



# ANNUAL REPORT 2008





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# HIGHLIGHTS



Successfully merging AgriQuality Limited and ASURE (New Zealand) Limited to formASUREQuality, the southern hemisphere's largest and most internationally accredited provider of food safety and biosecurity services to the food and agricultural sectors.

Meeting or exceeding budgeted revenue, earnings before interest and tax (EBIT) and net profit after tax (NPAT) targets.

Merging the Melbourne-based food laboratory operations with Melbourne food laboratory company, Dairy Technical Services Limited (DTS), and creating the single largest independent food testing laboratory in Australia.

Meeting identified merger cost savings of \$3.4 million.

Achieving cost efficiencies resulting from the merger for the meat industry with indirect costs now below 2002 levels for meat inspection.

Being awarded the "Epidemiology Supplier Award for 2008" by the Dow Chemical Company, based in Michigan, USA for our dioxin testing work.

Becoming the only Australasian Third Party Certifiers (TPC) in the world to gain accreditation under the California Air Resources Board (CARB) programme aimed at reducing formaldehyde emissions from composite wood products.

Reinforcing our position as an authoritative quality assurance organisation in New Zealand by being chosen by GlaxoSmithKline to confirm the Vitamin C levels in Ribena products for the relaunch of the range.

Retaining key Fonterra contracts for laboratory and auditing services.

Being one of the first laboratories in Australasia with the world-class technical expertise and methodology to test melamine levels following the recent contamination issues.

Completing the Red Imported Fire Ant project under budget and ahead of time.

Achieving tertiary level in the ACC partnership programme for workplace health and safety.



# CHAIR AND CEO REPORT



On 1 October 2007 ASURE (New Zealand) Limited and AgriQuality Limited merged to form AsureQuality Limited. Over the past year AsureQuality has focussed on operational and strategic measures to ensure the successful integration of the two companies. Our combined organisation comprises 1,700 staff located at 140 sites around Australia and New Zealand.

A newly appointed Board of Directors has overseen this period of post-merger integration which has involved the rationalisation, consolidation and optimisation of resources and capability.

The Company's management team has driven a series of successful programmes to improve operational efficiency while providing information and support for staff to ensure ongoing excellence in day-to-day activities during this time of change. Particular attention has been paid to delivering value for our customers and fostering a culture of 'customer responsiveness' particularly in those less competitive

areas of our business where our customers purchase a regulated service.

After experiencing difficulties in generating acceptable returns from its Australian-based laboratory business in recent years, AsureQuality has taken significant steps to secure a profitable and sustainable future for this business.

Consistent with AsureQuality strategy to grow in Australia, on 1 May 2008 the Company announced the merger of its Melbourne-based food laboratory operations with Melbourne-based food laboratory company, Dairy Technical Services Limited (DTS). The merger created the single largest independent food testing laboratory in Australia. As part of the merger agreement AsureQuality gained a minority shareholding in the ongoing operation alongside Fonterra, Murray Goulburn, and Warrnambool Cheese and Butter. This has recently increased to over 25%, after purchasing the shares of three minority shareholders.

This merger demonstrates our ongoing commitment to the Australian market and positions us well for further growth, both in the laboratory business through DTS, and in our related animal health diagnostics, seeds and assurance services businesses that are not part of the merger.

## RESULTS OVERVIEW

Total revenue at \$138.1 million for the year was \$0.5 million ahead of budget and \$2.2 million higher than the combined ASURE and AgriQuality result from the equivalent prior period.

AsureQuality has met the merger cost savings identified by the shareholders with actual merger savings of \$3.4 million in the current financial year. Merger implementation costs incurred in the current financial year were \$0.6 million. AsureQuality is now working on delivering the business synergies expected from the merger.



The tables and graphs show key financial results for AsureQuality for the year ended 30 September 2008 in which the Company exceeded last year's comparative\* performance and exceeded its targets.

|  | Actual 2008 (\$'000) | Actual 2007 (\$'000) |
|--|----------------------|----------------------|
| Operating profit (including discontinued operations)                 | 7,330                | 5,144                |
| Earnings before interest and tax (including discontinued operations) | 7,889                | 1,849                |
| Profit from continuing operations                                    | 5,724                | 2,023                |
| Profit (loss for the year)   | 5,013                | (2,303)              |

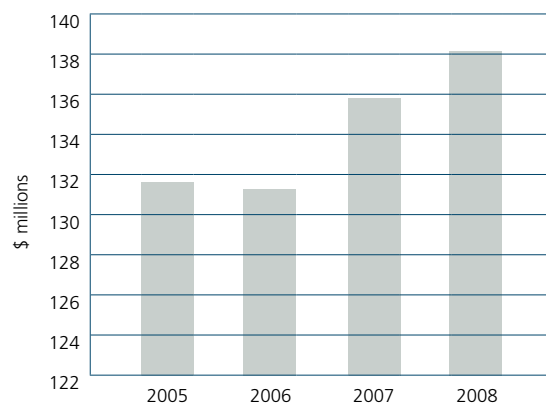
|                      |       |        |
|----------------------|-------|--------|
| EBIT to total assets | 13.2% | 7.7%   |
| Return on equity     | 16.4% | (9.2%) |

Key one-off transactions that related to discontinued operations include:

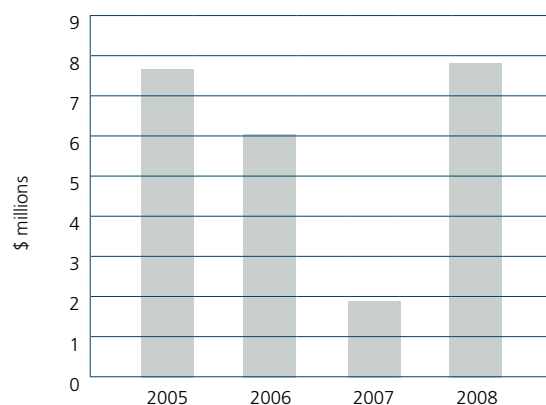
|   | Actual 2008 (\$'000) | Actual 2007 (\$'000) |
|---|----------------------|----------------------|
| Write-off investment in associate               |                      | (1,270)              |
| Write-off of goodwill                           |                      | (2,505)              |
| Profit on sale of the Melbourne Food Laboratory | 488                  |                      |

\*The comparative figures contained within the tables and graphs are from the combined ASURE (New Zealand) Limited and AgriQuality Limited results from the equivalent prior period.

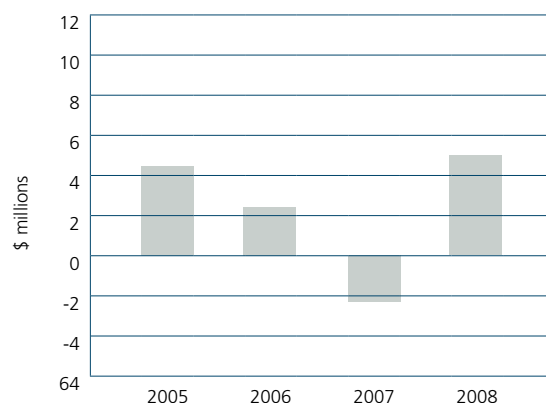
## REVENUE



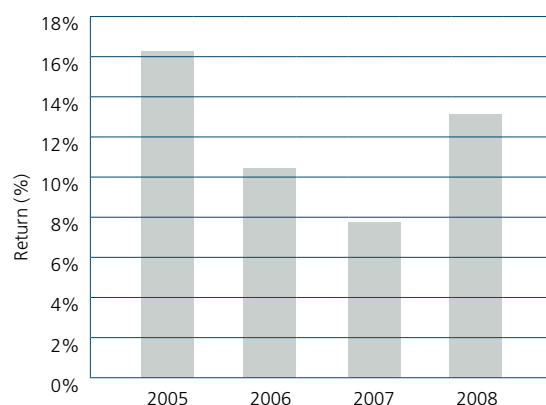
## EARNINGS BEFORE INTEREST & TAX



## PROFIT (LOSS) FOR THE YEAR



## EBIT TO TOTAL ASSETS





Immediately following the merger, a new organisational structure was designed and implemented to ensure a smooth transition for the merging companies, and to create maximum opportunities for implementing operational best-practice across the organisation.

Further restructuring in the second half of the year was implemented to both refine the alignment of the Company's support services, and to recognise additional emerging synergies between operational groups. This in turn has enabled us to strengthen our delivery of operational excellence and to align ourselves better with our customers.

The business activities of AsureQuality are divided into two main operating groups – Operations, and Laboratories and Diagnostics.

The Operations group had a profitable year with results above budget. This was primarily due to the North Island drought which resulted in high stock numbers coming through meat plants, though this was offset by reduced activities in On-Farm Services. The strong New Zealand economy over the past year resulted in increased demand for food and dairy audits and field services. The Field Veterinary Services' result was lower than budget because of the reduction in testing of live

animal exports, as recent regulatory changes to the exporting of live animals has reduced this trade.

The New Zealand Laboratory and Diagnostics business continues to perform above budget. This can be attributed to the continuing growth in volumes through the Auckland Laboratory, the melamine scare providing significant revenue for the Wellington Laboratory, and the Animal Health Diagnostic business experiencing strong growth in the distribution of animal health diagnostics worldwide.

### KEY FOCUSES FOR 2009

The first comprehensive strategic business plan completed for AsureQuality focuses on a number of key areas:

- › Creating greater alignment with key customers and stakeholders
- › Driving operational excellence and profitability through improved business process disciplines
- › Pursuing partnerships and collaborations as a key avenue for growth
- › Further developing the Company's technical capabilities and professional integrity.

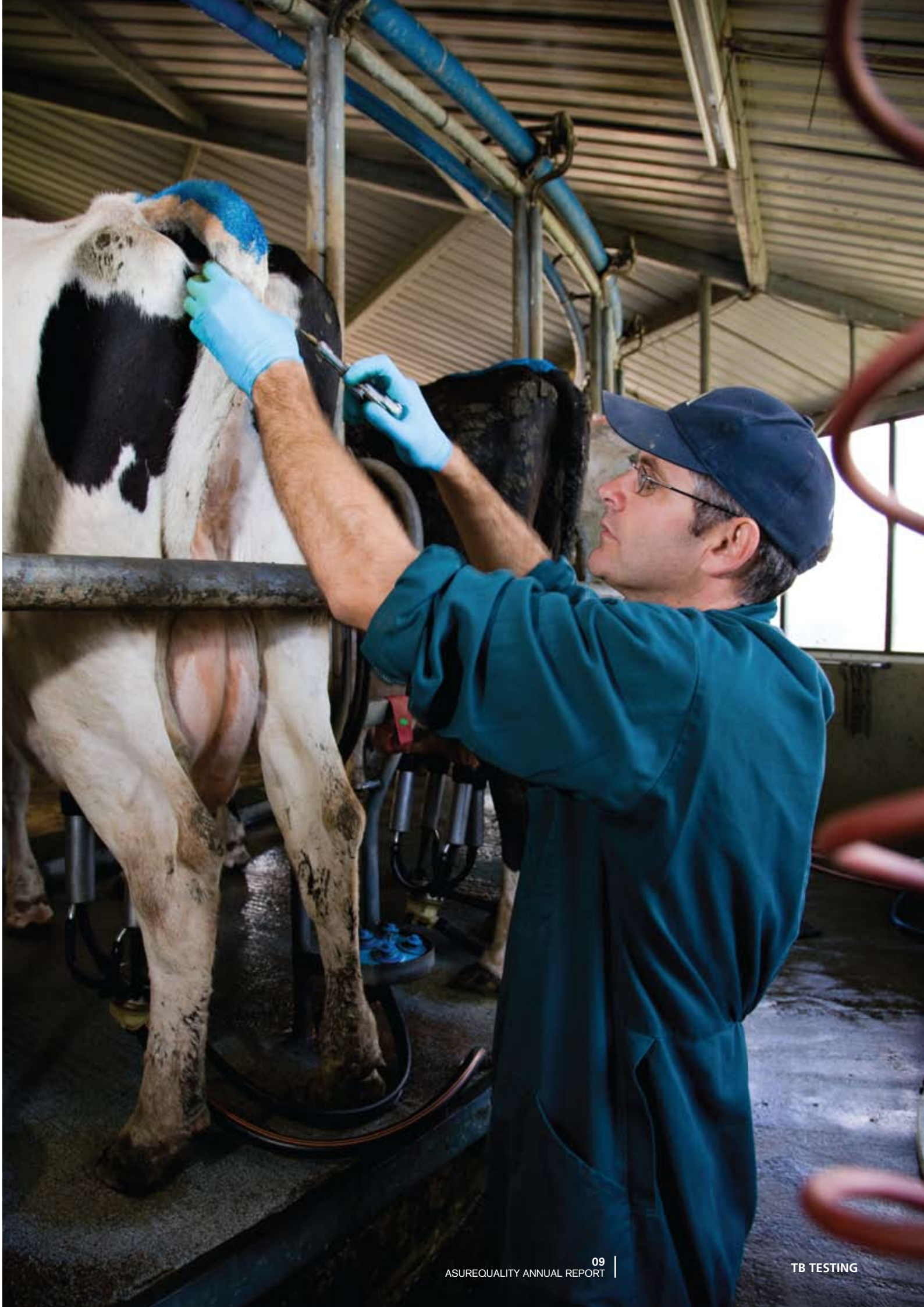
Through these key strategies, AsureQuality aims to achieve its growth objectives and help customers ensure food is safe, providing vital support to primary production industries to achieve market access or competitive advantage in their chosen markets, and biosecurity services to ensure New Zealand's economic prosperity.

It is pleasing to be able to report on good progress in our first year as AsureQuality. We have laid the foundation to achieve new levels of customer service and operational excellence in the year ahead.

Thanks must go to our dedicated and loyal staff as none of this would have been possible without their commitment. Thanks also to our Board for their vision. We all share a passion for this business which has a significant role in the future of New Zealand.

  
John Spencer  
Chair

  
Tony Egan  
CEO



# BUSINESS OVERVIEW



An overview of the two groups and their performance is detailed below.

## OPERATIONS

Comprises of ante-mortem and post-mortem meat inspection, Tb and disease control activities, training, farm assurance audits, biosecurity surveillance and response, veterinary services and New Zealand-based audit, inspection, verification and certification services for cross-supply chain processing and production operations.

|               | 2008           |
|---------------|----------------|
| Total revenue | \$88.3 million |
| Staff FTE     | 887            |

### MEAT INSPECTION SERVICES

AsureQuality's meat inspectors exceeded the New Zealand Food Safety Authority (NZFSA) target for compliance accuracy while delivering a record 1.35 million hours of meat inspection. Many benefits of the merger were realised during the first year of the new Company with over 100 staff now having secondary positions across the Company in areas of biosecurity, farm assurance auditing, Tb testing and other field services.

Also during the year the Collective Agreement for meat inspectors was renegotiated with the Public Service Association. The negotiations were very constructive and the parties concluded a three year agreement.

### TRAINING

Our commitment to training was reinforced with the appointment of a Training Manager and some of this potential is starting to be realised. A contract has recently been secured with ACC to carry out health and safety training in the agriculture and forestry sectors, and a developing relationship with Industry Training Organisations is leading to a significant increase in food safety and quality assurance training.

### FOOD & DAIRY

One of the most significant achievements this year for the Operations group was the Food and Dairy auditing team re-signing a contract with Fonterra to deliver, across all sites within New Zealand, its third party Recognised Agency function and independent assurance work for the next 12 months. We continue to be one of the selected certifying bodies to audit against the Woolworths Quality Assurance and Coles supplier audit in Australia and New Zealand.

With the launch of Food Control Plans and the Wine Standards Management Programme by the NZFSA, there are significant future growth opportunities for AsureQuality as we work in partnership with the NZFSA towards implementing these new standards.

### BIOSECURITY

The Biosecurity Services' activities overall were lower than budget and previous years, reflecting the reduction in biosecurity incursion response activity, but nevertheless the business was extremely successful with the Red Imported Fire Ant (RIFA) project. Between January and March 2008 AsureQuality completed the RIFA biosecurity surveillance operation on behalf of MAF Biosecurity New Zealand (MAF BNZ) which involved the setting of over 200,000 attractant-baited pottles in a 2km radius around Whirinaki in the Hawkes Bay. The project came in under budget and ahead of time, with surveillance and treatment programme continuing in 2009.

Over the past year steps have been taken to strengthen AsureQuality's biosecurity capability as a result of the merger. Restructuring of our biosecurity team has more closely

aligned our approach in this area with the requirements of key biosecurity customers. This has also improved our ability to match the necessary resourcing requirements utilising front-line staff from our other businesses, improving overall efficiency in the delivery of this important service.

We are currently progressing a closer working relationship with MAF BNZ.

### **FIELD SERVICES**

AsureQuality gained accreditation as a Third Party Certifier (TPC) under the California Air Resources Board (CARB) programme aimed at reducing formaldehyde emissions from composite wood products. As such AsureQuality is one of only 11 accredited TPCs in the world. This was a great example of the 'one team' approach with documentation of procedures (both laboratory and field) required to meet the accreditation requirements of CARB, and the establishment of a chamber testing facility at the Auckland Laboratory.

The Field Services auditing team established and rolled out an integrated audit programme combining the UK and European

retailers' Good Agricultural Practice programme (GLOBALGAP) together with the customer specific requirements of the Tesco Nature's Choice programme. This enabled both standards to be audited at the one customer visit, resulting in improved operational efficiencies and minimal disruption to customer operations.

We experienced notable growth in auditing against the carbonZero Standard, established by Crown Research Institute Landcare Research. Customers working with AsureQuality under the programme have increased from four to 13 and AsureQuality is now recognised as an auditor against the Standard.

Field Services worked with MAF BNZ and the various industry sectors (forestry, horticulture, seeds) impacted by the introduction of new MAF BNZ Standards for obtaining MAF export phytosanitary certification. This joint approach saw the transition of some 500 organisations into a new audit and inspection regimen in early 2008.

### **ON-FARM SERVICES**

The area of greatest interaction between the two merged companies in the first year of

establishment was within On-Farm Services, where ASURE and AgriQuality had both previously had a significant stake in Tb testing and other services provided to the Animal Health Board (AHB). A highlight is the successful merger of the two teams into one customer-focused unit, which is now working closely with the AHB to deliver the services they require to achieve their objectives for managing and implementing the National Pest Management Strategy for Bovine Tuberculosis in New Zealand.

### **VETERINARY SERVICES**

The Veterinary Services team has continued to supply technical expertise to the Animal Health Board via the District Disease Control Manager contracts, as well as specialist services to importers and exporters of live animals and germplasm in New Zealand. During the 2007/08 year this team has focused on developing herd health programmes for a major corporate farming organisation, this work also provides work for On-Farm Services Field Technicians.

This team also provides significant assistance to Biosecurity Services for the delivery of its contracted

activities. Other areas of work include research, specialist auditing and training.

## LABORATORIES AND DIAGNOSTICS

Comprises food testing for pathogens, toxins, nutritional information and residues, routine and specialist chemical analyses, environmental characterisation, monitoring and investigations, industrial problem solving, product and food safety, projects and research, manufacture and distribution of animal health diagnostic products for domestic and international markets, and international audit, inspection, verification, and certification services.

|               | 2008           |
|---------------|----------------|
| Total revenue | \$48.5 million |
| Staff FTE     | 384            |

### LABORATORY SERVICES

Earlier in the year, the New Zealand Laboratory Services team was successful in retaining the Fonterra Laboratory testing contract, which had been put out to national tender. This is one of the larger contracts we hold and continues seven years of working with Fonterra.

With well over a million tests being conducted now at AsureQuality's Auckland Laboratory, a key area of growth included customers requiring testing in compliance with the requirements of Good Manufacturing Practices. A major customer in this sector is Wyeth Nutritionals, the nutritional product manufacturing arm of Wyeth Pharmaceuticals and a leader in the development of premium infant nutritional products worldwide.

With manufacturing plants located worldwide, Wyeth outsources

a significant amount of quality assurance testing including stability testing and routine product release testing.

Earlier this year, Wyeth signed a Quality Agreement with AsureQuality which enables AsureQuality to provide routine product release testing, stability testing and contaminants testing for its global manufacturing sites. The Quality Agreement defines the minimum practices, processes and standards to be used for the testing of nutritional products, to assure that they meet the applicable regulatory requirements relating to safety, identity, strength, quality, and purity appropriate for their intended use.

To meet the stringent qualifying standards imposed by Wyeth, the Auckland Laboratory completed equivalency testing for over 50 sample types of interest, and set up stability chambers operating at pre-defined temperatures and relative humidity to underpin its product stability requirements. This agreement has allowed Wyeth Nutritionals to become one of Auckland Laboratory's fastest growing customers over the past 12 months.

The GlaxoSmithKline relaunch of the Ribena range of beverages provided AsureQuality with a good opportunity to demonstrate the "independent and impartial" work we do for New Zealand consumers, and reinforce our position as an authoritative quality assurance organisation for New Zealand. Being chosen to confirm the vitamin C levels in Ribena products is testament to the confidence this key customer has in our ability to provide accurate results.

The Wellington Laboratory relies

heavily on project work from around the world and has been successful in securing a number of contracts this year to maintain a steady turnover. This includes Saudi Arabia's largest dairy company, Almarai, for whom we began a review of their business systems and compliance framework. We were also awarded the "Epidemiology Supplier Award for 2008" by the Dow Chemical Company, based in Michigan, USA, for our dioxin testing work.

In keeping with our commitment to invest in technology and methodology that sets a global benchmark, significant expenditure has gone on new instrumentation for the Wellington Laboratory dioxin testing team, and for another Mass Spectrometer instrument to assist with the increase in volumes.

The recent melamine contamination, originating in China, soon became a worldwide concern, and has presented the Wellington Laboratory with an opportunity to demonstrate AsureQuality's world-class technical expertise in responding rapidly to emergent contaminant issues in the food and environmental sectors. At the height of the issue we worked closely alongside the New Zealand Food Safety Authority (NZFSA) and many customers, both internationally and locally, to provide comprehensive test results, often with turn around times of less than 12 hours.

We were in the unique position of being identified as one of the first working laboratories in Australasia with the methodology to provide this capability, and the first to offer low level testing capability in New Zealand, utilising our state-of-the-art fleet of tandem mass spectroscopy instruments.

At the time of writing this report we had conducted in excess of 2,500 tests. As regulatory authorities in many countries around the world have yet to resolve the issue of melamine in food, we continue to support the needs of our customers to ensure market access for their products, and we expect testing and reporting of the findings to continue in the foreseeable future.

### **ANIMAL HEALTH DIAGNOSTICS**

Following the opening in Melbourne approximately 18 months ago of a purpose-built state-of-the-art manufacturing facility for Enzyme-Linked Immuno Sorbent Assay kits and test reagents, AsureQuality's Animal Health Diagnostics business has continued to grow strongly. Production levels at the Melbourne facility have increased and the manufacture of a new kit for the diagnosis of tuberculosis in primates was undertaken.

In February 2008, the Australian Pesticides and Veterinary Medicines Authority licenced the Melbourne facility for the bottling of Tuberculin. Bulk formulated Observe Tuberculin manufactured at AsureQuality's tuberculin facility in Upper Hutt is now bottled in Melbourne for use in New Zealand as well as for export. Combining the use of both the New Zealand and Australian facilities has brought greater strength to this division and ensured efficient use of resource.

Through the distribution of veterinary diagnostics and in association with its European partner Prionics, AsureQuality has a focus on providing diagnostic solutions. Products from both companies are now widely used in Australia and New Zealand for the diagnosis of both exotic and

endemic diseases. Prionics is the world's second largest supplier of veterinary diagnostics and has led the development of accurate tests for BSE, FMD, tuberculosis and other diseases that pose significant production or zoonotic risks.

### **NATIONAL ANIMAL IDENTIFICATION AND TRACEABILITY (NAIT)**

In the 2008 Budget, the New Zealand Government announced its commitment to assist the livestock industry establish an animal tracing system. The scope of this system has been developed by NAIT. A key component is a farms database (titled FarmsOnline) and AsureQuality is working closely with MAF to evaluate the future use of AgriBase™, our current farms information system.

### **SUPPORT SERVICES**

The two operating groups are supported by a group of centralised business support services comprising Finance, Procurement, Information and Communications Technology, Certification and Quality Assurance, Strategy, Human Resources, and Marketing.

The past year has seen Support Services focus on cost control, centralisation and systems alignment and in increasing their visibility and link to the operational groups. These strategies will continue to be developed into the new financial year.

### **OTHER ACTIVITIES**

#### **INTEGRATION ACTIVITIES**

During the first year of operation as a new entity, a review of business processes was conducted to capture best practice across the organisation. A consolidation of

properties has also taken place, which involved some significant office relocations and the amalgamation of sites wherever possible.

### **EMPLOYEE HEALTH & SAFETY**

AsureQuality is now at Tertiary Level in the ACC Partnership programme. This demonstrates our commitment to the health and safety of our staff and in particular our health and safety systems and processes, which are now successfully merged across the Company. Further evidence of this was in the recent Westpac Manukau Business Excellence Awards, where we were a finalist in the ACC Workplace Safety category.

### **INTERNATIONAL ACCREDITATIONS EXPANDED**

Our list of accreditations provides our customers with a consistent and credible pathway for formal recognition of their products. This year AsureQuality maintained and expanded its international accreditations, with the addition of the following standards over and above those already accredited:

- › ISO/IEC 17021 for Management Systems Certification
- › MAF Biosecurity New Zealand accreditation as an Independent Verification Agency for Import and Plant Export Certification
- › Accreditation for product certification for SQF 1000 & 2000
- › Additional Farm Assurance Schemes under ISO Guide 65
- › Approval for verification of the NZFSA's Wine Standard Management Plans
- › Accreditation as third party certifier for Californian Air Resources Board.



### STAFF EMPOWERMENT

While the early focus for staff communications was on providing clear, timely information regarding the merger process and to ensure continuity of 'business as usual', the emphasis has now shifted to engendering a sense of a shared AsureQuality culture across the organisation.

A range of communication activities has been implemented, with a particular emphasis on the Company values of customer responsiveness, operational excellence, leadership, staff wellbeing, integrity and a one team approach. These, coupled with senior management's commitment to information sharing and cross-skilling, are facilitating the integration of staff from two previously very different and geographically spread organisations.

The theme will continue with an increased emphasis on sharing longer-term strategy with staff to enable them to identify a clear link between their individual roles and broader organisational objectives.

### EXCELLENCE AWARDS

As a company, we live by six core values that embody our attitudes and behaviours.

*These values are the benchmark by which we seek to improve our day-to-day performance.*

The winners of this year's AsureQuality Excellence Awards represent those among us who have excelled in living these values.

- > **Customer Responsiveness**  
David Quinn
- > **Operational Excellence**  
Andrew Lynes
- > **Leadership**  
Mandy Carton
- > **Staff Wellbeing**  
James Imlach
- > **Integrity**  
Ira Stapp
- > **One Team**  
Pat Vyas, Chris Davis, Allen Fraser



# VISION & VALUES



As a company we live by six core values that embody the attitudes and behaviours that drive our people. These values are the benchmark by which we monitor and seek to improve our day-to-day performance.

## 01.

### CUSTOMER RESPONSIVENESS

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.

## 02.

### OPERATIONAL EXCELLENCE

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

## 03.

### LEADERSHIP

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

## 04.

### STAFF WELLBEING

We are what our 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.

## 05.

### INTEGRITY

Independence and objectivity are vital in everything we do. We demonstrate respect for our staff and our customers and behave ethically in all our business and financial activities. Integrity defines who we are individually as people and underpins all our other values.

## 06.

### 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 working together to provide an unmatched capability to our customers.

We must be committed to our individual teams as well as providing support to all other teams across the business.



## ASUREQUALITY VISION

We are committed to being the leading provider of professional and independent assurance and biosecurity services that add value for our customers.

# BOARD OF DIRECTORS



## John Spencer - Chairman

A Fellow of the New Zealand Institute of Chartered Accountants and an independent professional director, John Spencer initially chaired the Establishment Committee of AsureQuality in 2007. Mr Spencer is the former CEO of NZ Dairy Group prior to the formation of Fonterra, and has vast experience in the primary sector.

## Sam Robinson

Sam Robinson is a former Chairman of Richmond Ltd, farmer and experienced director. Mr Robinson brings a particular knowledge of the food and beverage sector to the AsureQuality Board. Mr Robinson served as a Director on the AgriQuality Board.

## Sarah Herrod

A Chartered Accountant, Sarah Herrod is the current CFO of OfficeMax New Zealand Limited. She has significant experience in financial and commercial roles including 10 years with British Petroleum Plc.

## Richard Janes - Deputy Chair

Richard Janes was Chairman of ASURE (New Zealand) Limited prior to its merger with AgriQuality to form AsureQuality. He is a professional company director with extensive experience in the primary sector and export-focused companies. Dr Janes has more than 25 years' experience in international brand marketing.

## Grant Gillon

Grant Gillon's diverse experience includes being a former MP, having served on the Primary Production Select Committee, and a dairy farmer. Dr Gillon is a North Shore City Councillor and Chair of the City's Strategy and Finance Committee as well as a member of the Birkenhead-Northcote Community Board and Birkenhead Licensing Trust.

## Garry Wilson

Garry Wilson is a director of a number of charitable, government and private organisations. He was previously CEO of the Accident Compensation Corporation (ACC) for eight years and prior to that Chief Executive at the Northern Regional Health Authority.

## Rakihia Tau

Rakihia Tau was Chairman of AgriQuality's Board prior to its merger with ASURE (New Zealand) Ltd. Before that he worked for Ngai Tahu Holdings Corporation and its subsidiaries. He has held various roles as a director or executive within the property, tourism, general engineering and investment sectors. Mr Tau has worked for both listed and privately held companies.

## Joanna Perry

Joanna Perry is an independent professional director and Fellow of the New Zealand Institute of Chartered Accountants. She was a KPMG New Zealand partner for 17 years until March 2006 and a member of the Securities Commission for 11 years until April 2008. Joanna is recognised as one of New Zealand's leading authorities on accounting standards.

Other current appointments for each Director are shown in the statutory declaration information section on pages 67-69.



*Back L-R: Grant Gillon, Joanna Perry, Garry Wilson, Rakihia Tau, Sam Robinson  
Front L-R: Sarah Herrod, John Spencer, Richard Janes*

# CORPORATE GOVERNANCE STATEMENT



The Board of Directors is responsible for corporate governance. Corporate governance includes the direction of the Company, accountability of the Board to shareholders for the Company's performance, and compliance with laws and regulations. The following is an overview of the main corporate governance practices, which ensure effective management and statutory obligations and best practice are met.

## SHAREHOLDER RELATIONSHIP

On 1 October 2007, AgriQuality Limited amalgamated with ASURE (New Zealand) Limited, and AgriQuality Limited simultaneously changed its name to AsureQuality Limited.

AsureQuality is a limited liability company and a State-Owned Enterprise with its shares held by two ministers on behalf of the Crown, the Minister for State-Owned Enterprises and the Minister of Finance.

Under the State-Owned Enterprises Act 1986, the principal objective of a State-Owned Enterprise is to operate as a successful business, which is:

- › As profitable and efficient as comparable businesses not owned by the Crown
- › A good employer
- › An organisation which exhibits a sense of social responsibility having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

AsureQuality is required to provide its shareholders with an annual business plan, annual budget, a statement of corporate intent, long range plan and quarterly reports on performance relative to the objectives set out in the business plan and statement of corporate intent. The unaudited half-year financial statements, audited year-end financial statements and statement of corporate intent are tabled in Parliament.

## THE ROLE OF THE BOARD OF DIRECTORS

The Directors are responsible for the governance, management and proper direction and control of the activities of AsureQuality and its subsidiaries. The Board of Directors' principal responsibilities include:

- › Ensuring that the Company goals are clearly established and that the strategies are in place for achieving them (such strategies being expected to originate from management in the first instance)
- › Establishing policies for strengthening the performance of the Company including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital
- › Monitoring the performance of management
- › Appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the Company

- › Deciding on whatever steps are necessary to protect the Company's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring the following steps are taken:
  - Ensuring that the Company's financial statements are true and fair and otherwise conform with law
  - Ensuring that the Company adheres to high standards of ethics and corporate behaviour; and Corporate Social Responsibility
  - Ensuring that the Company has appropriate risk management and regulatory compliance policies in place.

The orderly conduct and control of the business depends on effective and responsible delegation of authority. The Board has a formal delegation of authority policy establishing authority to the Chief Executive Officer and management. This policy establishes parameters and limits within which management can commit AsureQuality to a transaction or approve spending. These limits are reviewed periodically.

## **APPOINTMENT OF DIRECTORS AND COMPOSITION OF BOARD**

AsureQuality's constitution sets out policies and procedures for the operation of the Board, including the appointment and removal of Directors. Directors are appointed by the shareholding Ministers, the Minister of Finance and the Minister for SOEs. Under the constitution Directors may be appointed for a fixed term not exceeding three years and shareholding Ministers may choose to review any such appointments for a further fixed term. The Ministers also appoint the Chair and Deputy Chair. All Directors are non-executive independent Directors.

On 1 October 2007, the Shareholding Ministers appointed John Spencer as Chair, Richard Janes as Deputy Chair, Rakihia Tau, and Sam Robinson, as Directors of AsureQuality Limited.

Further Directors were appointed on 1 November 2007, being; Grant Gillon, Sarah Herrod, Joanna Perry and Garry Wilson.

The Chair of the Board's role is to manage the Board effectively, to provide leadership to the Board and

to interface with the Chief Executive Officer.

## **BOARD COMMITTEES**

The Board of Directors has two formally constituted committees. The Board reviews the membership and terms of reference for the committees regularly.

## **AUDIT, RISK AND COMPLIANCE COMMITTEE**

The Audit, Risk and Compliance Committee has authority to recommend to the Board and met six times in the year ended 30 September 2008. The objective of the Committee is to recommend the principles and standards with respect to internal controls, accounting policies, risk management and the nature, scope, objectives and functions of internal and external audit. The Committee will assist the Board in producing accurate financial statements in compliance with the appropriate legal requirements and accounting standards. The Audit Risk and Compliance Committee is responsible for overseeing the financial, accounting and audit, risk and compliance activities of AsureQuality. This includes reviewing

|               | Appointment Date | Board Attendance | Audit Committee | Remuneration Committee |
|---------------|------------------|------------------|-----------------|------------------------|
| John Spencer  | 1 October 2007   | 13               |                 | 2                      |
| Richard Janes | 1 October 2007   | 12               |                 | 2                      |
| Rakihia Tau   | 19 November 2001 | 12               |                 |                        |
| Sam Robinson  | 1 May 2006       | 12               | 5               |                        |
| Grant Gillon  | 1 November 2007  | 11               |                 |                        |
| Sarah Herrod  | 1 November 2007  | 11               | 6               |                        |
| Joanna Perry  | 1 November 2007  | 11               | 6               |                        |
| Garry Wilson  | 1 November 2007  | 12               |                 | 2                      |

the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the financial statements, making recommendations on financial and accounting policies, determining the nature, scope, objectives and functions of internal audit and approving, monitoring policies and programmes to identify areas of significant business risk and procedures to manage those risks and reviewing policies in relation to maintaining the impartiality of AsureQuality's certification activities. From 1 November 2007 the Committee members comprised Joanna Perry (Chair), Sarah Herrod and Sam Robinson. The Chair of the Committee is required to be a Chartered Accountant and not the Chair of the Board.

#### REMUNERATION COMMITTEE

The Remuneration Committee met twice in the year ended 30 September 2008. The objective of the Committee is to, where required, assist the Board on remuneration and performance management policies and procedures relating to the Chief Executive Officer ("CEO") and senior management, and their implementation. From 1 November 2007 this committee comprised the AsureQuality Board Chair, Deputy Chair and Director Garry Wilson.

#### BOARD MEETINGS

The Chair with the assistance of the Chief Executive Officer established the agenda for each Board meeting to ensure proper coverage of key issues. Each Director was able to request items for the agenda.

The Directors received comprehensive information on AsureQuality's operations before each meeting and had unrestricted access to any other information. The Chief Executive Officer and Chief Financial Officer attended each meeting to answer questions and to assist the Directors in their understanding of the issues facing AsureQuality and the performance of the business. The Board and its committees also met in confidential sessions without senior management present. These sessions dealt with management performance and remuneration issues, Director performance process and discussions with the external auditors to promote a robust independent audit process.

For the year ended 30 September 2008, the Board met for 12 scheduled Board meetings and one additional meeting. Details of attendance at Board and Committee meetings are set out in the table above.

#### DIRECTORS' REMUNERATION

Each year shareholding Ministers advise the Board of Directors of the total amount of fees which may be allocated to Directors of AsureQuality. The allocation of those fees in respect of the year ended 30 September 2008 is included in the statutory disclosure information.

#### REVIEW OF DIRECTORS' PERFORMANCE

The Board of Directors conducts a self evaluation process of its performance on an annual basis. The purpose of the evaluation is to improve the performance of the Board. The evaluation process includes a review of the chairman and individual Directors as well as the Board as a group.

#### RISK MANAGEMENT

The Board is in the process of developing a rigorous process for risk management and internal control. AsureQuality will develop a comprehensive risk management framework which will be reviewed for approval by the Board on an annual basis. The Company's management actively participates in the identification, assessment, and monitoring of new and existing risks. Particular attention will be given to the market risks that could impact on AsureQuality Limited.

## AUDIT

In accordance with Section 29 of the Public Finance Act 1989, the Auditor General is required to express an opinion on the Group's financial statements. Pursuant to Section 15 of the Public Audit Act 2001 the Auditor General has appointed Jonathan Freeman of PricewaterhouseCoopers to undertake this audit on his behalf. The Audit Report is set out in the Financial Statements. The Board of Directors have adopted a strict policy to maintain the independence of the external auditor with their work limited to external audit assurance services only.

AsureQuality has established an outsourced internal audit function that will be responsible for monitoring the Company's internal control systems and risk management and the integrity of the financial information reported to the Board. The Company appointed Ernst & Young as its internal auditor from 21st August 2008.

Both the internal auditor and the external auditor have unrestricted access to the Audit, Risk and Compliance Committee and to the Board.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Board recognises that AsureQuality has obligations under the State-Owned Enterprises Act to be a good employer and to exhibit a sense of social responsibility by having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage these when able to do so.

AsureQuality aims to progress its plans for growth while having an appropriate conscience about the Company's impact on the environment, and people that it interacts with. AsureQuality thinks of its CSR as being about people and the industries the Company works with having the resources and opportunities to enjoy a sustainable future. AsureQuality is committed to operating at the high end of the continuum of social responsibility practice. This means conducting business in a responsible fashion, including operating with a high level of business ethics.

AsureQuality's CSR philosophies 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.

AsureQuality's approach to corporate social responsibility focuses on three broad strategic objectives:

- › Reducing the Company's environmental impact
- › Being a good employer
- › Encouraging social and community involvement and support.

AsureQuality has identified a number of specific programmes and initiatives aimed at contributing to achievement of these objectives. For example: reducing the Company's carbon footprint, use of hybrid cars in the Company's corporate vehicle fleet, supporting staff who suffer hardship, and establishing a staff volunteer programme.

## CONFLICTS OF INTEREST

The Board has adopted a policy that prohibits any Director providing services, in any capacity, to the Company except with the prior approval of shareholding Ministers. All Directors are required to disclose any conflicts of interest or if they have an interest in any transaction in which case they will generally not be entitled to partake in the discussion or to vote in relation to the transaction. To facilitate the disclosure of interests and identification of any actual or perceived conflicts of interests, the Company's Disclosure of Interests Register is tabled and reviewed at the beginning of each Board meeting.

## ETHICAL BEHAVIOUR

The Board has adopted a number of policies to provide guidance to Directors, management and staff as to the expected standard of behaviour in conducting the business of the Company. These include policies covering drug and alcohol abuse, conflicts of interest, disclosure of information, personal and entertainment expenses for both Directors and staff, the treatment of fraudulent actions, protected disclosures, harassment, privacy, unsolicited electronic messages and the receipt of gifts.

# EXECUTIVE TEAM



**Tony Egan - Chief Executive Officer**

Joined AgriQuality in 2007 from a background in the meat industry. Tony was the former CEO of AFFCO and has vast experience in the primary sector.



**Kelvan Smith - Group Manager - Operations**

Joined AsureQuality in 2007 when the Company was established. Kelvan was the former CEO of ASURE (New Zealand) Limited and has held numerous roles within the meat industry.



**Udit Singh - Group Manager - Laboratories and Diagnostics**

Joined AgriQuality in 1999, and previously held positions in the dairy and distribution sectors as well as chartered accountancy.



**Alan Bird - Chief Financial Officer**

Joined AsureQuality in August 2008 with experience in both the dairy industry and public sector organisations.



**Dr Chris Carter - Chief Technical Officer**

Joined AgriQuality in 1998 following a wide-ranging veterinary career with MAF and in the private sector. Chris has extensive experience with biosecurity programmes, livestock traceability and veterinary diagnostics.



**Jonathan Sandbrook - Strategy Manager**

Joined AgriQuality in 2004, and has business analysis and policy development experience from previous roles in both public and private sector organisations.

# FINANCIALS

## REPORTING

This report includes the first full set of financial statements subsequent to the amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited. The amalgamation was accounted for by using the book values of ASURE, restated under New Zealand Equivalents to Financial Reporting Standards, from 1 October 2007, being the date of the amalgamation. Under the amalgamation process AgriQuality Limited was the surviving legal entity (which changed its name to AsureQuality Limited) and therefore the comparatives are those of AgriQuality Limited.

This report also includes the first full set of financial statements based on New Zealand Equivalents to International Financial Reporting Standards. To ensure earlier results provide relevant comparisons, these have been restated under New Zealand International Financial Reporting Standards, and as noted above are for AgriQuality Limited. The impact of the restatement is included in note 28 of the financial statements.

The comparative figures in the financial statements are for the 15 months to 30 September 2007 for AgriQuality Limited, being the legal entity that existed before the formation of AsureQuality Limited. The comparatives on page 7 reflect the combined total of AgriQuality Limited and ASURE (New Zealand) Limited for the 12 months ended 30 September 2007.

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## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

|  | Note | CONSOLIDATED                             |  | PARENT                                   |  |
|--|------|--|--|--|--|
|  |      | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 |
| <b>Continuing operations</b>                                 |      |  |  |  |  |
| Revenue  | 1    | 134,075                                  | 94,149                                   | 126,667                                  | 89,137                                   |
| Cost of sales  | 2    | (90,591)                                 | (55,908)                                 | (86,229)                                 | (52,037)                                 |
| Gross profit   |      | 43,484                                   | 38,241                                   | 40,438                                   | 37,100                                   |
| Administration expenses                                      | 2    | (15,710)                                 | (15,390)                                 | (15,268)                                 | (13,998)                                 |
| Sales and marketing  | 2    | (331)                                    | (954)                                    | (458)                                    | (1,858)                                  |
| Other expenses   | 2    | (18,609)                                 | (18,817)                                 | (16,584)                                 | (23,940)                                 |
| <b>Operating profit (loss)</b>                               |      | <b>8,834</b>                             | <b>3,080</b>                             | <b>8,128</b>                             | <b>(2,696)</b>                           |
| Foreign exchange gains                                       |      | 71                                       | 12                                       | 74                                       | 29                                       |
| Finance income   | 3    | 487                                      | 23                                       | 487                                      | 22                                       |
| Finance costs  | 3    | (1,380)                                  | (2,246)                                  | (1,200)                                  | (2,014)                                  |
| <b>Profit (loss) before income tax</b>                       |      | <b>8,012</b>                             | <b>869</b>                               | <b>7,489</b>                             | <b>(4,659)</b>                           |
| Income tax expense   | 4    | (2,288)                                  | (1,573)                                  | (2,631)                                  | (815)                                    |
| <b>Profit (loss) for the year from continuing operations</b> |      | <b>5,724</b>                             | <b>(704)</b>                             | <b>4,858</b>                             | <b>(5,474)</b>                           |
| <b>Discontinued operations</b>                               |      |  |  |  |  |
| (Loss) for the year from discontinued operations             | 5    | (711)                                    | (3,005)                                  | -  | (1,181)                                  |
| <b>Profit (loss) for the year</b>                            |      | <b>5,013</b>                             | <b>(3,709)</b>                           | <b>4,858</b>                             | <b>(6,655)</b>                           |

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.  
The accompanying notes and accounting policies form part of these financial statements

## STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

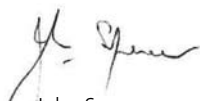
|  | Note  | CONSOLIDATED                             |  | PARENT                                   |  |
|--|-------|--|--|--|--|
|  |       | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 |
| Revaluation of land and buildings                              | 20    | -  | 1,546                                    | -  | 1,546                                    |
| Currency translation differences                               | 20    | 400                                      | (554)                                    | -  | -  |
| Income tax on income and expense recognised directly in equity | 4, 20 | -  | (165)                                    | -  | (165)                                    |
| <b>Net income recognised directly in equity</b>                |       | <b>400</b>                               | <b>827</b>                               | <b>-</b>                                 | <b>1,381</b>                             |
|  |       |  |  |  |  |
| Profit / (loss) for the year                                   |       | 5,013                                    | (3,709)                                  | 4,858                                    | (6,655)                                  |
|  |       |  |  |  |  |
| <b>Total recognised income and expense for the year</b>        |       | <b>5,413</b>                             | <b>(2,882)</b>                           | <b>4,858</b>                             | <b>(5,274)</b>                           |

*The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.  
The accompanying notes and accounting policies form part of these financial statements*

## BALANCE SHEET AS AT 30 SEPTEMBER 2008

|                                      | Note | CONSOLIDATED                  |                               | PARENT                        |                               |
|--------------------------------------|------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                      |      | As at 30<br>Sep 2008<br>\$000 | As at 30<br>Sep 2007<br>\$000 | As at 30<br>Sep 2008<br>\$000 | As at 30<br>Sep 2007<br>\$000 |
| <b>Assets</b>                        |      |                               |                               |                               |                               |
| <b>Current assets</b>                |      |                               |                               |                               |                               |
| Cash and cash equivalents            | 6    | 6,009                         | 1,202                         | 4,699                         | 1,097                         |
| Trade and other receivables          | 7    | 13,756                        | 10,599                        | 12,124                        | 8,007                         |
| Inventories                          | 8    | 3,737                         | 3,983                         | 2,543                         | 2,703                         |
| Work in progress                     | 9    | 1,400                         | 650                           | 1,335                         | 600                           |
| Current income tax asset             |      | -                             | 444                           | 3                             | 444                           |
| <b>Total current assets</b>          |      | <b>24,902</b>                 | <b>16,878</b>                 | <b>20,704</b>                 | <b>12,851</b>                 |
| <b>Non-current assets</b>            |      |                               |                               |                               |                               |
| Property, plant and equipment        | 10   | 26,435                        | 32,231                        | 23,372                        | 24,119                        |
| Intangible assets                    | 11   | 1,011                         | 1,004                         | 921                           | 903                           |
| Investment in subsidiary             | 12   | -                             | -                             | 600                           | 600                           |
| Loan to subsidiary                   | 13   | -                             | -                             | 7,904                         | 8,779                         |
| Investment                           | 14   | 5,844                         | -                             | 2,922                         | -                             |
| Deferred income tax asset            | 15   | 2,837                         | -                             | 1,819                         | -                             |
| <b>Total non-current assets</b>      |      | <b>36,127</b>                 | <b>33,235</b>                 | <b>37,538</b>                 | <b>34,401</b>                 |
| <b>Total assets</b>                  |      | <b>61,029</b>                 | <b>50,113</b>                 | <b>58,242</b>                 | <b>47,252</b>                 |
| <b>Liabilities</b>                   |      |                               |                               |                               |                               |
| <b>Current liabilities</b>           |      |                               |                               |                               |                               |
| Trade and other payables             | 16   | 7,079                         | 4,684                         | 6,584                         | 3,898                         |
| Borrowings                           | 17   | 2,852                         | 2,542                         | 2,377                         | 2,082                         |
| Provision for employee entitlements  | 19   | 5,381                         | 2,487                         | 5,273                         | 2,186                         |
| Current income tax liability         |      | 350                           | -                             | -                             | -                             |
| Deferred income                      | 18   | 3,668                         | 232                           | 3,668                         | 164                           |
| <b>Total current liabilities</b>     |      | <b>19,330</b>                 | <b>9,945</b>                  | <b>17,902</b>                 | <b>8,330</b>                  |
| <b>Non-current liabilities</b>       |      |                               |                               |                               |                               |
| Borrowings                           | 17   | 7,100                         | 20,137                        | 6,402                         | 19,002                        |
| Provision for employee entitlements  | 19   | 4,034                         | 409                           | 3,929                         | 299                           |
| Deferred income tax liability        | 15   | -                             | 474                           | -                             | 474                           |
| <b>Total non-current liabilities</b> |      | <b>11,134</b>                 | <b>21,020</b>                 | <b>10,331</b>                 | <b>19,775</b>                 |
| <b>Equity</b>                        |      |                               |                               |                               |                               |
| Share capital                        | 20   | 22,100                        | 11,900                        | 22,100                        | 11,900                        |
| Reserves                             | 20   | 6,709                         | 6,309                         | 6,128                         | 6,128                         |
| Retained earnings                    | 20   | 1,756                         | 939                           | 1,781                         | 1,119                         |
| <b>Total equity</b>                  |      | <b>30,565</b>                 | <b>19,148</b>                 | <b>30,009</b>                 | <b>19,147</b>                 |
| <b>Total liabilities and equity</b>  |      | <b>61,029</b>                 | <b>50,113</b>                 | <b>58,242</b>                 | <b>47,252</b>                 |

The Board of Directors of AsureQuality Limited authorised these financial statements for issue on 8 December 2008.

  
John Spencer  
Chair

  
Joanna Perry  
Chair Audit, Risk and Compliance Committee

*The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.  
The accompanying notes and accounting policies form part of these financial statements*

## CASH FLOW STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

|   | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|---|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>Cash flows from operating activities</b>                   |      |                                    |                                    |                                    |                                    |
| Receipts from customers                                       |      | 135,246                            | 104,021                            | 124,200                            | 92,069                             |
| Rent received   |      | 138                                | 157                                | 138                                | 157                                |
| Interest received   |      | 487                                | 23                                 | 487                                | 22                                 |
| Payments to suppliers and employees                           |      | (125,182)                          | (98,612)                           | (113,462)                          | (81,953)                           |
| Interest paid   |      | (1,386)                            | (2,242)                            | (1,220)                            | (2,014)                            |
| Income tax received (paid)                                    |      | (3,228)                            | 452                                | (3,215)                            | 229                                |
| <b>Net cash generated from operating activities</b>           | 21   | <b>6,075</b>                       | <b>3,799</b>                       | <b>6,928</b>                       | <b>8,510</b>                       |
| <b>Cash flows from investing activities</b>                   |      |                                    |                                    |                                    |                                    |
| Proceeds from sale of property, plant and equipment           |      | -                                  | 6                                  | 2                                  | -                                  |
| Proceeds from sale of Melbourne Food Laboratory               |      | 734                                | -                                  | -                                  | -                                  |
| Purchase of property, plant and equipment                     |      | (2,849)                            | (5,571)                            | (2,532)                            | (2,121)                            |
| Proceeds from sale of intangibles                             |      | 2                                  | -                                  | -                                  | -                                  |
| Purchase of intangibles                                       |      | (141)                              | (711)                              | (126)                              | (617)                              |
| Purchase of associate   |      | -                                  | (1,000)                            | -                                  | (1,000)                            |
| Advance of associate loan                                     |      | -                                  | (270)                              | -                                  | (270)                              |
| Loan to subsidiary  |      | -                                  | -                                  | (2,047)                            | (8,217)                            |
| <b>Net cash used in investing activities</b>                  |      | <b>(2,254)</b>                     | <b>(7,546)</b>                     | <b>(4,703)</b>                     | <b>(12,225)</b>                    |
| <b>Cash flows from financing activities</b>                   |      |                                    |                                    |                                    |                                    |
| Proceeds from borrowings                                      |      | 666                                | 6,664                              | (287)                              | 6,664                              |
| Repayment of borrowings                                       |      | (13,087)                           | (2,810)                            | (12,018)                           | (2,147)                            |
| Dividend paid   |      | -                                  | (425)                              | -                                  | (425)                              |
| <b>Net cash generated from (used in) financing activities</b> |      | <b>(12,421)</b>                    | <b>3,429</b>                       | <b>(12,305)</b>                    | <b>4,092</b>                       |
| <b>Net increase/(decrease in cash)</b>                        |      | <b>(8,600)</b>                     | <b>(318)</b>                       | <b>(10,080)</b>                    | <b>377</b>                         |
| Cash and cash equivalents at beginning of year                |      | 1,202                              | 1,528                              | 1,097                              | 731                                |
| Net Cash acquired on amalgamation                             | 29   | 13,710                             | -                                  | 13,710                             | -                                  |
| Exchange (losses) on cash balances                            |      | (303)                              | (8)                                | (28)                               | (11)                               |
| <b>Cash and cash equivalents at the end of year</b>           |      | <b>6,009</b>                       | <b>1,202</b>                       | <b>4,699</b>                       | <b>1,097</b>                       |

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.  
The accompanying notes and accounting policies form part of these financial statements

## STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 SEPTEMBER 2008

### 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.

The comparative figures in the financial statements are for the 15 months to 30 September 2007 for AgriQuality Limited, being the legal entity that existed before the formation of AsureQuality Limited. The amalgamation is discussed below and in Note 29.

### STATEMENT OF COMPLIANCE

These financial statements, including the consolidation of its subsidiary 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-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 8 December 2008.

### 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.

The Group changed its accounting policies on 1 July 2006 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' with 1 July 2006 as the date of transition. An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of the Group are provided in note 28.

### 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.

*Retirement leave and long service leave.* As explained in note 19 the liability is based on an actuarial valuation. This requires the use of assumptions and estimates by the actuary. If the actual valuation changed by 1% the liability and expense relating to this provision would have changed by approximately \$50,000. The key economic assumptions used were; discount rates of 6.69% to 5.96% and a salary increase rate of 2.75%.

*Fair value of investment in Dairy Technical Services Ltd.* The fair value is based on the value of recent transactions which the Directors believe is a close approximation to fair value as at 30 September 2008. If the value changed by 1% the asset relating to this investment would be changed by approximately \$584,400.

The key judgement that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities is:

*Income taxes.* Deferred tax has been recognised in relation to the Group's tax losses with the Australian taxation jurisdiction. The Directors have made a judgement on the recoverability of these losses. Refer note 15.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

### 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 recorded in the financial statements of the Parent company at cost. Where there is indication of impairment, the unrealised loss is recognised in the Income Statement.

#### *Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited*

On the 1 October 2007, under Part XIII of the Companies Act 1993, ASURE (New Zealand) Limited (ASURE) and AgriQuality Limited (AgriQuality) amalgamated, to form an amalgamated company AsureQuality Limited. AgriQuality Limited was used as the ongoing legal entity and changed its name to AsureQuality Limited on 1 October 2007.

The amalgamation of ASURE and AgriQuality has been accounted for as a business combination involving entities under common control, as both ASURE and AgriQuality were State-Owned Enterprises, with the same shareholding ministers.

The assets and liabilities of ASURE have been recognised at the carrying amounts recognised previously in the audited closing 30 September 2007 balance sheet of ASURE restated under NZ IFRS. ASURE's equity components have been added to the same components within the Group equity. No cash was paid in the transaction. An explanation of how the amalgamation has been accounted for and the NZ IFRS transition adjustments made to ASURE's audited 30 September 2007 accounts is provided in note 29.

#### *Transactions eliminated on consolidation*

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.

### 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 the income statement 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.

#### *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) Interest expense

Interest expense is accrued using the effective interest rate method. The effective interest rate 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) Property, plant and equipment

Property, plant and equipment other than land and buildings are recorded 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 recorded 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 as an expense in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in the income statement 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 & equipment*

Gains and losses arising from disposal of property, plant and equipment are recognised in the income statement 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 in the income statement as incurred.

#### *Depreciation*

Depreciation is recognised in the income statement 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                                    | 3-5 years  |
| Computer equipment                                     | 3 years  |
| Land and capital work in progress are not depreciated. |  |

## **f) 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 is amortised on a straight-line basis over 3-5 years, being the estimated useful life.

### *Goodwill*

Goodwill represents the excess of the purchase consideration over the fair value of the Group's share of the net tangible and identifiable intangible assets acquired at the time of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently recognised at cost less any impairment losses. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For the purposes of impairment testing, goodwill is allocated to cash generating units. Unless otherwise stated, the cash generating unit is synonymous with the entity acquired.

## **g) 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.

## **h) 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against 'selling and marketing costs' in the income statement.

#### **i) 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. Where there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented as Work in Progress Advanced Receipts under current liabilities.

#### **j) Inventories**

Inventories are valued 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.

#### **k) Impairment of non-financial assets**

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

#### **l) 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. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

#### **m) Payables**

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

#### **n) 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

#### **o) Contingent assets and contingent liabilities**

Contingent liabilities and contingent assets are recorded in the notes to the Financial Statements at the point at which the contingency is evident. 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.

**p) 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 balance sheet 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.

**q) 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 measured 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 measured at the present value of the estimated future cash outflows to be made by the Group 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 in the income statement as incurred.

**r) Foreign currencies***Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured 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\$ and Australia is AU\$. The consolidated financial statements are presented in NZ\$, which is the 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 the income statement 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 in the income statement on disposal of the foreign operation.

**s) Goods and services tax (GST)**

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet 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 balance sheet.

**t) 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.

All financial instruments are recognised in the balance sheet and all revenue and expenses in relation to financial instruments are recognised in the income statement.

*Financial Assets*

The Group's investment falls under the classification of available-for-sale financial assets. Available-for-sale financial assets are initially recognised at fair value, and subsequently measured at fair value. Changes, other than impairment losses and foreign exchange gains and losses are recognised directly in equity.

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 measured at amortised cost using the effective interest rate method (refer interest revenue policy). Loans and receivables issued with duration less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement.

Financial assets at fair value through profit or 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.

#### *Financial Liabilities*

Financial liabilities are classified as either financial liabilities 'at fair value through the income statement' or other financial liabilities.

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

Other financial liabilities, including borrowings, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest expense policy). Financial liabilities entered into with a duration 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 the income statement 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.

#### **u) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **v) 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.

#### **w) Cash flow statement**

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

- 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.

#### **x) Borrowings**

Borrowings are recorded 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 and loss over the period of the borrowing using the effective interest method.

#### **y) Derivatives**

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

#### **z) Discontinued Operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or of operations that has been disposed of or held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be

classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

### 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.

### EXPLANATION OF TRANSITION TO NZ IFRS

The Group's financial statements for the year ended 30 September 2008 are the first financial statements that comply with NZ IFRS. The Group has applied NZ IFRS 1 in preparing these financial statements.

The Group's transition date is 1 July 2006. The Group prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 September 2008. The Group's NZ IFRS adoption date is 1 October 2007.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of NZ IFRS. The impact of adopting NZ IFRS is described in note 28.

#### *Mandatory exceptions from retrospective application*

The Group is required to make the following mandatory exceptions from retrospective application:

- › Estimates exception  
Estimates under NZ IFRS at 1 July 2006 are consistent with estimates made for the same date under previous NZ GAAP.

### STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group and are mandatory for the Group's accounting periods beginning on or after 1 October 2008 or later periods but which the Group has not earlier adopted.

#### *Not yet adopted:*

- › Amendments to IAS 23: Borrowing Costs which are mandatory for reporting periods beginning on or after 1 January 2009 - The amendment removes the option of simply expensing borrowing costs incurred in the

construction of qualifying assets. Borrowing costs incurred in relation to assets that take a substantial period of time to get ready for intended use must be capitalised as part of the cost of the asset. There are no qualifying assets.

- › IFRS 3 Business Combinations (Revised): The Group has chosen not to early adopt amendments made in February 2008 to NZ IFRS 3: Business Combinations. The amendments are mandatory for reporting periods beginning on or after 1 July 2009. The amendments impact the measurement of minority interests in an acquisition and the acquisition of a minority interest subsequent to an acquisition, step acquisitions, contingent consideration, acquisition costs and contingent liabilities of the acquiree. The amendments are prospectively applicable and therefore will only impact business combinations that take effect after the date of adopting the new standard.
- › Amendments to IAS 1: Presentation of Financial Statements which are mandatory for reporting periods beginning on or after 1 January 2009 – The revised IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity. All non owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The amendment will have no impact on measurement of profit and loss, assets and liabilities of the Group.
- › IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14. The scope of IAS 14 did not apply to the Group, however the scope of the IFRS 8 does. Thus reporting will be adopted for the first time by the Group from 1 January 2009.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|---|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>1. Revenue</b>   |      |                                    |                                    |                                    |                                    |
| Revenue from continuing and discontinued operations consisted of the following items: |      |                                    |                                    |                                    |                                    |
| Revenue from the rendering of services  |      | 132,692                            | 98,413                             | 125,637                            | 87,650                             |
| Revenue from the sale of goods  |      | 5,246                              | 3,338                              | 886                                | 1,329                              |
|   |      | <b>137,938</b>                     | <b>101,751</b>                     | <b>126,523</b>                     | <b>88,979</b>                      |
| Rental revenue  |      | 138                                | 157                                | 138                                | 157                                |
| Other income  |      | 9                                  | 1                                  | 6                                  | 1                                  |
|   |      | <b>138,085</b>                     | <b>101,909</b>                     | <b>126,667</b>                     | <b>89,137</b>                      |
| <b>Attributable to:</b>   |      |                                    |                                    |                                    |                                    |
| Continuing operations   |      | 134,075                            | 94,149                             | 126,667                            | 89,137                             |
| Discontinued operations   | 5    | 4,010                              | 7,760                              | -                                  | -                                  |
|   |      | <b>138,085</b>                     | <b>101,909</b>                     | <b>126,667</b>                     | <b>89,137</b>                      |
| <b>2. Expenses by nature</b>  |      |                                    |                                    |                                    |                                    |
| Employee benefits   |      |                                    |                                    |                                    |                                    |
| Salary and wages  |      | (84,937)                           | (50,132)                           | (80,626)                           | (45,671)                           |
| Defined contribution benefits   |      | (760)                              | (865)                              | (418)                              | (352)                              |
| Other long term employee benefits   | 19   | (434)                              | (70)                               | (361)                              | (21)                               |
| Consumables   |      | (9,792)                            | (10,464)                           | (6,766)                            | (6,938)                            |
| Transportation expenses   |      | (6,350)                            | (6,005)                            | (5,676)                            | (5,039)                            |
| Contractors and subcontractor testing   |      | (3,372)                            | (3,449)                            | (2,902)                            | (3,086)                            |
| Rental and operating lease cost   |      | (4,947)                            | (5,740)                            | (3,077)                            | (5,105)                            |
| Communication expenses  |      | (1,472)                            | (1,840)                            | (1,340)                            | (1,688)                            |
| Sales and marketing   |      | (331)                              | (954)                              | (458)                              | (1,858)                            |
| Donations   |      | (17)                               | (12)                               | (16)                               | (12)                               |
| Auditor's remuneration - audit fees   |      | (95)                               | (139)                              | (85)                               | (74)                               |
| Amortisation of software  |      | (470)                              | (606)                              | (445)                              | (589)                              |
| Depreciation  | 10   | (4,402)                            | (5,263)                            | (3,585)                            | (4,005)                            |
| Increase / (diminution) of subsidiary loan  |      | -                                  | -                                  | -                                  | (6,699)                            |
| Loss on sale of associate   |      | -                                  | (1,000)                            | -                                  | (1,000)                            |
| Write-off of associate loan   |      | -                                  | (270)                              | -                                  | (270)                              |
| Bad and doubtful debts  |      | (22)                               | (58)                               | (3)                                | (53)                               |
| Other expenses  |      | (13,354)                           | (14,569)                           | (10,063)                           | (9,374)                            |
|   |      | <b>(130,755)</b>                   | <b>(101,435)</b>                   | <b>(115,821)</b>                   | <b>(91,833)</b>                    |
| <b>Attributable to:</b>   |      |                                    |                                    |                                    |                                    |
| Continuing operations   |      | (125,241)                          | (93,094)                           | (115,821)                          | (91,833)                           |
| Discontinued operations   | 5    | (5,514)                            | (8,341)                            | -                                  | -                                  |
|   |      | <b>(130,755)</b>                   | <b>(101,435)</b>                   | <b>(115,821)</b>                   | <b>(91,833)</b>                    |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|--|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>3. Finance income and costs</b>   |      |                                    |                                    |                                    |                                    |
| Interest income on short-term bank deposits  |      | 487                                | 23                                 | 487                                | 22                                 |
| <b>Finance income</b>  |      | <b>487</b>                         | <b>23</b>                          | <b>487</b>                         | <b>22</b>                          |
| Interest expense on borrowings   |      | (1,380)                            | (2,246)                            | (1,200)                            | (2,014)                            |
| <b>Finance costs</b>   |      | <b>(1,380)</b>                     | <b>(2,246)</b>                     | <b>(1,200)</b>                     | <b>(2,014)</b>                     |
| <b>Net finance costs</b>   |      | <b>(893)</b>                       | <b>(2,223)</b>                     | <b>(713)</b>                       | <b>(1,992)</b>                     |
| <b>4. Income tax expense</b>   |      |                                    |                                    |                                    |                                    |
| Current tax  |      | 3,692                              | 659                                | 3,494                              | 683                                |
| Deferred tax   | 15   | (1,856)                            | 132                                | (863)                              | 132                                |
| <b>Income tax expense excluding tax on sale of discontinued operation</b>  |      | <b>1,837</b>                       | <b>791</b>                         | <b>2,631</b>                       | <b>815</b>                         |
| Income tax expense from continuing operations  |      | 2,288                              | 1,573                              | 2,631                              | 815                                |
| Income tax expense from discontinued operations (excl gain on sale)  |      | (451)                              | (782)                              | -                                  | -                                  |
|  |      | <b>1,837</b>                       | <b>791</b>                         | <b>2,631</b>                       | <b>815</b>                         |
| Income tax on gain on sale and associate loan write-off  |      | 146                                | (89)                               | -                                  | (89)                               |
| <b>Total income tax expense</b>  |      | <b>1,983</b>                       | <b>702</b>                         | <b>2,631</b>                       | <b>726</b>                         |
| <b>Reconciliation of income tax expense to pre-tax accounting profit</b>   |      |                                    |                                    |                                    |                                    |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: |      |                                    |                                    |                                    |                                    |
| Profit/(loss) from continuing operations   |      | 8,012                              | 869                                | 7,489                              | (4,659)                            |
| Loss from discontinued operations  | 5    | (1,016)                            | (2,606)                            | -                                  | (1,270)                            |
|  |      | <b>6,996</b>                       | <b>(1,737)</b>                     | <b>7,489</b>                       | <b>(5,929)</b>                     |
| Prima facie income tax   |      | 2,309                              | (573)                              | 2,471                              | (1,957)                            |
| Non-deductible or non-assessable items   |      | 357                                | 1,240                              | 120                                | 2,648                              |
| Utilisation of previously unrecognised tax losses  |      | (723)                              | -                                  | -                                  | -                                  |
| Impact of tax rate change  |      | (60)                               | 35                                 | (60)                               | 35                                 |
| Under provision in prior years   |      | 100                                | -                                  | 100                                | -                                  |
| <b>Total income tax expense</b>  |      | <b>1,983</b>                       | <b>702</b>                         | <b>2,631</b>                       | <b>726</b>                         |
| <b>Income tax recognised directly in equity</b>  |      |                                    |                                    |                                    |                                    |
| Income tax on income and expenses recognised directly in equity  |      | -                                  | 165                                | -                                  | 165                                |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|---|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>Imputation credits</b>   |      |                                    |                                    |                                    |                                    |
| Imputation credit at the beginning of the year  |      | 5,050                              | 5,487                              | 5,050                              | 5,487                              |
| Tax paid (refunded)   |      | 3,215                              | (228)                              | 3,215                              | (228)                              |
| Attached to dividend paid   |      | -                                  | (209)                              | -                                  | (209)                              |
| <b>Imputation credit at the end of the period</b>   |      | <b>8,265</b>                       | <b>5,050</b>                       | <b>8,265</b>                       | <b>5,050</b>                       |
| Imputation credits directly and indirectly available to shareholders as at 30th September 2008 are: |      |                                    |                                    |                                    |                                    |
| Parent  |      | 8,265                              | 5,050                              |                                    |                                    |
| Subsidiaries  |      | -                                  | -                                  |                                    |                                    |
|   |      | <b>8,265</b>                       | <b>5,050</b>                       |                                    |                                    |

### 5. Discontinued operations

#### *Sale of Melbourne Food Laboratory to Dairy Technical Services Limited*

In May 2008 the Group sold its Melbourne Food Laboratory; this was not a discontinued operation or classified as held for sale as at 30 September 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this division early in 2008 for strategic reasons.

#### *Sale of Target Pest Limited (Associate)*

In May 2007 the Group sold its investment in Target Pest Limited as sustained poor financial performance of Target Pest prevented AsureQuality's attempts to capture the benefits anticipated. The investment was written down to zero. The write-down of this investment in 2007 has been included in the results of discontinued operations below.

Losses attributable to the discontinued operations were as follows:

#### Results of discontinued operations

|  |  |                |                |   |                |
|--|--|----------------|----------------|---|----------------|
| Revenue  |  | 4,010          | 7,760          | - | -              |
| Cost of goods sold                                     |  | (3,570)        | (6,077)        | - | -              |
| Operating expenses                                     |  | (1,944)        | (2,264)        | - | -              |
| Write-down of goodwill                                 |  | -              | (2,025)        |   |                |
| <b>Results from operating activities</b>               |  | <b>(1,504)</b> | <b>(2,606)</b> | - | -              |
| Income tax expense                                     |  | 451            | 782            | - | -              |
| <b>Results from operating activities, net of tax</b>   |  | <b>(1,053)</b> | <b>(1,824)</b> | - | -              |
| Loss on sale of associate                              |  | -              | (1,000)        | - | (1,000)        |
| Write-off of associate loan                            |  | -              | (270)          | - | (270)          |
| Gain on sale of discontinued operation                 |  | 488            | -              | - | -              |
| Tax on gain on sale and associate loan write-off       |  | (146)          | 89             | - | 89             |
| <b>(Loss) for the year</b>                             |  | <b>(711)</b>   | <b>(3,005)</b> | - | <b>(1,181)</b> |
| <b>Cash flows from discontinued operations</b>         |  |                |                |   |                |
| Net cash from operating activities                     |  | 41             | (1,955)        | - | -              |
| Net cash from investing activities                     |  | 669            | (2,008)        | - | (1,270)        |
| Net cash from financing activities                     |  | -              | -              | - | -              |
| <b>Net cash from (used in) discontinued operations</b> |  | <b>710</b>     | <b>(3,963)</b> | - | <b>(1,270)</b> |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   | Note | CONSOLIDATED                             |  | PARENT                                   |  |
|---|------|--|--|--|--|
|   |      | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 |
| <b>Effect of disposal of Melbourne Food Laboratory on the financial position of the Group</b> |      |  |  |  |  |
| Property, plant and equipment   |      | 5,138                                    |  |  |  |
| Intangible assets   |      | 2  |  |  |  |
| Inventories   |      | 363                                      |  |  |  |
| Trade receivables   |      | 1,475                                    |  |  |  |
| Prepayments   |      | 3  |  |  |  |
| Trade and other payables  |      | (298)                                    |  |  |  |
| Employee entitlements   |      | (214)                                    |  |  |  |
| Net identifiable assets and liabilities   |      | 6,469                                    |  |  |  |
| Consideration received, shares in Dairy Technical Services                                    | 14   | 5,844                                    |  |  |  |
| Consideration received, satisfied in cash   |      | 734                                      |  |  |  |
| Consideration to be received (received in November 2008)                                      |      | 379                                      |  |  |  |
|   |      | 6,957                                    |  |  |  |
| <b>Profit on sale</b>   |      | <b>488</b>                               |  |  |  |

| <b>6. Cash and cash equivalents</b> |  |       |       |       |       |
|-------------------------------------|--|-------|-------|-------|-------|
| Cash at bank and on hand            |  | 6,009 | 1,202 | 4,699 | 1,097 |
|                                     |  | 6,009 | 1,202 | 4,699 | 1,097 |

| <b>7. Trade and other receivables</b> |    |        |        |        |       |
|---------------------------------------|----|--------|--------|--------|-------|
| Trade receivables                     |    | 12,339 | 9,992  | 11,164 | 7,528 |
| Allowance for doubtful debts          |    | (44)   | (59)   | (23)   | (53)  |
| Prepayments                           |    | 699    | 639    | 667    | 532   |
| Receivables from related parties      | 25 | 762    | 27     | 316    | -     |
|                                       |    | 13,756 | 10,599 | 12,124 | 8,007 |

Trade receivables that are less than three months past due are not considered impaired. As of 30 September 2008, trade receivables of \$2,573,000 (2007: \$3,117,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

|                |  |       |       |       |       |
|----------------|--|-------|-------|-------|-------|
| Up to 3 months |  | 2,480 | 2,745 | 2,118 | 1,518 |
| 3 to 6 months  |  | 93    | 372   | 75    | 274   |
|                |  | 2,573 | 3,117 | 2,193 | 1,792 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                       |                                    |
|--|------|------------------------------------|------------------------------------|
|  |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| The carrying amounts of the Group's trade and other receivables are denominated in the following currencies: |      |                                    |                                    |
| NZ dollar  |      | 12,022                             | 7,537                              |
| AU dollar  |      | 1,589                              | 2,853                              |
| EU euro  |      | 1                                  | 178                                |
| US dollar  |      | 144                                | 23                                 |
| UK pound   |      | -                                  | 5                                  |
| Other currencies   |      | -                                  | 3                                  |
|  |      | 13,756                             | 10,599                             |
| Movements in the Group provision for doubtful debts are as follows:  |      |                                    |                                    |
| Opening balance  |      | 59                                 | 73                                 |
| Provision for doubtful debts   |      | 42                                 | 57                                 |
| Receivables written-off during the period as uncollectible   |      | (50)                               | (62)                               |
| Unused amounts reversed  |      | (7)                                | (9)                                |
| At 30 September  |      | 44                                 | 59                                 |

|                       | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|-----------------------|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                       |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>8. Inventories</b> |      |                                    |                                    |                                    |                                    |
| Consumable stores     |      | 2,031                              | 1,540                              | 1,311                              | 1,254                              |
| Work in progress      |      | 1,380                              | 1,926                              | 1,100                              | 965                                |
| Finished goods        | 23   | 326                                | 517                                | 216                                | 484                                |
|                       |      | 3,737                              | 3,983                              | 2,627                              | 2,703                              |

|                                 |  |       |     |       |     |
|---------------------------------|--|-------|-----|-------|-----|
| <b>9. Work in progress</b>      |  |       |     |       |     |
| Contract costs incurred to date |  | 1,400 | 650 | 1,335 | 600 |
|                                 |  | 1,400 | 650 | 1,335 | 600 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   | Note | CONSOLIDATED                               |  |  |   |   | Total<br>\$000  |
|---|------|--|--|--|---|---|-----------------|
|   |      | Freehold<br>land at<br>fair value<br>\$000 | Buildings<br>at fair<br>value<br>\$000 | Leasehold<br>improve-<br>ments at<br>cost<br>\$000 | Plant and<br>equip-<br>ment at<br>cost<br>\$000 | Capital<br>work in<br>progress<br>\$000 |                 |
| <b>10. Property, plant and equipment</b>    |      |  |  |  |   |   |                 |
| <b>Gross carrying amount</b>                |      |  |  |  |   |   |                 |
| Balance at 1 July 2006                      |      | 5,330                                      | 5,579                                  | 6,302  | 24,138  | 2,316                                   | 43,665          |
| Additions                                   |      | -  | 188                                    | 2,139  | 3,983   | (546)                                   | 5,764           |
| Disposals                                   |      | -  | -                                      | -  | (96)  | -                                       | (96)            |
| Net revaluation increments                  |      | 995  | 301                                    | -  | -   | -                                       | 1,296           |
| Exchange differences                        |      | -  | -                                      | (124)  | (144)   | (1)                                     | (269)           |
| <b>Balance at 1 October 2007</b>            |      | <b>6,325</b>                               | <b>6,068</b>                           | <b>8,317</b>                                       | <b>27,881</b>                                   | <b>1,769</b>                            | <b>50,360</b>   |
| Addition through ASURE amalgamation         | 29   | -  | -                                      | -  | 1,121   | -                                       | 1,121           |
| Additions                                   |      | -  | -                                      | 793  | 3,549   | (1,619)                                 | 2,723           |
| Disposals                                   |      | -  | -                                      | (2,522)  | (4,102)   | -                                       | (6,624)         |
| Net revaluation increments                  |      | -  | -                                      | -  | -   | -                                       | -               |
| Exchange differences                        |      | -  | -                                      | 194  | 204   | 16                                      | 414             |
| <b>Balance at 30 September 2008</b>         |      | <b>6,325</b>                               | <b>6,068</b>                           | <b>6,782</b>                                       | <b>28,653</b>                                   | <b>166</b>                              | <b>47,994</b>   |
| <b>Accumulated depreciation</b>             |      |  |  |  |   |   |                 |
| Balance at 1 July 2006                      |      | -  | -                                      | (1,360)  | (11,838)  | -                                       | (13,198)        |
| Disposals                                   |      | -  | -                                      | -  | 90  | -                                       | 90              |
| Net adjustments from revaluation increments |      | -  | 250                                    | -  | -   | -                                       | 250             |
| Impairment losses charged to profit         |      | -  | -                                      | -  | -   | -                                       | -               |
| Depreciation expense                        |      | -  | (384)                                  | (841)  | (4,038)   | -                                       | (5,263)         |
| Exchange differences                        |      | -  | -                                      | (8)  | -   | -                                       | (8)             |
| <b>Balance at 1 October 2007</b>            |      | <b>-</b>                                   | <b>(134)</b>                           | <b>(2,209)</b>                                     | <b>(15,786)</b>                                 | <b>-</b>                                | <b>(18,129)</b> |
| Addition through ASURE amalgamation         | 29   | -  | -                                      | -  | (800)   | -                                       | (800)           |
| Disposals                                   |      | -  | -                                      | 377  | 1,507   | -                                       | 1,884           |
| Net adjustments from revaluation increments |      | -  | -                                      | -  | -   | -                                       | -               |
| Impairment losses charged to profit         |      | -  | -                                      | -  | -   | -                                       | -               |
| Depreciation expense                        |      | -  | (336)                                  | (735)  | (3,331)   | -                                       | (4,402)         |
| Exchange differences                        |      | -  | -                                      | (37)   | (74)  | -                                       | (111)           |
| <b>Balance at 30 September 2008</b>         |      | <b>-</b>                                   | <b>(470)</b>                           | <b>(2,605)</b>                                     | <b>(18,484)</b>                                 | <b>-</b>                                | <b>(21,559)</b> |
| <b>Net book value</b>                       |      |  |  |  |   |   |                 |
| As at 30 September 2007                     |      | <b>6,325</b>                               | <b>5,934</b>                           | <b>6,108</b>                                       | <b>12,095</b>                                   | <b>1,769</b>                            | <b>32,231</b>   |
| As at 30 September 2008                     |      | <b>6,325</b>                               | <b>5,598</b>                           | <b>4,177</b>                                       | <b>10,169</b>                                   | <b>166</b>                              | <b>26,435</b>   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   |      | PARENT                            |                               |                                      |                                   |                                |                 |
|---|------|-----------------------------------|-------------------------------|--------------------------------------|-----------------------------------|--------------------------------|-----------------|
|   | Note | Freehold land at fair value \$000 | Buildings at fair value \$000 | Leasehold improvements at cost \$000 | Plant and equipment at cost \$000 | Capital work in progress \$000 | Total \$000     |
| <b>10. Property, plant and equipment</b>    |      |                                   |                               |                                      |                                   |                                |                 |
| <b>Gross carrying amount</b>                |      |                                   |                               |                                      |                                   |                                |                 |
| Balance at 1 July 2006                      |      | 5,330                             | 5,579                         | 3,229                                | 20,553                            | 2,252                          | 36,943          |
| Additions                                   |      | -                                 | 188                           | 91                                   | 2,815                             | (1,024)                        | 2,070           |
| Disposals                                   |      | -                                 | -                             | -                                    | (89)                              | -                              | (89)            |
| Net revaluation increments                  |      | 995                               | 301                           | -                                    | -                                 | -                              | 1,296           |
| Exchange differences                        |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| <b>Balance at 1 October 2007</b>            |      | <b>6,325</b>                      | <b>6,068</b>                  | <b>3,320</b>                         | <b>23,279</b>                     | <b>1,228</b>                   | <b>40,220</b>   |
| Addition through ASURE amalgamation         | 29   | -                                 | -                             | -                                    | 1,121                             | -                              | 1,121           |
| Additions                                   |      | -                                 | -                             | 414                                  | 3,177                             | (1,072)                        | 2,519           |
| Disposals                                   |      | -                                 | -                             | -                                    | (9)                               | -                              | (9)             |
| Net revaluation increments                  |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| Exchange differences                        |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| <b>Balance at 30 September 2008</b>         |      | <b>6,325</b>                      | <b>6,068</b>                  | <b>3,734</b>                         | <b>27,568</b>                     | <b>156</b>                     | <b>43,851</b>   |
| <b>Accumulated depreciation</b>             |      |                                   |                               |                                      |                                   |                                |                 |
| Balance at 1 July 2006                      |      | -                                 | 7                             | (1,126)                              | (11,309)                          | -                              | (12,428)        |
| Disposals                                   |      | -                                 | -                             | -                                    | 89                                | -                              | 89              |
| Net adjustments from revaluation increments |      | -                                 | 243                           | -                                    | -                                 | -                              | 243             |
| Impairment losses charged to profit         |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| Depreciation expense                        |      | -                                 | (384)                         | (414)                                | (3,207)                           | -                              | (4,005)         |
| Exchange differences                        |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| <b>Balance at 1 October 2007</b>            |      | <b>-</b>                          | <b>(134)</b>                  | <b>(1,540)</b>                       | <b>(14,427)</b>                   | <b>-</b>                       | <b>(16,101)</b> |
| Addition through ASURE amalgamation         | 29   | -                                 | -                             | -                                    | (800)                             | -                              | (800)           |
| Disposals                                   |      | -                                 | -                             | -                                    | 7                                 | -                              | 7               |
| Net adjustments from revaluation increments |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| Impairment losses charged to profit         |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| Depreciation expense                        |      | -                                 | (336)                         | (350)                                | (2,899)                           | -                              | (3,585)         |
| Exchange differences                        |      | -                                 | -                             | -                                    | -                                 | -                              | -               |
| <b>Balance at 30 September 2008</b>         |      | <b>-</b>                          | <b>(470)</b>                  | <b>(1,890)</b>                       | <b>(18,119)</b>                   | <b>-</b>                       | <b>(20,479)</b> |
| <b>Net book value</b>                       |      |                                   |                               |                                      |                                   |                                |                 |
| As at 30 September 2007                     |      | <b>6,325</b>                      | <b>5,934</b>                  | <b>1,780</b>                         | <b>8,852</b>                      | <b>1,228</b>                   | <b>24,119</b>   |
| As at 30 September 2008                     |      | <b>6,325</b>                      | <b>5,598</b>                  | <b>1,844</b>                         | <b>9,449</b>                      | <b>156</b>                     | <b>23,372</b>   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

### 10. Property, plant and equipment continued

#### Valuation Information

The Auckland Laboratory land and buildings were valued at 28 September 2007 by Sheldon & Partners Limited, independent registered valuers and associates of the New Zealand Institute of Valuers. The Wellington Laboratory land and buildings were valued at 30 June 2006 by Colliers (International) Limited, independent registered valuers and associates of the New Zealand Institute of Valuers.

Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus was credited to reserve revaluation in shareholders' equity' (note 20).

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

|                          | CONSOLIDATED AND PARENT |                      |
|--------------------------|-------------------------|----------------------|
|                          | 30 Sep 2008<br>\$000    | 30 Sep 2007<br>\$000 |
| Cost                     | 6,478                   | 6,478                |
| Accumulated depreciation | (1,280)                 | (1,119)              |
| Net book amount          | 5,198                   | 5,359                |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED      |                | PARENT            |                |
|--|------|-------------------|----------------|-------------------|----------------|
|  |      | Software<br>\$000 | Total<br>\$000 | Software<br>\$000 | Total<br>\$000 |
| <b>11. Intangible assets</b>                   |      |                   |                |                   |                |
| <b>Gross carrying amount</b>                   |      |                   |                |                   |                |
| Balance at 1 July 2006                         |      | 4,422             | 4,422          | 4,383             | 4,383          |
| Additions through internal developments        |      | 711               | 711            | 617               | 617            |
| Exchange differences                           |      | -                 | -              | -                 | -              |
| <b>Balance at 1 October 2007</b>               |      | <b>5,133</b>      | <b>5,133</b>   | <b>5,000</b>      | <b>5,000</b>   |
| Addition through ASURE amalgamation            | 29   | 2,000             | 2,000          | 2,000             | 2,000          |
| Additions through internal developments        |      | 141               | 141            | 126               | 126            |
| Acquisitions through business combinations     |      | -                 | -              | -                 | -              |
| Disposals                                      |      | (8)               | (8)            | (2)               | (2)            |
| Exchange differences                           |      | 4                 | 4              | -                 | -              |
| <b>Balance at 30 September 2008</b>            |      | <b>7,270</b>      | <b>7,270</b>   | <b>7,124</b>      | <b>7,124</b>   |
| <b>Accumulated amortisation and impairment</b> |      |                   |                |                   |                |
| Balance at 1 July 2006                         |      | (3,523)           | (3,523)        | (3,508)           | (3,508)        |
| Amortisation expense                           |      | (606)             | (606)          | (589)             | (589)          |
| Disposals                                      |      | -                 | -              | -                 | -              |
| Exchange differences                           |      | -                 | -              | -                 | -              |
| <b>Balance at 1 October 2007</b>               |      | <b>(4,129)</b>    | <b>(4,129)</b> | <b>(4,097)</b>    | <b>(4,097)</b> |
| Addition through ASURE amalgamation            | 29   | (1,663)           | (1,663)        | (1,663)           | (1,663)        |
| Amortisation expense                           |      | (470)             | (470)          | (445)             | (445)          |
| Disposals                                      |      | 6                 | 6              | 2                 | 2              |
| Exchange differences                           |      | (3)               | (3)            | -                 | -              |
| <b>Balance at 30 September 2008</b>            |      | <b>(6,259)</b>    | <b>(6,259)</b> | <b>(6,203)</b>    | <b>(6,203)</b> |
| <b>Net book value</b>                          |      |                   |                |                   |                |
| As at 30 September 2007                        |      | 1,004             | 1,004          | 903               | 903            |
| As at 30 September 2008                        |      | 1,011             | 1,011          | 921               | 921            |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

| <b>12. Investment in subsidiaries</b> |  |              |  |  |
|---------------------------------------|--|--------------|--|--|
| Subsidiaries owned at 30 September:   |  |              |  |  |
| Name                                  | Principal Activities   | Balance Date | Ownership and Voting Interest<br>30 Sep 2008 | Ownership and Voting Interest<br>30 Sep 2007 |
| AgriQuality Australia Limited         | Non trading  | 30-Sept      | 100%   | 100%   |
| AsureQuality Australia Pty Limited    | Animal diagnostics manufacturing, seed and proficiency testing | 30-Sept      | 100%   | 100%   |

AgriQuality Australia Limited is incorporated in New Zealand and AsureQuality Australia Pty Limited is incorporated in Australia. AgriQuality Australia Limited is wholly owned by AsureQuality Limited, with a shareholding of 600,000 shares at \$1 each. AsureQuality Australia Pty Limited is wholly owned by AgriQuality Australia Limited, with a shareholding of 500,000 shares at A\$1 each.

|                                      | Note | PARENT                             |                                    |
|--------------------------------------|------|------------------------------------|------------------------------------|
|                                      |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>13. Loan to subsidiary</b>        |      |                                    |                                    |
| Balance at the beginning of the year | 25   | 8,779                              | 7,261                              |
| Advances during the year             |      | 4,969                              | 8,217                              |
| Repayments during the year           |      | (5,844)                            | -                                  |
| Diminution in value of loan          |      | -                                  | (6,699)                            |
| Balance at the end of the year       | 25   | 7,904                              | 8,779                              |

The Company has subordinated repayment of this loan to its subsidiary, AgriQuality Australia Limited in favour of all other creditors of its subsidiary company AsureQuality Australia Pty Limited (incorporated in Australia). Up to 30 September 2008 no interest was charged on the intercompany loan (2007: nil). The loan is repayable on demand. The loan was written down in 2007 due to ongoing losses (see note 5). The recoverable amount is based on a discounted cashflow model. The key assumptions include EBITDA and a discount rate of 10%.

The Company has further undertaken to provide sufficient financial assistance to AsureQuality Australia Pty Limited as and when it is needed to enable AsureQuality Australia Pty Limited to continue its operations and fulfil all of its financial obligations for the next 12 months.

| <b>14. Investment</b>                      |      |              |   |        |   |
|--|------|--------------|---|--------|---|
|  | Note | CONSOLIDATED |   | PARENT |   |
| At fair value:                             |      |              |   |        |   |
| Shares in Dairy Technical Services Limited |      | 5,844        | - | 2,922  | - |
|  |      | 5,844        | - | 2,922  | - |

The Group holds 20% (2007: nil) of the ordinary share capital of Dairy Technical Services Limited (incorporated in Australia), a company involved in independent food testing laboratories. The Directors do not believe that the Group is able to exert significant influence over Dairy Technical Services Limited as a minority shareholder, and as the voting rights held by the company are less than 20%, this investment has not been classified as an investment in associate. The fair value is based on the value of recent transactions which the Directors believe is a close approximation to fair value at 30 September 2008.

| <b>15. Deferred tax assets and liabilities</b>   |  |              |                |              |                |
|--|--|--------------|----------------|--------------|----------------|
| Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows: |  |              |                |              |                |
| <b>Deferred tax assets:</b>  |  |              |                |              |                |
| Deferred tax asset to be recovered after more than 12 months   |  | 1,455        | 98             | 811          | 98             |
| Deferred tax asset to be recovered within 12 months  |  | 1,382        | 591            | 1,008        | 591            |
|  |  | <b>2,837</b> | <b>689</b>     | <b>1,819</b> | <b>689</b>     |
| <b>Deferred tax liabilities:</b>   |  |              |                |              |                |
| Deferred tax liability to be recovered after more than 12 months   |  | -            | (1,072)        | -            | (1,072)        |
| Deferred tax liability to be recovered within 12 months  |  | -            | (91)           | -            | (91)           |
|  |  | -            | <b>(1,163)</b> | -            | <b>(1,163)</b> |
| <b>Deferred tax assets (liabilities) net</b>   |  | <b>2,837</b> | <b>(474)</b>   | <b>1,819</b> | <b>(474)</b>   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|--|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>15. Deferred tax assets and liabilities continued</b>       |      |                                    |                                    |                                    |                                    |
| The net movement on deferred income tax account is as follows: |      |                                    |                                    |                                    |                                    |
| Balance at the beginning of the year                           |      | (474)                              | (177)                              | (474)                              | (177)                              |
| Addition through ASURE amalgamation                            | 29   | 1,430                              | -                                  | 1,430                              | -                                  |
| Exchange differences   |      | 25                                 | -                                  | -                                  | -                                  |
| Income statement charge  | 4    | 1,856                              | (132)                              | 863                                | (132)                              |
| Tax charged directly to equity                                 |      | -                                  | (165)                              | -                                  | (165)                              |
| <b>Balance at the end of the year</b>                          |      | <b>2,837</b>                       | <b>(474)</b>                       | <b>1,819</b>                       | <b>(474)</b>                       |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

|  |    | CONSOLIDATED     |                       |                      |              |
|--|----|------------------|-----------------------|----------------------|--------------|
|  |    | Fair value gains | Employee entitlements | Tax losses and other | Total        |
| <b>Deferred tax assets and liabilities</b> |    |                  |                       |                      |              |
| At 1 July 2006                             |    | (851)            | 744                   | (70)                 | (177)        |
| Charged to the income statement            |    | (56)             | (55)                  | (21)                 | (132)        |
| Charged directly to equity                 |    | (165)            | -                     | -                    | (165)        |
| Exchange differences                       |    | -                | -                     | -                    | -            |
| <b>At 30 September 2007</b>                |    | <b>(1,072)</b>   | <b>689</b>            | <b>(91)</b>          | <b>(474)</b> |
| Addition through ASURE amalgamation        | 29 | -                | 1,430                 | -                    | 1,430        |
| Credited to the income statement           |    | -                | 441                   | 1,415                | 1,856        |
| Exchange differences                       |    | -                | -                     | 25                   | 25           |
| <b>At 30 September 2008</b>                |    | <b>(1,072)</b>   | <b>2,560</b>          | <b>1,349</b>         | <b>2,837</b> |

|  |    | PARENT           |                       |                      |              |
|--|----|------------------|-----------------------|----------------------|--------------|
|  |    | Fair value gains | Employee entitlements | Tax losses and other | Total        |
| <b>Deferred tax assets and liabilities</b> |    |                  |                       |                      |              |
| At 1 July 2006                             |    | (851)            | 744                   | (70)                 | (177)        |
| Charged to the income statement            |    | (56)             | (55)                  | (21)                 | (132)        |
| Charged directly to equity                 |    | (165)            | -                     | -                    | (165)        |
| <b>At 30 September 2007</b>                |    | <b>(1,072)</b>   | <b>689</b>            | <b>(91)</b>          | <b>(474)</b> |
| Addition through ASURE merger              | 29 | -                | 1,430                 | -                    | 1,430        |
| Credited to the income statement           |    | -                | 381                   | 482                  | 863          |
| <b>At 30 September 2008</b>                |    | <b>(1,072)</b>   | <b>2,500</b>          | <b>391</b>           | <b>1,819</b> |

### Deferred Tax Asset

Obtaining the benefits of the deferred tax balance is dependent upon deriving sufficient assessable income, meeting conditions for deductibility and complying with relevant tax legislation.

In addition to the above amounts, Australian tax losses not recognised as future tax benefits in the financial statements amount to NZ\$2.3 million (tax effect - NZ\$0.7 million) (2007 NZ\$5.0 million (tax effect NZ\$1.5 million)) in the Group entity.

The value, and use of income tax offsets and tax losses within the Group, are subject to statutory requirements being met.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|   | Note | CONSOLIDATED                  |                               | PARENT                        |                               |
|---|------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   |      | At at 30<br>Sep 2008<br>\$000 | At at 30<br>Sep 2007<br>\$000 | At at 30<br>Sep 2008<br>\$000 | As at 30<br>Sep 2007<br>\$000 |
| <b>16. Trade and other payables</b>   |      |                               |                               |                               |                               |
| Trade payables due to related parties   | 25   | 4                             | -                             | -                             | -                             |
| Other trade payables  |      | 3,539                         | 1,379                         | 3,050                         | 1,049                         |
| Non-trade payables and accrued expenses   |      | 3,536                         | 3,305                         | 3,534                         | 2,849                         |
|   |      | <b>7,079</b>                  | <b>4,684</b>                  | <b>6,584</b>                  | <b>3,898</b>                  |
| <b>17. Borrowings</b>   |      |                               |                               |                               |                               |
| <b>Non-current</b>  |      |                               |                               |                               |                               |
| Borrowings  |      | 7,100                         | 20,137                        | 6,402                         | 19,002                        |
| <b>Current</b>  |      |                               |                               |                               |                               |
| Current portion of long-term bank borrowings  |      | 2,852                         | 2,542                         | 2,377                         | 2,082                         |
| <b>Total borrowings</b>   |      | <b>9,952</b>                  | <b>22,679</b>                 | <b>8,779</b>                  | <b>21,084</b>                 |
| The exposure of the Group's borrowings to contractual maturity dates is as follows:   |      |                               |                               |                               |                               |
| 6 months or less  |      | 1,432                         | 1,193                         | 1,194                         | 963                           |
| 6-12 months   |      | 1,420                         | 1,349                         | 1,183                         | 1,119                         |
| 1-5 years   |      | 6,448                         | 19,145                        | 5,750                         | 18,010                        |
| Over 5 years  |      | 652                           | 992                           | 652                           | 992                           |
|   |      | <b>9,952</b>                  | <b>22,679</b>                 | <b>8,779</b>                  | <b>21,084</b>                 |
| The carrying amounts of the Group's borrowings are denominated in the following currencies:   |      |                               |                               |                               |                               |
| NZ dollar   |      | 7,902                         | 19,920                        | 7,902                         | 19,920                        |
| AU dollar   |      | 2,050                         | 2,759                         | 877                           | 1,164                         |
|   |      | <b>9,952</b>                  | <b>22,679</b>                 | <b>8,779</b>                  | <b>21,084</b>                 |
| The Group has the following undrawn borrowing facilities:   |      |                               |                               |                               |                               |
| Fixed rate: Expiring within one year  |      | 10,250                        | -                             | 10,250                        | -                             |
| The facility expiring within one year is an ongoing facility subject to review every 90 days.   |      |                               |                               |                               |                               |
| The bank term borrowings are unsecured but are subject to a negative pledge and two financial covenants. The negative pledge agreement means that AsureQuality may not grant a security interest greater than 5% of total assets to another party without the consent of the bank. The two financial covenants are that equity can not be less than 30% of total tangible assets and earnings before funding costs, income tax, depreciation, amortisation and extraordinaries can not be less than 4.0 times the funding cost. The Company complied with these ratios during the year ended 30 September 2008 and the 15 month period ended 30 September 2007. The interest rates on the bank borrowings are floating, resetting quarterly and ranged from 8.4% - 10.9% per annum during the year ended 30 September 2008 (2007: 7% - 10.65% per annum). |      |                               |                               |                               |                               |
| The Group has \$877,000 of other loans, included in borrowings above, that will be fully repaid by October 2009. The interest rate on this loan is fixed at 6% per annum (2007: 6% per annum).  |      |                               |                               |                               |                               |
| <b>18. Deferred income</b>  |      |                               |                               |                               |                               |
| Deferred income consists of customer advances for services to be performed within the next financial year.  |      |                               |                               |                               |                               |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED              |                       |                           |                             | Total<br>\$000 |
|--|------|---------------------------|-----------------------|---------------------------|-----------------------------|----------------|
|  |      | Salary and wages<br>\$000 | Annual leave<br>\$000 | Retirement leave<br>\$000 | Long-service leave<br>\$000 |                |
| <b>19. Provision for employee entitlements</b> |      |                           |                       |                           |                             |                |
| Balance at 1 October 2007                      |      | 89                        | 2,398                 | 297                       | 112                         | 2,896          |
| Additions from ASURE amalgamation              | 29   | 1,150                     | 2,142                 | 3,495                     | 131                         | 6,918          |
| Charged/(credited) to the income statement:    |      |                           |                       |                           |                             |                |
| Additional provisions                          |      | 1,027                     | 5,427                 | 59                        | 375                         | 6,888          |
| Unused amounts reversed                        |      | -                         | (191)                 | (7)                       | (23)                        | (221)          |
| Used/transferred during year                   |      | (1,187)                   | (5,482)               | (350)                     | (59)                        | (7,078)        |
| Exchange difference                            |      | -                         | 8                     | -                         | 4                           | 12             |
| <b>Balance at 30 September 2008</b>            |      | <b>1,079</b>              | <b>4,302</b>          | <b>3,494</b>              | <b>540</b>                  | <b>9,415</b>   |

|   | Note | PARENT                    |                       |                           |                             | Total<br>\$000 |
|---|------|---------------------------|-----------------------|---------------------------|-----------------------------|----------------|
|   |      | Salary and wages<br>\$000 | Annual leave<br>\$000 | Retirement leave<br>\$000 | Long-service leave<br>\$000 |                |
| Balance at 1 October 2007                   |      | 73                        | 2,113                 | 297                       | 2                           | 2,485          |
| Additions from ASURE amalgamation           | 29   | 1,150                     | 2,142                 | 3,495                     | 131                         | 6,918          |
| Charged/(credited) to the income statement: |      |                           |                       |                           |                             |                |
| Additional provisions                       |      | 1,009                     | 5,426                 | 59                        | 302                         | 6,796          |
| Unused amounts reversed                     |      | -                         | -                     | (7)                       | -                           | (7)            |
| Used/transferred during year                |      | (1,171)                   | (5,469)               | (350)                     | -                           | (6,990)        |
| <b>Balance at 30 September 2008</b>         |      | <b>1,061</b>              | <b>4,212</b>          | <b>3,494</b>              | <b>435</b>                  | <b>9,202</b>   |

| Analysis of total provisions:                     | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|---|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>Current</b>                                    |      |                                    |                                    |                                    |                                    |
| Salary and wages                                  |      | 1,079                              | 89                                 | 1,061                              | 73                                 |
| Annual leave                                      |      | 4,302                              | 2,398                              | 4,212                              | 2,113                              |
|   |      | <b>5,381</b>                       | <b>2,487</b>                       | <b>5,273</b>                       | <b>2,186</b>                       |
| <b>Non-current</b>                                |      |                                    |                                    |                                    |                                    |
| Retirement leave                                  |      | 3,494                              | 297                                | 3,494                              | 297                                |
| Long-service leave                                |      | 540                                | 112                                | 435                                | 2                                  |
|   |      | <b>4,034</b>                       | <b>409</b>                         | <b>3,929</b>                       | <b>299</b>                         |
| <b>Total provisions for employee entitlements</b> |      | <b>9,415</b>                       | <b>2,896</b>                       | <b>9,202</b>                       | <b>2,485</b>                       |

### Salary and wages

The provision for salary and wages includes a provision for staff bonuses \$422,000 (2007: nil) that is payable within three months of the finalisation of the audited financial statements. The provision also contains a provision for sick leave of \$193,000 (2007: nil).

### Retirement leave

The provision for retirement leave is based on an actuarial valuation completed by Erikson & Associates Limited as at 30 September 2008. The demographic assumptions were based on the experience of the Government Superannuation Fund.

### Long-service leave

The provision for employee entitlements is based on an actuarial valuation completed by Erikson & Associates Limited as at 30 September 2008.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  |                        | CONSOLIDATED                 |                              |                            |                       |               |
|--|------------------------|------------------------------|------------------------------|----------------------------|-----------------------|---------------|
| Note   | Share capital<br>\$000 | Revaluation reserve<br>\$000 | Translation reserve<br>\$000 | Retained earnings<br>\$000 | Total equity<br>\$000 |               |
| <b>20. Capital and reserves</b>                    |                        |                              |                              |                            |                       |               |
| Reconciliation of movement in capital and reserves |                        |                              |                              |                            |                       |               |
| Balance at 1 July 2006                             |                        | 11,900                       | 4,747                        | 735                        | 5,073                 | 22,455        |
| Loss for the year                                  |                        | -                            | -                            | -                          | (3,709)               | (3,709)       |
| Currency translation differences                   |                        | -                            | -                            | (554)                      | -                     | (554)         |
| Revaluation - gross                                |                        | -                            | 1,546                        | -                          | -                     | 1,546         |
| Revaluation - tax                                  |                        | -                            | (165)                        | -                          | -                     | (165)         |
| Dividend to equity holders                         |                        | -                            | -                            | -                          | (425)                 | (425)         |
| <b>Balance at 30 September 2007</b>                |                        | <b>11,900</b>                | <b>6,128</b>                 | <b>181</b>                 | <b>939</b>            | <b>19,148</b> |
| Addition through ASURE amalgamation                | 29                     | 10,200                       | -                            | -                          | (4,196)               | 6,004         |
| Profit for the year                                |                        | -                            | -                            | -                          | 5,013                 | 5,013         |
| Currency translation differences                   |                        | -                            | -                            | 400                        | -                     | 400           |
| Dividend to equity holders                         |                        | -                            | -                            | -                          | -                     | -             |
| <b>Balance at 30 September 2008</b>                |                        | <b>22,100</b>                | <b>6,128</b>                 | <b>581</b>                 | <b>1,756</b>          | <b>30,565</b> |

|                                     |                        | PARENT                       |                              |                            |                       |               |
|-------------------------------------|------------------------|------------------------------|------------------------------|----------------------------|-----------------------|---------------|
| Note                                | Share capital<br>\$000 | Revaluation reserve<br>\$000 | Translation reserve<br>\$000 | Retained earnings<br>\$000 | Total equity<br>\$000 |               |
| Balance at 1 July 2006              |                        | 11,900                       | 4,747                        | -                          | 8,199                 | 24,846        |
| Loss for the year                   |                        | -                            | -                            | -                          | (6,655)               | (6,655)       |
| Currency translation differences    |                        | -                            | -                            | -                          | -                     | -             |
| Revaluation - gross                 |                        | -                            | 1,546                        | -                          | -                     | 1,546         |
| Revaluation - tax                   |                        | -                            | (165)                        | -                          | -                     | (165)         |
| Dividend to equity holders          |                        | -                            | -                            | -                          | (425)                 | (425)         |
| <b>Balance at 30 September 2007</b> |                        | <b>11,900</b>                | <b>6,128</b>                 | <b>-</b>                   | <b>1,119</b>          | <b>19,147</b> |
| Addition through ASURE amalgamation | 29                     | 10,200                       | -                            | -                          | (4,196)               | 6,004         |
| Profit for the year                 |                        | -                            | -                            | -                          | 4,858                 | 4,858         |
| Dividend to equity holders          |                        | -                            | -                            | -                          | -                     | -             |
| <b>Balance at 30 September 2008</b> |                        | <b>22,100</b>                | <b>6,128</b>                 | <b>-</b>                   | <b>1,781</b>          | <b>30,009</b> |

### Share Capital

All shares carry equal voting rights and share equally in dividends and surplus in winding up. At 30 September 2008 there were 23,800,000 shares on issue (2007: 11,900,000). In conjunction with the amalgamation of ASURE 11,900,000 shares were issued.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

### Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings.

### Dividend

The distribution to equity holders represented 0.035 cents per share in 2007.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                       |                                    | PARENT                             |                                    |
|--|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  |      | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 | 12 mths ended 30 Sep 2008<br>\$000 | 15 mths ended 30 Sep 2007<br>\$000 |
| <b>21. Reconciliation of the profit for the period with cash flows from operating activities</b>   |      |                                    |                                    |                                    |                                    |
| Profit / (loss) after tax for the period   |      | 5,013                              | (3,709)                            | 4,858                              | (6,655)                            |
| <b>Adjustments for:</b>  |      |                                    |                                    |                                    |                                    |
| Amortisation - software  |      | 470                                | 606                                | 445                                | 589                                |
| Depreciation - property, plant and equipment   |      | 4,402                              | 5,263                              | 3,586                              | 4,005                              |
| Depreciation - motor vehicle signage   |      | 12                                 | 35                                 | 12                                 | 35                                 |
| Gain on sales of property, plant and equipment   |      | (491)                              | (1)                                | -                                  | -                                  |
| Loss on sale of associate  |      | -                                  | 1,000                              | -                                  | 1,000                              |
| Write-off of associate loan  |      | -                                  | 270                                | -                                  | 270                                |
| Movement in deferred taxation  |      | (1,881)                            | 132                                | (863)                              | 132                                |
| Movement in non-current provisions   |      | (1)                                | (40)                               | 4                                  | (88)                               |
| Foreign currency exchange  |      | (181)                              | (496)                              | 28                                 | 10                                 |
| Diminution in value of loan to subsidiary  |      | -                                  | -                                  | -                                  | 6,699                              |
| <b>Impact of changes in working capital (following the effects from ASURE)</b>   |      |                                    |                                    |                                    |                                    |
| Trade and other receivables  |      | (2,554)                            | 2,763                              | (2,401)                            | 3,720                              |
| Inventories  |      | (751)                              | (1,812)                            | (454)                              | (685)                              |
| Current employee entitlements  |      | (181)                              | 8                                  | (205)                              | (92)                               |
| Income tax   |      | 636                                | 1,022                              | 282                                | 823                                |
| Trade and other payables   |      | 950                                | (1,115)                            | 937                                | (1,088)                            |
| Deferred income  |      | 631                                | (127)                              | 699                                | (165)                              |
| <b>Net cash flows from operating activities</b>  |      | <b>6,075</b>                       | <b>3,799</b>                       | <b>6,928</b>                       | <b>8,510</b>                       |
| <b>22. Commitments</b>   |      |                                    |                                    |                                    |                                    |
| <b>Capital commitments</b>   |      |                                    |                                    |                                    |                                    |
| Capital expenditure contracted for at balance sheet date but not yet incurred is as follows:   |      |                                    |                                    |                                    |                                    |
| Property, plant and equipment  |      | -                                  | 639                                | -                                  | 639                                |
| <b>Operating lease commitments</b>   |      |                                    |                                    |                                    |                                    |
| The Group leases various offices, vehicles and computer equipment under non-cancellable operating lease agreements. The lease terms are between two and 10 years, and the majority of lease agreements are renewable at the end of the lease periods at market rates. Two of the leased properties have been partially sublet by the Group. Sublease payments of \$97,000 are expected to be received during the following financial year. |      |                                    |                                    |                                    |                                    |
| During the year ended 30 September 2008 \$4,946,000 was recognised as an expense in the income statement in respect of operating leases (2007: \$5,740,000). \$138,000 was recognised as income in respect of subleases (2007: \$157,000).   |      |                                    |                                    |                                    |                                    |
| Lease commitments under non-cancellable operating leases:  |      |                                    |                                    |                                    |                                    |
| Less than one year   |      | 3,542                              | 3,433                              | 3,287                              | 2,891                              |
| One to two years   |      | 2,281                              | 2,468                              | 2,103                              | 2,006                              |
| Two to five years  |      | 2,086                              | 3,133                              | 1,963                              | 2,253                              |
| Beyond five years  |      | 681                                | 1,004                              | 681                                | 864                                |
| <b>Total operating lease commitments</b>   |      | <b>8,590</b>                       | <b>10,038</b>                      | <b>8,034</b>                       | <b>8,014</b>                       |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                             |  | PARENT                                   |  |
|--|------|--|--|--|--|
|  |      | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 |
| <b>23. Stock valuation prior period error adjustment</b>   |      |  |  |  |  |
| During the 2008 financial year a review of the stock valuation methodology was undertaken for one of the products produced by AsureQuality. As a result of this review calculation errors were discovered in prior period valuations of inventory.   |      |  |  |  |  |
| The prior period error had the following impact on these consolidated financial statements:  |      |  |  |  |  |
| <b>Income statement</b>  |      |  |  |  |  |
| Increase in cost of sales  |      | -  | (300)                                    | -  | (300)                                    |
| Decrease in income tax expense   |      | -  | 99                                       | -  | 99                                       |
| Decrease in profit from continuing operations  |      | -  | (201)                                    | -  | (201)                                    |
| <b>Balance sheet</b>   |      |  |  |  |  |
| Cumulative decrease in inventory   |      | -  | (684)                                    | -  | (684)                                    |
| Cumulative increase in tax asset   |      | -  | 225                                      | -  | 225                                      |
| Decrease in retained earnings  |      | -  | (459)                                    | -  | (459)                                    |
| The adjustment to retained earnings at 1 July 2006 was a decrease of \$258,000.  |      |  |  |  |  |
| <b>24. Contingent Liabilities</b>  |      |  |  |  |  |
| The Company has undertaken to provide sufficient financial assistance to its subsidiary company AgriQuality Australia Pty Limited (incorporated in Australia) as and when it is needed to enable AsureQuality Australia Pty Limited to continue its operations and fulfil all of its financial obligations for the next 12 months. |      |  |  |  |  |
| There are no other contingent liabilities as at 30 September 2008 (2007: Nil).   |      |  |  |  |  |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

|  | Note | CONSOLIDATED                             |  | PARENT                                   |  |
|--|------|--|--|--|--|
|  |      | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 | 12 mths<br>ended 30<br>Sep 2008<br>\$000 | 15 mths<br>ended 30<br>Sep 2007<br>\$000 |
| <b>25. Related party transactions</b>  |      |  |  |  |  |
| The ultimate shareholder of the Company is the Crown. The Company undertakes many transactions with other State-Owned Enterprises and Government entities and departments in the normal course of business. The following represents the major ongoing transaction types but should not be taken as a complete list: product and environmental testing services, biosecurity services, animal health services, accident compensation levies, air travel services, energy products, postal and courier services, specific scientific advisory services and rental and leasing services. |      |  |  |  |  |
| The Company made sales to and purchases from its subsidiary,ASUREQuality Australia Pty Limited during the year. The Company also provided management and support services to its subsidiary, ASUREQuality Australia Pty Limited. The subsidiary provided support services to the Company.  |      |  |  |  |  |
| All transactions between companies within the group and with other related parties were conducted on an 'arm's length' basis.  |      |  |  |  |  |
| <b>Related party transactions</b>  |      |  |  |  |  |
| The following transactions were carried out with related parties:  |      |  |  |  |  |
| <b>Sales of services:</b>  |      |  |  |  |  |
| Services provided to subsidiary  |      | -  | -  | 1,623                                    | 2,143                                    |
| Management and support services to subsidiary  |      | -  | -  | 745                                      | 1,003                                    |
| <b>Expenses:</b>   |      |  |  |  |  |
| Purchase of services from subsidiary   |      | -  | -  | 283                                      | 267                                      |
| Support services provided by subsidiary  |      | -  | -  | 91                                       | 698                                      |
| <b>Related party balances</b>  |      |  |  |  |  |
| Owed by:   |      |  |  |  |  |
| Subsidiaries - Investment in subsidiary  |      | -  | -  | 600                                      | 600                                      |
| Subsidiaries - Loans to subsidiary   |      | -  | -  | 7,904                                    | 8,779                                    |
| <b>Related party balances</b>  |      |  |  |  |  |
| Owing to:  |      |  |  |  |  |
| Subsidiaries   |      | -  | -  | 2,043                                    | 1,668                                    |
| None of the balances are secured. Up to 30 September 2008 no interest was charged on the intercompany loan.  |      |  |  |  |  |
| <b>Key management compensation</b>   |      |  |  |  |  |
| The compensation of the Directors and executives, being the key management personnel of the entity, is set out below:  |      |  |  |  |  |
| Salaries and other short-term employee benefits  |      | 2,464                                    | 2,885                                    | 2,464                                    | 2,522                                    |
| Termination benefits   |      | 179                                      | 134                                      | 179                                      | 41                                       |
| Post-employment benefits   |      | 2  | 27                                       | 2  | -  |
| Other long-term benefits   |      | -  | -  | -  | -  |
|  |      | <b>2,645</b>                             | <b>3,046</b>                             | <b>2,645</b>                             | <b>2,563</b>                             |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

### 26. Financial instruments

Exposure to credit, interest rate, foreign currency and liquidity risks arise in the normal course of the Group's business.

The Group manages commodity price risks through negotiated supply contracts which are not considered to be financial instruments.

#### Credit risk

In the normal course of business, AsureQuality incurs credit risk from trade receivables and financial institutions. AsureQuality has a credit policy which is used to manage credit risk. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. Limits on exposure are set and approved by the Board of Directors and monitored on a regular basis.

The Company does not require any collateral or security to support financial instruments, as it only deposits with, or loans to banks and other financial institutions with high credit ratings. The Company does not expect the non-performance of any obligations at balance date.

#### Liquidity risk

AsureQuality monitors and manages its debt maturity profile, operating cash flows and the availability of funding. The Group targets maintaining funding facilities to meet the 115% of maximum debt level for normal trading activity forecast for the next 24 months, plus any confirmed commitments in the period. The funding facilities as at 30 September 2008 were \$20,202,000 of which \$10,250,000 were used.

A maturity analysis of the Group's borrowings is set out in note 17. The relevant maturity groupings are based on the remaining period at the reporting date to the contractual maturity date.

#### Interest rate risk

AsureQuality has exposure to interest rate risk to the extent that it borrows or invests with financial institutions. The Company manages its risk in accordance with an approved treasury policy. This allows for the use of interest rate swap and interest rate options. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group had one interest rate swap in place as at 30 September 2008 with a notional principal of \$5 million, expiring in November 2008 (2007: nil). The fair value at 30 September 2008 was \$9,000 (2007:nil).

At 30 September 2008 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit after income tax and equity by approximately \$123,000 (2007: \$270,000).

#### Currency risk

AsureQuality has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. Where exposures are material and certain, it is policy to hedge these risks as they arise. There are no hedging contracts as at 30 September 2008 (2007:nil).

Foreign currency exchange differences arising on the translation of monetary assets and liabilities are recognised in the foreign currency translation reserve.

#### Fair values

Cash, trade receivables, payables and non current liabilities are disclosed in the balance sheet at their amortised cost which is equivalent to their fair value.

Unlisted investments are included at their fair value.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

### Capital risk management

AsureQuality's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or increase available debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings', and 'deferred income' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The Group's current strategy is to target a gearing ratio of 30%.

The gearing ratio as at 30 September 2008 was 20% for the group and 19% for the parent. This is expected to increase to approximately 30% within the next 12 months.

| Financial instruments by category<br>The financial instruments of the Group are classified in the following categories: | CONSOLIDATED       |                       |                      |               |
|---|--------------------|-----------------------|----------------------|---------------|
|   | Available for sale | Loans and receivables | Other amortised cost | Total         |
| <b>At 30 September 2008</b>   |                    |                       |                      |               |
| <b>Assets as per balance sheet</b>  |                    |                       |                      |               |
| Cash and cash equivalents   | -                  | 6,009                 | -                    | 6,009         |
| Trade and other receivables   | -                  | 13,756                | -                    | 13,756        |
| Investment  | 5,844              | -                     | -                    | 5,844         |
| <b>Total</b>  | <b>5,844</b>       | <b>19,765</b>         | <b>-</b>             | <b>25,609</b> |
| <b>Liabilities as per balance sheet</b>   |                    |                       |                      |               |
| Trade and other payables  | -                  | -                     | 7,079                | 7,079         |
| Borrowings  | -                  | -                     | 9,952                | 9,952         |
| <b>Total</b>  | <b>-</b>           | <b>-</b>              | <b>17,031</b>        | <b>17,031</b> |
| <b>At 30 September 2007</b>   |                    |                       |                      |               |
| <b>Assets as per balance sheet</b>  |                    |                       |                      |               |
| Cash and cash equivalents   | -                  | 1,202                 | -                    | 1,202         |
| Trade and other receivables   | -                  | 10,599                | -                    | 10,599        |
| Investment  | -                  | -                     | -                    | -             |
| <b>Total</b>  | <b>-</b>           | <b>11,801</b>         | <b>-</b>             | <b>11,801</b> |
| <b>Liabilities as per balance sheet</b>   |                    |                       |                      |               |
| Trade and other payables  | -                  | -                     | 4,684                | 4,684         |
| Borrowings  | -                  | -                     | 22,679               | 22,679        |
| <b>Total</b>  | <b>-</b>           | <b>-</b>              | <b>27,363</b>        | <b>27,363</b> |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

The 2007 comparatives are for the entity AgriQuality Limited only, prior to amalgamation.

| Financial instruments by category<br>continued | PARENT                |                          |                            |               |
|--|-----------------------|--------------------------|----------------------------|---------------|
|  | Available<br>for sale | Loans and<br>receivables | Other<br>amortised<br>cost | Total         |
| <b>At 30 September 2008</b>                    |                       |                          |                            |               |
| <b>Assets as per balance sheet</b>             |                       |                          |                            |               |
| Cash and cash equivalents                      | -                     | 4,699                    | -                          | 4,699         |
| Trade and other receivables                    | -                     | 12,124                   | -                          | 12,124        |
| Investment in subsidiary                       | -                     | -                        | 600                        | 600           |
| Loan to subsidiary                             | -                     | -                        | 7,904                      | 7,904         |
| Investment                                     | 2,922                 | -                        | -                          | 2,922         |
| <b>Total</b>                                   | <b>2,922</b>          | <b>16,823</b>            | <b>8,504</b>               | <b>28,249</b> |
| <b>Liabilities as per balance sheet</b>        |                       |                          |                            |               |
| Trade and other payables                       | -                     | -                        | 6,584                      | 6,584         |
| Borrowings                                     | -                     | -                        | 8,779                      | 8,779         |
| <b>Total</b>                                   | <b>-</b>              | <b>-</b>                 | <b>15,363</b>              | <b>15,363</b> |
| <b>At 30 September 2007</b>                    |                       |                          |                            |               |
| <b>Assets as per balance sheet</b>             |                       |                          |                            |               |
| Cash and cash equivalents                      | -                     | 1,097                    | -                          | 1,097         |
| Trade and other receivables                    | -                     | 8,007                    | -                          | 8,007         |
| Investment in subsidiary                       | -                     | -                        | 600                        | 600           |
| Loan to subsidiary                             | -                     | -                        | 8,779                      | 8,779         |
| Investment                                     | -                     | -                        | -                          | -             |
| <b>Total</b>                                   | <b>-</b>              | <b>9,104</b>             | <b>9,379</b>               | <b>18,483</b> |
| <b>Liabilities as per balance sheet</b>        |                       |                          |                            |               |
| Trade and other payables                       | -                     | -                        | 3,898                      | 3,898         |
| Borrowings                                     | -                     | -                        | 21,084                     | 21,084        |
| <b>Total</b>                                   | <b>-</b>              | <b>-</b>                 | <b>24,982</b>              | <b>24,982</b> |

### 27. Significant events after balance date

#### Investment

On 1 October 2008 AsureQuality Limited increased its investment in Dairy Technical Services Limited to 25%, after purchasing the shares of three minority shareholders.

#### Dividend

On 2 December 2008, the Board of Directors declared a dividend of \$3,000,000 for the year ended 30 September 2008 (2007: Nil), representing 12.61 cents per share.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

|  | Note     | CONSOLIDATED    |  |                  | PARENT          |  |                  |
|--|----------|-----------------|--|------------------|-----------------|--|------------------|
|  |          | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 |
| <b>28. Impacts of the adoption of New Zealand equivalents to International Financial Reporting Standards</b>   |          |                 |  |                  |                 |  |                  |
| The Group changed its accounting policies on 1 October 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards', with 1 July 2006 as the date of transition. |          |                 |  |                  |                 |  |                  |
| An explanation of how transition from NZ GAAP to NZ IFRS has affected the Company and Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.   |          |                 |  |                  |                 |  |                  |
| <b>Effect of NZ IFRS on the balance sheet as at 1 July 2006</b>  |          |                 |  |                  |                 |  |                  |
| <b>Results of AgriQuality Limited</b>  |          |                 |  |                  |                 |  |                  |
| <b>Assets</b>  |          |                 |  |                  |                 |  |                  |
| <b>Current assets</b>  |          |                 |  |                  |                 |  |                  |
| Cash and cash equivalents  |          | 1,528           | -  | 1,528            | 731             | -  | 731              |
| Trade and other receivables  |          | 13,362          | -  | 13,362           | 11,727          | -  | 11,727           |
| Inventories  | <i>d</i> | 2,820           | -  | 2,821            | 2,618           | -  | 2,618            |
| Current tax assets   |          | 1,467           | -  | 1,467            | 1,268           | -  | 1,268            |
| <b>Total current assets</b>  |          | <b>19,177</b>   | <b>-</b>                                       | <b>19,178</b>    | <b>16,344</b>   | <b>-</b>                                       | <b>16,344</b>    |
| <b>Non-current assets</b>  |          |                 |  |                  |                 |  |                  |
| Property, plant and equipment  |          | 30,467          | -  | 30,467           | 24,515          | -  | 24,515           |
| Intangible assets  | <i>a</i> | 4,067           | (3,168)  | 899              | 1,450           | (575)  | 875              |
| Investment in subsidiary   |          | -               | -  | -                | 600             | -  | 600              |
| Loan to subsidiary   |          | -               | -  | -                | 7,261           | -  | 7,261            |
| Investment   |          | -               | -  | -                | -               | -  | -                |
| Deferred income tax asset  | <i>b</i> | 653             | (653)  | -                | 653             | (653)  | -                |
| <b>Total non-current assets</b>  |          | <b>35,187</b>   | <b>(3,821)</b>                                 | <b>31,366</b>    | <b>34,479</b>   | <b>(1,228)</b>                                 | <b>33,251</b>    |
| <b>Total assets</b>  |          | <b>54,364</b>   | <b>(3,821)</b>                                 | <b>50,544</b>    | <b>50,823</b>   | <b>(1,228)</b>                                 | <b>49,595</b>    |
| <b>Liabilities</b>   |          |                 |  |                  |                 |  |                  |
| <b>Current liabilities</b>   |          |                 |  |                  |                 |  |                  |
| Trade and other payables   |          | 5,799           | -  | 5,799            | 5,011           | -  | 5,011            |
| Borrowings   |          | 2,219           | -  | 2,219            | 1,740           | -  | 1,740            |
| Provision for employee entitlements  |          | 2,479           | -  | 2,479            | 2,278           | -  | 2,278            |
| Current income tax liabilities   |          | -               | -  | -                | -               | -  | -                |
| Deferred income  |          | 359             | -  | 359              | 328             | -  | 328              |
| <b>Total current liabilities</b>   |          | <b>10,856</b>   | <b>-</b>                                       | <b>10,856</b>    | <b>9,357</b>    | <b>-</b>                                       | <b>9,357</b>     |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

|  | Note       | CONSOLIDATED    |  |                  | PARENT          |  |                  |
|--|------------|-----------------|--|------------------|-----------------|--|------------------|
|  |            | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 |
| <b>28. Impacts of the adoption of New Zealand equivalents to International Financial Reporting Standards (continued)</b> |            |                 |  |                  |                 |  |                  |
| <b>Effect of NZ IFRS on the balance sheet as at 1 July 2006</b>  |            |                 |  |                  |                 |  |                  |
| <b>Results of AgriQuality Limited</b>  |            |                 |  |                  |                 |  |                  |
| <b>Non-current liabilities</b>   |            |                 |  |                  |                 |  |                  |
| Borrowings   |            | 16,606          | -  | 16,606           | 14,827          | -  | 14,827           |
| Provision for employee entitlements  |            | 449             | -  | 449              | 387             | -  | 387              |
| Deferred income tax liability  | <i>b</i>   | -               | 177  | 177              | -               | 177  | 177              |
| <b>Total non-current liabilities</b>   |            | <b>17,055</b>   | <b>177</b>                                     | <b>17,232</b>    | <b>15,214</b>   | <b>177</b>                                     | <b>15,391</b>    |
| <b>Equity</b>  |            |                 |  |                  |                 |  |                  |
| Capital  |            | 11,900          | -  | 11,900           | 11,900          | -  | 11,900           |
| Reserves   |            | 6,312           | (830)  | 5,482            | 5,577           | (830)  | 4,747            |
| Retained earnings  |            | 8,241           | (3,168)  | 5,073            | 8,775           | (575)  | 8,200            |
| <b>Total equity</b>  |            | <b>26,453</b>   | <b>(3,998)</b>                                 | <b>22,455</b>    | <b>26,252</b>   | <b>(1,405)</b>                                 | <b>24,847</b>    |
| <b>Total liabilities and equity</b>  |            | <b>54,364</b>   | <b>(3,821)</b>                                 | <b>50,543</b>    | <b>50,823</b>   | <b>(1,228)</b>                                 | <b>49,595</b>    |
| <b>Effect of NZ IFRS on the income statement for the fifteen months ending 30 September 2007</b>                         |            |                 |  |                  |                 |  |                  |
| <b>Results of AgriQuality Limited</b>  |            |                 |  |                  |                 |  |                  |
| <b>Continuing operations:</b>  |            |                 |  |                  |                 |  |                  |
| Revenue  |            | 94,149          | -  | 94,149           | 89,137          | -  | 89,137           |
| Cost of sales  |            | (55,908)        | -  | (55,908)         | (52,037)        | -  | (52,037)         |
| <b>Gross profit</b>  |            | <b>38,241</b>   | <b>-</b>                                       | <b>38,241</b>    | <b>37,100</b>   | <b>-</b>                                       | <b>37,100</b>    |
| Rental and operating lease cost  |            | (3,416)         | -  | (3,416)          | (5,105)         | -  | (5,105)          |
| Administration expenses  |            | (15,390)        | -  | (15,390)         | (13,998)        | -  | (13,998)         |
| Sales and marketing  |            | (954)           | -  | (954)            | (1,858)         | -  | (1,858)          |
| Other expenses   | <i>a</i>   | (15,637)        | 236  | (15,401)         | (18,777)        | (58)   | (18,835)         |
| <b>Operating profit</b>  |            | <b>2,844</b>    | <b>236</b>                                     | <b>3,080</b>     | <b>(2,638)</b>  | <b>(58)</b>                                    | <b>(2,696)</b>   |
| Foreign exchange gains (losses)  |            | 12              | -  | 12               | 29              | -  | 29               |
| Finance income   |            | 23              | -  | 23               | 22              | -  | 22               |
| Finance costs  |            | (2,246)         | -  | (2,246)          | (2,014)         | -  | (2,014)          |
| <b>Profit (loss) before income tax</b>   |            | <b>633</b>      | <b>236</b>                                     | <b>869</b>       | <b>(4,601)</b>  | <b>(58)</b>                                    | <b>(4,659)</b>   |
| Income tax expense   | <i>b</i>   | (1,785)         | 212  | (1,573)          | (1,027)         | 212  | (815)            |
| <b>Profit (loss) for the year from continuing operations</b>   |            | <b>(1,152)</b>  | <b>448</b>                                     | <b>(704)</b>     | <b>(5,628)</b>  | <b>(154)</b>                                   | <b>(5,474)</b>   |
| <b>Discontinued operations</b>   |            |                 |  |                  |                 |  |                  |
| Profit (loss) for the year from discontinued operations  | <i>a,c</i> | (5,305)         | 2,300  | (3,005)          | (1,181)         | -  | (1,181)          |
| <b>Profit for the year</b>   | <i>d</i>   | <b>(6,457)</b>  | <b>2,748</b>                                   | <b>(3,709)</b>   | <b>(6,809)</b>  | <b>154</b>                                     | <b>(6,655)</b>   |

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008**

|  | Note | CONSOLIDATED    |  |                  | PARENT          |  |                  |
|--|------|-----------------|--|------------------|-----------------|--|------------------|
|  |      | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 |
| <b>28. Impacts of the adoption of New Zealand equivalents to International Financial Reporting Standards (continued)</b> |      |                 |  |                  |                 |  |                  |
| <b>Effect of NZ IFRS on the balance sheet as at 30 September 2007</b>  |      |                 |  |                  |                 |  |                  |
| <b>Results of AgriQuality Limited</b>  |      |                 |  |                  |                 |  |                  |
| <b>Assets</b>  |      |                 |  |                  |                 |  |                  |
| <b>Current assets</b>  |      |                 |  |                  |                 |  |                  |
| Cash and cash equivalents  |      | 1,202           | -  | 1,202            | 1,097           | -  | 1,097            |
| Trade and other receivables  |      | 10,599          | -  | 10,599           | 8,007           | -  | 8,007            |
| Inventories  |      | 4,633           | -  | 4,633            | 3,303           | -  | 3,303            |
| Current tax assets   |      | 444             | -  | 444              | 444             | -  | 444              |
| <b>Total current assets</b>  |      | <b>16,878</b>   | <b>-</b>                                       | <b>16,878</b>    | <b>12,851</b>   | <b>-</b>                                       | <b>12,851</b>    |
| <b>Non-current assets</b>  |      |                 |  |                  |                 |  |                  |
| Property, plant and equipment  |      | 32,231          | -  | 32,231           | 24,119          | -  | 24,119           |
| Intangible assets  | a    | 1,636           | (632)  | 1,004            | 1,536           | (633)  | 903              |
| Investment in subsidiary   |      | -               | -  | -                | 600             | -  | 600              |
| Loan to subsidiary   |      | -               | -  | -                | 8,779           | -  | 8,779            |
| Investment   |      | -               | -  | -                | -               | -  | -                |
| Deferred income tax asset  | b    | 309             | (309)  | -                | 309             | (309)  | -                |
| <b>Total non-current assets</b>  |      | <b>34,176</b>   | <b>(941)</b>                                   | <b>33,235</b>    | <b>35,343</b>   | <b>(942)</b>                                   | <b>34,401</b>    |
| <b>Total assets</b>  |      | <b>51,054</b>   | <b>(941)</b>                                   | <b>50,613</b>    | <b>48,194</b>   | <b>(942)</b>                                   | <b>47,752</b>    |
| <b>Liabilities</b>   |      |                 |  |                  |                 |  |                  |
| <b>Current liabilities</b>   |      |                 |  |                  |                 |  |                  |
| Trade and other payables   |      | 4,684           | -  | 4,684            | 3,898           | -  | 3,898            |
| Borrowings   |      | 2,542           | -  | 2,542            | 2,082           | -  | 2,082            |
| Provision for employee entitlements  |      | 2,487           | -  | 2,487            | 2,186           | -  | 2,186            |
| Current income tax liabilities   |      | -               | -  | -                | -               | -  | -                |
| Deferred income  |      | 232             | -  | 232              | 164             | -  | 164              |
| <b>Total current liabilities</b>   |      | <b>9,945</b>    | <b>-</b>                                       | <b>9,945</b>     | <b>8,330</b>    | <b>-</b>                                       | <b>8,330</b>     |
| <b>Non-current liabilities</b>   |      |                 |  |                  |                 |  |                  |
| Borrowings   |      | 20,137          | -  | 20,137           | 19,002          | -  | 19,002           |
| Provision for employee entitlements  |      | 409             | -  | 409              | 299             | -  | 299              |
| Deferred income tax liability  | b    | -               | 474  | 474              | -               | 474  | 474              |
| <b>Total non-current liabilities</b>   |      | <b>20,546</b>   | <b>474</b>                                     | <b>21,020</b>    | <b>19,301</b>   | <b>474</b>                                     | <b>19,775</b>    |
| <b>Equity</b>  |      |                 |  |                  |                 |  |                  |
| Capital  |      | 11,900          | -  | 11,900           | 11,900          | -  | 11,900           |
| Reserves   |      | 7,304           | (995)  | 6,309            | 7,123           | (995)  | 6,128            |
| Retained earnings  |      | 1,359           | (420)  | 939              | 1,540           | (421)  | 1,119            |
| <b>Total equity</b>  |      | <b>20,563</b>   | <b>(1,415)</b>                                 | <b>19,148</b>    | <b>20,563</b>   | <b>(1,416)</b>                                 | <b>19,147</b>    |
| <b>Total liabilities and equity</b>  |      | <b>51,054</b>   | <b>(941)</b>                                   | <b>50,113</b>    | <b>48,194</b>   | <b>(942)</b>                                   | <b>47,252</b>    |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

### 28. Impacts of the adoption of New Zealand equivalents to International Financial Reporting Standards (continued)

#### Effect of NZ IFRS on the cash flow statement for the financial period ended 30 September 2007

There are no material differences between the cash flow statement presented under NZ IFRS and the cash flow statement presented under NZ GAAP.

#### a. Intangible assets

On transition to NZ IFRS goodwill was adjusted due to impairment tests performed at a cash generating unit level resulting in impairments being recognised on transition. The profit (loss) from discontinued operation for the period ended 30 September 2007 was increased by \$2,300,000 as certain of these impairments were recorded under NZ FRS in this period. The impact of these adjustments on intangibles at 1 July 2006 for the Group was (\$3,138,000) and (\$575,000) for the Parent. The Group and Parent were impacted by (\$632,000) at 30 September 2007.

Additionally, computer software (\$899,000 at 1 July 2006, \$1,004,000 at 30 September 2007) previously classified as property, plant and equipment under previous NZ FRS is required to be classified as intangible asset.

#### b. Deferred income tax

The additional deferred taxation liability arises principally from the revaluation of buildings for accounting purposes where although most of the profit on revaluation will not ultimately be taxable, there will be tax on future income devired from the use of the buildings.

#### c. Discontinued operations

Under NZ IFRS, the Group recognises revenue and expenses, including tax expenses, attributable to discontinued operations as part of a single line item 'profit from discontinued operations' on the income statement. There was no requirement under previous FRS to split out revenue and expenses attributable to discontinued operations in this manner, and accordingly, amounts are reclassified from the various line items in which they were recognised under previous GAAP to 'profit from discontinued operations' on adoption of NZ IFRS.

#### d. Stock valuation prior period error adjustment

The inventory balance previously reported in accordance with NZ FRS has been adjusted for a prior period error as disclosed in note 23.

### 29. Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited

On the 1st October 2007, under Part XIII of the Companies Act 1993, AgriQuality Limited and ASURE (New Zealand) Limited amalgamated to form a merged Company AsureQuality Limited.

The amalgamation of ASURE and AgriQuality has been accounted for as a business combination involving entities under common control, as both ASURE and AgriQuality were State-Owned Enterprises, with the same shareholding ministers.

The assets and liabilities of ASURE have been recognised at the carrying amounts recognised previously in the audited accounts as at 30 September 2007 balance sheet of ASURE restated under NZ IFRS. ASURE's equity components have been added to the same components within the Group equity.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008**

|  | Note | 1 OCTOBER 2006  |  |                  | 30 SEPTEMBER 2007 |  |                  |
|--|------|-----------------|--|------------------|-------------------|--|------------------|
|  |      | NZ FRS<br>\$000 | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 | NZ FRS<br>\$000   | Effect of<br>transition<br>to NZ IFRS<br>\$000 | NZ IFRS<br>\$000 |
| <b>29. Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited (continued)</b> |      |                 |  |                  |                   |  |                  |
| <b>Effect of NZ IFRS on the balance sheet</b>  |      |                 |  |                  |                   |  |                  |
| <b>ASURE (New Zealand) Limited</b>   |      |                 |  |                  |                   |  |                  |
| <b>Assets</b>  |      |                 |  |                  |                   |  |                  |
| <b>Current assets</b>  |      |                 |  |                  |                   |  |                  |
| Cash and cash equivalents  |      | 14,281          | -  | 14,281           | 13,710            | -  | 13,710           |
| Trade and other receivables  |      | 1,789           | -  | 1,789            | 1,128             | -  | 1,128            |
| Inventories  |      | 120             | -  | 120              | 121               | -  | 121              |
| Current tax assets   |      | -               | -  | -                | -                 | -  | -                |
| <b>Total current assets</b>  |      | <b>16,190</b>   | <b>-</b>                                       | <b>16,190</b>    | <b>14,959</b>     | <b>-</b>                                       | <b>14,959</b>    |
| <b>Non-current assets</b>  |      |                 |  |                  |                   |  |                  |
| Property, plant and equipment  | d    | 371             | (177)  | 194              | 658               | (337)  | 321              |
| Intangible assets  | d    | 2,040           | (1,863)  | 177              | 1,530             | (1,193)  | 337              |
| Investment in subsidiary   |      | -               | -  | -                | -                 | -  | -                |
| Loan to subsidiary   |      | -               | -  | -                | -                 | -  | -                |
| Investment   |      | -               | -  | -                | -                 | -  | -                |
| Deferred income tax asset  | e    | -               | 1,240  | 1,240            | -                 | 1,430  | 1,430            |
| <b>Total non-current assets</b>  |      | <b>2,411</b>    | <b>(800)</b>                                   | <b>1,611</b>     | <b>2,188</b>      | <b>(100)</b>                                   | <b>2,088</b>     |
| <b>Total assets</b>  |      | <b>18,601</b>   | <b>(800)</b>                                   | <b>17,801</b>    | <b>17,147</b>     | <b>(100)</b>                                   | <b>17,047</b>    |
| <b>Liabilities</b>   |      |                 |  |                  |                   |  |                  |
| <b>Current liabilities</b>   |      |                 |  |                  |                   |  |                  |
| Bank overdraft   |      | -               | -  | -                | -                 | -  | -                |
| Trade and other payables   |      | 4,211           | -  | 4,211            | 1,765             | -  | 1,765            |
| Borrowings   |      | -               | -  | -                | -                 | -  | -                |
| Provision for employee entitlements  |      | -               | -  | -                | 3,108             | -  | 3,108            |
| Current income tax liabilities   |      | 125             | -  | 125              | 159               | -  | 159              |
| Deferred income  |      | 2,298           | -  | 2,298            | 2,201             | -  | 2,201            |
| <b>Total current liabilities</b>   |      | <b>6,634</b>    | <b>-</b>                                       | <b>6,634</b>     | <b>7,233</b>      | <b>-</b>                                       | <b>7,233</b>     |
| <b>Non-current liabilities</b>   |      |                 |  |                  |                   |  |                  |
| Borrowings   |      | -               | -  | -                | -                 | -  | -                |
| Provision for employee entitlements  | f    | 3,684           | 176  | 3,860            | 3,626             | 184  | 3,810            |
| Deferred income tax liability  |      | -               | -  | -                | -                 | -  | -                |
| <b>Total non-current liabilities</b>   |      | <b>3,684</b>    | <b>176</b>                                     | <b>3,860</b>     | <b>3,626</b>      | <b>184</b>                                     | <b>3,810</b>     |
| <b>Equity</b>  |      |                 |  |                  |                   |  |                  |
| Capital  | 20   | 10,200          | -  | 10,200           | 10,200            | -  | 10,200           |
| Reserves   |      | -               | -  | -                | -                 | -  | -                |
| Retained earnings  |      | (1,917)         | (976)  | (2,893)          | (3,912)           | (284)  | (4,196)          |
| <b>Total equity</b>  |      | <b>8,283</b>    | <b>(976)</b>                                   | <b>7,307</b>     | <b>6,288</b>      | <b>(284)</b>                                   | <b>6,004</b>     |
| <b>Total liabilities and equity</b>  |      | <b>18,601</b>   | <b>(800)</b>                                   | <b>17,801</b>    | <b>17,147</b>     | <b>(100)</b>                                   | <b>17,047</b>    |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008

### 29. Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited (continued)

#### d. Intangible assets

Computer software (\$177,000 at 1 October 2006, \$337,000 at 30 September 2007) previously classified as property, plant and equipment under previous NZ FRS is required to be classified as intangible asset.

ASURE's goodwill recognised under NZ FRS was set up on the establishment of ASURE as a State-Owned Enterprise and has not been recognised under NZ IFRS as it is deemed a common control transaction.

#### e. Deferred income tax

Under previous FRS ASURE did not recognise a deferred tax asset mainly relating to employee entitlements.

#### f. Sick leave liability

On transition to NZ IFRS sick leave liability has been accrued for ex-ASURE staff, based on historical actual leave rates. (\$176,000 at 1 October 2006, \$184,000 at 30 September 2007).

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008**

|   | Note | CONSOLIDATED                    |                           |                                  | PARENT                          |                           |                                  |
|---|------|---------------------------------|---------------------------|----------------------------------|---------------------------------|---------------------------|----------------------------------|
|   |      | AgriQuality<br>NZ IFRS<br>\$000 | ASURE<br>NZ IFRS<br>\$000 | AsureQuality<br>NZ IFRS<br>\$000 | AgriQuality<br>NZ IFRS<br>\$000 | ASURE<br>NZ IFRS<br>\$000 | AsureQuality<br>NZ IFRS<br>\$000 |
| <b>29. Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited (continued)</b>                  |      |                                 |                           |                                  |                                 |                           |                                  |
| <b>Amalgamation of ASURE (New Zealand) Limited and AgriQuality Limited balance sheets at 1 October 2007</b> |      |                                 |                           |                                  |                                 |                           |                                  |
| <b>Assets</b>   |      |                                 |                           |                                  |                                 |                           |                                  |
| <b>Current assets</b>   |      |                                 |                           |                                  |                                 |                           |                                  |
| Cash and cash equivalents   |      | 1,202                           | 13,710                    | 14,912                           | 1,097                           | 13,710                    | 14,807                           |
| Trade and other receivables   |      | 10,599                          | 1,128                     | 11,727                           | 8,007                           | 1,128                     | 9,135                            |
| Inventories   |      | 4,633                           | 121                       | 4,754                            | 3,303                           | 121                       | 3,424                            |
| Current tax assets  |      | 444                             | -                         | 444                              | 444                             | -                         | 444                              |
| <b>Total current assets</b>   |      | <b>16,878</b>                   | <b>14,959</b>             | <b>31,837</b>                    | <b>12,851</b>                   | <b>14,959</b>             | <b>27,810</b>                    |
| <b>Non-current assets</b>   |      |                                 |                           |                                  |                                 |                           |                                  |
| Property, plant and equipment   |      | 32,231                          | 321                       | 32,552                           | 24,119                          | 321                       | 24,440                           |
| Intangible assets   |      | 1,004                           | 337                       | 1,341                            | 903                             | 337                       | 1,240                            |
| Investment in subsidiary  |      | -                               | -                         | -                                | 600                             | -                         | 600                              |
| Loan to subsidiary  |      | -                               | -                         | -                                | 8,779                           | -                         | 8,779                            |
| Investment  |      | -                               | -                         | -                                | -                               | -                         | -                                |
| Deferred income tax asset   |      | -                               | 1,430                     | 1,430                            | -                               | 1,430                     | 1,430                            |
| <b>Total non-current assets</b>   |      | <b>33,235</b>                   | <b>2,088</b>              | <b>35,323</b>                    | <b>34,401</b>                   | <b>2,088</b>              | <b>36,489</b>                    |
| <b>Total assets</b>   |      | <b>50,113</b>                   | <b>17,047</b>             | <b>67,160</b>                    | <b>47,252</b>                   | <b>17,047</b>             | <b>64,299</b>                    |
| <b>Liabilities</b>  |      |                                 |                           |                                  |                                 |                           |                                  |
| <b>Current liabilities</b>  |      |                                 |                           |                                  |                                 |                           |                                  |
| Bank overdraft  |      | -                               | -                         | -                                | -                               | -                         | -                                |
| Trade and other payables  |      | 4,684                           | 1,765                     | 6,449                            | 3,898                           | 1,765                     | 5,663                            |
| Borrowings  |      | 2,542                           | -                         | 2,542                            | 2,082                           | -                         | 2,082                            |
| Provision for employee entitlements   |      | 2,487                           | 3,108                     | 5,595                            | 2,186                           | 3,108                     | 5,294                            |
| Current income tax liabilities  |      | -                               | 159                       | 159                              | -                               | 159                       | 159                              |
| Deferred income   |      | 232                             | 2,201                     | 2,433                            | 164                             | 2,201                     | 2,365                            |
| <b>Total current liabilities</b>  |      | <b>9,945</b>                    | <b>7,233</b>              | <b>17,178</b>                    | <b>8,330</b>                    | <b>7,233</b>              | <b>15,563</b>                    |
| <b>Non-current liabilities</b>  |      |                                 |                           |                                  |                                 |                           |                                  |
| Borrowings  |      | 20,137                          | -                         | 20,137                           | 19,002                          | -                         | 19,002                           |
| Provision for employee entitlements   |      | 409                             | 3,810                     | 4,219                            | 299                             | 3,810                     | 4,109                            |
| Deferred income tax liability   |      | 474                             | -                         | 474                              | 474                             | -                         | 474                              |
| <b>Total non-current liabilities</b>  |      | <b>21,020</b>                   | <b>3,810</b>              | <b>24,830</b>                    | <b>19,775</b>                   | <b>3,810</b>              | <b>23,585</b>                    |
| <b>Equity</b>   |      |                                 |                           |                                  |                                 |                           |                                  |
| Capital   |      | 11,900                          | 10,200                    | 22,100                           | 11,900                          | 10,200                    | 22,100                           |
| Reserves  |      | 6,309                           | -                         | 6,309                            | 6,128                           | -                         | 6,128                            |
| Retained earnings   |      | 939                             | (4,196)                   | (3,257)                          | 1,119                           | (4,196)                   | (3,077)                          |
| <b>Total equity</b>   |      | <b>19,148</b>                   | <b>6,004</b>              | <b>25,152</b>                    | <b>19,147</b>                   | <b>6,004</b>              | <b>25,151</b>                    |
| <b>Total liabilities and equity</b>   |      | <b>50,113</b>                   | <b>17,047</b>             | <b>67,160</b>                    | <b>47,252</b>                   | <b>17,047</b>             | <b>64,779</b>                    |

## AUDIT REPORT



### TO THE READERS OF ASUREQUALITY LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

The Auditor-General is the auditor of AsureQuality Limited (the Company) and Group. The Auditor-General has appointed me, Jonathan Freeman, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 30 September 2008.

#### Unqualified Opinion

In our opinion:

- › The financial statements of the Company and Group on pages 26 to 63:
  - comply with generally accepted accounting practice in New Zealand
  - comply with International Financial Reporting Standards
  - give a true and fair view of:
    - the company and group's financial position as at 30 September 2008
    - the results of operations and cash flows for the year ended on that date
- › Based on our examination the company and group kept proper accounting records.

The audit was completed on 8 December 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

#### Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- › determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data
- › verifying samples of transactions and account balances
- › performing analyses to identify anomalies in the reported data
- › reviewing significant estimates and judgements made by the Board of Directors
- › confirming year-end balances
- › determining whether accounting policies are appropriate and consistently applied
- › determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

#### Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 September 2008 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

#### Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.

Jonathan Freeman  
On behalf of the Auditor-General  
Auckland, New Zealand

PricewaterhouseCoopers  
Auckland

**COMPARISON WITH PERFORMANCE TARGETS INCLUDING THE STATEMENT OF CORPORATE INTENT  
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2008**

|   | ACHIEVEMENT | 2008 TARGET | ACHIEVED |
|---|-------------|-------------|----------|
| <b>Financial performance targets</b>                    |             |             |          |
| Revenue   | \$138.085m  | \$137.588m  | ✓        |
| Earnings before interest and tax                        | \$7.889m    | \$7.365m    | ✓        |
| EBIT margin   | 5.7%        | 5.4%        | ✓        |
| Profit after tax  | \$5.013m    | \$4.271m    | ✓        |
| Return on equity (profit after tax/shareholders' funds) | 16.4%       | 14.6%       | ✓        |
| Shareholders' funds                                     | \$30.565m   | \$29.491m   | ✓        |
| Shareholders' funds/total assets                        | 50.1%       | 50.8%       | ✗        |
| EBIT / total assets                                     | 12.9%       | 12.8%       | ✓        |
| Payroll cost / revenue                                  | 62.1%       | 62.5%       | ✓        |

|  |       |           |   |
|--|-------|-----------|---|
| <b>Non-financial performance targets</b>               |       |           |   |
| Service delivery on-time and in-full                   | 95%   | 95%       | ✓ |
| Supply of meat inspection labour                       | 100%  | 100%      | ✓ |
| Meat inspection procedural accuracy                    |       |           |   |
| Faecal contamination                                   | 99.3% | >98.0%    | ✓ |
| Other contamination                                    | 99.2% | >94.0%    | ✓ |
| Pathology  | 99.0% | >94.0%    | ✓ |
| Number of biosecurity role holders                     | 375   | >400      | ✗ |
| Biosecurity person training events                     | 567   | >500      | ✓ |
| Operational excellence - major critical audit failures | Nil   | Nil       | ✓ |
| Full-time equivalent staff (FTEs)                      | 1,351 | max 1,663 | ✓ |
| Staff turnover rate                                    | 14%   | <15%      | ✓ |
| Medically treated injury frequency rate                | 12.92 | 11.74     | ✗ |

## STATUTORY DISCLOSURE INFORMATION FOR THE YEAR ENDED 30 SEPTEMBER 2008

### 1. SHAREHOLDERS

In accordance with the State-Owned Enterprise Act 1986, the Company has two shareholders; The Minister for State-Owned Enterprises and the Minister of Finance.

### 2. DIRECTORS

The following Directors were appointed to the amalgamated Company AsureQuality Limited on 1 October 2007 and continue in office at the date of this report:

John Spencer – *Chair*  
Richard Janes – *Deputy Chair*  
Rakihia Tau  
Sam Robinson

The following Directors were appointed to the amalgamated Company AsureQuality Limited on 1 November 2007 and continue in office at the date of this report:

Joanna Perry  
Garry Wilson  
Sarah Herrod  
Grant Gillon

### 3. DIRECTORS' INTERESTS

Declaration of General Interest pursuant to section 140(2) of the Companies Act 1993 as at 30 September 2008 are set out below.

There were no declarations of interest made pursuant to section 140(1) of the Companies Act 1993 entered in the Interests Register of AsureQuality Limited or its subsidiary companies. No Director of AsureQuality Limited is a shareholder of AsureQuality Limited or any of its subsidiary companies.

In accordance with section 211(1)(e) of the Companies Act 1993, particulars of the entries in the Interests Register of AsureQuality Limited made during the period are set out below:

#### **John Spencer (Chair)**

Tainui Group Goldings Limited, Chairman  
Telfer Young Limited, Chairman  
Solid Energy New Zealand Limited, Deputy Chairman  
Tower Limited, Director  
WEL Networks Limited, Director  
Touchstone Capital Partners Limited, Director  
Allied Nationwide Finance Limited, Director

#### **Richard Janes (Deputy Chair)**

Gallagher Holdings Limited, Director  
NZ Institute for Crop and Food Research Limited, Deputy Chair  
LEK Consulting Pty Ltd Advisory Board, Member  
Castlepoint Station Ltd Advisory Board, Member  
CentrePort Limited, Director  
CentrePort Property Limited, Director

Ocean Design Group Limited, Chair  
Testing Laboratory Registration Council, Deputy Chair  
RS Janes and Associates Limited, Director  
Electricity & Gas Complaints Commission, Chair  
Accreditation Board, Institute of Directors, Member  
Wellington Port Coldstore Limited, Chair  
NZ Fast Forward Limited, Director

### **Rakihia Tau**

Ihia Limited, Shareholder & Director  
Todd Innovative Engineering Group, Director / Shareholder

### **Sam Robinson**

AgResearch, Chairman  
Port of Napier Limited, Director  
Centralines Limited, Director  
SA Robinson Family Trust, Trustee  
PSIS Limited, Director  
Growth & Innovation Group, Member

### **Joanna Perry**

PSIS Limited, Director  
Genesis Power Limited, Director  
Kiwi Income Properties Limited, Director  
JMGP Limited, Director / Shareholder  
Financial Reporting Standards Board, Chair  
Speakers Assurance Committee, Member  
Audit Committee of Victorian Auditor-General's office, Member  
Financial Services Institute of Australia, Member of Policy Advisory Council and New Zealand Regional Council  
Australian Accounting Standards Board, Member  
Melanesian Mission Trust Board, Trustee  
Financial Reporting Interpretations Committee, Member

### **Sarah Herrod**

OfficeMax New Zealand Limited, Executive  
R&E Seelye Charitable Trust, Trustee

### **Garry Wilson**

Wellington City Mission, Chair  
Wellington Free Ambulance, Deputy Chair  
Ambulance NZ, Trustee  
Housing New Zealand Corporation, Director  
Tairāwhiti Polytechnic, Crown Observer  
Wilson Consulting Limited, Director  
Herbert Gardens Limited, Chair  
Northern District Health Board Regional Collaboration Group, Chair

## Grant Gillon

Knollig Associates Limited, Director  
 ISEA, CEO  
 North Shore City Council, Councillor  
 Birkenhead Northcote Community Board, Member  
 Birkenhead Northcote Community Trust, Trustee  
 Birkenhead Charitable Trust, Trustee  
 Birkenhead Licensing Trust, Trustee  
 Birkenhead Northcote Community Facilities Trust, Trustee  
 GM & KA Gillon Partnership, Partner

## 4. DIRECTORS' TRANSACTIONS

All transactions in entities in which Directors disclosed an interest have been conducted on an 'arm's length' basis in the normal course of business.

## 5. USE OF COMPANY INFORMATION

No notices have been received by the Board of AsureQuality Limited under section 145 of the Companies Act 1993 with regard to the use of Company information received by Directors in their capacities as Directors of the Company or its subsidiary companies.

## 6. INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 AsureQuality has indemnified and arranged insurance for all current and former Directors and executive officers of the Company and its subsidiary companies in respect of all liabilities to persons (other than the Company or a related body corporate) to the extent permitted by law which arise out of the performance of their normal duties as Directors or executive officers, unless the liability relates to conduct involving a lack of good faith.

## 7. DIRECTORS' REMUNERATION

Shareholding Ministers advise the Board of the total allowance for fees available to Directors of AsureQuality Limited and its subsidiary companies. The following table sets out the total remuneration (including remuneration for standing committee membership) received or receivable from AsureQuality Limited by each Director of the Company during the period 1 October 2007 to 30 September 2008.

|                             | 2008 Directors' Fees |
|-----------------------------|----------------------|
| John Spencer, Chair         | 70,000               |
| Richard Janes, Deputy Chair | 47,000               |
| Grant Gillon                | 31,167               |
| Sarah Herrod                | 33,000               |
| Joanna Perry                | 36,667               |
| Sam Robinson                | 36,000               |
| Rakihia Tau                 | 31,437               |
| Garry Wilson                | 33,000               |
|                             | 318,271              |

## 8. EMPLOYEE REMUNERATION

The following table shows the number of employees who received remuneration and benefits greater than \$100,000 per annum during the year ended 30 September 2008. The remuneration figures shown in the table include all monetary payments actually paid during the year, plus the cost of all benefits provided to the individuals.

|                       | Number of Employees<br>in the Group |
|-----------------------|-------------------------------------|
| \$100,000 - \$110,000 | 18                                  |
| \$110,001 - \$120,000 | 8                                   |
| \$120,001 - \$130,000 | 7                                   |
| \$130,001 - \$140,000 | 7                                   |
| \$140,001 - \$150,000 | 2                                   |
| \$150,001 - \$160,000 | 1                                   |
| \$160,002 - \$170,000 | 3                                   |
| \$170,001 - \$180,000 | 1                                   |
| \$220,001 - \$230,000 | 2                                   |
| \$230,001 - \$240,000 | 1                                   |
| \$240,001 - \$250,000 | 1                                   |
| \$250,000 - \$260,000 | 1                                   |
| \$310,001 - \$320,000 | 1                                   |
| \$540,001 - \$550,000 | 1                                   |

## 9. CHANGE IN NATURE OF BUSINESS

There was no change in the nature of the business during the year.

# DIRECTORY



## DIRECTORS

The Directors of the Company during the year to 30 September 2008 were:

John Spencer - Chair  
Richard Janes - Deputy Chair  
Rakihia Tau  
Sam Robinson  
Joanna Perry  
Garry Wilson  
Sarah Herrod  
Grant Gillon

## REGISTERED OFFICE NEW ZEALAND

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## EMAIL ADDRESS

[info@asurequality.com](mailto:info@asurequality.com)

## AUDITOR

PricewaterhouseCoopers (Auckland)

## BANKER

Westpac New Zealand Limited

## SOLICITOR

Bell Gully

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