



ANIMAL CONTROL PRODUCTS LIMITED

REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

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Half-Year Report

The first six months of the financial year have seen disappointing production volumes and consequently financial performance below budgeted levels. Product and business development opportunities were pursued with an emphasis on export market development. The outlook for the second half of the financial year is far brighter and we anticipate an end of year position closer to budget.

Sales in the first half of the year have been lower due to lack of demand from the Department of Conservation and from private contractors that would normally undertake TB possum control operations. The Department of Conservation has supported another entrant to create a second source of 1080 bait and the Department plans to purchase almost 50% of its bait from them for the upcoming beech mast during the winter of 2019. We see this as an unwarranted move and one that will fragment the 1080 supply chain and increase operational, quality and financial risk.

The programme of continuous improvement in bait efficacy, quality, non-target species repellents, safety and security that Orillion operates relies upon sales revenues, so our focus on diversification of sales revenue has sharpened further given the Department of Conservation's procurement decisions. Export market development offers good opportunities and to this end the company has recently entered into two new offshore distribution agreements and is developing relationships and undertaking market research and bait trials in four offshore markets. Registration and testing toxic bait products overseas is a slow process, but we continue to build long-term opportunities.

Social media activity around 1080 bait usage increased markedly for a period at the start of the year. Subsequently many commentators have joined discussion in mainstream media to highlight the importance of 1080, and it is pleasing to see recognition that an aerial toxin (currently 1080) will be required for pest control in New Zealand for the foreseeable future. Technology and automation will play an important role in creating a predator free New Zealand, but vast tracts of inaccessible forest will require aerial treatment.

Our Strategic Priorities:



Collaboration

The Bovine Tuberculosis National Pest Management Plan implemented under the Biosecurity Act by TBfree continues to make good progress in efforts to eradicate the disease from New Zealand. The plan involves use of ground possum control and aerial control where necessary. Orillion regularly works with OSPRI on bait improvement and new initiatives.

The Department of Conservation is faced with another beech mast irruption of unprecedented scale this year. Longer term funding arrangements provided by the Government have allowed the Department greater flexibility with timing of purchases, and we look forward to meeting their requirements as they unfold over the rest of this financial year, and into the start of next year.

Zero Invasive Predators (ZIP) continues to drive an innovative programme of pest eradication and containment initiatives. We have enjoyed supporting this by development of novel baits and tailor-made products. Similarly, Predator Free 2050 funded initiatives and the many community conservation groups around the country have utilised our products.

We have continued to work collaboratively with Manaaki Whenua Landcare Research to develop and formulate rat specific toxic bait, utilising intellectual property developed and owned by Manaaki Whenua Landcare Research. This is an exciting project that has significant potential to assist in meeting Predator Free 2050 objectives in New Zealand as well as generating export earnings.

Orillion is also involved in several island eradication initiatives. This is built on a long history of success, most recently with eradication of mice from the Antipodes Islands. Larger and partly inhabited islands are now being

considered for eradication by various international philanthropic organisations around the world. We work closely with these groups on bait supply, logistics and the design and development of packaging.

Safety and Security

We continue to reap benefits from a large investment in safety and security over recent years. Orillion has implemented systems to meet the revised legal requirements for Health and Safety being a lower tier Major Hazard Facility, and we continue to invest in new equipment to improve safety for all staff and those working with us. This has created a positive and safe company culture. Orders for new automated production and packing equipment with safety and efficiency benefits were placed recently, and we await installation later in the year.

The continued safe use of 1080 throughout the supply chain remains a priority for the company, and we take every opportunity to play our part in this regard. We are however no longer the only 1080 bait manufacturer in New Zealand which lessens our ability to manage the supply chain, particularly from a quality, safety, reliability and cost-effectiveness perspective.

Diversification and Renewal

Our focus for diversification and renewal has continued on three fronts. Firstly, alignment of our manufacturing capability with the needs of our end users, in particular OSPRI, Predator Free 2050 and our many domestic and export clients.

Our second focus has been to support the work with Manaaki Whenua Landcare Research to formulate the rat specific toxic baits and to investigate potentially significant market opportunities.

Finally, a programme of export market development is underway supported by New Zealand Trade and Enterprise and 'G2G' the entity supporting government to government export business development.

Investment in new plant and equipment remains our preferred future path, although this will need to be predicated on solid market led requirements, while improving safety and efficiency. Increasingly it seems likely that investment will be based on export opportunity rather than reliance on the New Zealand market.

Financial Performance

Sales for the six months were \$1.73m being \$1.12m below budget, due to the reduced level of operations being undertaken by the Department of Conservation and TBfree, some of which is due to timing and a some to DOC's decision to actively support a new entrant. We expect sales to improve

markedly during the next two quarters. Administration, overheads and other costs were well controlled and broadly in line with budget. The net profit before tax was -\$153k against a budgeted profit of \$326k.

The balance sheet remains strong despite the lower level of profit achieved in the period. Working capital remains strong and ahead of budget, although this will reduce following delivery of further stocks of raw materials.

T Murdoch
Chairman

ANIMAL CONTROL PRODUCTS LIMITED
STATEMENT OF FINANCIAL PERFORMANCE (UNAUDITED)

FOR THE THREE MONTHS FROM 1 OCTOBER 2018 TO 31 DECEMBER 2018

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Prior Year	Actual	Business Plan
1,335,832	530,566	710,000
<u>715,240</u>	<u>392,378</u>	<u>452,096</u>
620,592	138,188	257,904
50,292	55,420	55,420
<u>110,467</u>	<u>73,979</u>	<u>62,744</u>
459,833	8,789	139,740
-	-	-
-	-	-
-	-	-
209,878	250,134	261,575
<u>43,045</u>	<u>36,365</u>	<u>28,848</u>
<u>252,923</u>	<u>286,499</u>	<u>290,423</u>
206,910	(277,710)	(150,683)
15,883	13,819	9,000
-	-	-
<u>222,793</u>	<u>(263,891)</u>	<u>(141,683)</u>
62,382	(73,889)	(39,672)
<u>\$ 160,411</u>	<u>\$(190,002)</u>	<u>\$(102,011)</u>

	Prior Year	Actual	Business Plan
Sales	4,284,689	1,730,330	2,850,000
Cost of Sales	<u>2,262,154</u>	<u>1,092,910</u>	<u>1,549,122</u>
GROSS MARGIN	2,022,535	637,420	1,300,878
Less:			
Depreciation	96,939	103,904	103,904
Factory Overheads	<u>235,120</u>	<u>163,085</u>	<u>177,094</u>
TRADING PROFIT	1,690,476	370,431	1,019,880
Less:			
Amortisation	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Administration	505,672	547,229	526,779
Research & Development	<u>111,165</u>	<u>63,533</u>	<u>57,696</u>
TOTAL EXPENSES	<u>616,837</u>	<u>610,762</u>	<u>584,475</u>
NET OPERATING PROFIT	1,073,639	(240,331)	435,405
Plus Other Income	22,272	27,641	18,000
Gain On Disposal	-	-	-
NET PROFIT BEFORE INCOME TAX	<u>1,095,911</u>	<u>(212,690)</u>	<u>453,405</u>
Less Taxation	306,855	(58,839)	126,953
NET PROFIT	<u>\$ 789,056</u>	<u>\$(153,851)</u>	<u>\$ 326,452</u>

ANIMAL CONTROL PRODUCTS LIMITED
STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 DECEMBER 2018

December 2017		Actual 2018	Business Plan
	CURRENT ASSETS		
500	Petty Cash	500	500
2,772,681	Bank of New Zealand	2,390,775	1,271,436
84,273	Prepayments & Deposits	210,961	62,500
114,400	Accounts Receivable	67,459	155,000
839,726	Stock on Hand	1,086,216	1,158,055
32,702	Tax Receivable	240,218	17,647
0	GST Receivable	21,471	4,402
<u>3,844,282</u>		<u>4,017,600</u>	<u>2,669,540</u>
	LESS CURRENT LIABILITIES		
18,569	GST Payable	-	-
-	Tax Payable	-	-
113,585	Accounts Payable	117,406	96,596
<u>137,669</u>	Accrued Expenses	<u>727,533</u>	<u>182,411</u>
269,823		844,939	279,007
<u>3,574,459</u>	WORKING CAPITAL	<u>3,172,661</u>	<u>2,390,533</u>
2,660,721	FIXED ASSETS	2,745,609	3,098,252
3,785	INTANGIBLE ASSETS	2,959	3,785
1,079,988	NON CURRENT INVENTORY	698,659	1,382,488
(355,704)	DEFERRED TAX LIABILITY	(335,950)	(355,704)
-	LONG TERM LOAN	-	-
<u>\$6,963,249</u>	NET ASSETS	<u>\$6,283,938</u>	<u>\$6,519,354</u>
	Comprising:		
	SHAREHOLDERS INVESTMENT		
100	Share Capital	100	100
1,617,486	Capital Reserves	1,617,486	1,617,486
5,556,607	Retained Earnings Brought Forward	5,420,203	5,475,316
789,056	Profit for Year (After Tax)	(153,851)	326,452
(1,000,000)	Dividends Paid	(600,000)	(900,000)
<u>\$6,963,249</u>	TOTAL SHAREHOLDERS INVESTMENT	<u>\$6,283,938</u>	<u>\$6,519,354</u>

ANIMAL CONTROL PRODUCTS LIMITED
STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

**FOR THE THREE MONTHS
 ENDED 31 DECEMBER 2018**

**FOR THE SIX MONTHS ENDED 31
 DECEMBER 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

	Cash was provided from:		
721,369	Receipts from Customers	2,740,209	
13,819	Interest Received	27,641	
<u>735,188</u>			2,767,850
	Cash was applied to:		
915,985	Payments to Suppliers	2,593,049	
-	Interest Paid	-	
10,231	Net GST	84,318	
170,133	Net Taxation Paid	347,715	
<u>1,096,349</u>			3,025,082
<u>(361,161)</u>	Net Cash Flow/(Outflow) from Operating Activities		<u>(257,232)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

	Cash was received from:		
-	Sale of Fixed Assets	-	
	Cash was applied to:		
185,200	Purchase of Fixed Assets	237,896	
<u>0</u>	Purchase of Intangible Assets		
<u>(185,200)</u>	Net Cash Flow/(Outflow) from Investing Activities		<u>(237,896)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

	Cash was received from:		
-	Term Loan	-	
<u>-</u>			
	Cash was applied to:		
600,000	Dividend Paid	600,000	
<u>(600,000)</u>	Net Cash Flow/(Outflow) from Financing Activities		<u>(600,000)</u>

	Net Increase/(Decrease) in Cash Held		
(1,146,361)		(1,095,128)	
3,537,636	Add: Cash Held at Start of Period	3,486,403	
<u>\$2,391,275</u>	BALANCE AT END OF PERIOD		<u>\$2,391,275</u>

Represented by:

	Petty Cash		
500		500	
2,390,775	Bank of New Zealand	2,390,775	
<u>\$2,391,275</u>		<u>\$2,391,275</u>	