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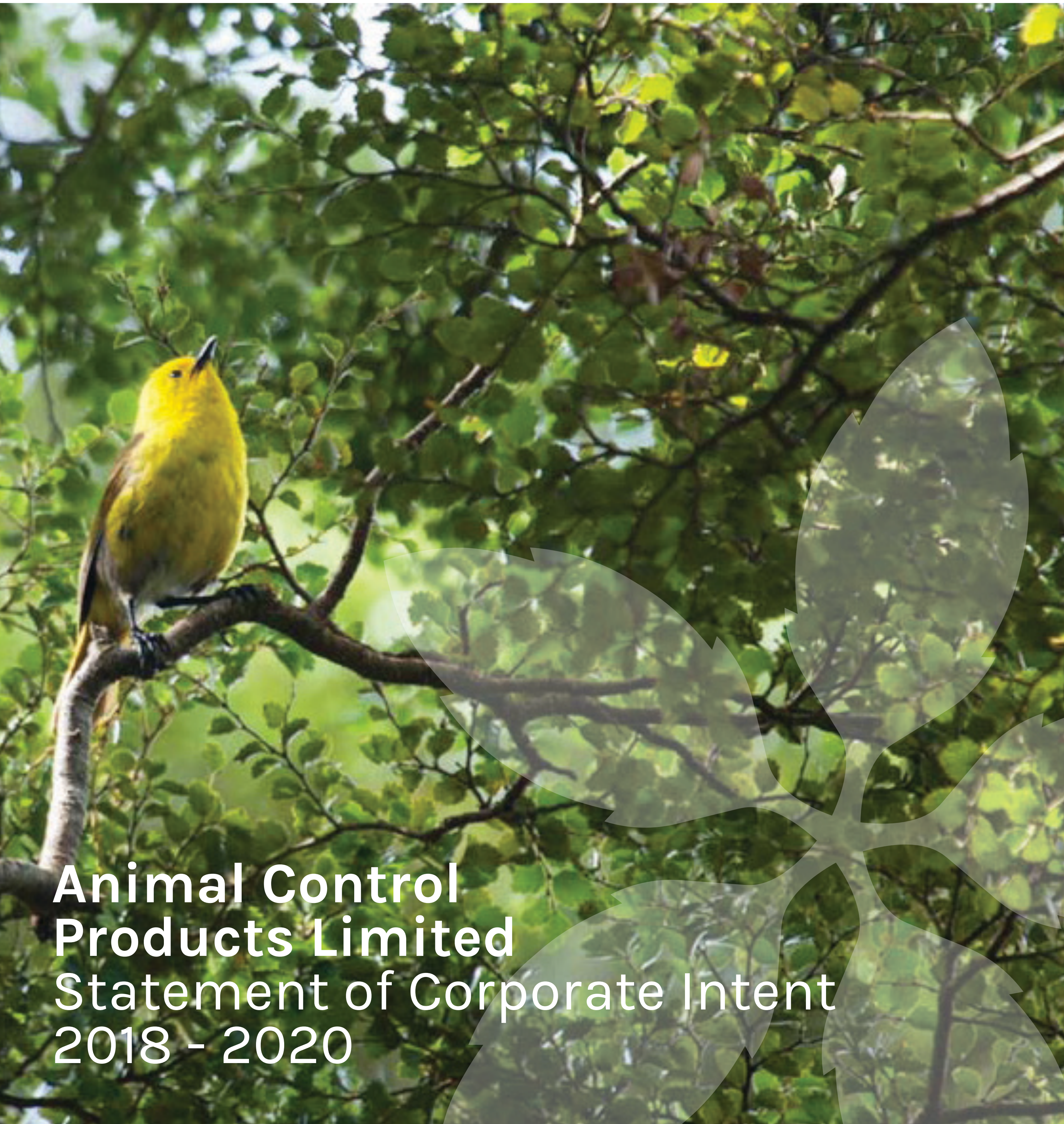
MAY 2017

orillion

Creating better spaces



Animal Control Products Limited

Statement of Corporate Intent 2018 - 2020

May 2017

Animal Control Products Limited,
Trading as Orillion

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Table of Contents

Introduction

The Statement of Corporate Intent is submitted in accordance with Section 14 of the State Owned Enterprises Act 1986 (the Act). It sets out the overall intentions and objectives of Animal Control Products Ltd, now trading as 'Orillion' for the financial year commencing 1 July 2017 and the succeeding two financial years.

The Board of Directors of Orillion is accountable to shareholding Ministers in the manner set out in the Act. Decisions relating to the operation of Orillion shall be made in accordance with the Statement of Corporate Intent.

Our vision and strategic priorities

SAFEGUARDING YOUR ENVIRONMENT THROUGH INNOVATIVE SOLUTIONS

With our world-leading products and services we create better spaces for you, nature and the world to share.

Collaboration

Safety & security

Diversification & renewal

The revised company business strategy launched in 2015 saw a continued focus on our core strengths, but also recognised and reflected our changing operating environment. Good progress was made in the implementation of our new strategic direction with adoption of the Orillion trading name during 2016 appropriately reflecting our vision "to develop innovative products and services to create better spaces for people and nature to share". 'Groundwork' is now complete in all three strategic focus areas, and this plan outlines significant and exciting opportunities that now face us. These are a mix of initiatives, some of which flow from new and positive developments, while others are necessary to retain competitiveness and to meet future standards for safety.

The announcement of the government's ambition for a Predator Free 2050 was made during the year. This is perhaps the most significant announced change in our operating environment that could occur. On one hand, it opens opportunities for a long term collaborative approach to develop the tools needed to achieve this ambitious target, and on the other, it has brought a range of minor and major players to focus on our core business as their own future business opportunity. We will strengthen links with both researchers and end users to not only assist government to achieve the objective of a predator free 2050, but at the same time securing sound and profitable business.

Safety and security have received significant company focus and expenditure, and will continue to do so. Transition to meeting the requirements of Major Hazard Facility Regulations will be complete in 2018, and we anticipate further capital expenditure to improve safety.

Replacement of aging equipment, while at the same time addressing safety concerns and taking a step change in production technology and product quality is a further opportunity that will be pursued in the short term.

It is essential that Orillion stays ahead of others in a changed operating environment that presents challenges in every core business area. To achieve this, Orillion must maintain market leadership, while at the same time looking to take an active part in the suite of non-toxic and information technology based solutions for protecting our environment.

The groundswell of support for biodiversity protection, DOC's successful execution of its second round 'Battle for our Birds' programme during 2016 and the success of large control and eradication projects with significant support from philanthropic and public sources have seen NGO's, community groups and government agencies actively seek new, innovative techniques to achieve pest control outcomes. Orillion will increasingly look for opportunities to become involved with the most promising future developments and will maintain currency with new technologies and science-based initiatives aimed at improving pest control delivery and sustaining the benefits which accrue.

Over the next three years Orillion will engage with other agencies including researchers, commercial entities and practitioners with a view to strengthening the foundation for business growth around the primary production, conservation and domestic pest control sectors.

Nature and scope of activities

Background

Animal Control Products was originally established in the 1950s to manage the secure importation and storage of toxins required to manufacture bait products for the various agencies involved in controlling a wide range of introduced vertebrate pests including rabbits, wallabies, possums, rooks and feral ungulates. Without effective pest control tools, New Zealand faces further degradation of biodiversity and extinction of native species.

In 1991 Animal Control Products was established as a registered company, becoming a Crown-Owned Company initially and subsequently a State-Owned Enterprise.

Starting in 1996, the company successfully diversified and expanded its product range, designing, manufacturing and marketing products under the registered trade name Pestoff. Market growth has been achieved by developing export sales, targeting the domestic consumer market for vertebrate pest control products and significantly increasing production capacity.

Core business

The core business of Animal Control Products, now trading as Orillion, is the supply of pest control solutions to central and regional government agencies and to professional pest control operators. Successful pest control relies on three critical factors – the design parameters of the operation, the correct tools or toxin for the application, and successful delivery. Orillion has a wealth of expertise in all three areas, and has developed products to successfully meet the design and application requirements.

As the only company currently registered to manufacture and sell 1080 products in New Zealand Orillion has responsibility for the safe and secure stewardship of 1080 supply to meet New Zealand's national interest in maintaining access to this essential tool for broad-scale pest control operations. While many other control tools are available for certain circumstances, 1080 bait remains the only safe, cost-effective tool for multi-species control in rugged or extensive tracts of land where possums rats and stoats threaten our biodiversity, or where possums present a risk of bovine tuberculosis spread.

Safe, sustainable use of 1080 in New Zealand requires continuous attention and improvement of all aspects of usage, from bait quality and effectiveness to a heightened focus on all aspects of safety and security throughout the supply chain. Orillion plays a critical role in this regard.

A further core feature of Orillion's role is supplying the retail market through a distributor, Bell-Booth Ltd. This arrangement extends into the Australian retail and commercial pest control sectors with the marketing of X-Verminator-branded rodenticides manufactured by Orillion.

Future directions

While the core activities of Orillion will remain essentially the same, our focus now is to work more closely with end-users to find solutions for current challenges in protecting biodiversity and food production, while at the same time working with them collaboratively to develop future solutions. These solutions are likely to increasingly involve non-toxic approaches to pest management, increased use of data and technology, and optimisation of the design, toxin and application method. This will require regular engagement and commitment given the typically long and challenging development process and regulatory environment.

Current products

Vertebrate toxic agents

Over the last five decades, Orillion has been New Zealand's leading supplier of toxins and manufactured bait products for animal pests including rodents, birds, rabbits and brush-tail possums.

Orillion has 28 registered products and is authorised by the Ministry for Primary Industries and the Environmental Protection Authority to manufacture registered trade name products known as vertebrate toxic agents (VTAs). The company holds a GMP Certificate of Compliance for manufacturing VTAs, issued by the New Zealand Ministry for Primary Industries.

An estimated $100 million is spent annually on pest control programmes funded by the Department of Conservation (DOC), OSPRI New Zealand (for the Bovine TB National Pest Management Plan), Regional Councils, forestry companies, private landowners and non-government conservation agencies.

Possum pellet bait manufactured by Orillion and distributed by helicopter, accounts for the largest volume of product sold to support these operations, but Orillion also has a range of other bait formulations and active ingredients for licensed and non-licensed users involved in vertebrate pest management.

Ecological restoration projects

During the last decade, Orillion has also become recognised as the world's leading manufacturer and exporter of rodenticide baits for island projects where rodent eradication is undertaken as part of ecological restoration programmes.

Rodenticides manufactured by Orillion have been used to eradicate rodents from New Zealand offshore islands totalling over 40,000 hectares. The predator-fenced jewels of mainland New Zealand known as "mainland islands" at Maungatautari, Karori, Tawharanui, Bushy Park, Orokonui, Lake Rotokare, Glenfern and Young Nicks Head have also been treated and maintained with rodenticides manufactured by Orillion.

Overseas rodent eradication operations using Orillion's rodenticides cover over 200 islands totaling 30,000 hectares in twenty countries. Orillion has considerable experience in manufacturing for export and managing export consignments of all sizes, handling full 40 foot and 20 foot container (FCL) shipments and smaller shipments (LCL) by both sea and by air.

Orillion provides technical advice and operational support for many of these operations and networks with international conservation organisations to develop novel solutions for a wide range of vertebrate pest problems. Our staff have a background of technical and operational experience in vertebrate pest management ranging from the control of feral ungulates in wilderness areas, to small mammal and predator control in forest, rural and urban habitats.

Operating environment

Orillion is has previously operated in an environment of evolutionary change. Changes to product demand, the customer profile and regulatory environment, have largely been steady and predictable. We have recently seen several significant trends and developments and opportunities that will influence our future strategy.

Trends and developments in our operating environment

- Continued increase in awareness and support for pest control to achieve aspirational national and pragmatic local biodiversity outcomes as now evidenced by the Government's announcement of a Predator Free 2050 objective.
- A strong preference for non-toxic solutions to predator control dominates most discussion, and as a consequence, the investment in toxin research, testing capability and refinement is decreasing rapidly both within New Zealand and internationally
- Significant philanthropic and corporate support for biodiversity and pest control projects, and increased operational activity occurring by community groups, the private owners of natural areas, NGO's DOC and others
- Increased public awareness of 1080 through DOC's high profile Battle for our Birds campaigns.
- The sustainable use of 1080 will be required for the foreseeable future to meet Predator Free 2050 objectives and also to targets of the National Pest Management Plan for Bovine Tuberculosis.
- A new regulatory framework for health and safety in New Zealand, including a transition to new regulations for hazardous substances and Major Hazard Facilities
- Continued international trends away from use of second generation anti-coagulant products and introduction of new controls on their use
- Revision of the TB Pest Management Plan that will see a reduction in overall funding in pest control, but a greater amount spent on aerial possum control operations
- Emergence of competition in bait manufacture
- Fluctuations in the Australian rodenticide market
- Difficulty breaking into new markets within the European Union, owing to trade protection barriers intended to protect the commercial viability of local EU manufacturers

Opportunities and challenges

Opportunities

- Alignment of our activities under the new Orillion brand, to support PF2050 objectives, while at the same time protecting commercial success.
- A new focus on non-toxic and technology based solutions
- Continuing to develop strong and more formal links with research organisations and innovators to commercialise products and solutions with them
- Longer term partnership based agreements with end-users such as DOC and OSPRI
- Reinvestment in core manufacturing processes to improve product quality, improve health and safety performance, and enable product development to secure our commercial success
- Review and development of export market opportunities (especially the conservation and NGO sectors) to use surplus off-season plant capacity
- Competitive pricing and supply strategies to take advantage of Orillion's current market position
- Embracing the new Health and Safety at Work regulations to raise standards and enhance our relative competitive position
- Lifting and setting best practice quality, safety and security standards across our supply-chains to the point of use. This is critical for New Zealand to retain access to our products that end users rely upon to, and that in most cases no ready viable alternative exists.

Challenges

- Predator Free 2050 has created new interest from competitors in supplying products and services to Orillion's traditional market and customers.
- High reliance on a narrow range of products (1080, brodifacoum)
- High peak seasonal demand on plant and equipment but under-utilised plant at other times of year
- Increased compliance costs with other regulatory regimes that are eroding profitability

Strategic priorities

Direction and approach

Building on our core strengths, but also recognising our changing operating environment, we have set a new direction for the Company launched under the Orillion brand. Rather than being merely a change in name, this signals the start of a new chapter in our company's history and our desire for Orillion "to develop innovative products and services to create better spaces for people and nature to share". Our products and services will include our proven Pestoff product range, but increasingly we will focus on non-toxic and information technology based solutions to provide the tools that New Zealand needs to protect our biodiversity and to achieve the ambitious goal of a Predator Free New Zealand by 2050.

The coming year will see completion of several major initiatives, and development of new opportunities based on a strong and growing number of collaborations.

Our vision and strategic priorities

SAFEGUARDING YOUR ENVIRONMENT THROUGH INNOVATIVE SOLUTIONS

With our world-leading products and services we create better spaces for you, nature and the world to share.

Collaboration

- Customer responsiveness and support
- Partnerships with researchers and end users
- Investment in collaborative innovation
- Joint ventures with commercial & not-for-profit sectors
- Research & development
- Social responsibility
- Proactive, trusted sector leader & partner

Proactive, trusted sector leader & partner

Safety & security

- Security and safety of
    - supply
    - importation
    - storage
    - production
    - transport
- Adopting International best practice
- Culture of continuous improvement

New Zealand exemplar in health & safety practices

Diversification & renewal

- Defend & develop core business
- Grow shareholder return
- Enhance/diversify products
- Strengthen organisational capability & culture
- Grow shorter-term revenue
- Develop/extend global opportunities
- Commercial acquisitions
- Improve efficiency
- Build resilience

Maintaining critical mass as platform for product development and sustainable future growth

Corporate social responsibility

In accordance with the State Owned Enterprises Act, and fundamental to Orillion's vision, is our sense of social responsibility where we have regard to the interests of the community in which we operate.

In the context of Orillion's core business, we have identified the following specific areas contributing to our social responsibility:

Staff

Orillion strives to be a 'good employer' with effective policies and practices necessary to ensure the fair treatment of all employees including provision for good and safe working conditions, equal opportunities, personal development while working in a culture of respect for each other.

Customers and end-users

Our vision to deliver solutions to meet the needs of others involved in biosecurity protection, food production and industry productivity is fundamental. Further we take a long-term approach with the best interests of New Zealand at heart. In practice this means having strong collaborations with end-users such as the Department of Conservation and OSPRI, but also with many volunteer organisations, trusts and charitable organisations.

National good

Our role in stewardship of 1080 goes beyond what might otherwise be normal commercial practice. In practical terms this means holding sufficient stocks of the 1080 compound, safely and securely. We are committed to the safe and secure use of 1080 and other toxins throughout their supply chain and to the point of use.

Community

Orillion operates a manufacturing site in Whanganui. As part of that community, we ensure that we securely maintain our premises and meet and exceed all legal requirements with regard to the environment and our waste handling. We support several local charitable organisations together with the Pest Control Education Trust.



Performance targets and measures

Performance measures

	Notes	Actual 2016	Forecast 2017	Budget 2018	Budget 2019	Budget 2020
Profitability ($000's)						
Total Revenue	1	5,880	9,156	8,000	6,000	7,800
Net Profit Before Tax		1,060	2,626	1,842	851	1,906
Shareholder Returns						
Total Shareholder Return	2	32.4%	101.1%	13.2%	9.0%	13.0%
Dividend Yield		17.8%	21.0%	13.2%	9.0%	13.0%
Return on Equity		12.6%	29.6%	19.1%	8.6%	18.8%
Profitability & Efficiency						
Net Operating Margin		20.7%	31.2%	25.8%	19.3%	29.0%
Return on Assets		13.7%	33.0%	21.9%	10.1%	22.3%
Return on Capital Employed		16.9%	41.4%	26.9%	12.0%	26.2%
Financial Leverage/Solvency						
Gearing Ratio		N/A	N/A	N/A	N/A	N/A
Interest Cover		0.0%	0.0%	0.0%	0.0%	0.0%
Solvency		2.9	3.6	3.8	2.5	2.7
Growth & Investment	3					
Revenue Growth		(18.7)%	55.7%	(12.6)%	(25.0)%	30.0%
Earnings Growth		(22.0)%	134.6%	(27.7)%	(43.8)%	95.2%
Profit Growth		(27.0)%	148.1%	(29.9)%	(53.8)%	123.9%
Capital Renewal		0.8	1.3	4.3	6.4	0.7

1. The 2016 financial year reflects the curtailment of the significant investment made by DOC into the "Battle for our Birds" programme.in the 2015 year, the forecast outcome for 2017 reflects an increased activity by DOC into the continuing "Battle for our Birds" programme. The projection for 2018 reflects the remaining investment that DOC will make following the significant beech mast event occurring during the latter part of the 2017 financial year. The 2019 and 2020 years revert to expected levels of activity without any activity associated with a beech mast year. Therefore the financial measures in 2019 and 2020, reflect the significantly lower "normalised" on going sales to DOC and the Company's other customers.
2. The decline is due to the reduced valuation of the company due to the lower anticipated operating cash flows and the reduction in the net cash position during the 2018 planning period as compared to the large upturn in the 2017 financial year.
3. 2016, 2018 and 2019 reflect the lower levels of revenue and profitability as compared to the expected outcome of the 2017 year which is expected to be significantly enhanced due to the DOC "Battle for our Birds" programme.

Definitions for the financial performance measures above can be found at the following link: http://www.treasury.govt.nz/commercial/resources/pdfs/fpm-soes.pdf

Commercial value of the Crown's investment

The Board's estimate of the Crown's investment in the Company as at 30 June 2017 is $7.219m.

The key points to note regarding the assessment of the value are:

- The valuation is calculated on the estimated position as at 30 June 2017.
- The discounted cash flow ("DCF") methodology was used to calculate a Net Present Value of the company on an after tax basis.
- The DCF was based on the nominal (i.e. not inflation adjusted) future cash flows set out in ACP's 3 year business plan, with forward projections then also made about years 4 to 10, and a terminal value of nil was included in the terminal year. The terminal value is assumed to be nil as the long-term prospects for the company are uncertain. The factors contributing to this uncertainty include:

  Security of supply of 1080 powder from the sole US manufacturer.

  Political acceptance of 1080 as a toxin for pest control in New Zealand.

  Continued acceptance of the continued use of anti- coagulant toxins.

  Development of new technologies that render 1080 obsolete.
- A discount rate of 8.1% was assumed.
- The valuation was prepared by the Company's advisors Staples Rodway Wellington, Chartered Accountants for Board approval.
- The current commercial value of the Crown's investment of $7.219,000 (referred to as the equity value) was calculated by taking the enterprise value of $4,659,000 and adding the net cash position of the company of $2,560,000.

The valuation compares with a commercial value as at 30 June 2016 of $4,187,000, consisting of the enterprise value of $3.107,000 and the net cash position of $1,080,000. The change in valuation reflects the changing environment in which the company operates, as outlined in this document.

Non-financial

Health and Safety

The target is to have no work-related lost time injuries for the year.

Quality

The target for product quality is for 100% of all products dispatched to customers to meet the product release specifications. This target is monitored by batch sampling of relevant physical parameters.

Customer Satisfaction

Customer satisfaction is surveyed annually. Specific targets are for ratings of 'good' or 'excellent' are

- Product Quality 95%
- Consistency of our products 95%
- The quality of our packaging 95%
- Adequacy of printed information on packaging 95%
- Receipt of orders on time, and invoicing 95%

Human Resources

- Staff turnover is targeted as no more than one permanent fulltime person per annum.
- Full medical checks will be conducted on an annual basis, with quarterly monitoring of and meeting or improving the 'Biological Exposure Index"
- Performance reviews, remuneration reviews and training plans are to be 100% completed each year

Legislative Compliance

ACP will meet all legislative requirements during the year

Accounting policies

ACP prepares its financial statements in accordance with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) – Reduced Disclosure Regime as set out in the External Reporting Board Standard A1: 'Accounting Standards Framework (For –profit Entities plus Public Sector Public Benefit Entities)'

A complete list of the accounting policies is attached in Appendix A.

Capital structure and dividend policy

Capital Structure

An appropriate capital structure for Animal Control Products Limited will maximize the value of the business for the shareholder by enabling the company to achieve its five key strategic themes. The adopted capital structure takes into account the stewardship of 1080 supply to meet New Zealand's national interest in maintaining access to this essential tool for broad-scale pest control operations.

The Board and management of Animal Control Products Limited recognize the importance of managing the assets and capital of the business effectively. The current challenges facing and available to the company require some flexibility in the capital structure during the period.

Dividend policy

The Board intends to distribute to shareholders all funds that are surplus to the Company's financing, investing and operating requirements while recognizing that the rate payers and tax payers of New Zealand effectively fund the primary customers.

The dividend policy is based on distributions being made of between 60% and 75% of the net cash flow from operations but always subject to the existing commercial provisos of legislative solvency declarations and any threats to the Company's future earnings base.

In recommending dividends payable to shareholders, the Company will follow the procedures laid down in the Companies Act 1993 and in accordance with sections 13 and 15 of the SOE Act.

In determining the precise level of dividend to be proposed to Shareholders at the appropriate time of the year, the Board will take into account the following:

a) The liquidity position of the Company and the appropriate level of cash to be retained in the business to meet working capital requirements. In order to determine this, the Company will evaluate the liquidity ratio appropriate to its business.

b) The Company's planned medium term capital expenditure programme.

c) Maintaining an appropriate capital structure for the business.

d) The Company's research and development and infrastructure development activities.

e) Threats to Company's future earning base.

The proposed dividends, subject to Board review, are shown above.

It is expected that the current policy of paying two dividends per year, an interim and a final dividend, will continue. Normally final dividends are to be paid within six months of the end of the financial year.

Reporting

In accordance with the Act, and the requirements of Shareholding Ministers, ACP will provide the following information

Within three months after the end of each financial year, an Annual Report including:

- Audited financial statements for the year
- Notes to the financial statements including accounting policies
- A report from the Chairman and Chief Executive including a review of operations, changes, if any, to the nature and scope of the Company's activities, an assessment of performance against targets, comments on the outlook for the Company, and matters in relation to dividends.

Within two months after the end of each half-year, a report including:

- An abridged, unaudited statement of the Company's financial performance for the half year
- A report from the Board on the Company's performance

Within one month after the end of each intervening quarter, a report covering:

- Performance against targets for the preceding quarter
- Forecasts of key financial and operating performance measures for the remaining quarters of the financial year as appropriate
- The reasons for material differences between actual and target performance

In addition the Company will provide Shareholding Ministers with a Business and Strategic Plan, and SCI each year.

The Company will also provide other information relating to the performance of the Company as requested by Shareholding Ministers, in accordance with the provisions.

Consultation on sale and purchase of assets

Without prior consultation with shareholding Ministers the Company will not purchase, sell or otherwise dispose of, whether by a single transaction or a series of transactions, assets or shares of a book value in excess of 10% of the Company's equity in any of the following transactions:

- Purchase or sale of capital assets
- Subscriptions for shares in any company, or interests in any other organisation.
- The involvement, sale or disposal of its interest in a joint venture, or of any arrangement in which it has a minority interest.

Compensation from the Crown

Animal Control Products reserves the right under Section 7 of the Act, to seek compensation from the Crown for the necessity to provide any service where ACP is constrained from acting in a normal commercial manner. There are currently no requests for compensation, although it should be noted that stewardship and stock holding of 1080 is 'in national interests' and exceeds normal commercial requirements.

Glossary

Orillion	Animal Control Products Limited
DOC	The Department of Conservation
FCL	Full Container Load
GMP	Good Manufacturing Practice
LCL	Less than a Container Load
OSPRI	OSPRI New Zealand Limited, parent of TBFree NZ Ltd and NAIT Limited
PCR	Pest Control Research NZ Ltd
TB Plan	The National Pest Management Plan for Bovine Tuberculosis
VTA	Vertebrate Toxic Agent
ZIP	Zero Invasive Predators (ZIP) Ltd
1080	Sodium Flouroacetate

Appendix 1

The Company's accounting policies are:

Basis of Preparation

Statement of Compliance

The financial statements presented here are for the entity Animal Control Products Limited, a registered company under the Companies Act 1993. Animal Control Products Limited is wholly owned on behalf of the Government by the two shareholding Ministers, the Minister of Primary Industries and the Minister of Finance. The purpose of the business is the manufacture, sale and provision of products and services to maximise the effectiveness of pest management for public and private sector clients, both within New Zealand and offshore.

Animal Control Products Limited is a State-Owned Enterprise in terms of the State-Owned Enterprises Act 1986. The Company became a State-Owned Enterprise on 25 January 2005. Previously the Company was a Crown Entity.

Animal Control Products Limited has adopted the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) - Reduced Disclosure Regime as set out in the External Reporting Board Standard A1: 'Accounting Standards Framework (For –profit Entities plus Public Sector Public Benefit Entities)'

The financial statements are general purpose financial statements that have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities. Animal Control Products Limited has elected to report under NZ IFRS - Reduced Disclosure Regime of the External Reporting Board as the company is a for-profit Tier 2 entity for financial reporting purposes on the basis that it does not have public accountability and is not a large for-profit public sector entity. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Basis of Measurement

The accounting principles recognised as appropriate for the measurement and reporting of earnings and Financial Position on an historical cost basis have been used, with the exception of certain items for which specific accounting policies have been identified.

Functional and Presentation Currency

These financial statements are presented in New Zealand Dollars (NZD) and values are rounded to the nearest dollar.

Significant Accounting Policies

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

Revenue recognition

Sales of Goods
Income from the sales of goods is recognised when the company has transferred to the buyer the significant risk and rewards of ownership of the goods.

Interest Revenue
Interest revenue is recognised using the effective interest method.

Property, Plant & Equipment

Property, Plant and Equipment are recorded in the Statement of Financial Position at cost less accumulated depreciation.

The cost of an item of Property, Plant or Equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item can be measured reliably and will flow to the entity.

When an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income in the period the transaction occurred.

Depreciation has been calculated on assets using the straight line method based on the remaining useful life of the asset. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The expected useful lives of the major classes of assets are:

Building	40 Years
Factory Equipment	10 - 15 Years
Lab Equipment	5 Years
Office Equipment	5 Years
Motor Vehicles	5 Years

Goods & Services Tax

These financial statements have been prepared on a GST exclusive basis. All items in the Statement of Financial Position are stated net of GST, with the exception of Accounts Receivable and Accounts Payable which includes GST invoiced.

Income Tax

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted at balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Income tax expense is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Inventories

Inventories are recognised at the lower of cost, determined on a first in first out basis, and net realisable value with appropriate provisions for losses and obsolescence.

Inventory intended to be kept for more than one year has been classified as non-current inventory.

Receivables

Receivables are stated at their estimated realisable value. Bad debts are written off in the year in which they are identified.

Research & Development Costs

Research and Development expenses are brought to account in the Statement of Comprehensive Income in the period incurred.

Cash & Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered to be on hand and in banks, net of bank overdrafts. In addition cash flows from certain items are disclosed net, due to the nature of the transaction involved.

Intangibles

Software Acquisition
Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the software.

Costs associated with maintaining computer software are reocgnised as an expense when incurred.

Amortisation
The carrying value of an intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortization charge for each year is recognized in the surplus or deficit.

The useful lives and associated amortization rates of the acquired software are estimated as follows:

2.5 years 40%

Loans

Loans are recorded initially at fair value, net of any transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest rate method. The current portion of the term loan is calculated based on the expected amortised cost in twelve months' time.

Impairment

The carrying amounts of the company's assets other than inventories are reviewed at each balance date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amounts are estimated.

If the estimated recoverable amount of an asset is less than it's carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income.

Employee Entitlements

Accrued Wages
Accrued wages are calculated based on the amounts owing to employees for work carried out that had not been paid at balance date.

Annual Leave
Annual leave is calculated based on employees entitlements to annual leave earned in the current and prior periods that had not been paid at balance date.

Long Service Leave
The Company's net obligation in respect of long service leave is the amount of benefit that employees have earned in return for their service in the current and prior periods. This has been calculated on an actuarial basis.

Sick Leave
A provision for sick leave is calculated based on the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date; to the extent that Animal Control Products Limited anticipates it will be used by staff to cover those future absences.

Foreign Exchange

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction or a rate approximating that rate. Monetary assets and liabilities denominated in foreign currencies in the Statement of Financial Position are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

Financial Instruments

Financial instruments include cash & cash equivalents, receivables, payables, and term loans. These are initially measured at fair value and subsequently measured at cost less impairment which in the majority of cases is the same as the face value of the items.

Critical Accounting Estimates and Assumptions

In preparing these financial statements Animal Control Products Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are set out below:

Property Plant and Equipment useful lives and residual value.

At each balance date management and the board of Animal Control Products Limited reviews the residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires a number of factors such as the physical condition of the asset, expected period of use of the asset by Animal Control Products Limited, and expected disposal proceeds from the future sale of assets to be considered.

An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the Statement of Comprehensive Income, and the carrying amount in the Statement of Financial Position.

Animal Control Products Limited minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programs
- review of second hand market prices for similar assets, and
- analysis of prior asset sales.

At the Board meeting in August 2014, the board determined that the useful life of buildings is 40 years and factory equipment is 15 years. There have been no other significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in the notes to the financial statements.

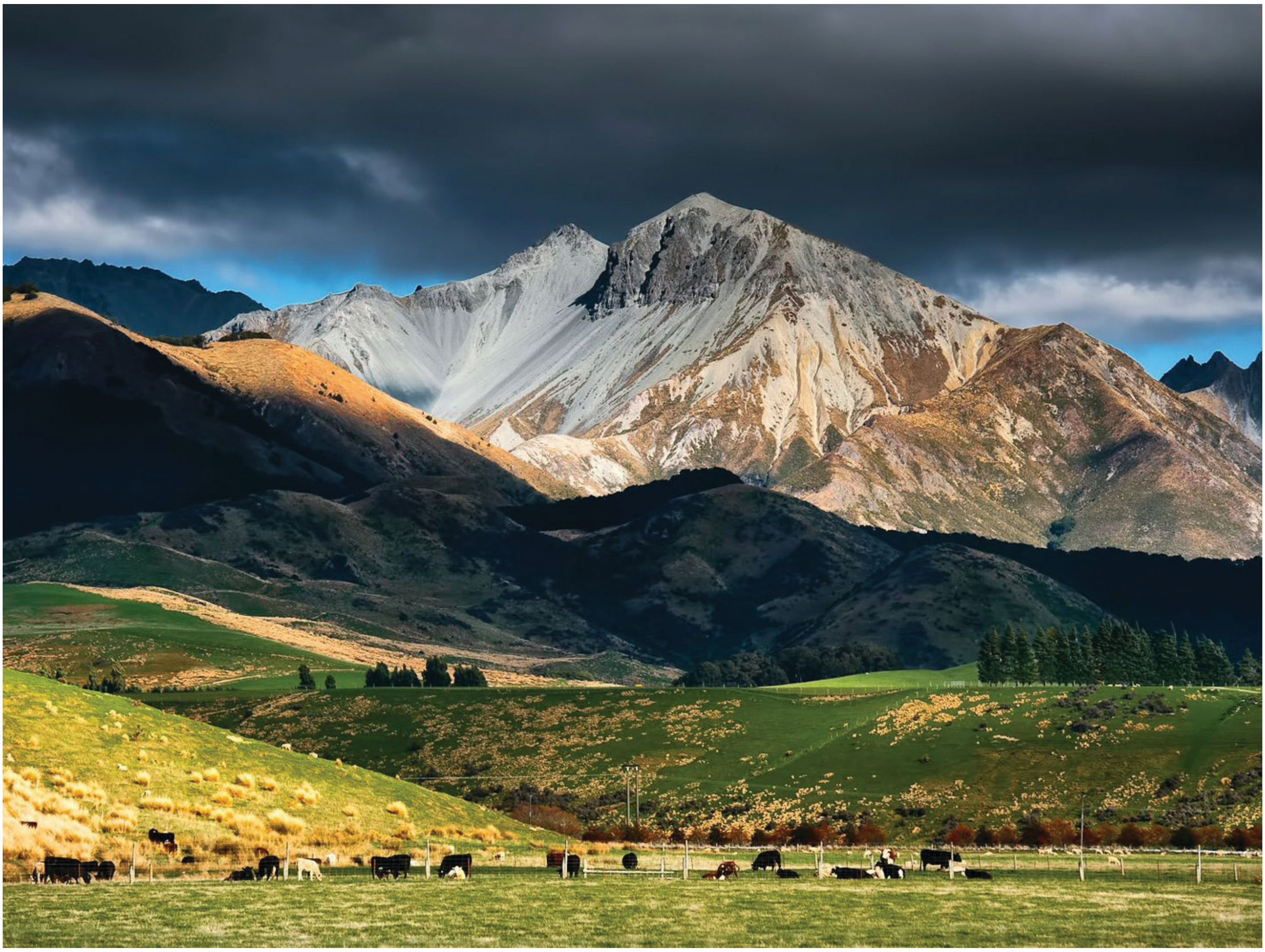
Critical Judgements in Applying Accounting Policies

Management has exercised the following critical judgements in applying Animal Control Products Limited accounting policies for the period ended 30 June 2014.

Lease Classification
Determining whether a lease arrangement is a finance or operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the company.

Judgement is required on various aspects that include, but are not limited to, the fair value of leased assets, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as Property, Plant and Equipment, whereas for an operating lease no such asset is recognised.

Animal Control Products has exercised its judgement on the appropriate classification of all leases and has determined that no finance leases exist.



Orillion's products are the key tools used to safeguard the potential risk to the marketability of New Zealand beef, dairy and venison exports

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