Upon transition to NZ IFRS the Society took advantage of the exemption available and the revaluation was adopted as deemed cost.

10 Intangible Assets

Goodwill

Cost - balance at 1 July	2,982	482
Acquisition of business	50	2,500
Additional goodwill recognised	500	-
Impairment losses	-	-
Cost - balance at 30 June	3,532	2,982
Accumulated impairment losses	-	-

Software

Cost		
Balance at 1 July	1,059	962
Additions	132	97
Balance at 30 June	1,191	1,059
Amortisation		
Balance at 1 July	877	755
Amortisation	110	122
Balance at 30 June	987	877

\$000

Software carrying amount at 1 July 2007	207
Software carrying amount at 30 June 2008	182
Software carrying amount at 30 June 2009	204

Total intangible assets

3,736

3,164

Goodwill acquired during the year relates to the acquisition of assets from Morgan Laurensen Limited, and additional consideration recognised for the Skelton Ivory Limited purchase as disclosed in note 11.

Farmlands has one cash-generating unit. The recoverable amount of the cash-generating unit is based on a value-in-use calculation using a discounted cash flow model. Future cash flow was projected out three years, based on Board approved business plans with key assumptions being earnings excluding depreciation, amortisation and capital expenditure for the Society. A terminal growth rate of 0.6% was applied. A pre-tax discount rate of 13.6% was utilised. No impairment arose as a result of the review of goodwill for the year ended 30 June 2009. The calculations for the business would not have indicated an impairment given either a 5% increase in discount rate or a 5% reduction in growth rate.

11 Acquisitions

On 1 October 2008 the Society purchased the assets of a part of the business of Morgan Laurensen Limited. The agreement included the purchase of inventory for \$125,000, client lists, and goodwill. No value has been attributed to these lists as the majority of clients were already clients of Farmlands. The \$50,000 goodwill represents the amount paid in excess of the fair value of tangible assets purchased. No equity interest in Morgan Laurensen Limited was purchased as part of the transaction. An additional \$75,000 of goodwill may be paid 2 years after the date of the agreement if certain requirements are met. At this stage there is no evidence that this payment is probable therefore it has not been recognised in these financial statements. The purchase of the assets did not include any equity shareholding. Goodwill of \$50,000 has been recognised, refer to note 10. It is not practicable to calculate the profit or loss since acquisition as the inventory is being sold as part of the normal operations of Farmlands.

On 14 April 2008 the Society purchased some of the assets of Skelton Ivory Limited for \$5,395,000. The agreement included the purchase of inventory for \$1,443,000, property, plant, and equipment for \$111,000 and accounts receivable for \$1,341,000 which represented the fair value of these assets. The pre-acquisition carrying amounts were determined based on applicable NZIFRS's immediately before the acquisition and represented the fair values paid. The \$2,500,000 goodwill represents the amount paid in excess of the fair value of tangible assets purchased. The goodwill recognised on this acquisition is attributable mainly to the synergies expected to be achieved from this acquisition. No equity interest in Skelton Ivory Limited was purchased as part of the transaction. It is not practicable to calculate the profit or loss since acquisition as the operation forms part of the overall business.

At the time of the acquisition an additional amount of goodwill was conditional upon achieving certain earnings targets. At 30 June 2008 the Society did not recognise this additional goodwill as there was no evidence that it would be required to be paid. The Society has reassessed the likelihood of this payment as at 30 June 2009 and believe that this payment will be made in the future. An additional \$500,000 of goodwill has therefore been recognised in this financial year.

12 Inventories

Inventories are pledged as securities to the Society's bankers. There was no material write down of inventory throughout the year.

13 Trade and other payables

	2009 \$000	2008 \$000
Trade creditors	31,708	34,879
Accruals	2,788	1,279
Total trade and other payables	34,496	36,158

14 Capital and reserves

In thousands of New Zealand dollars

	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
Balance at 1 July 2007	15,659	19,664	35,323
Profit (loss) for the year	-	(488)	(488)
Total income and expenses recognised directly in equity	-	-	-
Total recognised income and expenses		(488)	(488)
Bonus shares issued	1,240	-	1,240
New members	949		949
less paid out withdrawals	(320)	-	(320)
Balance at 30 June 2008	17,528	19,176	36,704
Balance at 1 July 2008	17,528	19,176	36,704
Profit (loss) for the year	-	(363)	(363)
Total income and expenses recognised directly in equity	-	-	-
Total recognised income and expenses		(363)	(363)
Bonus shares issued	1,862	-	1,862
New members	983		983
less paid out withdrawals	(356)	-	(356)
Balance at 30 June 2009	20,017	18,813	38,830

Share capital	2009	2008
	\$000	\$000
13,346,850 ordinary shares fully paid	13,201	12,507
145,750 ordinary shares partly paid	146	119
Bonus shares each fully paid	6,670	4,902

Total Issued capital	20,017	17,528
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In accordance with the rules of the Farmlands Trading Society Limited, each member of the Society is required to hold such number of shares in the Society as fixed by the Board (currently 550 ordinary shares). Ordinary shares are issued and redeemed at a nominal value of \$1 for each share. All ordinary shares rank equally with one vote per share held by each financial member of the Society. Ordinary shares are entitled to a pro-rata share of the surplus on the wind-up of the Society.

From time to time bonus shares are issued as part of the loyalty rebate.

A shareholder cannot hold more shares than the amount prescribed by the Minister of Commerce by notice in the Gazette (currently \$25,000) and the Directors can set the limit on the shares that can be held lower than this. The Directors have resolved to set the maximum shareholding at \$8,000.

New members apply to join the Society and it is at the sole discretion of the Board whether they are accepted.

A member may withdraw from the Society by providing notice in writing of their intention to withdraw once the Board has consented to their withdrawal. The rules state that it is at the discretion of the Board to accept or decline the withdrawal. Accordingly, repayment of shares is at the discretion of the Society, not the member.

15. Cash and cash equivalents	2009	2008
	\$000	\$000
Funds in bank	5,858	24
Short term borrowings	-	(12,631)
Total cash balances reported in the Statement of cash flows	5,858	(12,607)

16. Trade and other receivables	2009	2008
	\$000	\$000
Owing by Debtors	43,147	45,741
Less allowance for impairment	756	187
	42,391	45,554
Allowance for impairment		
Opening Balance	187	140
Increase in allowance	569	47
	756	187

17. Term debt

The Society has a 5 year fixed interest loan with the Bank of New Zealand. The loan is interest only and is repayable on the 20th March 2014. The interest rate is 6.4%. The loan is secured over the assets and undertakings of the Society. A registered mortgage is held over all the Society's properties. The carrying values of properties subject to mortgage are \$13,685,000.

18. Operating leases	2009	2008
Non-cancellable operating lease rentals are payable as follows:	\$000	\$000
Less than one year	3,167	2,587
Between one and five years	8,780	7,523
More than five years	2,780	3,685
	14,727	13,795

The Society leases 29 of its stores. The leases typically run for an initial period of 12 years with an option to renew the lease after that date. Lease payments are reviewed every three years and adjusted to reflect market rentals. Some leases are reviewed on the basis of the CPI.

The Society leases the majority of its motor vehicles and all of its forklifts. The terms of the leases are between 18 months and five years.

During the year ended 30 June 2009 \$2,765,000 was recognised as an expense in the income statement in respect of operating leases. (2008: \$2,545,000)

19. Capital commitments

Capital expenditure contracted for at balance date, but not provided for in relation to current store developments are: Te Kuiti \$39,000 (2008:nil), Taupo \$36,000 (2008:nil), Marton \$632,000 (2008:nil) and Kaitaia \$687,000 (2008:nil).

20. Contingencies

There are no known material contingent liabilities at balance date (2008:nil)

21. Reconciliation of net profit after taxation with cash flow from operating activities

	2009	2008
	\$000	\$000
Profit/(loss) after taxation	(363)	(488)
Plus non cash items		
Deferred tax	226	(178)
Depreciation	1,217	1,305
Amortisation of software	110	122
Loss on disposal	500	5
Loyalty rebate	4,432	4,461
Funds available from operations	6,485	5,715
Plus (less) movements in working capital items		
Increase in debtors	3,163	(12,929)
Increase in creditors, GST & employee entitlements	(2,342)	10,100
Increase in stock	775	(2,867)
Decrease in tax payable	(70)	328
Total movement in working capital	1,526	(5,368)
Net cash flow from operating activities	7,648	(141)

22. Related party transactions

Key management personnel include the executive employees and Directors. Executive employees and Directors short term employee compensation comprised salaries and directors fees totalling \$2,106,000 (2008: \$1,591,000).

As Farmlands Trading Society Limited is a co-operative industrial and provident society the majority of sales are made to members, including sales to members who are directors and employees.

All transactions with Directors and employees are on the same terms and conditions as other members.

No bad debts have been accounted for, or allowance for impairment been required, for transactions with Directors or executive employees.

Details of transactions and outstanding balances with Directors and other key management personnel (including close family members) are summarised at right:

Total sales to members during the year were \$463,362,000 (2008: \$390,411,000).

Transactions And Outstanding Balances

	2009	2008
	\$000	\$000
Receivables from executive employees and Directors	39	103
Sales to executive employees and Directors	1,106	1,167

23. Loyalty rebate benefit

Loyalty rebates for the year were \$4,432,000. (2008:\$4,461,000)

Loyalty rebates will be split 63.5% in cash (2008: 58.0%) and 36.5% in share capital (2008: 42.0%). The loyalty rebate will be distributed in September 2009 and will be based on the level of sales from the Society to its members.

Other rebates returned to members during the year have been treated as trading rebates and have been deducted from revenue.

Trading rebates for the year were \$29,936,000 (2008:\$24,177,000)

24. Financial Risk Management

Exposures to credit, interest rate, and liquidity risks arises in the normal course of the Society's business.

Market risk

The Directors are of the opinion that the Society's exposure to market risk at balance date is defined as:

Risk factor	Description	Sensitivity
Currency Risk	All assets and liabilities are denominated in NZ Dollars	Nil
Interest rate risk	Exposure to changes in interest rates	as below
Other price risk	No material securities are held	Nil

Interest rates on borrowing are not sensitive to interest rate changes as the rate has been fixed for 5 years. A 1% increase or decrease in bank interest rates on deposits will increase/decrease the profit reported by \$55,480 and increase/decrease equity by the same amount.

Credit risk

Financial assets which potentially subject the Society to concentrations of credit risk consist principally of cash, short term deposits, and trade receivables.

The Society's cash equivalents are placed with high quality financial institutions. The Society has the option of placing its cash and short term deposits with Bank of New Zealand Ltd, Westpac Banking Corporation, ANZ National Banking Group, Rabobank, and ASB Banking Group. Board policy allows the investment of up to \$20,000,000 in the BNZ and up to \$10,000,000 in any of the other institutions.

Trade receivables are presented net of the allowance for impaired receivables. Credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across the rural sector and geographical area. Farmlands also has a credit policy under which new members are individually analysed for credit worthiness. There are procedures and steps in place to be actioned before new members are approved. Accordingly the Directors believe that there is no concentration of credit risk. The amount that represents the maximum exposure to credit risk at 30 June 2009 is \$373,000 (2008: \$284,000). There is no collateral held relating to this debt.

Farmlands exposure to credit risk from trade receivables is as shown at right:

Risk From Trade Receivables

	2009	2008
	\$000	\$000
0 - 1 Year	42,177	45,743
1 - 3 Years	214	-
Past due more than 3 years	-	-
Total	42,391	45,743

Trade receivables that are impaired at 30 June 2009 were \$756,000 (2008: \$187,000) and are impaired because the amounts are significantly overdue. During the year \$283,000 of bad debts were written off (2008: \$126,000)

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

Gross trade receivables	43,147	45,741
	\$000	\$000
Individual impairment	663	161
Collective impairment	93	26
Total impairment (note 16)	756	187
Trade receivables net. (note 16)	42,391	45,554

Trade receivables overdue at balance date but not considered impaired totalled \$5,186,979 (2008: \$4,826,376)

Liquidity risk

Liquidity risk represents the Society's ability to meet its contractual obligations. The Society has replaced its revolving credit facility with a term loan ensuring that it has sufficient cash to meet its obligations. There is an additional funding facility available with the BNZ if the Society does require additional cash.

The liquidity profile is as follows:

	30th June 2009			30th June 2008		
	Less than one year \$000's	Greater than one year \$000's	Total \$000's	Less than one year \$000's	Greater than one year \$000's	Total \$000's
Bank borrowings	-	-	-	12,631	-	12,631
Accounts payable	34,496	-	34,496	36,158	-	36,158
Loyalty Rebate	4,432	-	4,432	4,461	-	4,461
Bank term borrowing	-	20,000	20,000	-	-	-
	38,928	20,000	58,928	53,250	-	53,250

Fair values

The carrying amount of all assets and liabilities reflect their fair values, except for foreign exchange contracts. The notional amount of the foreign exchange instruments outstanding at balance date is \$388,047 (2008: nil). These contracts are for future purchase commitments and have a fair value of \$299,461 (2008: nil). The derivative financial instruments do not qualify for hedge accounting and would normally be accounted for at fair value through the income statement if the change were to have a major impact on the financial accounts of the Society. These amounts do not have a major impact and as such are not recognised in the income statement.

Interest rate risk

The Society's exposure to interest rate risk relates to funds deposited with and borrowings from external parties. As the term borrowing has a fixed interest rate for 5 years and there are no significant interest bearing investments, the Society does not consider that there is substantial interest rate risk.

25. Management of Capital

The objectives of the Society when managing capital are to safeguard the Society's ability to continue as a going concern so it can continue to provide competition for products and services in the rural sector, and to maintain a strong capital base to support the development of the business.

The Society meets its objectives through a mix of members funds comprising share capital, retained earnings, reserves, and banking facilities. The ability to maintain members' funds is set out in the previous note under liquidity risk.

26. Events subsequent to balance date

The Directors have resolved to investigate the opportunity to sell some of the properties owned by Farmlands. These properties have not been classified as available-for-sale as they are not considered to be ready for sale in their current condition and the Directors have the right to decline any bids for the properties

Directors' Report

The Directors present this report on the affairs of Farmlands Trading Society Limited for the year ended 30 June 2009.

Financial Results

The Directors report that the Society's after tax deficit for the year ended 30 June 2009 was \$363,000 (2008: \$488,000). Total members benefits, including the 2009 loyalty rebate benefit to members of \$4,432,000 (2008: \$4,461,000) were \$34,167,000 for the year. (2008: \$28,638,000)

Directors' Insurance

The Society has a policy of directors' liability insurance, which helps ensure that directors will incur no monetary loss as a result of actions undertaken by them as directors provided they operate within the law.

Directors' Interest

A Director's Interest Register is maintained by the Board and available to the shareholders for review if required.

Directors' Benefits

No director of the Society has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors shown in the financial statements) other than normal rebates received by them as shareholders as a result of trading with the Society in the same manner as all shareholders.

Directors Remuneration

During the year the total remuneration received by the Directors was as follows:

	2009	2008
	\$000's	\$000's
L J C Johnstone (Chairman)	56	56
D L Munro	33	28
R T Barton	30	25
S A Robinson	-	10
S Wyn-Harris	30	25
R I Linklater	30	25
J W Walden	35	29
D P Jensen (Chairman of Audit Committee)	30	25
P D Wilson	35	9
	279	232

Staff receiving remuneration and other benefits exceeding \$100,000 per annum.

The number of staff or former staff, who received remuneration and other benefits valued at or exceeding \$100,000 during the year under review are stated below:

Remuneration	Number of Staff	
	2009	2008
100,000 - 110,000	5	-
110,000 - 120,000	2	3
120,000 - 130,000	2	1
140,000 - 150,000	-	2
150,000 - 160,000	2	-
170,000 - 180,000	-	2
190,000 - 200,000	1	-
240,000 - 250,000	-	1
250,000 - 260,000	2	-
260,000 - 270,000	-	1
310,000 - 320,000	1	-
330,000 - 340,000	1	-
410,000 - 420,000	-	1
470,000 - 480,000	1	-

Current Assets & Current Liabilities

The Directors consider the carrying amounts for all current assets and current liabilities to reflect their fair values.

Use of Information

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

Donations

No donations were made during the year (2008:nil)

Events Subsequent to Balance Date

The Directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report that has significantly or may significantly affect the operation of Farmlands Trading Society Limited, the results of those operations or the state of affairs of the Society.



Lachlan Johnstone

Chairman

Dated 22 September 2009

Environmental Policy

Farmlands Trading Society Limited is a rural retailer that supplies farm inputs & services to farmers. The responsibility for managing and maintaining the policy lies with the Board of Directors and senior management of Farmlands Trading Society Limited.

Farmlands Trading Society Limited is an environmentally conscious and responsible company. To carry out this commitment, it is Farmlands Trading Society Limited policy to strive to ensure that all aspects of the organisation have the least harmful effect on the environment by adopting environmentally sensitive practices in all of its operations.

Farmlands Trading Society Limited:

- Will identify, implement and promote best practice environmental management systems and operations.
- Is committed to operating in an environmentally sustainable manner by reducing waste and the use of energy and resources.
- Will provide an environmentally sound workplace, and implement environmentally sound work practices.
- Will ensure that employees understand the importance of incorporating environmental consideration in their daily business activities where this is appropriate.
- Will encourage suppliers and contractors to act in accordance with our environmental standards.
- Will be fully aware of all environmental legislation and ensure that regulatory requirements are met and, where feasible, improved on within reasonable cost boundaries.
- Will monitor the implementation of the policy by carrying out periodic audits and, when appropriate, introduce remedial measures.
- Will communicate its environmental management and performance through annual reports distributed to shareholders and implement a process of continuous improvement.

In addition, areas of particular attention within the organisation will be the selection of non-polluting technology, waste minimisation, reuse/recycling and the reduction of energy consumption. Farmlands Trading Society Limited also makes a positive environmental contribution in the local community by encouraging open communication, general environment awareness and the promotion of community projects.

Corporate Governance

FARMLANDS TRADING SOCIETY LIMITED

Approved at full Board Meeting 22nd September 2009

Role of the Board:

The Board of Directors of Farmlands is elected by the shareholders to review and monitor the management of the Company. The Board establishes the Company's objectives, overall policy framework within which the business of the Company is conducted and confirms strategies for achieving these objectives, monitors management's performance and ensures that procedures are in place to provide effective internal financial control.

Board Membership:

The Board comprises up to eight elected Directors including the Chairman and a maximum of two appointed Directors. The Board will meet not less than 6 times during the year.

In accordance with the Company's constitution Directors retire every three years at the conclusion of an annual meeting.

Directors retiring may, if eligible, stand for re-election.

Directors' Shareholding:

Under the constitution elected Directors must hold shares in the Company.

Audit & Risk Committee:

The Board has an Audit & Risk Committee comprising of Mr D P Jensen (Chairman), Mr D L Munro, Mr P D Wilson, Mr R I Linklater and with attendances by appropriate management representatives.

The Audit & Risk Committee oversees financial reporting, accounting policies and audit services in the Company. This includes reviewing the adequacy and effectiveness of internal controls and reviewing the scope and results of audit work, its cost effectiveness and the performance, independence and objectivity of the auditors. The Committees also review financial statements.

The Audit & Risk Committee also has a function of reviewing management practices in relation to the identification and management of significant business risk areas and regulatory compliance. Formal systems have been introduced for regular reporting to the Board on business risk and compliance matters.

Remuneration Committee:

The Board has a Remuneration Committee comprising of Mr L J C Johnstone (Chairman), Mr Walden, Mr S Wyn-Harris, Mr R T Barton with attendances by appropriate management representatives.

Internal Financial Control:

The Board has overall responsibility for the Company's system of internal financial control. The Board in conjunction with management has established procedures and policies that are designed to provide effective internal financial control.

Annual budgets and long term strategic direction are agreed by the Board.

Financial statements are prepared monthly and reviewed by the Board throughout the year to monitor the performance against budget and objectives.

Directors' and Officers' Insurance:

The Company has arranged Directors' and Officers' liability insurance covering Directors and Officers acting on behalf of the Company. Cover is for damages, judgments, fines, penalties; legal costs awarded and defense costs arising from wrongful acts committed while acting for the Company. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, willful breach of statute or regulations, or duty to the Company, improper use of information to the detriment of the Company or breach of professional duty.

Independent Professional Advice:

With the approval of the Chairman, Directors are entitled to seek independent professional advice on any aspect of the Directors' duties, at the Company's expense.

Going Concern:

After reviewing the current results and detailed forecasts, taking into account available credit facilities and making further enquiries as considered appropriate, the Directors are satisfied that the Company has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

Board Performance:

The Board as a whole and individual Directors are subject to a performance appraisal annually using a corporate governance best practice model. This appraisal is designed to measure performance through peer review and self assessment. The Chairman then initiates a review with each Director and a collective review of Board performance. Appropriate strategies for personal and collective improvement are then agreed and actioned.

The Role of Shareholders:

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders in the annual report, the monthly newsletter and media announcements. The Board encourages full participation of shareholders at the annual meeting to ensure a high level of accountability and identification with the Company's strategies and goals.