

Orillion Statement of Corporate Intent

2021 - 2023



Animal Control Products Limited, trading as Orillion
408 Heads Road
Whanganui 4501
Private Bag 3018
www.orillion.com
info@orillion.com

*Front cover photo:
Sunrise over the Matemateaonga Track,
Whanganui National Park
by John Quigley*

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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 Orillion (the trading name of Animal Control Products Ltd), for the financial year commencing 1 July 2020 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



Our recent review of the company's strategic direction has refined our three focus areas 'collaboration and innovation' 'safety and security' and 'diversification and solutions'. These are appropriate in the context of New Zealand's ambition to become predator free by 2050, our desire to be an exemplar of health and safety in our industry, together with a need to diversify.

Collaboration and Innovation

Orillion routinely collaborates with end-users of our products and solutions both within New Zealand and around the world. Within New Zealand, The 'Battle for our Birds' (now renamed Tiakina Ngā Manu) significantly increased the Department of Conservations (DOC) predator control programmes in the 2014, 2016 and 2019 calendar years. This frequency of response to episodic beech masts is unpredictable and probably driven by climate change. Government has allocated multi-year funding to allow the necessary planning and funding to respond to this. We remain committed to meet DOC's full needs wherever possible.

Orillion sees delivery of superior products and innovation as the key to effective collaboration with both DOC and other customers such as OSPRI

who deliver the National Bovine Tuberculosis Pest Management Plan, Zero Invasive Predators (ZIP) who are leaders in landscape scale pest eradication, and many others.

The launch of New Zealand's Predator Free 2050 Strategy is significant. Interest in and funding for pest control has increased, although Orillion is likely to play an indirect role focused on traditional toxic bait products but also in non-toxic solutions where these present sound business opportunities. We recognise that at an operational level Predator Free 2050 is at an early stage of development . Our approach will be to continue to strengthen links with both researchers and end users to develop innovative solutions to achieve the ambitious objectives of this strategy.

Safety and Security

Our focus on safety and security remains a key focus, to keep all workers at Orillion safe and to ensure as far as possible that the end-to-end supply chain for toxic bait products is robust and safe. We continue to meet the requirements of being a lower tier major hazard facility, while making continuous improvements to the safety of our workplace.

The safety management system implemented by Orillion to meet our obligations under the Health and Safety at Work Major Hazard Facility Regulations is fully operational. The system includes many processes that allow us to continually be safety conscious and to make improvements as part of our day-to-day business activities. This has been supported by external review, external audit and significant investment by the company. The board of directors oversees Orillion's health and safety performance.

Supply security of 1080 active ingredient remains an ongoing priority, however Orillion is no longer in a position to manage the overall situation, given that our competitor is sourcing 1080 or 1080 precursors independently and potentially from a new supplier. DOC's split procurement approach for 1080 products also adds uncertainty to the holding of contingency stocks.

Diversification and development of new solutions,

Diversification remains a top priority for the company given a relatively narrow product range and customer base. Our 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, and we are enjoying linking with an increasingly large network of customers, suppliers, and technical professionals that can offer new opportunities for Orillion.

Replacement of aging equipment, while at the same time improving safety performance is a further opportunity that we will continue to pursue, following successful commissioning of new manufacturing equipment and hazardous substance handling systems in early 2020. Trials with alternative equipment options have been undertaken with both domestic and export market targets.

Our collaborative work with Manaaki Whenua Landcare Research is leading to a particularly exciting opportunity to develop and launch a range of new rat-specific rodenticide products in New Zealand and overseas. Both organisations recognise the strength in collaboration between a leading research organisation focused on the environment, our biodiversity and productive land, and a company that has the skills to develop and commercialise products that protect these very same things. Commercialisation of rat-specific products requires a significant investment which is addressed in this plan.

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.

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 export of 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. 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 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.

During the last fifteen years, 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 60,000 hectares in twenty countries. 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.

A further core feature of Orillion's role is supplying the retail market through a distributor, Bell-Booth Ltd. Orillion also supplies rodenticides into the Australian retail and commercial pest control sectors.

Future directions

We anticipate that the core business of Orillion will remain essentially the same, however we are placing increasing emphasis on collaboration and innovation to meet future needs. Achieving a Predator Free New Zealand by 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 pest control problems continue to cause losses of biodiversity, disease risk and issues for human health. Orillion keeps a watching brief on new toxin developments, non-toxic solutions and other ways to support New Zealand and overseas communities. The development of new toxin based solutions is a long and typically challenging process due to the regulatory environment, however Orillion is well placed to make long term commitments and we have an excellent range of bait types and formats backed with years of proven performance, excellent quality assurance and laboratory testing facilities. Contract manufacturing for others, is a small but growing part of our business.

Our flexible production facilities, direct and in-direct distribution networks can support business growth in New Zealand and in export markets. Orillion is undertaking several export initiatives with the support of New Zealand Trade and Enterprise, 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.

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 29 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.

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.
- The ambition for a Predator Free 2050 is creating support for predator control and wide engagement with communities across New Zealand.
- Increasing government support for the Department of Conservation to tackle pests that threaten our biodiversity, while currently steering away from support for gene-drive or other genetic solutions.
- 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 predator control campaigns, 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

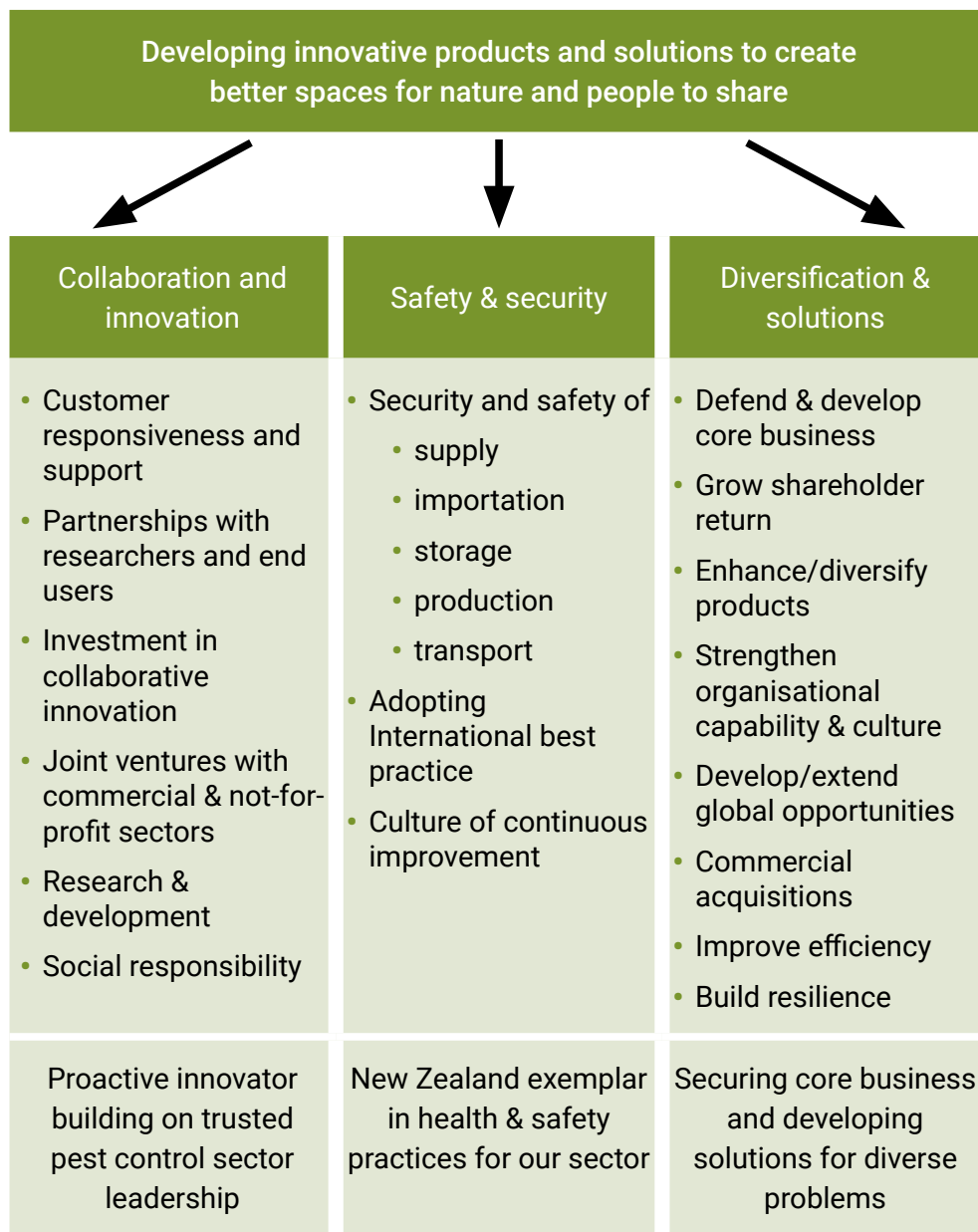
- Alignment of our activities and investment strategy to support Predator Free 2050 objectives, while at the same time protecting commercial success.
- A focus on non-toxic and technology based solutions.
- Diversification of our product range outside vertebrate pests.
- Continuing to develop strong links with Manaaki Whenua Landcare Research to commercialise products and solutions together.
- Partnering with the Department of Conservation on research initiatives.
- 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 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.

Challenges

- The flow-on effects of the Covid-19 pandemic across all markets, including our ability to grow exports.
- 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, and a reducing number of manufacturers for key toxins.
- 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.
- Potential impacts from the proposed review of anti-coagulant use in New Zealand.

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:

Linkages to the Treasury’s Living Standards Framework

Higher Living Standards For New Zealanders			
Natural Capital	Social Capital	Human Capital	Financial Capital
All aspects of the natural environment that support human activity.	The norms and institutions that influence the way in which people live and work together.	The capabilities and capacities of people to engage in work, study, recreation and social activities.	Financial and human made physical assets
Our work to develop tools and solutions to protect our ecosystems, and biodiversity has extended for over 50 years. Short and long term control strategies provide inter-generational benefits to the health of our ecosystems.	Promoting and supporting care of our environment through the responsible use of pest control tools. Thriving indigenous biodiversity contributes to our national sense of identity and mental wellbeing. Development of repellents and new technologies to prevent non-target species harm.	Communication and engagement with community groups, NGOs and others to train and educate them in effective techniques to protect our ecosystems. Pest control solutions for developing Asian countries to prevent crop loss and disease.	Provision of essential tools to eradicate diseases like TB, and to increase agricultural productivity. Pest control tools create healthy ecosystems that support New Zealand’s tourism sector.

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 2019	Forecast 2020	Budget 2021	Budget 2022	Budget 2023
Profitability (\$000's)					
Total Revenue	8,647	8,243	7,808	7,500	7,500
Net Profit Before Tax	1,976	1,821	1,008	264	320
Shareholders Funds to Total Assets	72.9%	88.7%	88.5%	88.8%	87.7%
Shareholder Returns					
Total Shareholder Return	16.8%	23.6%	0.6%	3.4%	6.6%
Dividend Yield	8.0%	15.3%	0.6%	3.4%	6.6%
Return on Equity	19.1%	16.2%	8.4%	2.1%	2.6%
Profitability & Efficiency					
Net Operating Margin	24.8%	24.5%	15.5%	8.1%	10.1%
Return on Assets	19.3%	17.4%	10.0%	2.7%	3.6%
Return on Capital Employed	25.9%	21.7%	11.3%	3.0%	4.0%
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	2.8	5.1	4.8	3.1	2.8
Growth & Investment					
Revenue Growth	7.9%	(4.7)%	(5.3)%	(3.9)%	0.0%
Earnings Growth	10.4%	(3.5)%	(39.9)%	(49.6)%	24.3%
Profit Growth	12.5%	(7.8)%	(44.6)%	(73.8)%	21.2%
Capital Renewal	2.4	2.2	2.1	7.3	0.3

Commercial value of the Crown's investment

The Board's estimate of the Crown's investment in the Company as at 30 June 2020 is \$8.445m.

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

- The valuation is calculated on the estimated position as at 30 June 2020.
- 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 \$3,374 was included in the terminal year. The terminal value for the valuation is assumed to be 20% of the discounted terminal value as it is expected that the introduction of new manufacturing technologies will improve the long-term prospects for the company, although they remain relatively 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, the same as for the previous valuation.
- 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 \$8,445,000 (referred to as the equity value) was calculated by taking the enterprise value of \$5,552,000 and adding the net cash position of the company of \$2,893,000.

The valuation compares with a commercial value as at 30 June 2019 of \$7,905,000, consisting of the enterprise value of \$3,961,000 and the net cash position of \$3,944,000.

Non-financial Performance Measures

- Health and Safety
The target is to have no work-related lost time injuries for the year.
- Carbon Emissions
Baseline to be established in 2020 , with a plan to reduce emissions.
- 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%
The quality of our packaging 95%
Adequacy of printed information on packaging 95
Receipt of orders on time
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 strategic objectives.

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 the company require some flexibility in the capital structure during the planning 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.

A single dividend for each year will be paid 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 Statement of Corporate Intent 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 subscribe for, purchase or otherwise acquire shares in any company or organisation. Consultation and approval for capital investment decisions will follow the steps outlined in the 'Owners Expectations Manual' published and available on-line from the Treasury."

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

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 Fluoroacetate

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 and its subsidiary (collectively the Group). Animal Control Products Limited is wholly owned on behalf of the Government by the two shareholding Ministers, the Minister for 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.

The Group 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. In adopting NZ IFRS RDR, the company has taken advantage of a number of disclosure concessions. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.

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 consolidated financial statements have been prepared on a historic cost basis.

Functional and Presentation Currency

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power

over the investee. Specifically, the Group controls the investee if, and only if, the Group has:

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee

The ability to use its power over the investee to affect its return

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

The contractual arrangements with the other vote holders of the investee

Rights arising from other contractual arrangements

The Group's voting rights and potential voting rights

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Significant Accounting Policies

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

Revenue recognition

Revenue from Contracts with Customers

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, generally on delivery of the goods.

The Group considers whether there are any other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties, customer loyalty points). In determining the transaction price for the sale of product, the Group considers there are no effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer.

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.

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, 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.

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:

5 years 20%

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 the Group 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 the Group 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.

The Group 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.

The Board confirmed that the useful life of buildings is 40 years and factory equipment is 10-15 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

There have been no critical judgements applied by management in applying the Group accounting policies for the period ended 30 June 2019.

Appendix B

Definitions for the Financial Performance Measures

• Shareholder Funds to Total Assets	Shareholder Equity	Total Shareholder funds / Total Asset
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Shareholder Returns: measures of performance from a shareholder perspective.

• Total Shareholder Return	Dividend and investment growth	Net Growth in Commercial Value plus Dividends paid / Commercial Value (beg.)
• Dividend Yield	Cash return to the Shareholder	Dividends Paid / Average Commercial value
• Return on Equity	Profits generated from Shareholder funds invested	Net Profit after tax /average Shareholders' equity

Profitability & Efficiency: generation of profits from sales and assets employed.

• Net Operating Margin	Profitability per dollar of revenue	EBITDA/Revenue
• Return on Assets	Efficiency and profitability of assets utilised	EBIT/Average Assets
• Return on Capital Employed	Efficiency and profitability of capital sources (debt and equity)	EBIT/Average Shareholder Funds

Financial Leverage/Solvency: debt levels and debt servicing ability.

• Gearing Ratio	Measure of financial leverage	Net Debt/Net Debt plus Equity
• Interest Cover	How well earnings can cover Interest exposure	EBITDA/Interest Expense
• Solvency	Ability to pay its debts as they fall due.	Current Assets/Current Liabilities

Growth & Investment: rate of expansion and level of capital investment.

• Revenue Growth	Whether the revenue is growing	% change in revenue
• Earnings Growth	Whether the earnings have grown	% change in EBITDA
• Profit Growth	Whether the profit has grown	% change in NPAT
• Capital Renewal	Measuring the level of capital investment being made	Capital Expenditure / Depreciation Expense



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orillion

Animal Control Products Limited, trading as Orillion
408 Heads Road
Whanganui 4501
www.orillion.com
www.pestoff.co.nz