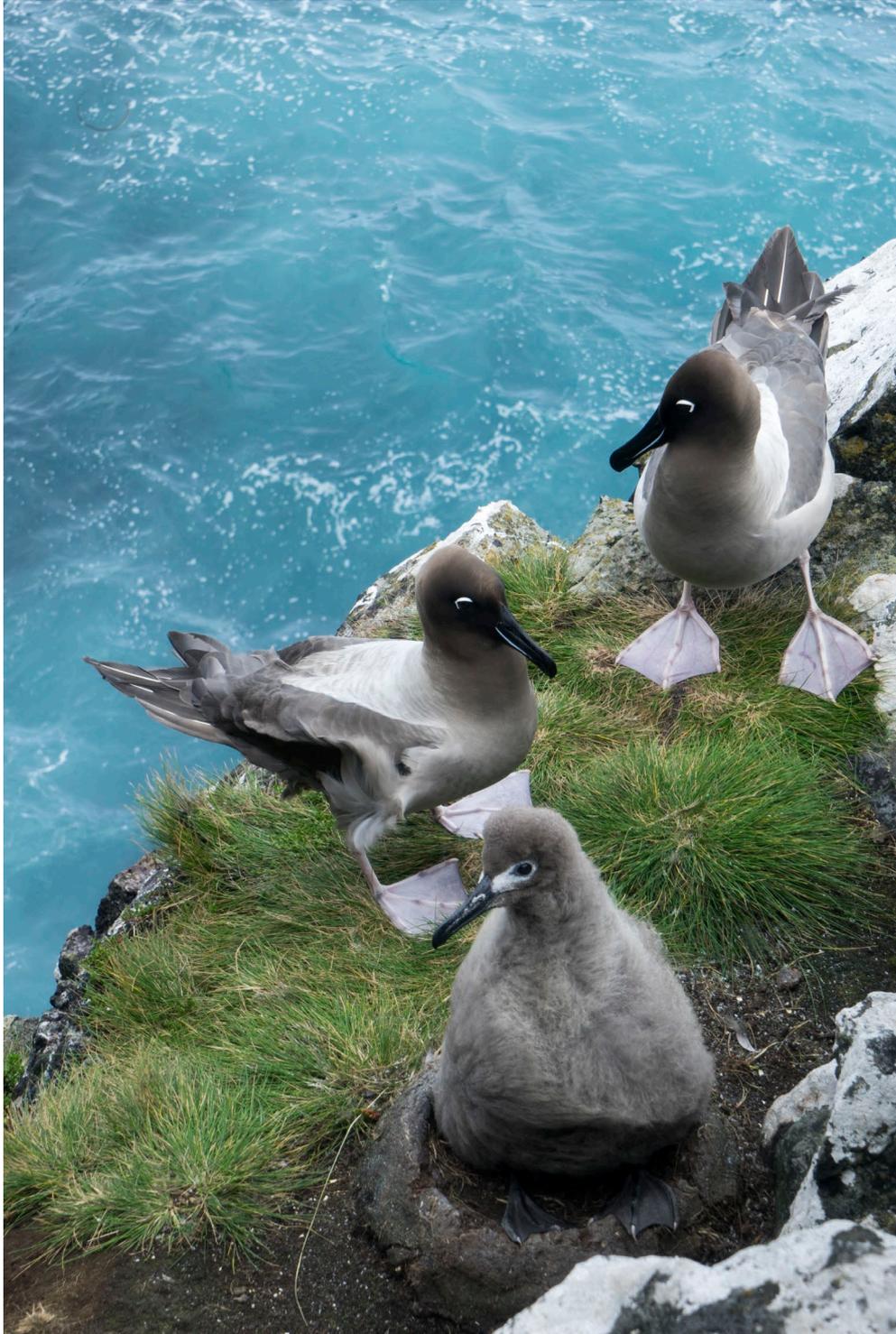




# Statement of Corporate Intent 2020 – 2022



Aerial operations using Orillion bait undertaken by the Department of Conservation on the Antipodes Islands protect native birdlife. Photo: Finlay Cox, Department of Conservation - *Te Papa Atawhai*

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## 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, trading as 'Orillion' for the financial year commencing 1 July 2019 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



Orillion has had several years of strong financial performance while at the same time making significant improvements in manufacturing and business processes. Our core focus remains essentially unchanged but we have adapted to our continually changing operating environment.

Our recent review of the company's strategic direction has reaffirmed that our three focus areas 'collaboration' 'safety and security' and 'diversification and renewal' remain relevant and appropriate although the emphasis between these three areas is changing.

Our focus on safety and security has seen the company meet the requirements of being a lower tier major hazard facility, while making significant improvements to the safety of our workplace. We need to build on this solid base and to continue to improve safety wherever we can. We have seen significant anti-1080 sentiment during the past 12 months despite publications about the success of 1080 operations and the importance of 1080 to protect our biodiversity. Our focus on safety and security in the supply-chain is ongoing.

Diversification and renewal remains a priority in the face of competition in the 1080 bait market and the ongoing pressure on anticoagulant rodenticide use. We anticipate that during the next twelve months we will have sufficient information to make important and long reaching

decisions about our future direction, based on external developments. The future opportunities are a mix of initiatives, some of which flow from new and positive developments, while others necessary to retain competitiveness and to meet future standards for safety. Export market development is receiving continued focus.

New Zealand's ambition for a Predator Free 2050 is significant for the company. We recognise however that at a strategic and operational level Predator Free 2050 is at an early stage of development. Translating the ambitious goal of eradicating rats, stoats and possums from New Zealand into tangible research and product development areas that Orillion can assist with will take some time. Our approach will be to continue to strengthen links with both researchers and end users to assist the government to achieve the objective of a predator free 2050, and at the same time securing sound and profitable business.

Climate change may also affect the range of pests and diseases that threaten New Zealand. Beech masting events have caused the Department of Conservation to respond to irruptions in rodent populations at a greater frequency than normal, and a general warming of our climate will see increased threats posed by insect pests.

Our collaborative work with Manaaki Whenua Landcare Research to launch a range of new rat-specific rodenticide products in New Zealand and overseas is continuing and will remain a major focus for the coming year. Further export growth based on existing products and markets is also an immediate priority focus, supported by Orillion being a New Zealand Trade and Enterprise 'F700 company'. This gives us priority focus and support from the NZTE network at home and abroad.

Various regulatory regimes continue to demand increased time and money to meet their requirements. This may act as barrier to entry to the industry, but at the same time we are experiencing a shortage in people skilled and willing to work in our business that has onerous safety, hazardous substance and other regulatory requirements.

The groundswell of support for biodiversity protection, DOC's successful execution of its 'Battle for our Birds' programme 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 continue to invest in research and product development across a broad range of areas to meet future demand.

Over the next three years Orillion will set course for an even longer period, based on the demands of predator control in New Zealand, opportunities through rat specific toxin products, general export growth, and possible investment in new business areas.

# Nature and scope of activities

## Background

Orillion, formerly known as 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 Ltd 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 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.

Until recently Orillion has been the only company currently registered to manufacture and sell 1080 products in New Zealand and is currently the major supplier of bait for broad-scale predator control operations. Orillion has played a stewardship role for 1080 supply and safety and security throughout the supply chain to meet New Zealand's national interest in maintaining access to this essential tool. 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.

Orillion has a well-established clientele of more than 80 export clients from over 20 countries. Export orders tend to be intermittent, often modest and usually less than five per month, but over 90% of export sales are repeat business, indicating client satisfaction in dealing with Orillion. The number of predator free "arks" in the form of both offshore islands and fenced mainland islands continues to grow. Orillion's baits were used to successfully remove mice from the 2,200 hectare Antipodes Islands and to remove a suite of pests in the 700 hectare Brook Sanctuary; a fenced mainland island near Nelson. Rodent eradication is to be undertaken during winter 2018 using 7.5 tonnes of Orillion's bait on the 300 hectare Rakitu Island, east of Great Barrier Island.

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 business of Orillion will remain essentially the same, we are actively developing new and improved products both for the New Zealand and export markets. We continue to work closely with end-users to find solutions for current challenges in protecting biodiversity and food production. Predator Free 2050 will require new tools to achieve eradication of possums, rats and stoats, and we are working on several initiatives to support the programme. Other 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.

Orillion is undertaking several export initiatives with the support of NZTE, to introduce both existing and new products to a range of new markets. We are fortunate to be able to tailor-make bait products to suit different species preferences and environmental conditions. Extensive trials with Orillion products have been undertaken recently in five offshore markets, and we anticipate this work to lead to new export business. We continue to be actively involved in island eradication programmes utilising our well proven products.

## 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 totalling 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 operates in an environment of steady change, but given the lengthy lead times in product and market development and significant investments in technology for our industry, it is important that we look well into the future. The following trends, developments and opportunities will influence our future strategy.

### Trends and developments in our operating environment

- Climate change, creating both short-term issues and long-term challenges for new pests and diseases.
- Increasing government support for the Department of Conservation to tackle pests that threaten our biodiversity, while steering away from support for gene-drive or other genetic solutions.
- Continued increase in awareness and support for pest control to achieve aspirational national and pragmatic local biodiversity outcomes as now evidenced by the Predator Free 2050 objective.
- A number of very ambitious island eradication programmes are planned around New Zealand and internationally.
- An increasingly strong preference for non-toxic solutions to predator control dominates most discussion, and consequently, 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, that has drawn strong response from those opposed to 1080.
- A growing quest for self-sufficiency and sustainability of crops in the Pacific islands and other economies which are negatively impacted by pests.
- Continued international trends away from use of second generation anti-coagulant products and introduction of new controls on their use.

A successful TB Pest Management Plan that continues to utilise a range of possum control techniques, but with curtailment of the programme now on the horizon.

# Opportunities and challenges

## Opportunities

- Alignment of our activities and investment strategy under the new Orillion brand, to support Predator Free 2050 objectives, while at the same time protecting commercial success.
- A focus on non-toxic and technology based solutions.
- Diversification of our product range outside vertebrate pests.
- Continuing to develop strong links with Manaaki Whenua Landcare Research to commercialise products and solutions together.
- Review and development of export market opportunities (especially the conservation and NGO sectors).
- 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, 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 and customers.
- High peak seasonal demand on plant and equipment but under-utilised plant at other times of year.
- Increased compliance costs with new and modified regulatory regimes that are eroding profitability.

# Strategic priorities

## Our vision and strategic priorities



## 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, and 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, Predator Free 2050, ZIP and OSPRI, but also with many volunteer organisations, trusts and charitable organisations.

### National good

Our role in stewardship of 1080 has historically gone beyond what might otherwise be normal commercial practice. In practical terms this has meant 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 regarding the environment and our waste handling. We support several local charitable organisations.

## Performance targets and measures

	Actual 2018	Forecast 2019	Budget 2020	Budget 2021	Budget 2022
<b>Profitability (\$000's)</b>					
Total Revenue	8,014	8,521	7,000	7,563	8,072
Net Profit Before Tax	1,755	1,974	1,308	1,533	1,705
<b>Shareholder Returns</b>					
Total Shareholder Return	32.4%	7.6%	5.1%	7.2%	7.4%
Dividend Yield	17.8%	7.6%	5.1%	7.2%	7.4%
Return on Equity	12.6%	21.0%	12.4%	12.3%	12.9%
<b>Profitability &amp; Efficiency</b>					
Net Operating Margin	20.7%	26.4%	22.9%	24.4%	25.1%
Return on Assets	13.7%	19.9%	12.4%	14.6%	15.3%
Return on Capital Employed	16.9%	29.8%	17.7%	17.5%	18.2%
<b>Financial Leverage/Solvency</b>					
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	2.7	3.9	4.5	4.7
<b>Growth &amp; Investment</b>					
Revenue Growth	(18.7)%	6.3%	(17.9)%	8.0%	6.7%
Earnings Growth	(22.0)%	18.0%	(28.6)%	15.1%	9.7%
Profit Growth	(27.0)%	12.5%	(33.7)%	17.2%	11.2%
Capital Renewal	0.8	2.4	2.8	0.4	0.4

*Notes* - 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 2019 is \$7.846m.

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

- The valuation is calculated on the estimated position as at 30 June 2019.
- 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 Orillion's 3-year business plan, with forward projections then also made about years 4 to 10. 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 7.46% was assumed, a reduction from the previous valuation of 7.68% due to a lower risk-free rate.
- The valuation was prepared by the Company's advisors Equilibrium Chartered Accountants Limited for Board approval.
- The current commercial value of the Crown's investment of \$7,905,000 (referred to as the equity value) was calculated by taking the enterprise value of \$3,961,000 and adding the net cash position of the company of \$3,944,000.

The valuation compares with a commercial value as at 30 June 2018 of \$7,231,000, consisting of the enterprise value of \$4,739,000 and the net cash position of \$2,492,000.

## Non-financial Performance Measures

- 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

Orillion will meet all legislative requirements during the year

## Accounting policies

Animal Control Products Limited 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 three key strategic themes.

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 whilst recognising 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 50% and 70% of 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 consider the following:

- The liquidity position of the Company and the appropriate level of cash to be retained in the business to meet Working Capital requirements. To determine this, the Company will evaluate the Liquidity Ratio appropriate to its business.
- The Company's planned medium-term Capital Expenditure programme.
- Maintaining an appropriate capital structure for the business.
- The Company's research and development and infrastructure development activities.
- Threats to Company's future earnings base.

It is expected that the dividend policy will be changed to paying one, final dividend for each year by the end of the September following balance date.

## Reporting

In accordance with the State Owned Enterprises Act 1986, 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.

## Glossary

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

# Appendix A

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 Biosecurity 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, except for 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	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, except for 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 way 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 Statement of Cash Flows, cash and cash equivalents are 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 based on the costs incurred to acquire and bring to use the software.

Costs associated with maintaining computer software are recognised 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.

After 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 its 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..

### 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 most 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 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 2018.

### 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



Picture: Orillion's Pestoff 20R Bait being loaded at the Antipodes Islands as part of the Million Dollar Mouse Campaign. Photo: Stephen Horn, Department of Conservation - *Te Papa Atawhai*