

QUALITY COUNTS



Statement of Corporate Intent

July 2011 to June 2014

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1.0 PREAMBLE

This Statement of Corporate Intent (SCI) is applicable to AsureQuality Limited (AsureQuality). This SCI is submitted in accordance with Section 14 of the State-Owned Enterprises Act 1986 (the Act). It sets out the overall intentions and objectives for AsureQuality (and subsidiary companies) for the financial year commencing 1st of July 2011 and the succeeding two financial years.

2.0 GOVERNANCE

The Board of Directors (Board) of AsureQuality is accountable to the shareholding Ministers in the manner set out in the Act.

All decisions relating to the operation of AsureQuality shall be made by or pursuant to the authority of the Board in accordance with this SCI.

3.0 OBJECTIVES

3.1 Principal Objective

Consistent with the requirements of the State Owned Enterprises Act 1986, and amendments, the principal objective of AsureQuality is to operate as a successful business.

Accordingly, AsureQuality intends to be:

- As profitable and efficient as comparable businesses that are not owned by the Crown. AsureQuality provides a number of mandated services, which it is acknowledged have a constrained margin;
- A good employer; and
- An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates, and by endeavouring to accommodate or encourage these when able to do so.

3.2 Vision

AsureQuality's vision statement is:

"A world class provider of food safety and biosecurity services."

AsureQuality assists customers achieve market access or competitive advantage and protect their reputations and brands by ensuring their food products are safe and of good quality.

Success will be measured by the company being recognised as leading the development of global best practise in food safety and being sought out by leading food companies for its food safety, quality assurance and disease management services.

3.3 Values

AsureQuality's values are:

Customer Responsive

All the work we do, at every level, is aimed at providing professional services to our customers. Customer responsiveness ensures we understand our customers' needs and demonstrates our commitment to quality service delivery.

Operational Excellence

Accuracy, efficiency, reliability and timeliness are constant requirements for everything we do every day. Getting it done right the first time is key to what we do. We challenge ourselves to perform better for our customers, push the boundaries of best practice, consider our environmental responsibilities, and develop innovative products and services that improve the profitability of our business, and add value for our customers and the industry. It's the little ideas that build to create continuous improvements.

Leadership

We inspire people to develop and perform at their best to deliver our vision. Leadership is action and not position. It is leadership taking place at all levels that helps us achieve our other values.

Staff Wellbeing

AsureQuality is what its people do. Our people are our biggest asset. Our commitment to the wellbeing of our staff and protecting our people from ill-health and injury is vital to our success as a business.

Integrity

To us, integrity means maintaining independence and objectivity in all we do. We demonstrate respect for our staff and our customers and behave ethically in all our business activities. We operate at the high end of the continuum of social responsibility practice. Integrity defines who we are individually as people and underpins all our other values.

One Team

The success of AsureQuality is determined by how we work as one team. The incredible diversity of skills and expertise within AsureQuality means that our strength is together providing this unmatched capability to our customers. We each must not only be committed to our individual teams but provide support to all other teams across the business.

3.4 Objectives for 2011/12

In the 2012 financial year AsureQuality will continue to pursue strategies to increase shareholder value by growing the business profitably in New Zealand and internationally, including:

- **Growing the food supply chain quality assurance services business** – AsureQuality will continue to seek domestic and international opportunities for its quality assurance services, both to ensure ongoing competitiveness in existing markets and to extend its reach into new areas.
- **Diversifying the disease management business** – AsureQuality will further leverage its existing strategic relationships and form new strategic relationships to diversify its disease management business in New Zealand and Australia.
- **Increasing performance and productivity** – AsureQuality will continue to focus on internal operational efficiency to improve its financial performance.
- **Supporting 'NZ Inc.'** - AsureQuality will continue to work with the Government and industry to deliver services to enhance New Zealand's economic growth and protect its agricultural production assets and the New Zealand brand.

3.5 Future Direction

AsureQuality is well positioned to create value for both customers and the shareholder with many global trends, such as those listed in Section 4.5, driving increased demand for AsureQuality's services. As a result, AsureQuality plans to grow significantly over the next 2-5 years, primarily within its food supply chain quality assurance services business, with much of this growth expected to come from offshore initiatives.

4.0 NATURE AND SCOPE OF ACTIVITIES

4.1 Business Streams

There are three business streams where AsureQuality currently operates. These areas are:

- Food supply chain quality assurance services;
- Disease management and biosecurity services; and
- Diagnostics products – particularly in the veterinary sector.

Food supply chain quality assurance includes audit, verification, certification and laboratory testing services of food ingredients, finished products and the environment they are produced in. In this area AsureQuality offers an independent assessment to recognised standards of the conformity of systems and processes.

Disease management includes meat inspection, Tb testing and veterinary services. This assists with ensuring the food products derived from production animals are safe for consumption. Biosecurity services assists with protecting New Zealand against pest and disease threats to human health, animal health and the environment.

Diagnostics products includes the manufacture and distribution of animal health diagnostic products. AsureQuality's understanding and expertise in the application of these diagnostics products builds on its extensive involvement in disease management, biosecurity and laboratory programmes, as well as its capability to manufacture and distribute the products efficiently.

The above business activities are supported by shared business support services, including Finance, Information and Communications Technology, Certification and Quality Assurance, Strategy, Human Resources, Customer Services and Marketing.

4.2 Market Trends and Developments Impacting on AsureQuality

There are a number of market trends and developments that continue to influence AsureQuality's strategies, forecast investment programme, and financial performance. Some examples of trends that are driving demand for the services that AsureQuality offers include:

- **Demand for independence** – independence in quality assurance processes is increasingly being demanded as regulators and consumers are more aware of potential conflicts of interest.
- **Verifiable quality assurance and traceability across the supply/value chain** – quality and safety assurance across the supply chain is increasingly being demanded to ensure that processes can be verified at each step, making tracing and isolating issues much more effective.
- **Cost of compliance and outsourcing** – as the cost of compliance and the level of scrutiny applied to quality assurance activities increases, primary producers continue to move towards outsourcing of these functions to specialist quality assurance providers who can provide these services more efficiently.
- **Increasing influence of retailer driven standards** – retailers are increasingly differentiating themselves through the use of their own brands for food products in particular. This is driving producers to meet specific standards to be able to sell through these key retail outlets.
- **Greater consumer awareness** – consumers are generally becoming much more aware of food safety and related issues, and this awareness is increasingly driving consumer behaviour. Consumers are also differentiating products on moral preferences. Such issues include organics, food miles, animal health and welfare, and fair trade. Producers who can differentiate on these bases can often realise a premium price.

- **Biosecurity and bio-terrorism risks** – heightened awareness of terrorism risks in recent years has also extended to heightened awareness of the potential risks of bio-terrorism to both people and economies.

Trends that are driving the need for AsureQuality to take an international perspective, include:

- **Globalisation of the food supply** – increased global trade in food is driving the need for food producers to meet recognised standards to access international markets.
- **Emergence of global standards** – as international markets converge, the recognised standards and assurances for primary produce are also converging in the form of internationally accepted standards.
- **Demands for an integrated approach** – primary producers are increasingly operating across sectors and geographies, and are seeking relationships with quality assurance providers who can also operate across these boundaries.

5.0 RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

AsureQuality's targets for the ratio of Shareholders' Funds to Total Assets are:

Year Ending 30 June	2012	2013	2014
Shareholders Funds	\$32.4m	\$34.7m	\$38.5m
Total Assets	\$71.1m	\$75.7m	\$84.6m
Shareholders Funds / Total Assets	45%	46%	45%

Where:

- Shareholders' Funds includes share capital, retained earnings and reserves.
- Total Assets includes current assets, fixed assets and intangibles.

6.0 PERFORMANCE TARGETS

Total company financial and non-financial performance targets for 2012-2014 are:

Year Ending 30 June	2012	2013	2014
Financial Performance			
Revenue	\$144.4m	\$146.1m	\$153.1m
Earnings Before Interest and Tax (EBIT)	\$11.0m	\$10.9m	\$11.8m
Net Profit After Tax (NPAT)	\$7.1m	\$6.7m	\$7.2m
Dividend Declared	\$9.3m	\$3.4m	\$1.5m
Net Cash Flow from Operating Activities	\$12.0m	\$11.6m	\$10.3m
Key Ratios			
Total Shareholder Return	7.5%	7.1%	7.6%
Dividend Yield	9.4%	4.5%	3.5%
Dividend Payout	131%	80%	99%
Return on Equity	21%	20%	20%
Return on Capital Employed	29%	25%	23%
EBIT Margin	7.7%	7.4%	7.7%
Gearing Ratio	34%	36%	40%
Interest Cover	15	14	10
Solvency	1.2	1.2	1.3

Year Ending 30 June	2012	2013	2014
Non-Financial Performance			
Staff Turnover Rate	<12%	<12%	<12%
Medically Treated Injury Frequency Rate	< 14	< 14	< 14
Climate Survey – Overall Staff Satisfaction	-	>75%	-
Customer Survey – Customer Satisfaction	-	>75%	-
Critical Programme Audit Failures	Nil	Nil	Nil
Critical Facility Audit Failures	Nil	Nil	Nil

Notes:

1. AsureQuality operates an open book policy on pricing with the Meat Industry with margins being based on a cost plus approach. This approach is taken as this service is regulated and AsureQuality is a monopoly provider, however this has the effect of constraining the margins available to AsureQuality in providing these services which contribute around 30% of AsureQuality's revenues.
2. MAF is currently undertaking a review of meat inspection practices, which could potentially result in decreased activities for AsureQuality. AsureQuality has made provision for some decline in this activity in calculating the above performance targets, however the timing and extent of any changes remains uncertain. If the changes occur earlier or are more extensive than anticipated, it may affect AsureQuality's ability to achieve its performance targets.
4. AsureQuality has investments in other entities. The projected financial performance includes recognition of these investments according to the accounting policies in Appendix 4.
5. The dividends projected reflect the alignment with the target capital structure as outlined in section 7.1.
6. The Total Shareholder Return calculation assumes that the change in the commercial valuation is limited to the net movement in retained earnings during the forecast period.
7. The gearing ratio is calculated as net debt (bank loans plus bank overdraft less net cash (cash less income in advance)), divided by equity plus net debt.
8. The climate survey and customer survey are expected to be undertaken approximately every second year, therefore targets in only the years when the surveys are expected to be undertaken are noted.
6. See Appendix 2 for further description of the above financial and non-financial measures.

Corporate Social Responsibility

In line with its obligations under the Act, AsureQuality seeks to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these interests when able to do so. AsureQuality also recognises that as an SOE, its responsibilities in this area are often perceived to be greater than other businesses.

AsureQuality's social and environmental activities are embedded in the company's vision and values statements, and are reflected in how the company operates across all activities on a day-to-day basis. Furthermore, AsureQuality's formal Corporate Social Responsibility Policy outlines the framework within which AsureQuality measures its performance in this area.

Within the framework outlined in its Corporate Social Responsibility Policy, AsureQuality will conduct its business in a responsible fashion, including operating with a high level of business ethics, and will focus on both internal and external activities under three broad objectives, including:

- Monitor and reduce AsureQuality's impact on the environment where practical.
- Continue to operate as a good employer, as defined by the Act.
- Exhibit a sense of social responsibility, as defined by the Act.

7.0 CAPITAL STRUCTURE AND DIVIDEND POLICY

7.1 Capital Structure

An appropriate capital structure for AsureQuality will maximise the value of the business for the shareholder by enabling growth aspirations to be met, but also minimise the risk of financial distress. During 2010 AsureQuality engaged external advice to determine a prudent capital structure for AsureQuality. The capital structure deemed appropriate for AsureQuality was a long-term BBB credit rating agency benchmark. While the level of debt is only one factor in assessing a credit rating, a gearing ratio of 40% is generally viewed as

commensurate with this credit rating. AsureQuality has adopted a target gearing ratio of 40% as a proxy for a BBB credit rating.

AsureQuality's Board and management recognise the importance of managing all assets of the business effectively, including capital. The company is looking to enter a growth phase, and consequently AsureQuality wishes to retain some flexibility in its capital structure during this period. Additionally some flexibility is desired, recognising that considerable uncertainty exists around meat inspection practices, which could significantly affect AsureQuality's business given this contributes approximately 30% of AsureQuality's revenues.

The company's current business plan makes provision for substantial investment expenditure, largely funded from debt, which will take the company towards the 40% target gearing ratio. AsureQuality is also taking positive steps to transition to this target.

The Board will periodically review the company's target capital structure and may amend the debt profile over time should circumstances require it.

7.2 Dividend Policy

The extent of funds available to pay dividends will be driven by AsureQuality's capital structure. Any distribution to AsureQuality's shareholder will be subject to meeting the solvency requirements of the Companies Act 1993 and will follow the processes and procedures generally adopted by directors of publicly listed companies.

In determining the level of funds to distribute as a dividend the Board will take into consideration the following:

- The sustainable financial structure for the business.
- Prevailing economic conditions.
- AsureQuality's medium-term, fixed asset expenditure programme.
- AsureQuality's investment in new business opportunities.
- AsureQuality's working capital requirement.
- AsureQuality's assessment of the competitive environment.

AsureQuality aims to pay two dividends each year. For the 2012 financial year it is expected there will be an interim dividend paid in March and a final dividend paid in September.

Subject to maintaining an appropriate capital structure and the above circumstances, AsureQuality will seek to ensure a consistent share of profit is returned to the shareholder through the payment of dividends. As such, the rate of dividend projected in the SCI is based on targeting consistent annual dividends at a ratio of 60% of Net Profit after Tax. AsureQuality recognises the shareholders desire for dividends and this ratio will be reviewed annually by the Board.

8.0 ACCOUNTING POLICIES

The AsureQuality accounting policies as of 30 September 2010 are presented in Appendix 4. These accounting policies are International Financial Reporting Standard (IFRS) compliant accounting policies and have been approved by the Board.

9.0 REPORTING

In accordance with the Act and the requirements of Shareholding Ministers, AsureQuality 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 Chair of the Board 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 Plan and SCI each year.

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

10.0 CONSULTATION ON SALE AND PURCHASE OF ASSETS

AsureQuality, or any of the subsidiaries it controls, may acquire or dispose of assets or shares in another business where this activity is consistent with the nature and scope of AsureQuality's business.

Where AsureQuality, or any of the subsidiaries it controls, intends to acquire or dispose of assets or shares, either by a single transaction or a series of transactions, with a book value in excess of 10% of AsureQuality's equity, consultation with Shareholding Ministers will be undertaken prior to completion of the transaction or transactions.

Where disposal of assets or shares with a book value in excess of 10% of AsureQuality's equity is contemplated an assessment of market value of the assets or shares will be undertaken as part of the sale or disposal process.

11.0 COMPENSATION FROM THE CROWN

AsureQuality reserves the right, under Section 7 of the Act, to seek compensation from the Crown for the necessity to provide any service where AsureQuality is constrained from acting in a normal commercial manner. There are currently no requests for compensation from the Crown proposed by AsureQuality under Section 7 of the Act.

12.0 COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Section 14 of the Act specifies that SOEs must include a current commercial valuation in its SCI that reflects the value of the Crown's investment in AsureQuality.

AsureQuality will undertake an independent valuation at least once every three years to estimate a current commercial valuation and AsureQuality will estimate a current commercial valuation in the interim years.

During the 2011 financial year, the Board assessed the commercial value of the business by undertaking an independent valuation prepared by McDouall Stuart Corporate Finance Ltd. The valuation was then reviewed and approved by the Board.

As at 30 June 2011 the Board's independent estimate of the commercial valuation of the Crown's investment in AsureQuality was \$94.8 million.

APPENDIX 1: COMPARISON TO PREVIOUS PROJECTIONS

The tables below provide a summary of the current projections for 2012, compared to the previous projection contained in last year's SCI.

	Projection 12 Month 2012 (2010 SCI)	Projection 12 Month 2012 (2011 SCI)
Revenue	\$148.9m	\$144.4m
Earnings Before Interest and Tax (EBIT)	\$11.5m	\$11.0m
Net Profit After Tax (NPAT)	\$7.1m	\$7.1m
Shareholders Funds	\$35.7m	\$32.4m
Total Assets	\$71.6m	\$71.1m
Return on Equity	21%	21%
EBIT Margin	7.7%	7.7%

Variance Between Current and Previous Year's Statement of Corporate Intent

The prior year plan had projected revenue for 2012 at \$148.9 million compared with the current projection for 2012 of \$144.4 million. The 2011 budget was \$138.5m and the current forecast for 2011 is \$142.9m, so growth from current revenue levels is still projected. This decrease in projected revenue growth of \$4.5 million (from an increase of \$10.4m to an increase of \$5.9m) is attributable to a number of factors, with the most significant including:

- A reduction in stock numbers forecast to be processed by the meat companies, which will result in less inspection hours than projected last year;
- Allowance for a change in meat inspection standards next season resulting in a further reduction in revenue;
- The end of the MAF AgriBase contract with the implementation of FarmsOnline; and
- Last years 2012 projection including additional laboratories, which are not included in the 2012 budget, however are still expected in future years.

These changes are expected to reduce revenue growth by \$4.5m from that projected last year and, as a result, have a flow on effect to margins and profitability.

APPENDIX 2: PERFORMANCE TARGETS

Financial Performance

The financial performance targets are accounting based measures of operating performance and financial resources.

Key Ratios

The key ratios are targets for operating performance and financial resources expressed in relative rather than absolute terms. This allows for easier comparison over time or with other businesses. A description of each ratio and the way it is calculated is shown below.

The Total Shareholder Return is the performance from an investor perspective incorporating dividends and investment growth. Calculation: (Change in commercial valuation plus dividends paid less equity injected) divided by beginning commercial valuation.

The Dividend Yield is the cash return to the shareholder. Calculation: Dividends paid divided by average commercial valuation.

The Dividend Payout is the proportion of net operating cash flow less an allowance for capital maintenance paid out as a dividend to the shareholder. Calculation: Dividends paid divided by (Net cash flow from operating activities less depreciation expense).

The Return on Equity indicates the payback on the funds the shareholder has invested in the company. Calculation: Net profit after tax divided by average equity.

The Return on Capital demonstrates the efficiency and profitability of a company's capital from both debt and equity sources. Calculation: Net profit after tax adjusted for IFRS fair value movements (net of tax) divided by Average of share capital plus retained earnings.

The EBIT Margin indicates the level of profitability of the business. Calculation: EBIT adjusted for IFRS fair value movements divided by Average capital employed.

The Gearing Ratio is a measure of financial leverage and expresses the level of funds contributed by debtholders as a percentage of the total investment in the business. Calculation: Net debt divided by Net debt plus Equity.

The Interest Cover is the number of times that earnings can cover interest. Calculation: EBITDA divided by Interest paid.

The Solvency measure indicates the ability of the company to pay its debts as they fall due. Calculation: Current assets divided by Current liabilities.

Non-Financial Performance

AsureQuality is a provider of what can be generally described as conformity assessment services. The non-financial performance measures aim to measure factors which are integral to the successful delivery of these services in addition to the achievement of financial performance measures.

The Staff Turnover rate measures the percentage of total staff that leave the business over a 12 month period.

The Climate Survey and Customer Survey aim to measure the level of staff and customer satisfaction.

The Audit Failure measures are an indication of the level of compliance with the various standards that are applicable to AsureQuality.

The Medically Treated Injury Frequency Rate is a measure of staff health and safety.

APPENDIX 3: SUBSIDIARIES AND ASSOCIATED COMPANIES

The following provisions will apply to any subsidiary or associated company that AsureQuality has interests in.

AsureQuality will ensure at all times that:

- Control of the affairs of every subsidiary of AsureQuality is exercised by a majority of the directors appointed by AsureQuality;
- A majority of the directors of every subsidiary of AsureQuality are persons who are also directors or employees of AsureQuality or who have been approved by Shareholding Ministers for appointment as directors of the subsidiary; and
- Without the prior consent of Shareholding Ministers, neither AsureQuality or any subsidiary of AsureQuality shall sell or otherwise dispose of, whether by a single transaction or by any series of transactions and whether by a sale of assets or shares, the whole or any substantial part of the business or undertaking of AsureQuality and its subsidiaries (taken as a whole).

Should AsureQuality or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of AsureQuality), they will not sell or dispose of any shares in that company without first giving written notice to Shareholding Ministers of the intended disposal.

Note:

The terms “share”, “Shareholding Ministers”, and “subsidiary” have the same meaning as in Section 2 of the Act.

APPENDIX 4: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

AsureQuality Limited is a company registered under the Companies Act 1993. The Company is a company incorporated and domiciled in New Zealand. The Company provides food quality assurance and biosecurity services and manufactures and sells animal diagnostic products.

The consolidated financial statements comprise AsureQuality Limited and its subsidiaries (the "Group"). The financial statements of the Company are for AsureQuality Limited as a separate legal entity.

Statement of compliance

These financial statements, including the consolidation of subsidiaries domiciled outside of New Zealand, have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993, and the State-Owned Enterprises Act 1986 and generally accepted accounting practice in New Zealand ('NZ GAAP').

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-orientated entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

The primary objective of the Company is to operate a successful business and be as profitable and efficient as comparable businesses not owned by the Crown. Accordingly, the Company has designated itself and the Group as a profit oriented entity for the purposes of NZ IFRS.

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

Judgements and estimates

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant accounting policies

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

a) Basis of consolidation

Subsidiaries

The Group financial statements consolidate the financial statements of the Company and its

subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are recognised in the financial statements of the Parent company at cost. Where there is indication of impairment, the unrealised loss is recognised in the statement of comprehensive income.

The results of subsidiaries acquired or disposed of during the period are included in profit and loss from the effective date of acquisition or effective date of disposal, as appropriate.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method.

The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed.

Acquisition-related costs are recognised in profit or loss as incurred.

Non-controlling interests in the net assets of the consolidated subsidiaries are identified separately from the Group equity. The interest of non-controlling shareholders is measured at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of acquisition. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- i. the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- ii. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under *NZ IAS 39 Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an Investment in an associate or jointly controlled entity.

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets recognised. For the purposes of impairment testing, goodwill has been allocated to cash generating units. Unless otherwise stated, the cash

generating unit is synonymous with the entity acquired. Any impairment loss is recognised immediately in profit in the statement of comprehensive income and is not reversed in a subsequent period.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The group's share of its associate's post acquisition profits is recognised in profit for the year, and its share of post acquisition movement in other comprehensive income is recognised in other comprehensive income.

b) Revenue recognition

Revenue is measured at the fair value of the consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and is disclosed exclusive of GST and net of returns. Revenue from the supply of services is recognised in profit in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to work in progress reports.

Rental income is recognised on an accruals basis in accordance with the substance of the relevant property lease agreements with tenants.

Interest

Interest income is recognised using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

c) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. A qualifying asset is defined as an asset that necessarily takes substantial period of time to get ready for its intended use or sale. The Group has defined substantial time as being in excess of six months. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Borrowing costs not directly attributable as part of the costs of the new plant and equipment are recognised as an expense in the period in which they are incurred using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

e) Hedge of net investment in foreign operations

The Group designates certain hedging instruments in respect of foreign currency exchange risk as a hedge of net investments in foreign operations. On an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated as a separate component of equity in the foreign currency translation reserve.

f) Property, plant and equipment

Property, plant and equipment other than land and buildings are recognised at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and other directly attributable costs incurred in bringing the property, plant and equipment to the location and condition necessary for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Revaluations

Land and buildings are recognised at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations are obtained from an independent registered valuer every three years using the highest and best use method, however valuations may be obtained on a more frequent basis if there is an indication that the fair values have changed materially from the latest valuation.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit in the statement of comprehensive income, in which case the increase is credited to profit for the year to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is recognised in profit in the statement of comprehensive income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Disposal of property, plant and equipment

Gains and losses arising from disposal of property, plant and equipment are recognised in profit in the statement of comprehensive income in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Capital work in progress

Capital work in progress represents costs relating to property, plant and equipment that at balance date are not yet operational. Depreciation commences when the item becomes operational.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised as an expense as incurred.

Depreciation

Depreciation is recognised as an expense on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The following estimated useful lives are used in the calculation of depreciation:

Buildings	10 – 25 years
Leasehold improvements	10 years or over the period of the lease if more appropriate
Plant and equipment	3 – 8 years
Computer equipment	3 years

Land and capital work in progress are not depreciated.

g) Intangible assets

Software

Software assets include both purchased software and direct costs associated with the development of internally developed software. Capitalised costs include the cost of all materials used in construction and the direct labour on the project. Costs cease to be capitalised as soon as the software is ready for productive use. Capitalised costs are amortised on a straight-line basis over the period of the expected benefits. This period is reviewed on an annual basis.

Amortisation – software

Software is amortised on a straight-line basis over three to five years, being the estimated useful life.

Accreditation costs

Intangible assets in relation to accreditation costs are recognised at cost less amortisation. These represent directly attributable expenditure incurred to obtain external accreditation of its laboratory in Singapore. Amortisation and impairment expenses are charged to profit in the statement of comprehensive income.

Accreditation costs are amortised on a straight line basis over eight years being the estimated future life of the asset.

h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks or rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance Leases

Initial recognition of a finance lease results in an asset or liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Group expects to receive benefits from their use.

Operating Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner, net of any lease incentives, over the term of the lease.

i) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

j) Work in progress

Work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings.

k) Inventories

Inventories are recognised at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

l) Impairment

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine if there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised as an expense unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

m) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured at the lower of their carrying amount and fair value less cost to sell.

n) Payables

Trade and other accounts payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

o) Provisions

Provisions are recognised when, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the

obligation. Long-term provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

p) Contingent assets and contingent liabilities

Contingent liabilities and contingent assets are disclosed in the Notes to the Financial Statements. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

q) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or subsequently enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

r) Employee benefits

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, long service leave, retirement leave, accumulating sick leave and other similar benefits when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are recognised at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are recognised at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services by employees up to reporting date.

Defined contribution plans

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense as incurred.

s) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are recognised using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of operations in New Zealand is NZ\$, Australia is AU\$ and

Singapore is SG\$. The consolidated financial statements are presented in NZ\$, which is the Parent and Group's presentation currency.

Foreign currency transactions

Transactions denominated in a foreign currency are initially translated at the foreign exchange rate at the date of transaction.

Foreign currency monetary items at balance date are translated at exchange rates current at balance date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences are recognised in profit in the statement of comprehensive income in the period in which they arise.

Foreign operations

On consolidation, the assets and liabilities of the Group's overseas operation are translated at exchange rates prevailing at balance date. Income and expenses items are translated at the average exchange rate for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised profit in the statement of comprehensive income on disposal of the foreign operation.

t) Goods and services tax (GST)

The statement of comprehensive income and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated at net of GST, with the exception of accounts receivables and accounts payables, which include GST invoiced.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed exclusive of GST

u) Financial instruments

The Group is party to financial instruments as part of the normal course of operations. These financial instruments include bank accounts, short-term deposits, borrowings, derivatives, trade receivables and trade payables. The Company is party to loans to subsidiaries as part of the normal course of operations.

All financial instruments are recognised in the statement of financial position and all revenue and expenses in relation to financial instruments are recognised in profit in the statement of comprehensive income.

Purchase and sale of financial assets are recognised on trade date, the date on which the Company and Group commits to purchase or sell the asset.

Financial Assets

Loans & Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently recognised at amortised cost using the effective interest rate method (refer interest revenue policy). Loans and receivables issued with a duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Interest, impairment losses

and foreign exchange gains and losses are recognised in profit in the statement of comprehensive income.

The Group's loans and receivables include trade debtors, prepayments and receivables from related parties.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets and non current assets.

Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. They are subsequently recognised at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items, foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in profit in the statement of comprehensive income. For non-monetary available-for-sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. At derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the statement of comprehensive income.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in profit in the statement of comprehensive income. Impairment losses recognised in profit or loss on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of trade receivables is described in note (i).

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or other financial liabilities.

Fair value through profit and loss

Financial liabilities designated at fair value through profit and loss are recognised at fair value with any resultant gain or loss recognised in the profit and in the statement of comprehensive income. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of comprehensive income. Transaction costs are expensed as they are incurred.

Other financial liabilities

Other financial liabilities, including borrowings, are recognised initially at fair value less transaction costs and subsequently recognised at amortised cost using the effective interest rate method (refer interest expense policy). Financial liabilities entered into with duration of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in profit in the statement of comprehensive income as is any gain or loss when the liability is derecognised.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

v) Share capital

Ordinary shares are classified as equity.

w) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

x) Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows.

- i. Cash comprises cash on hand and bank balances net of bank overdrafts.
- ii. Investing activities are those activities relating to the acquisition, holding, and disposal of property, plant and equipment and investments.
- iii. Financing activities are those activities that result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid are included in financing activities.
- iv. Operating activities include all transactions and other events that are not investing or financing activities.

y) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit in the statement of comprehensive income over the period of the borrowing using the effective interest method.

z) Derivatives

Derivatives are initially recognised at fair value on the date of the derivative contract entered into and are subsequently re-measured to their fair value. The Group has not designated any derivatives as hedges and all derivatives are accounted for as trading instruments at fair value through profit in the statement of comprehensive income. Changes in the fair value of these derivative instruments are recognised immediately in the statement of comprehensive income within finance costs.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.