

# ANNUAL REPORT 2006



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COMPANY NUMBER:	DN/1125261
NATURE OF BUSINESS:	To produce, distribute and sell biological products for the control of plant diseases.
DIRECTORS:	Dr Maxwell Gilbert Shepherd (Chairman) Dr Wayne Leonard Burt (resigned 1 August 2005) Dr John William Forrest Mr John William Gilks (appointed 1 August 2005) Dr Cheung-Tak Hung (resigned 1 August 2005) Mr David John Smallbone
CHIEF EXECUTIVE OFFICER:	Mr John D Scandrett
ISSUED CAPITAL:	153,333,332 Fully paid ordinary shares
REGISTERED OFFICE:	Level One 30 London Street Dunedin
SHARE REGISTRAR:	Link Market Services
AUDITORS:	Deloitte
SOLICITORS:	Anderson Lloyd Caudwell Kensington Swan
BANKERS:	The Bank of New Zealand The National Bank of New Zealand

## STATEMENT OF AFFAIRS OF THE COMPANY

As shareholders will be aware the Rights Issue process, which generated a net \$3.9 million in new capital, was successfully completed in late November last year. Through the many months leading into the completion of the Issue we continued with the planning of the key steps recognized as essential to advancing the Company's commercial presence both within New Zealand and in off-shore markets.

This comprehensive planning approach enabled us, once the new capital was available, to immediately activate the necessary contractual arrangements to proceed with the following important tasks;

- the commencement of the formal product Registration in the United States and in Europe,
- the significant expansion of the Dunedin manufacturing plant,
- the evaluation of, and commitment to, the key steps associated with the formation of a large-scale European-based manufacturing facility,
- the continued research and development of new products, in particular the refinement of the formulation of the new "BZ II", and the subsequent registration of that product.

We are pleased to report that in the four months since the completion of the Rights Issue the Company has made significant progress on all of the above objectives.

The international registration steps, which are tied to lengthy formal tasks and timeline constraints, are advancing on schedule and of particular note it is now probable, but not assured, that we will secure early Registration in Germany/Austria prior to the commencement of the next, May 2007, northern hemisphere growing season. This will potentially present the opportunity for the Company to commercially release "BOTRY-Zen" into these selected EU markets one year earlier than anticipated.

Closely associated with this step is the requirement to conclude formal arrangements covering the off-shore contracted manufacture of "BOTRY-Zen" with a specialist German biological product manufacturer. Discussions with this company are well advanced and, assuming the targeted outcomes can be achieved, we will be activating our European marketing plan in January next year.

A Geneva-based agricultural product marketing and distribution company with a wide staffing presence and a strong resource base in key growing regions throughout the European Union is working closely with us to prepare the necessary market launch strategies and action plan.

European industry interest in "BOTRY-Zen", generated to a large extent we believe by our acclaimed field results, remains at a high level and we are confident that we can successfully introduce the product to key growers next season. A good deal of our planning will be focused on user education and the implementation of "best field practice" procedures, these steps being essential in order to generate strong user endorsement for the following season's more comprehensive (regionally and volume) product release.

The major expansion of the Dunedin manufacturing plant (Stage One) is well advanced however, at the time of writing we are running approximately four weeks behind the originally targeted time-line. This situation is not unexpected because of the scope and range of the specialist tasks required. For the scale-up operation, many key items of the new plant and equipment have not previously been designed and/or manufactured on the scale we are currently undertaking.

We do remain on-target to manufacture new product for the approaching season, commencing in September, but final determination of the actual quantities are dependent on the timeline for completion of the factory upgrade.

In order to widen our options on product availability within the local market this year we have taken an "insurance position" in having a quantity of "BOTRY-Zen" contract-manufactured by the German company referred to above.

We have been fortunate to have had, through the upgrade process, an excellent level of valuable and specialist assistance from the AXIS & Associates team in Nelson (on granulation and dry-harvest technologies) and from the Dunedin-based Millers Mechanical Limited staff who have assisted in new equipment design (and subsequent manufacturing) and in project management capacities. It is intended that the involvement of these parties will continue as we move through the approaching Stage Two and Stage Three steps of the plant re-development.

The evaluation process associated with the establishment of a large-scale European-based manufacturing facility is proceeding as expeditiously as is possible. This is a significant and complex proposal which carries far-reaching potential benefits for Botry-Zen Limited. We have developed an excellent working relationship with the key German party involved and it is clear that we have an opportunity to capture significant mutual gains through activation of the detailed plan now being negotiated.

Further information relative to this major new step will be released in due course.

Our second key product, currently identified in-house as "BZ II", has produced strong field results under trialling this last season. The preliminary evaluation material for application in the control of late-season Botrytis infection in grapes is just at hand and will be

comprehensively assessed as we move forward to fully develop market-readiness and the formal registration within New Zealand and in off-shore markets.

Registration of this product will be less complex than that associated with "BOTRY-Zen" due to the fact that the active ingredients all carry GRAS (Generally Recognised as Safe) classification.

It is interesting to also note that "BZ II" trial work has produced positive initial outcomes in the control of Black Spot on apples and against Rhizopus problems in strawberries. The Company will be following through on assessing commercially relevant applications across these crops.

"BOTRY-Zen" applications in the field this immediate past season consistently met the performance levels as recorded in previous seasons. The quotation from our 2005 year-end Report remains as valid today as then: "In seventy-nine percent of the blocks where BOTRY-Zen comparisons were made with standard spray programmes BOTRY-Zen performed as well as, or better than, the standard chemical products, and in the remaining blocks there were unique or localized elements or conditions that clearly explained the (only marginally) less impressive BOTRY-Zen results".

We have engaged the PGG Wrightson Limited (incorporating Fruited Supplies) team as our lead distributors and through last season our own staff have worked closely "on the ground" with their field representatives. This has been seen as important so as to effectively facilitate the grower educational process and to thoroughly impart all our knowledge on product performance and best practice protocols.

The NZ Winegrower staff and the HortResearch field and laboratory personnel (beyond the stakeholding interests of their respective organizations) continue to provide a solid platform of support across many operational and industry activities. We would like to again record our gratitude for their interest and assistance not only across viticulture activity but with other crops as well.

Strong support has also continued to come from the kiwifruit industry. We will be remaining focused, with the assistance of Zespri International, on the development of commercial strategies that will deliver positive outcomes for both the Company and the kiwifruit industry.

Moving forward from providing comment on operational matters, the following represents the major components of the Company's 2006 financial results.

A trading deficit (after depreciation) of \$1,579,020 was recorded. On a comparative basis (before recognition of the gains made on the sale of the Dunedin factory) the previous year's trading deficit was \$1,223,588.

Operational expense overheads were held at favourable levels, this assisting in off-setting some revenue short-fall where budgeted sales did not, due to production constraints, meet target.

With significant forward steps being taken, in the latter part of the year, on the plant up-scaling process our development expenses were ahead of budgeted levels. This was to be expected given the forward momentum generated around the timing of the favourable Rights Issue process.

The Directors remain most satisfied with the management of Company expenditure.

Looking forward we believe that we can address a positive future that is essentially built around three key words, "**Product, Market and Timing**".

- We have the **Product** now fully technologically developed and widely proven in the field.
- The **Market** demand within New Zealand and in the USA and in Europe is clearly visible.
- Consumers and growers at this **Time** are actively seeking biological alternatives to chemical solutions.

It is a difficult task to take any biotechnological idea through initial appraisal, laboratory assessment, field proof-of-performance and commercial up-grade steps and while we know further challenges lie ahead we remain confident that we are now through the hardest parts of the process.

Finally we wish to place on record the Board's appreciation of the efforts of all our staff members. They have worked tirelessly to meet, and beat, the challenges we have encountered through the past year.

Dr Max Shepherd

A handwritten signature in black ink that reads "M. G. Shepherd". The signature is written in a cursive, flowing style.

Chairman  
For and on behalf of the Board of Directors

**APPROVAL BY DIRECTORS**

The Directors are pleased to present the financial statements of Botry-Zen Limited for the year ended 31 March 2006 on pages 5 to 13.



M G Shepherd  
Director



J W Gilks  
Director

29 May 2006

For and on behalf of the Board of Directors

Botry-Zen Limited is a company registered under the Companies Act 1993 and is an issuer under the Financial Reporting Act 1993.

## Statement of Accounting Policies

### Reporting Entity

The financial statements presented here are for the reporting entity Botry-Zen Limited.

These financial statements are presented and prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

### A. Measurement Base

The general purpose financial statements have been prepared using the historic cost measurement basis. The reporting currency is New Zealand Dollars.

### B. Specific Accounting Policies

The following specific accounting policies which significantly affect the reporting of financial performance and financial position have been applied:

#### (i) Revenue Recognition

Revenue shown in the financial statements comprises the amounts received and receivable by the company for goods/services supplied to customers in the ordinary course of business, excluding goods and services tax, along with interest received.

#### (ii) Depreciation

Depreciation is provided on all property, plant and equipment, at rates calculated to allocate the assets' cost or valuation, less estimated residual value, over their estimated useful lives.

Major depreciation periods are:

● Buildings	25 years	Straight line (SL)
● Plant and machinery	2.5 - 25 years	Diminishing value (DV)
● Building alterations	4 - 11 years	DV
● Motor vehicles	5 - 8 years	DV
● Office equipment	2 - 8 years	DV
● Lessee improvements	4.5 - 7 years	DV

#### (iii) Property, Plant and Equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

#### (iv) Intellectual Property

The cost of Intellectual Property, including Licences to use Patents, is written off until such time as it becomes clear that future economic benefits attributable to that expenditure, will flow to the entity.

#### (v) Research and Development

Development costs are recognised as an asset when all of the following criteria are met:

- A product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The company intends to produce and market the product or process;
- The existence of a market for the product or process can be demonstrated; and
- Adequate resources exist, or their availability can be demonstrated, to complete the project and market the product or process.

Capitalisation is limited to that amount which, taken together with further related development and production costs, is probable of recovery from related future economic benefits.

Development costs recognised as an asset are amortised on a straight line basis over the period of expected benefits.

The unamortised balance of capitalised development costs is reviewed at least annually. Where the unamortised balance of capitalised development costs exceeds the probable amount of future economic benefits, the excess is written down and recognised as an expense.

All other development costs and all research costs are recognised as expenses in the period in which they are incurred.

**(vi) Receivables**

Accounts receivable are stated at their net realisable value.

**(vii) Taxation**

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

**(viii) Goods and Services Tax (GST)**

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the statement of financial performance and statement of cash flows are stated exclusive of GST.

**(ix) Foreign Currency Transactions**

Transactions denominated in foreign currencies are translated in the reporting currency using the exchange rate in effect at the transaction date. Monetary items receivable or payable in a foreign currency are translated at the balance date at the closing rate. Exchange differences on foreign currency balances are recognised in the statement of financial performance.

**(x) Financial Instruments**

Financial instruments recognised in the statement of financial position includes cash and short term deposits trade, and interest receivables, and payables. The company is not party to any off balance sheet financial instruments.

**(xi) Cash Flows**

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance. Definitions of the terms used in the statement of cash flows are:

"Cash" includes cash on hand, deposits held at call with banks, and investments in money market instruments.

"Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Operating activities" include all transactions and other events that are not investing or financing activities.

"Financing activities" are those activities relating to changes in the equity and capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

**(xii) Comparative Figures**

Comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current year.

**C. Changes in Accounting Policies**

There have been no changes in accounting policies during the year. All accounting policies have been applied on a basis consistent with those used in the prior year.

	Note	2006 \$	2005 \$
<b>Total revenue</b>	1	277,314	194,357
Expenditure		1,799,200	1,343,986
Net deficit before depreciation and taxation	2	<u>(1,521,886)</u>	<u>(1,149,629)</u>
Depreciation expense	3	57,134	73,959
Net deficit from trading activities		<u>(1,579,020)</u>	<u>(1,223,588)</u>
Gain on sale of building		-	465,842
Net deficit before taxation		<u>(1,579,020)</u>	<u>(757,746)</u>
Taxation expense	4	-	-
<b>Net deficit for the year</b>		<u>(1,579,020)</u>	<u>(757,746)</u>
<b>Basic earnings per share (in cents)</b>		(.015)	(.005)
<b>Diluted earnings per share (in cents)</b>		(.015)	(.005)

**BOTRY-ZEN LIMITED**  
**STATEMENT OF MOVEMENTS IN EQUITY**  
For the year ended 31 March 2006

<b>Equity at the beginning of the Year</b>		1,008,942	1,766,688
Net deficit for the year		(1,579,020)	(757,746)
<b>Total Recognised Revenues &amp; Expenses for Year</b>		<u>(1,579,020)</u>	<u>(757,746)</u>
<b>Contributions from owners</b>			
Ordinary shares issued during the year	5	3,910,033	-
<b>Total Contributions from owners</b>		<u>3,910,033</u>	<u>-</u>
<b>Equity at end of the Year</b>		<u>3,339,955</u>	<u>1,008,942</u>

**BOTRY-ZEN LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 March 2006

	Note	2006 \$	2005 \$
<b>EQUITY</b>			
Ordinary Share capital	5	8,911,033	5,001,000
Retained earnings deficit		(5,571,078)	(3,992,058)
<b>TOTAL EQUITY</b>		<u>3,339,955</u>	<u>1,008,942</u>
Represented by:			
<b>CURRENT ASSETS</b>			
Cash & short term deposits	8, 14	2,619,015	741,401
Receivables	10	43	13,894
Interest receivable		29,976	13,655
Tax refund		53,229	4,996
Prepayments		122,049	8,160
		<u>2,824,312</u>	<u>782,106</u>
<b>LESS CURRENT LIABILITIES</b>			
Payables and accruals	6, 10, 14	139,193	125,092
Redeemable shares payable	5	5,000	5,000
		<u>144,193</u>	<u>130,092</u>
<b>NET WORKING CAPITAL</b>		2,680,119	652,014
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	659,836	356,928
		<u>659,836</u>	<u>356,928</u>
<b>NET ASSETS</b>		<u>3,339,955</u>	<u>1,008,942</u>

The Statement of Accounting Policies on pages 5 and 6 and the Notes to the Financial Statements on pages 10 to 13 form an integral part of these financial statements

	Note	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Receipts from customers		80,883	149,256
Interest received		61,732	30,014
Payments to suppliers and employees		(1,896,779)	(1,365,050)
GST Paid		(48,903)	-
<b>Net cash flow used in operating activities</b>	9	(1,803,067)	(1,185,780)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Purchase of property, plant and equipment		(360,042)	(58,298)
Sale of property, plant and equipment		-	1,084,886
<b>Net cash flow (used in) from investing activities</b>		(360,042)	1,026,588
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Issue of redeemable shares	5	-	5,000
Issue of ordinary shares	5	3,910,033	-
<b>Net cash flow from financing activities</b>		3,910,033	5,000
<b>Net increase (decrease) in cash held</b>		1,746,924	(154,192)
Cash at beginning of period		741,401	895,593
Effect of exchange rate on foreign currency balance		130,690	-
<b>Cash at end of period</b>		2,619,015	741,401
<b>Represented by:</b>			
Cash and short term deposits		2,619,015	741,401

**BOTRY-ZEN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2006

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>1. TOTAL REVENUE</b>		
Total revenue comprises:		
Sales	49,894	33,360
Other income	18,676	120,709
Interest income	78,054	40,288
Foreign exchange gain	130,690	-
	277,314	194,357
<b>2. SURPLUS/(DEFICIT) FROM OPERATIONS</b>		
Included in surplus/(deficit) from operations are the following:		
<b>Expenses:</b>		
Directors' fees	27,500	-
Fees paid to auditors - audit	6,319	6,810
Fees paid to auditors - other assurance services	6,268	1,473
Research and development costs	378,259	202,498
Leasing and rental costs	151,387	89,734
Bad debts	-	5,330
<b>3. DEPRECIATION</b>		
Buildings	-	6,412
Plant & Machinery	49,834	58,040
Building Alterations	-	3,612
Motor Vehicles	1,008	1,227
Office Equipment	6,070	4,507
Lessee Improvements	222	161
	57,134	73,959
<b>4. TAXATION</b>		
<b>Taxation Expense</b>		
The company has incurred an operating deficit in this period and no taxation is payable.		
<b>Imputation Credit Account</b>		
Opening balance	-	-
Plus credits: RWT attached to interest received	-	-
Less debits: Income tax refunds received	-	-
	\$Nil	\$Nil
Closing balance	\$Nil	\$Nil

As at 31 March, 2006 the company had tax losses of approximately \$406,000 (2005, \$3,636,000) available to be carried forward and offset against future taxable income subject to meeting the requirements of the income tax legislation. Income tax benefits arising from income tax losses were not recognised as it was not virtually certain that the benefits would be realised.

## 5. SHARE CAPITAL

	Number of shares	\$
<b>Ordinary Shares:</b>		
Balance at beginning of the year	166,666,666	5,001,000
Ordinary share cancellation	(90,000,000)	-
Ordinary share issuance	76,666,666	4,216,667
Less cost of share issuance	-	(306,634)
Balance at the end of year	<u>153,333,332</u>	<u>8,911,033</u>

In October 2005, in order to better secure its future funding requirements, the Company acquired and subsequently cancelled 90,000,000 of its outstanding shares for no consideration. Subsequent to such buy back, 76,666,666 new ordinary shares were issued at an issue price of 5.5 cents per share.

153,333,332 shares are fully paid. All shares have equal voting rights and participate equally in any dividend distribution and any surplus on the winding up of the company.

### Redeemable Shares

500,000 redeemable shares, which are convertible to ordinary shares, have been issued to an employee. The shares were issued at 10 cents per share and have been partly paid to 1 cent per share. At each 12 month interval from the date the shares were issued (31 July 2004) a quarter of the shares are convertible to ordinary shares in the Company on the date of payment of the outstanding issue price for those shares.

The redeemable shares are recognised as liabilities as the agreement stipulates that the employee may call upon the Company to repurchase the redeemable shares at any time. The redemption price is limited to the subscription price less the amount unpaid on the redeemable shares.

## 6. PAYABLES AND ACCRUALS

	2006 \$	2005 \$
Trade creditors (Note 10)	61,351	14,339
Employee entitlements	42,478	35,108
Other accruals	35,364	75,645
	<u>139,193</u>	<u>125,092</u>

## 7. PLANT, PROPERTY & EQUIPMENT

	\$ Cost 2006	\$ Cost 2005	\$ Accum Depn 2006	\$ Accum Depn 2005	\$ Book Value 2006	\$ Book Value 2005
Plant & machinery	528,529	511,195	229,441	179,607	299,088	331,588
Motor vehicles	11,000	11,000	6,342	5,334	4,658	5,666
Office equipment	46,064	35,262	22,898	16,828	23,166	18,434
Lessee improvements	1,401	1,401	383	161	1,018	1,240
Assets under construction	331,906	-	-	-	331,906	-
	<u>918,900</u>	<u>558,858</u>	<u>259,064</u>	<u>201,930</u>	<u>659,836</u>	<u>356,928</u>

## 8. CASH & SHORT TERM DEPOSITS

The National Bank of New Zealand on behalf of Botry-Zen Limited, has provided a guarantee of \$75,000 to the New Zealand Stock Exchange. All short term deposits are based on floating rates. The Euro and US dollar deposits were established in 2006 and earn interest at 1.20% and nil, respectively. The New Zealand dollar deposits earn interest at a range of 4.25% - 7.59% (2005: 3.50% - 6.69%).

<b>9. NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2006</b>	<b>2005</b>
Reconciliation of statement of financial performance deficit with net cash flow from operating activities:	<b>\$</b>	<b>\$</b>
<b>Net deficit for the year</b>	(1,579,020)	(757,746)
Adjustments for non-cash items:		
Depreciation	57,134	73,959
Foreign exchange gain on translation of foreign currency deposits	(130,690)	-
	<u>(73,556)</u>	<u>73,959</u>
<b>Add/ (subtract) movements in working capital</b>		
Receivables	13,851	(3,112)
Interest receivable	(16,321)	(10,275)
Taxation refund	(48,233)	(1,700)
Prepayments	(113,889)	(4,632)
Payables and accruals	14,101	(16,432)
	<u>(150,491)</u>	<u>(36,151)</u>
<b>Less items classified as investing activities</b>		
Gain on sale of property, plant and equipment	-	(465,842)
<b>Net cash outflow from operating activities</b>	<u>(1,803,067)</u>	<u>(1,185,780)</u>

**10. RELATED PARTY TRANSACTIONS**

Dr M G Shepherd and Dr C T Hung (former director) were Directors of Zenith Technology Corporation Limited and PharmaZen Limited during the financial year. Dr M G Shepherd and Dr C T Hung or their related interests were also shareholders of Zenith Technology Corporation Limited and PharmaZen Limited during the financial year.

Mr D J Smallbone is a director and shareholder of PharmaZen Limited.

Dr M G Shepherd is a shareholder of BioCell Corporation Limited.

The company has:

- a) Purchased from Zenith Technology Corporation Limited consultancy, scientific, technical and administrative services to the value of \$4,358 (2005: \$18,074). Purchased from Zenith Technology (2005) Limited, an affiliate of Zenith Technology Corporation Limited, accounting and administration services to the value of \$8,451 (2005: Nil)
- b) Provided consulting and management services to PharmaZen Limited to the value of \$15,785 (2005, \$88,430).
- c) Received rental income from PharmaZen Limited of \$2,296 (2005: \$6,889).
- d) Made payments to PharmaZen for services provided to Botry-Zen to the value of \$3 (2005: \$771).
- e) Made payments to BioCell Corporation Limited for services provided to Botry-Zen to the value of \$472 (2005: Nil).

The net balance owing to Zenith Technology Corporation Limited at 31 March 2006 was Nil (2005: \$6,778).

The net balance owing to Zenith Technology (2005) Limited at 31 March 2006 was \$1,133 (2005: Nil).

The net balance owing to BioCell Corporation at 31 March 2006 was Nil (2005: Nil).

The balance owing from PharmaZen Limited at 31 March 2006 was \$1,800 (2005: \$7,083).

There has been no write off of bad debts due from related parties during the period.

**11. CAPITAL COMMITMENTS**

Capital commitments as at 31 March 2006 are \$329,068 (2005: Nil) for costs contracted for plant and machinery.

**12. CONTINGENT LIABILITIES**

There are no contingent liabilities as at 31 March 2006 (2005: Nil).

**13. SEGMENT REPORTING**

The company currently operates in one country, being New Zealand, and in one industry, being the production and marketing for sale of the BOTRY-Zen product.

**14. FINANCIAL INSTRUMENTS**

**Currency and Interest Rate Risk**

The company has exposure to foreign exchange currency risk as a result of the cash balances denominated in foreign currencies. See Note 15. This risk is managed by the Board of Directors through the authorised use of financial instruments, as deemed necessary, under approved policy guidelines. The company does not have any off balance sheet financial instruments.

The company has exposure to interest rate risk in relation to cash and short term deposits as these are subject to floating interest rates. See Note 8.

### Concentration of Credit Risk

In the normal course of its business the company incurs credit risk from receivables and counter parties holding short-term deposits. \$2,575,035 (2005: \$700,386) of the deposits are with one trading bank. Otherwise, the company does not have any significant concentration of credit risk. It does not require any collateral or security to support financial instruments as it only deposits with trading banks with high credit ratings. The company does not expect any non-performance of any obligations at balance date. The company has no credit facilities.

### Fair Values

The carrying value of the following financial instruments is equivalent to their fair value

	Carrying Value 2006 \$	Carrying Value 2005 \$
Cash and short term deposits	2,619,015	741,401
Receivables (trade and interest)	30,019	27,549
Payables and accruals	139,193	125,092
Redeemable shares payable	5,000	5,000

### 15. FOREIGN CURRENCY DENOMINATED MONETARY ASSETS

	2006 \$	2005 \$
Current Assets:		
Euros	694,104	-
US Dollars	12,322	-
	706,426	-

### 16. OPERATING LEASE COMMITMENTS

	\$	\$
Commitments in respect of non cancellable operating leases		
Not later than one year	122,015	130,442
Later than one year and not later than two years	137,515	109,833
Later than two years and not later than five years	150,896	266,288
Later than five years	-	-

### 17. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance date.

### 18. TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002, the New Zealand Accounting Standards Review Board announced that New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) would apply to all New Zealand reporting entities for reporting periods beginning on or after 1 January 2007, with the option of early adoption for periods beginning on or after 1 January 2005. Botry-Zen Limited (the entity) intends to adopt from 1 April 2007. Accordingly, the adoption of NZ IFRS will be reflected in the entity's financial statements for the year ended 31 March 2008.

The entity will manage the transition to NZ IFRS beginning with an analysis of the key impacts. The entity will begin to evaluate the entity's existing accounting policies and the potential impacts of adopting NZ IFRS, to ensure the transition occurs within the required timeframes.

In the first year of compliance, entities are required to restate comparative financial statements to reflect the new standards. The majority of adjustments required on transition to NZ IFRS will be to equity.

Whilst the implementation of NZ IFRS has no impact on the entity's underlying economic strength, risk management practices or cash flows, it may result in key, material differences in the financial statements. As at 31 March 2006 the entity has not yet begun a detailed review of the NZ IFRS standards. Therefore, the potential impact the NZ IFRS standards will have on the financial statements is not known and could not be reliably estimated.

During the transition project, where the financial impact of NZ IFRS can be reliably estimated and will have a material impact, disclosure will be made in subsequent financial statements. The actual impact of adopting NZ IFRS may vary from the information presented and this variation may be material.

The Corporate Governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code, except as follows:

- As noted below the size and composition of the Board means there are no significant benefits in delegating matters in relation to the Board nomination process, liaison with external auditors and other corporate financial matters to committees of the Board. Accordingly a nomination committee, audit committee and remuneration committee have not been formed. The full Board is involved in all such matters.

### **Financial Statements**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the company as at 31 March 2006 and its financial performance and cashflows for the year ended on that date. The external auditors are responsible for expressing an opinion on the financial report, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

The Directors consider that the financial statements of the company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

After reviewing internal management financial reports and budgets the Directors believe that the company will continue to be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### **Board of Directors**

The Board of Directors of Botry-Zen Limited is elected by the shareholders to supervise the management of the company. The Board establishes the company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control. The day to day management responsibilities of the company have been delegated to the Chief Executive Officer.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the company.

The primary responsibilities of the Board include:

- The approval of the annual and half-year financial report;
- The establishment of the long term goals of the company and strategic plans to achieve those goals;
- Succession planning for the Chief Executive Officer and the Board;
- The review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis;
- Monitoring environmental, social and economic performance;
- Ensuring that the company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities; and
- Ensuring legislative compliance;
- Monitoring executive management;
- Communicating with stakeholders.

### **Board Membership**

The Board currently comprises four non-executive Directors including the Chairman. They held four Board meetings during the financial year. In accordance with the company's constitution one third, or the number nearest to one third, retire by rotation at each annual meeting. The Directors to retire are those who have been longest in office since their last election. Directors retiring by rotation may, if eligible, stand for re-election. A Director appointed since the previous annual meeting holds office only until the next annual meeting but is eligible for re-election at that meeting.

## Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the company adopts a code of conduct as part of a Directors Operations Manual to guide Directors and management in carrying out their duties and responsibilities. The Directors Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Chief Executive Officer;
- Confidentiality and the safeguarding of company information;
- Compliance with laws and regulations;
- Shareholder participation.

Newly elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual. Training is also provided to new and existing Directors where this is required to enable Directors to fulfil their responsibilities.

## Conflicts of Interest

All Directors must disclose any specific and general interests which could be in conflict with their obligations to Botry-Zen Limited.

## Sub Committees

Given the size of the Board, there are no sub committees. Rather, the full Board is involved in the Director nomination process, liaison with the company's external auditors, and other corporate financial matters.

The Directors' Operations Manual sets out a written charter in relation to:

- Appointment of external auditors.
- Monitoring the external audit of the company's affairs.
- Reviewing the half year and annual financial statements.
- Reviewing the company's internal controls and systems.

The full Board receives reports from the external auditors concerning any matters which arise in connection with the performance of their role. The full Board also monitors the independence of the external auditors and reviews and approves any services provided by the auditors other than in their statutory role.

## Internal Financial Control

The Board has overall responsibility for the company's system of internal financial control. The Directors have established procedures and policies that are designed to provide effective internal financial control. Annual budgets and business plans are prepared, and agreed by the Board. Monthly management accounts are prepared and reviewed by the Board throughout the year to monitor performance against budget.

The Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the company. The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

Given the size of the company an internal audit function is not considered necessary.

The Directors believe that the Statement of Corporate Governance meets the nine principles of corporate governance issued by the Securities Commission. The nine principles are:

- Ethical standards.
- Board composition and performance.
- Use of Board Committees where this would enhance effectiveness.
- Reporting and disclosure.
- Remuneration of Directors and Executives.
- Risk management.
- Quality and independence of the external audit process.
- Shareholder relations.
- Stakeholder interest.

**BOTRY-ZEN LIMITED**  
**STATUTORY INFORMATION**

For the year ended 31 March 2006

**Interest Register**

Directors have declared interests in the following transactions during the year:

**Transactions**

1. Dr Maxwell G Shepherd and Mr David J Smallbone disclosed their interests through PharmaZen Limited of which they are directors and shareholders. PharmaZen has been involved in normal market transactions with the company which the other directors considered fair and reasonable to the company and its existing shareholders.

**Share Dealing**

During the year the following directors (or the relevant associated entity) acquired or disposed of equity securities in the company.

<b>Associated Entity</b>	<b>Director</b>	<b>Class of Shares</b>	<b>No. of Shares Acquired/(sold)</b>	<b>Consideration Paid/(Received)</b>	<b>Date</b>
John William Forrest	JW Forrest	Fully Paid Ordinary	100,000	7,500	August 2005
John William Forrest	JW Forrest	Fully Paid Ordinary	459,783	25,288	November 2005
Otago Trustee Company Ltd	DJ Smallbone	Fully Paid Ordinary	(30,000,000)	1	November 2005
Polson Higgs Nominees Ltd (Rutherglen Trust)	MG Shepherd	Fully Paid Ordinary	(30,000,000)	1	November 2005
David John Smallbone	DJ Smallbone	Fully Paid Ordinary	2,324,329	127,838	December 2005
SFT Investments Ltd	DJ Smallbone	Fully Paid Ordinary	350,000	19,250	December 2005
Tarlogie Investments Ltd	DJ Smallbone	Fully Paid Ordinary	149,484	8,249	December 2005
Tarlogie Investments Ltd	DJ Smallbone	Fully Paid Ordinary	22,468	Nil	December 2005
Akanaw Investments Ltd	DJ Smallbone	Fully Paid Ordinary	110,060	6,053	December 2005
Southern Viticulture Ltd	DJ Smallbone	Fully Paid Ordinary	4,040,281	222,215	December 2005
Southern Viticulture Ltd	DJ Smallbone	Fully Paid Ordinary	5,578,080	306,794	December 2005
Alluvial Holdings Ltd	DJ Smallbone	Fully Paid Ordinary	190,232	10,463	December 2005
Otago Trustee Company Ltd	DJ Smallbone	Fully Paid Ordinary	5,429,523	298,624	December 2005
Otago Trustee Company Ltd	DJ Smallbone	Fully Paid Ordinary	18,844	Nil	December 2005
Three River Holdings Ltd	DJ Smallbone	Fully Paid Ordinary	74,898	4,119	December 2005
Three River Holdings Ltd	DJ Smallbone	Fully Paid Ordinary	(149,796)	Nil	December 2005
Dublin Bay Investments	JW Gilks	Fully Paid Ordinary	1,000,000	55,000	December 2005
Polson Higgs Nominees Ltd (Rutherglen Trust)	MG Shepherd	Fully Paid Ordinary	5,454,545	300,000	December 2005
Forbar Custodians Ltd (Shepherd Family Trust)	MG Shepherd	Fully Paid Ordinary	166,665	Nil	December 2005
Zenith Technology Corporation Limited	MG Shepherd /CT Hung	Fully Paid Ordinary	(333,330)	Nil	December 2005
Otago Trustee Company Ltd	DJ Smallbone	Fully Paid Ordinary	(10,859,046)	Nil	February 2006

### Remuneration of Directors

Directors remuneration is as follows:

	Year Ended 31 March 2006	Year Ended 31 March 2005
	\$	\$
Dr Maxwell G Shepherd	12,500	-
Dr John William Forrest	5,000	-
Mr David John Smallbone	5,000	-
Mr John William Gilks	5,000	-

### Employee Remuneration

Remuneration and other benefits of \$100,000 per annum or more received by employees in their capacity as employees were:

	<u>Number of Employees</u>
\$160,000 - \$169,999	1

### Donations

During the period the company did not make any donations.

### Information used by Directors

There were no notices from Directors requesting the use of company information received in their capacity as Directors which would not otherwise be available to them.

## BOTRY-ZEN LIMITED

### ADDITIONAL STOCK EXCHANGE INFORMATION

For the year ended 31 March 2006

The company's ordinary shares are listed on the New Zealand Stock Exchange. Details in regard to such securities are as follows:

#### 1. Substantial Security Holders

Pursuant to Section 25 of the Securities Amendment Act 1988, the substantial security holders of the company as at 28 April 2006 were as follows:

<u>Name</u>	<u>Number of Voting Securities</u>
Polson Higgs Nominees Limited	22,642,717
Southern Viticulture Limited	13,658,642

At 28 April 2006 the total issued voting securities were 153,333,332.

#### 2. Spread of Security Holders at 28 April 2006

	<u>Number of Security Holders</u>	
1-1000	20	0.01%
1,001 – 5000	244	0.56%
5,001 – 10,000	286	1.62%
10,001 – 100,000	689	16.45%
100,000 and above	162	81.36%
Total Number of Holders	1,401	100%

### 3. Twenty Largest Equity Security Holders

The names of the 20 largest holders of each class of equity security as at 28 April 2006 are listed below:

Top 20 Shareholders	Number of Ordinary Shares	Percentage Issued
Polson Higgs Nominees Ltd	22,642,717	14.8
Southern Viticulture Ltd	13,658,642	8.9
Biotechnica Consultants Ltd	5,731,664	3.7
Lee Paterson Family Trust Company Ltd	4,886,570	3.2
De Tourettes Holdings Ltd	3,718,617	2.4
John McDonald Paterson	3,718,617	2.4
Essex Castle Ltd	3,203,482	2.1
Dublin Nominees Ltd	2,999,880	2.0
Ngahere Securities Ltd	2,999,880	2.0
Shady Deals Ltd	2,999,880	2.0
First NZ Capital Custodians Ltd	2,495,952	1.6
David John Smallbone	2,324,329	1.5
Matthew John Paterson & Oracle Trust Company Ltd	2,171,810	1.4
PKHB Holdings Ltd	2,124,329	1.4
Lee Joanne Paterson	1,960,000	1.3
Richard Grant Paterson, Lee Joanne Paterson & Peter Austin Gowing	1,900,333	1.2
Richard Grant Paterson, Lee Joanne Paterson & Peter Austin Gowing	1,900,333	1.2
Susan Ray Wootton & Walter John Rutherford	1,508,595	1.0
Howard De Wet Cara	1,500,000	1.0
Colin John Wilson, Glenys Ann Wilson, & Mark Rutherford Wadham	1,250,000	0.8
Alton Charles Harris	1,119,140	0.7
John Kenneth Giffney & Rosalind Anne Giffney	1,100,000	0.7
Dublin Bay Investments Ltd	1,000,000	0.7
Greenfield Farms Ltd	943,552	0.6
Totals for Top 20	<u>89,858,322</u>	<u>58.6</u>

### Directors' Shareholdings

The following table sets out, for the purposes of the disclosures required under Rule 10.5.3 of the New Zealand Stock Exchange Listing Rules, the relevant interests of Directors and associated persons of Directors in equity securities of the company as at 31 March 2006.

Name of Director	Number of Equity Securities in which a relevant interest is held by the Director	Number of Equity Securities in which a relevant interest is held by an associated person
J W Gilks	1,000,000	-
Dr J W Forrest	1,019,566	-
Dr M G Shepherd	17,336,208	26,768
D J Smallbone	18,043,481*	-

Note that particular shareholdings can appear under more than one director.

The term "relevant interest" is defined in Sections 5 and 6 of the Securities Markets Act 1988.

\*The number of equity securities in which D J Smallbone has a relevant interest includes 13,658,642 shares held by Southern Viticulture Limited. Southern Viticulture Limited is a subsidiary of Hirequip New Zealand, of which Mr Smallbone is a Director.

## AUDIT REPORT TO THE SHAREHOLDERS OF BOTRY-ZEN LIMITED

We have audited the financial statements on pages 4 to 13. The financial statements provide information about the past financial performance of Botry-Zen Limited and its financial position as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 5 and 6.

### Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the company as at 31 March 2006 and the results of its operations and cash flows for the year ended on that date.

### Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in Botry-Zen Limited.

### Unqualified Opinion

We have obtained all the information and explanations we have required.  
In our opinion:

- proper accounting records have been kept by Botry-Zen Limited as far as appears from our examination of those records; and
- the financial statements on pages 4 to 13:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the financial position of Botry-Zen Limited as at 31 March 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 29 May 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants  
DUNEDIN, NEW ZEALAND

