

Orillion Statement of Corporate Intent

2022 – 2024

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

Front cover:
Looking East from Blue Duck Station, central North Island
Photo by Aaron Courtney

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Introduction

The Statement of Corporate Intent is prepared 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 2021 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 is well placed to continue to deliver value to the New Zealand Government despite uncertain and financially constrained times. Value will be delivered in several ways:

- Delivery of strategically important, high quality tools and solutions to protect New Zealand's vulnerable environment; to achieve Predator Free 2050 goals and to prevent of bovine TB disease spread.
- Contribution to the Treasury Living Standards Framework, to improve living standards for New Zealanders, and to support MFAT programmes for developing countries.
- Direct financial contribution by way of dividends.

The three broad key strategic themes identified to set our future direction, are interpreted as follows:

- Collaboration and Innovation – leading to the positioning of Orillion as a proactive, innovator and partner.
- Safety and security – Orillion as a New Zealand exemplar in safety and security practices in our Sector.
- Diversification and Solutions – securing Orillion's core business and creating a sound platform for product development and future growth – achieved through product enhancement and diversification, increased revenue growth, and developing solutions for diverse problems.

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 ambitious goal of being predator free by 2050 requires innovation and deep collaboration between researchers, scientists, end-users and organisations like Orillion that can deliver solutions.

Orillion sees a long-term commitment and flexible approach to innovation as the key to effective collaboration with the Department of Conservation (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 predator eradication, and many others.

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 as defined under the Health and Safety at Work Act, Major Hazard Facilities Regulations (2016), while making continuous improvements to the safety of our workplace.

The safety management system implemented by Orillion to meet our obligations under the Act 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.

Predator control baits containing sodium fluoroacetate (1080) remain a critical tool for broad-scale operations in the New Zealand landscape. Supply security of 1080 active ingredient remains an ongoing priority, together with production of Orillion's proven high quality baits while meeting fluctuating end-user demands. 1080 bait production in New Zealand is changing with a new entrant to the industry using a new source of 1080.

Diversification and Development of New Solutions,

Diversification remains a top priority for the company given a relatively narrow product range and customer base. Export market development is receiving continued focus for both existing and new products.

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. Commercialisation of rat-specific products requires a significant investment which is addressed in this plan.

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.

Core Business 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.

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.

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

Current and 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. Contract manufacturing for others, is a small but growing part of our business.

Current products

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.

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 offshore markets, and we anticipate this work to lead to new export business.

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. Orillion also offers a range of devices and vast expertise in effective use of our products.

Operating Environment

The threat to New Zealand's biodiversity caused by introduced predators is relentless. Similarly, rodents and other pest species cause great damage to agricultural crops, threaten human health and infrastructure around the globe. While pest problems may remain unchanged, our operating environment demands improved standards of safety and efficacy and regulatory controls. Orillion is well placed to invest in meeting these requirements, and lead development of new innovative solutions.

Covid-19 has not affected the impact of predators on the environment, nor the damage caused by pests, and consequently Orillion remains largely unaffected by the global pandemic.

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, NGO's and others to train and educate them in effective techniques to protect our ecosystems. Pest control solutions to prevent crop loss and transmittable diseases.	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. We will continue to place emphasis on providing a safe workplace and a supportive approach to our staff in the face of the Covid-19 pandemic.

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.

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 to ensure availability to end-users. 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.

Sustainability

Orillion is taking a proactive approach to identifying ways in which we might minimise our carbon emissions. Measurement over the previous two financial years has already occurred, and we work with suppliers and customers to take an end-to-end approach to practical and financially sound ways to support sustainability by reducing emissions and waste.

Performance Measures

	Actual 2020	Forecast 2021	Budget 2022	Budget 2023	Budget 2024
Shareholder Returns					
Total Shareholder Return	23.6%	47.4%	0.0%	4.5%	8.9%
Dividend Yield	15.4%	12.8%	0.0%	4.5%	8.9%
Return on Equity	25.2%	14.3%	13.4%	24.3%	12.9%
Profitability & Efficiency					
Net Operating Margin	28.4%	23.3%	20.9%	28.3%	23.6%
Return on Assets	23.2%	16.0%	13.8%	23.8%	14.6%
Return on Capital Employed	31.9%	20.0%	15.8%	27.2%	16.3%
Financial Leverage/Solvency					
Shareholders funds to Total Assets	72.8%	88.4%	86.3%	88.3%	90.6%
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	2.5	6.0	3.6	3.7	4.7
Growth & Investment					
Revenue Growth	16.6%	(6.5)%	2.5%	39.6%	(15.1)%
Earnings Growth	33.8%	(9.9)%	(8.2)%	89.6%	(29.2)%
Profit Growth	46.9%	(17.6)%	5.2%	114.3%	(40.4)%
Capital Renewal	3.6	0.4	4.4	0.3	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 2021 is \$11.184m.

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

- The valuation is calculated on the estimated position as at 30 June 2021.
- 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, 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 \$11,184,000 (referred to as the equity value) was calculated by taking the enterprise value of \$7,843,000 and adding the net cash position of the company of \$3,341,000.

The valuation compares with a commercial value as at 30 June 2020 of \$8,445,000, consisting of the enterprise value of \$5,552,000 and the net cash position of \$2,893,000.

Non-financial Performance Measures

Health and Safety

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

Carbon Emissions

- Actual
 - 2019: 157 tonnes* or 18.15 tonnes per \$million of revenue
 - 2020: 166 tonnes or 16.46 tonnes per \$million of revenue
- Target
 - 2021 - 2023: less than 16 tonnes per \$million of revenue

Note, a typical US household annual emission is 48 tonnes. Source <http://css.umich.edu/factsheets/carbon-footprint-factsheet>

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
- Customer Service 95%

Human Resources

Staff turnover is targeted as no more than two permanent fulltime person per annum.

Occupational health 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 taxpayers of New Zealand effectively fund the primary customers.

The dividend policy is based on distributions being made of between 40% and 80% of net cash flow from operations adjusted for changes in income in advance and for base capital expenditure 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 capital investment decisions

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, that is if the investment constitutes a major transaction this must be approved by special shareholder resolution, and if the sale or purchase is not a major transaction but exceeds 25% of total assets of the company the Company will consult with shareholding ministers.

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 Flouroacetate
Prodeer	Orillion's Possum and Rat Bait incorporating Deer Repellent

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 control of the goods has transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods before transferring them to the customer.

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.

The Group's revenue from customers is derived from a single major product line, pest control solutions, to predominantly the New Zealand market. Predominantly, customer terms of trade require payment of invoices by the 20th of the month following.

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 reporting 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

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 group'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 most of cases is the same as the face value of the items.

Critical Accounting Estimates and Assump- tions

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.

Appendix B

Definitions for the Financial Performance Measures

<ul style="list-style-type: none"> Shareholder Funds to Total Assets 	Shareholder Equity	Total Shareholder funds / Total Asset
Shareholder Returns: measures of performance from a shareholder perspective.		
<ul style="list-style-type: none"> Total Shareholder Return 	Dividend and investment growth	Net Growth in Commercial Value plus Dividends paid / Commercial Value (beg.)
<ul style="list-style-type: none"> Dividend Yield 	Cash return to the Shareholder	Dividends Paid / Average Commercial value
<ul style="list-style-type: none"> 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.		
<ul style="list-style-type: none"> Net Operating Margin 	Profitability per dollar of revenue	EBITDA/Revenue
<ul style="list-style-type: none"> Return on Assets 	Efficiency and profitability of assets utilised	EBIT/Average Assets
<ul style="list-style-type: none"> 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.		
<ul style="list-style-type: none"> Gearing Ratio. 	Measure of financial leverage.	Net Debt/Net Debt plus Equity.
<ul style="list-style-type: none"> Interest Cover 	How well earnings can cover Interest exposure.	EBITDA/Interest Expense
<ul style="list-style-type: none"> Solvency 	Ability to pay its debts as they fall due.	Current Assets/Current Liabilities.
Growth & Investment: rate of expansion and level of capital investment.		
<ul style="list-style-type: none"> Revenue Growth 	Whether the revenue is growing	% change in revenue
<ul style="list-style-type: none"> Earnings Growth 	Whether the earnings have grown	% change in EBITDA
<ul style="list-style-type: none"> Profit Growth 	Whether the profit has grown	% change in NPAT
<ul style="list-style-type: none"> Capital Renewal 	Measuring the level of capital investment being made	Capital Expenditure / Depreciation Expense



Orillion

408 Heads Road
Whanganui 4501
Private Bag 3018
www.orillion.com
info@orillion.com