

DAIRY INNOVATION AUSTRALIA



pure innovation

# Annual Report 2009

OUR MEMBERS:



Dairy Innovation Australia Limited

ABN:69 053 927 003 ACN: 053 927 003

[www.dairyinnovation.com.au](http://www.dairyinnovation.com.au)

## Annual Report – 30 June 2009

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## **CHAIRMAN'S REVIEW 2009**

This year has seen significant progress in the relationship between Dairy Innovation Australia and the member companies, as the company strove to become more integrated with the plans and aspirations of the individual members. There has also been significant progress in a number of projects and significant changes in both the Board and the organisation's structure of research projects. It is against this background of significant change, in a challenging economic and environmental climate, that I have pleasure, on behalf of the Board, in presenting the company's annual report for 2008/2009.

### **Building Relationships**

With the first few years of the company now behind us, the year saw a real focus on cementing the relationship between Dairy Innovation Australia and the member companies, to ensure that that the company teams understood the strategic intent of the individual members and could explore opportunities. The introduction of the 'I-reviews' helped to facilitate this dialogue. It will be important, as we move forward, to ensure that this deeper understanding and dialogue continues, not only with our members, but with our broad range of technology partners.

### **Delivering results**

The key projects that have made good progress this year include those associated with cost effective powder manufacture for current and new products & applications (e.g. Smart Drying and Target 35), those underpinning new product and ingredient development and new and extended market opportunities (e.g. Ultrasonics, Curd Microstructure) and those addressing resource efficiency (e.g. Water Pinch Assessment, Performance Indicators for Energy Efficiency). A significant proportion of our members have seen strong benefits from both the broad project and the fee for service work, enabling some to leverage their investment 9:1. However, as with any innovation, the real success comes only when members capitalise on the indicative outcomes of the research project.

## Changing Involvement

Under the guidance of our CEO, Lesley MacLeod, the way in which the research projects are grouped/structured is being changed, to ensure that we will be able to more-efficiently utilise the investment funds. The original concept of 'portfolios' and 'portfolio members' will disappear in 2010, to be replaced with broader involvement by members across the full range of project areas. It is in this way that we hope to expand the nature of the project scope and the involvement of individual members. Lesley and the Dairy Innovation Australia team have put an immense amount of work into re-configuring our arrangements in 2009 and we look forward to seeing the fruits of this work in 2010.

## Changes on the Board

Whilst there has been significant change in the company's approach to project management, there have also been significant changes on the Board in 2008/2009. At the end of 2008, Andrew Donovan stepped down as Chairman and left the Board, having completed the establishment of the company and seen it through the early years. Andrew was a strong guide as Dairy Innovation Australia was created and established, leading the Board and the company through the formative years. His insights and considered input have been immensely valuable, and we wish him well for the future.

Bernard Kavanagh also left the Board, early in 2009, replaced by Richard Wallace, who brings Operations experience. Bernard made a significant contribution to the Audit Committee, which we will miss. We also lost Jo Davey – our thanks for her insights into consumers and innovation – and Tony McKenna, who has returned to New Zealand. In June 2009, Paul Ford finished on the Board as the Geoffrey Gardiner Dairy Foundation ceased to be a member, after committing contributions for the early years of the company. Paul has provided strong input into Board discussions, bringing a wealth of dairy experience to the debate – our thanks for his broad input and wise counsel. My thanks to all those Board members who have been involved over the last year for their contribution to the debate on the Board. Your challenge and debate continues to help shape the future for the company.

## Thanks to the team

Lesley Macleod has been an enthusiastic leader of the team over the last year, continually making changes to the company to enhance the delivery of results. The Board would like to record our thanks to Lesley and the rest of the team for the significant efforts that they have made during the year.

We now have an organisation with a proven track record of achievement, but we have an enormous range of opportunities to explore and a select few in which we should invest funds and deliver results. Whilst we have made progress in building better relationships, we are only at the beginning of the road. Whilst our investment projects have started to deliver results, we need to ensure that the successful ideas are captured and exploited by our industry. We all look forward to accelerating success over the coming year.

*Peter Boyden*

**Chairman of the Board of Directors**



## **C.E.O's REPORT**

### **Strategy**

In its third year of operation, and with a consolidated company structure and strategy, 2009 highlighted the impact of changes in the global environment that increase the demand for innovation and put pressure on the need to deliver value for DIAL investment. The significant challenge has been to accelerate the adoption of innovation by member companies and to balance short term opportunities with long term capabilities.

A review of innovation systems in place within member companies assisted in developing an understanding of the barriers to breakthrough innovation. It was concluded that the Portfolio structure was failing to optimise innovation delivery, communication and decision making. The concept of a single "Program of Work" was developed to incorporate multi-disciplinary, vertically integrated teams and tailored communication and adoption plans for member companies. An emphasis on fore-sight and technology "pull" was also incorporated, to facilitate the opportunities to fill the innovation pipeline. A transition plan has been prepared to complete implementation of the new framework in 2010.

### **Program Highlights**

In 2009, DIAL investment program key activities included a number of projects entering the adoption phase:

- Process optimisation – development and application of models to optimise process and reduce production costs in cheese and powders - *NIZO Premia*.
- Novel processing strategies with cost, energy and water saving opportunities - *Low thermodynamic pasturisation*.
- Novel technologies and tools to challenge the barriers to production of functional powders impacting cost and energy efficiency - *Smart Drying and Target 35*.

Projects generating patents and entering the demonstration phase:

- Patent technology application with novel product and processing implications - *Ultrasonics*.

And projects generating new knowledge and capability in the form of tools and consumer messages

- Tools to improve curd manufacture, curd structure and curd functionality to support new product opportunities and process improvement in the cheese industry - *Curd microstructure*.
- Providing contemporary data for consumer messages and product opportunities by examining and quantifying dairy food consumption by age, types and context - *National Nutrition Survey interrogation*.

## ***People***

DIAL's research and technology provider engagement grew in 2009, to encompass collaborations with 11 Australian and 6 international universities. Funding and leadership was provided to or underpinned positions for 15 Postdocs, 20 PhDs, 4 Masters, 6 Undergraduates, 2 Lecturers and 9 Research Fellows in these universities.

In addition to working with traditional university research departments in 2009, our research programs involved collaboration with 16 Research Institutes/companies in Australia and overseas.

The core DIAL staff members have worked as a consolidated team in 2009 to provide cross-functional leadership to our broad range of research programs, and guidance and support in the adoption of technologies by our members. The team is to be congratulated for these achievements and their role in developing the operational vision for the next phase of our company.

## ***Investment***

In 2009 Dairy Innovation invested \$5.96 M directly into research projects. A further \$4.32 M was leveraged from research organizations and research funding bodies, providing a total investment of \$10.28 M across all Portfolios and the Health and Nutrition Consortium.

The Dairy Innovation team has established the framework, knowledge and capability to deliver innovative technologies. We look forward in the coming year to leading the adoption of these technologies to deliver solutions to the challenges facing our industry now and into the future.

***Lesley MacLeod***  
**Chief Executive Officer**

# Dairy Innovation Australia Ltd. 2009 Staff Members



**Andrea Merrall**  
Research  
Scientist



**Barbara Meurer-Grimes**  
Health, Nutrition &  
Biotechnology Manager



**Bogdan Zisu**  
Research  
Scientist



**Brenda Golebiowski**  
Technical Officer



**Carmel Gray**  
Laboratory  
Technician



**Chris Pillidge**  
Senior Research  
Scientist



**Claire Dale**  
Production  
Manager



**Colin Jones**  
Process Engineer



**Elankovan Ponnampalam**  
Senior Engineer



**Geraldine Walker**  
Applications Leader



**Glen Smith**  
Technical Officer



**Ian Powell**  
Cheese & Cultured  
Products R&D  
Manager



**Jenny Kaldy**  
Quality Assurance  
Manager



**Jill Payne**  
Technical Officer



**June Tan**  
Food Technologist



**Karen Manaszczuk**  
Portfolio  
Administrator



**Lesley MacLeod**  
Chief Executive  
Officer



**Lucy Sheehy**  
Microbiologist/  
Technical Officer



**Lynn Klecka**  
Company Secretary  
& Finance Manager



**Malcolm Broome**  
Senior Research  
Scientist



**Mark Fink**  
Commercial  
Services Manager



**Mark Schleyer**  
Senior Process  
Engineer



**Martin Palmer**  
Ingredients &  
Applications Manager



**Mike Weeks**  
Process  
Technologies  
Leader



**Nick Newnham**  
IT Manager



**Nicole Glennon**  
Graduate Process  
Engineer



**Nicole Mathewson**  
Executive Assistant



**Nohemi Quispe-Chavez**  
Senior Process  
Engineer



**Sandra Ainsworth**  
Research Scientist

## Company particulars

<b>Directors</b>	<b>Date Appointed</b>	
Mr B. J. Kavanagh	05/03/2001	Resigned 15/10/2008
Mr. A. P. Donovan	13/12/2006	Resigned 15/10/2008
Ms. I. MacNeill	13/12/2006	
Ms J. A. Davey	29/11/2006	Resigned 30/06/2009
Mr. P. Ford	13/12/2006	Resigned 30/06/2009
Mr. P. G. Hobman	13/12/2006	
Dr. A. B. McKenna	13/12/2006	Resigned 30/06/2009
Mr. P. R. Boyden	21/02/2008	
Mr. R. C. Wallace	15/10/2008	

## Secretary

Mrs. Lynn Klecka 23/01/2007

## Registered office in Australia

671 Sneydes Road, Werribee, Victoria 3030

## Registered place of business in Australia

180 Princes Highway, Werribee, Victoria 3030

## Auditor

Haines Muir Hill 18/04/07

## Bankers

National Australia Bank

## **Directors' Report**

### **For the year ended 30 June 2009**

In respect of the financial year ended 30 June 2009, the Directors of Dairy Innovation Australia Limited, "the company", submit the following report made out in accordance with a resolution of the directors:

#### **1. Directors**

The names of directors in office at anytime during or since the beginning of the year are:

Mr. B. J. Kavanagh  
Ms. I. MacNeill  
Mr. P. Ford  
Dr. A. B. McKenna  
Mr. P. R. Boyden

Mr. A. P. Donovan  
Ms. J. A. Davey  
Mr. P. G. Hobman  
Mr. R. C. Wallace

#### **2. Principal activities and objectives**

During the year the principal activities of the company consisted of:

- Research and research management
- Extension and technology transfer
- Knowledge Management
- Capability development and training

in the areas of dairy ingredients and applications, processing design and process performance, cheese and cultures technology and functional foods and ingredients for the dairy manufacturing sector.

Additional activities included bulk and adjunct starter culture manufacture, service and support.

The principle objectives of Dairy Innovation Australia are to:

- create Australia's premier centre for dairy manufacturing science, technology and innovation
- provide a strong integrated Australian dairy manufacturing R&D effort that contributes to global competitiveness, innovation capacity and market responsiveness of its dairy company members.
- to be the focal point for Australian dairy manufacturing science, technology and innovation.
- to be recognised by its members and the global dairy community as a leader in discovery and delivery of commercially valuable outcomes from targeted dairy manufacturing research.

**Directors' Report**  
**For the year ended 30 June 2009 (Continued)**

**3. Results**

The **surplus** for the financial year ended 30 June 2009 was \$480,879. The company is exempt from income tax under Section 50-40 of the Income Tax Assessment Act, 1997.

**4. Dividends**

No dividends are payable by the company under Clause 3 of the Constitution of the company.

**5. Review of operations**

The company provides its members with a non exclusive, royalty free license to outcomes from research activities in the areas of dairy ingredient discovery, manipulation and applications, process design and performance, cheese production and culture science and functional foods and ingredient innovation. The company also provides services in research management, access to an extensive knowledge management database and access for members to developed capability and know how for technology transfer. The company conducts member company visits and portfolio meetings to allow industry direction of pre competitive research.

**6. Significant changes in the state of affairs**

There were no significant changes in the state of affairs during the financial year ended 30<sup>th</sup> June 2009.

**7. Matters subsequent to the end of the financial year**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

**Directors' Report**  
**For the year ended 30 June 2009 (Continued)**

**8. Likely developments and expected results of operations**

Information on likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

**9. Environmental Regulation**

The company is not subject to any significant environmental regulations.

**10. Directors' and executives' emoluments**

No director of the company has received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the accounts) by reason of a contract made by the company, with a director or with a firm of which the director is a member, or with an entity in which the director has a substantial financial interest.

**11. Information on directors**

**Director**

**Qualifications and Experience**

**Mr. Peter Boyden**  
**Chairman**



Peter is an internationally experienced senior executive, with extensive general management and marketing expertise gained in consumer goods businesses in Australia, UK, Netherlands, Greece and Canada. He is currently managing director of Boyden & Associates (a business mentoring, planning and strategic development consultancy) and a Mentoring Faculty member of Merryck & Co (a specialist Senior Executive mentoring business). Previously Mr Boyden was the managing director of Unilever Australasia Foods, executive director of the Australian Food and Grocery Council, and marketing director for Unilever Australasia. He is a non-executive director of Foods Standards Australia New Zealand, Meat & Livestock Australia and Stuart Alexander (Australia) Pty Ltd.

## Directors' Report For the year ended 30 June 2009 (Continued)

**Ms. Isabel MacNeill**  
Deputy Chair



Over 17 years experience in the dairy industry with the New Zealand Dairy Board (NZDB) and latterly Fonterra Co-operative Group. Her career in the dairy industry has spanned a range of nutrition and health related roles from generic marketing through to technology and research management. Isabel has worked in roles across both public health and the global commercial business sectors. Member of the Australian Institute of Company Directors.

**Mr. Peter Hobman**



Current position General Manager, MG Nutritionals and General Manager, Corporate R & D for Murray Goulburn Co-Operative Company Limited.

Extensive international experience in executive management of new business development, R & D and technological innovation, including five years working in Japan. Served as a board member of several commercial companies in both New Zealand and Japan.

B Tech (Bitech) (Hons) degree

Fellow of the NZ Institute of Food Science & Technology.

**Mr. Richard Wallace**



Current position General Manager of Operations for Warrnambool Cheese & Butter Factory.

20 Years experience in the dairy industry.

Currently responsible for production facilities and transport services.

Dip Dairy Technology MBA

**Ms. Josephine Davey**



Jo has 27 years experience in the dairy manufacturing industry in marketing, business development, innovation, quality systems and microbiology. She has been a company director for research and commercial organisations for 12 years.

Jo has served as President of the Dairy Industry Association of Australia (nationally and in NSW) and has held leadership and development roles in the Australian Institute of Food Science and Technology (AIFST). Jo is a Fellow of the Australian Institute of Company Directors and a Fellow of the AIFST

## Directors' Report For the year ended 30 June 2009 (Continued)

**Dr. Tony McKenna**



Dr McKenna has held various roles in both technical and management during his twenty four years in the dairy industry.

Bachelor of Technology, Massey University 1985; Diploma of Management, NZ Institute of Management 1990; Doctor of Philosophy, Food Technology, Massey University 2000.

Tony served on the Board of the CRC for Innovation Dairy Foods and is currently a Board Member of Dairy Technical Services Limited.

**Mr. Andrew Donovan**



15 years experience as a Chairman, Company Director and board adviser, specialising in private companies. Experience with boards in a number of mid-sized private enterprises in sectors such as finance, insurance, sustainability and health care.

Fellow of the Australian Institute of Company Directors, facilitator of AICD advanced level programs and co-author of several director courses.

**Mr. Paul Ford**



Current position CEO Geoffrey Gardiner Dairy Foundation, leads a small specialist team which invests \$100 million of dairy industry funds to continuously improve production processes, build vibrant dairy communities and develop dairy people. Serves on a number of prominent industry committees.

2008 Winner of the Dairy Industry Association of Australia John Bryant Gold Medal for outstanding and sustained contribution to the industry in Australia.

**Mr. Bernard Kavanagh**



Employed in the Australian dairy industry for 31 years and during that time has held a number of senior executive positions including: Executive Director, Company Secretary, Chief Financial Officer, Finance & Strategy and Corporate Manager.

Current position is General Manager Business Development at Warrnambool Cheese and Butter Factory Co Holdings Ltd and has experience in both public company and ASX listed environments. Involved in dairy industry research and development as a Director of the former Australian Starter Culture Research Centre and as a member of the Industry Leadership Team.

Director of newly formed international joint venture company Great Ocean Ingredients Pty. Ltd.

**Directors' Report**  
**For the year ended 30 June 2009 (Continued)**

**12. Meetings of directors**

The number of meetings of the company's board of directors held during the year ended 30 June 2009, and the number of meetings attended by each director were:

	<b>Board of Directors' Meetings</b>	
	<b>Number Eligible to Attend</b>	<b>Number Attended</b>
Mr. B. J. Kavanagh	2	2
Mr. A. P. Donovan	2	2
Ms. I. MacNeill	7	7
Ms. J. A. Davey	7	6
Mr. P. Ford	7	7
Mr. P. G. Hobman	7	5
Dr. A. B. McKenna	7	4
Mr. P. R. Boyden	7	6
Mr. R.C. Wallace	5	5

**13. Insurance of officers**

As provided under the Constitution, the company shall indemnify every officer out of the assets of the company for any liability incurred by him or her arising out of conduct of the business of the company.

During the year, the company has paid insurance premiums to insure directors and officers against liability.

Disclosure of the amount of insurance premiums payable under, and a summary of the nature of liabilities covered by, the insurance contracts are prohibited by confidentiality clauses in the contracts.

**14. Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30<sup>th</sup> June 2009 has been received and can be found on page 15.

**15. Rounding of amounts**

The company is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with that Class Order to the nearest dollar.

**Directors' Report  
For the year ended 30 June 2008 (Continued)**

This report is made in accordance with a resolution of the Directors.



P. R. Boyden  
Director



P. G. Hobman  
Director

Melbourne, Victoria  
23 September 2009.

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF  
DAIRY INNOVATION AUSTRALIA LIMITED**

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Doncaster East Vic 3109

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Doncaster East Vic 3109  
Australia

REPRESENTED IN ALL STATES AND  
ASSOCIATED OFFICES THROUGHOUT  
THE WORLD.

ABN 51 539 972 147

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

*Haines Muir Hill*

HAINES MUIR HILL

*Alan J Muir*

ALAN J MUIR

Date *21 September 2009*

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The financial report covers Dairy Innovation Australia Ltd as an individual entity.

Dairy Innovation Australia Limited is a company limited by guarantee.  
Its registered office is:

671 Sneydes Road  
Werribee Victoria 3030

A description of the nature of the company's operations and its principal activities is included in the directors' report on pages 8 -14

**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2009**

	<b>Note</b>	<b>2009</b> \$	<b>2008</b> \$
<b>Revenue</b>	<b>2</b>	7,460,854	7,082,018
Project expenses		(3,107,842)	(3,473,422)
Employee benefits expense		(2,855,132)	(2,445,635)
Finance costs		(51)	(1,300)
Depreciation and amortisation expense		(470,239)	(620,310)
Other expenses		(546,711)	(608,257)
		<hr/>	
<b>Profit before income tax</b>	<b>3</b>	480,879	(66,906)
Income tax expense		-	-
		<hr/>	
<b>Net Profit</b>		480,879	(66,906)
		<hr/>	
Total changes in equity other than those resulting from transactions with owners as owners.		480,879	(66,906)
		<hr/> <hr/>	

**The above income statement should be read in conjunction with the accompanying notes.**

**BALANCE SHEET  
AS AT 30 JUNE 2009**

	Note	2009 \$	2008 \$
<b>Current assets</b>			
Cash and cash equivalents	6	3,203,402	2,703,128
Trade and other receivables	7	400,865	325,488
Inventories	8	125,820	196,244
Other current assets	9	52,286	17,289
Total current assets		<u>3,782,373</u>	<u>3,242,149</u>
<b>Non-current assets</b>			
Property, plant and equipment	10	2,371,619	2,598,260
Total non-current assets		<u>2,371,619</u>	<u>2,598,260</u>
<b>Total assets</b>		<u>6,153,992</u>	<u>5,840,409</u>
<b>Current liabilities</b>			
Trade and other payables	11	354,022	706,901
Short-term provisions	12	490,789	458,126
Short-term borrowings	13	-	8,718
Other current liabilities	14	376,485	280,565
Total current liabilities		<u>1,221,296</u>	<u>1,454,310</u>
<b>Non-current liabilities</b>			
Long-term provisions	15	144,626	79,870
Total non-current liabilities		<u>144,626</u>	<u>79,870</u>
<b>Total liabilities</b>		<u>1,365,922</u>	<u>1,534,179</u>
<b>Net assets</b>		<u><u>4,788,070</u></u>	<u><u>4,306,229</u></u>
<b>Members' funds</b>			
Members' surplus	16	2,482,091	2,001,212
Reserves	17	2,305,979	2,305,017
<b>Total members' funds</b>		<u><u>4,788,070</u></u>	<u><u>4,306,229</u></u>

The above balance sheet should be read in conjunction with the accompanying notes.

**STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE YEAR ENDED 30 JUNE 2009**

	Note	2009 \$	2008 \$
<b>Net Income Recognised Directly in Equity</b>			
Surplus/(Deficit) for the period		480,879	(66,906)
Total Recognised Income and Expense for the Period		480,879	(66,906)
<hr/>			
<b>Attributable to Equity Holders of the Company</b>		<b>480,879</b>	<b>(66,906)</b>
<hr/>			



**The above statement of recognised income and expense should be read in conjunction with the accompanying notes.**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2009**

	Note	2009 \$	2008 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		7,253,147	7,080,364
Payment to suppliers and employees		(6,705,611)	(5,989,454)
Interest received		204,459	212,395
<b>Net cash inflow from operating activities</b>	<b>21</b>	<b>751,995</b>	<b>1,303,305</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant & equipment		78,332	38,192
Purchase of property, plant & equipment		(321,267)	(258,344)
<b>Net cash (outflow) from investing activities</b>		<b>(242,935)</b>	<b>(220,152)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(8,786)	(24,876)
<b>Net cash inflow from financing activities</b>		<b>(8,786)</b>	<b>(24,876)</b>
<b>Net increase/(decrease) in cash held</b>		<b>500,274</b>	<b>1,058,279</b>
Cash at the beginning of the financial year		2,703,128	1,644,849
<b>Cash at the end of the financial year</b>	<b>6</b>	<b>3,203,402</b>	<b>2,703,128</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

## Notes to the financial statements for the year ended 30 June 2009

### 1. Summary of significant accounting policies

This financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has also been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report.

#### (a) Project Income

Project income is brought to account as operating revenue on the basis of the stage of completion of the project agreements. Funding received for projects not completed at balance date is carried forward as unearned project income and classified as Other Current Liabilities.

#### (b) Participation

Participation is by way of an annual participation fee. This annual participation fee provides members with services commensurate with their level of participation in terms of access to research outcomes in each of their selected research portfolios, and to any intellectual property arising from research producing such outcomes. In addition, members have the opportunity to contribute to or commission specialised projects undertaken by or managed by the Company.

At the 30<sup>th</sup> June 2009 the Company had eleven participants.

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 1. Summary of significant accounting policies (continued)

#### (c) Profit

Any profit will be applied solely towards the promotion of the objects of the company as set out in the Constitution and cannot be paid or transferred directly or indirectly by way of dividend, bonus or otherwise, by way of profit to the members of the Company.

#### (d) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs attributable to the acquisition.

#### (e) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue from the rendering of a service is recognised upon delivery of the services to the customer.

#### (f) Trade and other receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 120 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

#### (g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on a first in first out basis.

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 1. Summary of significant accounting policies (continued)

#### (h) Property, plant and equipment

##### Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Land and buildings were valued by an independent valuer on 7<sup>th</sup> July 2008. The amount of the valuation as at that date was \$2,000,000. This valuation was based on an independent valuation prepared by National Property Valuers. The basis for this independent valuation was direct comparison and the capitalisation of estimated rental value, the midpoint of both methods used as the revaluation amount.

##### Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

##### Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	4% -10%
Plant & Equipment	10% - 50%
Furniture & Fittings	10% - 50%
Laboratory equipment	25%
Fixtures and fittings	14.5% - 20%
Office equipment	10% - 50%
Computer equipment	25% - 50%
Motor Vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 1. Summary of significant accounting policies (continued)

#### (h) Property, plant and equipment (continued)

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 disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to members' surplus.

#### (i) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Company, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5 years.

#### (j) Leased non current assets

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely the company will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

#### (k) Trade and other payables

These amounts represent liabilities from goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (l) Maintenance and repairs

Costs associated with maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1 (g).

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 1. Summary of significant accounting policies (continued)

#### (m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

#### (n) Employee entitlements

##### (i) *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date, but sick leave to a maximum of 30 days only per employee.

##### (ii) *Long service leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

##### (iii) *Superannuation*

Contributions are made by the company to employees' superannuation funds and are charged as expenses when incurred.

#### (o) Cash

For purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of change in value.

#### (p) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest dollar.

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 1. Summary of significant accounting policies (continued)

#### (q) Research and Development Expenditure

Research and Development costs are charged to profit before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

Deferred research and development expenditure is amortised on a straight-line basis over the period during which the related benefits are expected to be realised, once commercial activities have commenced.

#### (r) Members' Funds

Dairy Innovation Australia Limited was incorporated as a company limited by guarantee in Victoria to an amount not exceeding \$20. Membership is available through membership rather than shareholding. As at 30 June 2009 the number of voting members was eleven.

#### (s) Income Tax

The Company has received an exemption from paying company tax under section 50-40 of the Income Tax Assessment Act 1997 as amended.

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 2. Revenue

<b>Operating activities</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Fees for services	965,733	1,010,123
Subscriptions and contributions	6,009,000	5,577,000
Project income funding	264,000	269,865
Other Income	17,662	12,635
	<hr/>	<hr/>
	7,256,395	6,869,623
 <b>Non-operating activities</b>		
Interest revenue	204,459	212,395
	<hr/>	<hr/>
<b>Total Revenue</b>	<b>7,460,854</b>	<b>7,082,018</b>

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 3. Profit

Profit before income tax expense includes the following specific expenses:

	2009 \$	2008 \$
Depreciation		
- Buildings	39,516	39,386
- Leasehold improvements	6,945	6,965
- Office equipment	3,578	13,154
- Computer equipment	40,109	31,370
- Office furniture and fittings	13,614	21,912
- Plant and equipment	298,931	433,765
- Motor vehicles	52,745	49,730
- Leased Equipment	14,801	24,028
Total depreciation	<u>470,239</u>	<u>620,310</u>
Loss on sale of assets	6,614	82
Provision for Employee entitlements	97,419	(21,601)

## Notes to the financial statements for the year ended 30 June 2009 (continued)

	2009 \$	2008 \$
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### 4. Remuneration of directors

Income paid or payable, or otherwise made available to directors of the Company	61,426	65,417
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The number of directors of the Company whose total income was within the specified bands are as follows:

#### Income between:

\$10,000 to \$19,999	1	1
\$20,000 to \$29,999	0	0
\$50,000 to \$59,999	1	1

### 5. Auditors' Remuneration

Remuneration of the auditors of the Company:

Auditing the financial statements	27,756	23,250
Other services	2,500	11,475

### 6. Cash and cash equivalents

Cash at bank	3,201,902	2,701,628
Cash on hand	1,500	1,500
	3,203,402	2,703,128

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement.

The weighted average interest rate of cash at bank is:	5.08%	7.05%
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## Notes to the financial statements for the year ended 30 June 2009 (continued)

	2009 \$	2008 \$
<b>7. Trade and other receivables</b>		
Trade receivables	374,866	317,699
GST refundable	15,988	7,749
Other receivables	10,011	40
	400,865	325,488
<b>Other receivables</b>		
These amounts generally arise from transactions outside the usual activities of the company.		
<b>8. Inventories</b>		
Stock on Hand	125,820	196,244
<b>9. Other current assets</b>		
Prepayments	52,286	17,289
<b>10. Property, plant and equipment</b>		
Leasehold improvements - at cost	34,726	34,726
Less: Accumulated depreciation	(17,354)	(10,409)
	17,372	24,317
Furniture & Fittings - at cost	128,231	118,455
Less: Accumulated depreciation	(115,437)	(101,822)
	12,794	16,633
Computer Equipment - at cost	187,860	139,725
Less: Accumulated depreciation	(139,945)	(99,835)
	47,915	39,890
Motor Vehicles - at cost	126,546	240,429
Less: Accumulated depreciation	(57,621)	(64,039)
	68,925	176,390
Office Equipment - at cost	48,088	46,715
Less: Accumulated depreciation	(46,184)	(42,606)
	1,904	4,109

## Notes to the financial statements the year ended 30 June 2009 (continued)

	2009 \$	2008 \$
<b>10. Property, plant and equipment (cont'd)</b>		
Plant & Equipment - at cost	2,737,077	2,509,386
Less: Accumulated depreciation	(2,491,774)	(2,192,843)
	245,303	316,543
Leased Plant & Equipment	215,001	215,001
Less: Accumulated Amortisation	(209,424)	(194,623)
	5,577	20,378
<b>Total plant and equipment</b>	<b>399,790</b>	<b>598,260</b>
Land & Buildings		
Building at Independent Valuation 2008	500,000	500,000
Improvements at cost	11,345	-
Less: accumulated depreciation	(39,516)	-
	471,829	500,000
Freehold land - Independent Valuation 2008	1,500,000	1,500,000
	1,971,829	2,000,000
<b>Total land and buildings</b>	<b>1,971,829</b>	<b>2,000,000</b>
<b>Total property, plant and equipment</b>	<b>2,371,619</b>	<b>2,598,260</b>

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	P&E	Office Equipment	Computer Equipment	Fixtures & Fittings	Motor Vehicles	L'Hold Improve'ts	Leased P & E	Buildings	Land
Balance at beginning of the year	316,543	4,109	39,890	16,633	176,390	24,317	20,378	500,000	1,500,000
Additions	227,691	1,373	48,134	9,775	26,978			11,345	
Disposals	-	-	-	-	(81,698)	-	-	-	-
Depreciation Expense	(298,931)	(3,578)	(40,109)	(13,614)	(52,745)	(6,945)	(14,801)	(39,516)	-
Carrying amount at 30 June 2009	245,303	1,904	47,915	12,794	68,925	17,372	5,577	471,829	1,500,000

**Notes to the financial statements for the year ended 30 June 2009 (continued)**

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>11. Trade and other payables</b>		
Sundry payables and accrued expenses	33,626	55,767
Provision for project expenditure	320,396	651,134
	<u>354,022</u>	<u>706,901</u>
<b>12. Short-term provisions</b>		
Employee entitlements	<u>490,789</u>	<u>458,126</u>
<b>13. Short-term borrowings</b>		
Hire Purchase Liability	-	8,786
Unexpired Term Charges	-	(68)
	<u>-</u>	<u>8,718</u>
<b>14. Other current liabilities</b>		
Participation fees received in advance	349,544	250,000
Amounts held in trust	26,941	30,565
	<u>376,485</u>	<u>280,565</u>
<b>15. Long-term provisions</b>		
Employee entitlements	<u>144,626</u>	<u>79,870</u>
<b>16. Members surplus</b>		
Balance at the beginning of the financial year	2,001,212	2,068,118
Net surplus/(deficit) for the year	480,879	(66,906)
Balance at the end of the financial year	<u>2,482,091</u>	<u>2,001,212</u>

## Notes to the financial statements for the year ended 30 June 2009(continued)

### 17. Reserves

#### General Reserve

Opening Balance	1,241,448	1,240,544
Add: movements for the year	962	904
Closing Balance	<u>1,242,410</u>	<u>1,241,448</u>

#### Asset Revaluation Reserve

Opening Balance	1,063,569	398,769
Add: movements for the year	-	664,800
Closing Balance	<u>1,063,569</u>	<u>1,063,569</u>

### 18. Related parties

#### Directors

The names of persons who were directors of Dairy Innovation Australia Ltd at any time during the financial year are as follows:

Mr. B. J. Kavanagh  
 Ms. I. MacNeill  
 Mr. P. Ford  
 Dr. A. B. McKenna  
 Mr. P. R. Boyden

Mr. A. P. Donovan  
 Ms. J. A. Davey  
 Mr. P. G. Hobman  
 Mr. R. C. Wallace

#### Remuneration

Information on remuneration of directors is disclosed in note 4.

#### Other transactions with directors and director-related entities

The company has provided consulting services to director-related entities in the normal course of business. These services involve research and development and the exchange of knowledge amongst subscribing members to the company, in accordance with the Constitution of the company.

### 19. Key Management Personnel Compensation

	Salary & Fees	Superannuation	Non-Cash Benefits	Total
<b>2009</b>				
Total compensation	982,725	106,488	98,638	1,187,851
<b>2008</b>				
Total compensation	864,267	96,874	93,738	1,054,879

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 20. Segment Reporting

The company has operated only in Australia within the dairy industry. The primary activity of the company is to undertake dairy research and development.

	2009 \$	2008 \$
<b>21. Cash Flow Information</b>		
<b>Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit after income tax	480,879	(66,906)
Non-Cash Flows in profit		
Depreciation	470,239	620,310
Net (profit)/loss on disposal of property, plant and equipment	3,367	(1,571)
Changes in assets and liabilities		
Decrease/(Increase) in trade and other debtors	(75,377)	(236,329)
Decrease/(Increase) in inventories	70,424	131,775
Decrease/(Increase) in prepayments	(34,997)	52,829
Increase/(Decrease) in trade and other creditors	(352,879)	572,997
Increase/(Decrease) in other liabilities	92,920	251,801
Increase/(Decrease) in provisions	97,419	(21,601)
<b>Cash inflow from operating activities</b>	<b>751,995</b>	<b>1,303,305</b>

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 22. Financial Instruments

#### (a) Credit risk exposure

The credit risk on financial assets of the company which have been recognised in the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

#### (b) Interest rate risk exposure

The company's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

#### Fixed interest maturing in:

	Notes	Floating Interest Rate \$	Over 1 year or less \$	1 to 5 years \$	Non Interest Bearing \$	Total \$
<b>2009</b>						
<b>Financial assets</b>						
Cash and cash equivalents	6	3,203,402	-	-	-	3,203,402
Trade and other receivables	7	-	-	-	400,865	400,865
Other current assets	9	-	-	-	52,286	52,286
		<u>3,203,402</u>	-	-	<u>453,151</u>	<u>3,656,553</u>
Effective interest rate		5.08%				
<b>Financial liabilities</b>						
Trade and other payables	11	-	-	-	354,022	354,022
Borrowings	13	-	-	-	-	-
Other current liabilities	14	-	-	-	376,485	376,485
		-	-	-	<u>730,507</u>	<u>730,507</u>
Effective interest rate						
Net financial assets (liabilities)		<u>3,203,402</u>	=	=	<u>(277,356)</u>	<u>2,926,046</u>

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 22. Financial Instruments (cont.)

	Notes	Floating Interest Rate \$	Over 1 year or less \$	1 to 5 years \$	Non Interest Bearing \$	Total \$
<b>2008</b>						
<b>Financial assets</b>						
Cash and cash equivalents	6	2,703,128	-	-	-	2,703,128
Trade and other receivables	7	-	-	-	325,488	325,488
Other	9	-	-	-	17,289	17,289
		<u>2,703,128</u>	-	-	<u>342,777</u>	<u>3,045,905</u>
Effective interest rate		7.05%				
<b>Financial liabilities</b>						
Trade and other payables	11	-	-	-	706,901	706,901
Borrowings	13	-	8,718	-	-	8,718
Other current liabilities	14	-	-	-	280,565	280,565
		-	<u>8,718</u>	-	<u>987,466</u>	<u>996,184</u>
Effective interest rate			7.05%	7.05%		
Net financial assets (liabilities)		<u>2,703,128</u>	<u>(8,718)</u>	=	<u>(644,689)</u>	<u>2,049,721</u>

### Reconciliation of Net Financial Assets to Net Assets

	Notes	2009 \$	2008 \$
<b>Net financial assets (liabilities) as above</b>		2,926,046	2,049,721
Non-financial assets and liabilities:			
Stock on Hand	8	125,820	196,244
Property, plant and equipment	10	2,371,619	2,598,260
Provisions	12,15	<u>(635,415)</u>	<u>(537,996)</u>
<b>Net assets per balance sheet</b>		<u>4,788,070</u>	<u>4,306,229</u>

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 22. Financial Instruments (cont.)

#### (c) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the company approximate their carrying value.

The carrying amounts and net fair value of financial assets and liabilities at balance date are:

	Notes	2009		2008	
		Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
On balance sheet financial instruments					
<b>Financial assets</b>					
Cash and cash equivalents	6	3,203,402	3,203,402	2,703,128	2,703,128
Trade and other receivables	7	400,865	400,865	325,488	325,488
Other current assets	9	52,286	52,286	17,289	17,289
		<u>3,656,553</u>	<u>3,656,553</u>	<u>3,045,905</u>	<u>3,045,905</u>
<b>Financial liabilities</b>					
Trade and other payables	11	354,022	354,022	706,901	706,901
Hire purchase liabilities	13	-	-	8,718	8,718
Other	14	376,485	376,485	280,565	280,565
		<u>730,507</u>	<u>730,507</u>	<u>996,184</u>	<u>996,184</u>

## Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 to 31, are in accordance with the Corporation Act 2001:
  - (a) comply with Accounting Standards and Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



P. R. Boyden  
Director



P. G. Hobman  
Director

Melbourne, Victoria  
23<sup>rd</sup> September 2009

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
DAIRY INNOVATION AUSTRALIA LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Dairy Innovation Australia Limited, which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expenses and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

**Directors' Responsibility for the Financial Report**

The directors of Dairy Innovation Australia Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Dairy Innovation Australia Limited on 21 September 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

### Auditor's Opinion

In our opinion the financial report represents fairly, in all material respects, the financial position of Dairy Innovation Australia Limited as of 30 June 2009 and of its financial performance and its cash flows for the year ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations).

*Haines Muir Hill*

**Haines Muir Hill**  
Chartered Accountants

*AJ Muir*

**Alan J Muir**  
Partner

Dated in *Werrisbee* on *23 September 2009*



*Dairy Innovation Australia Ltd  
Administration Offices  
671 Sneydes Road Werribee*



*Dairy Innovation Australia Ltd  
Culture Division  
180 Princes Highway Werribee*

## MAIN OFFICE

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