

# BOTRY-ZEN LIMITED

## INTERIM REPORT FOR THE SIX MONTHS TO 30 SEPTEMBER 2008

### DIRECTORS' STATEMENT

With the failure of Resolution 4 at the Special General Meeting held on 15 August, the company became insolvent as it was overdrawn in excess of the bank's limit. The board decided to commission a report from PricewaterhouseCoopers, in conjunction with the bank, as to Botry-Zen Limited's future. PricewaterhouseCoopers' executive summary stated, among other things, *"the company has products that are strongly supported, particularly by the viticulture industry. However it is yet to establish a commercially viable production process. The company is insolvent as it cannot pay its liabilities as and when they fall due and it has lost shareholder and bank support"*.

Such a preface inevitably makes this the worst report the company has ever issued. The challenge for the largely new board and for the very loyal team of staff that remains is to improve production techniques, grow profitable markets for the quality product, and regain shareholder and bank support. Not surprisingly, further capital will be required to achieve these objectives.

On hearing of the company's perilous financial position, Michael Mellon of Melic Innovators Ltd initially offered a cash rescue package of \$1M. PricewaterhouseCoopers and the bank considered that inadequate, even as a short term solution, so a further \$200,000 was injected by a German investor, Claus and Margarita Hartge, and Melic increased its contribution by a further \$100,000. The Hartge funds were all provided by way of capital. The Melic funds were provided \$500,000 by way of an issue of shares and \$600,000 by way of interest bearing advance.

With BOTRY-Zen production at only 80% of budget, and ARMOUR-Zen waiting for raw materials to be cleared on the wharf, September was a negative month, merely clearing a number of urgent creditors. These included very significant costs of \$175,000 for the failed notes issue and advice during the very difficult period for the company, and significant bank charges due to the excess overdraft.

The financial result for the six months to 30 September 2008 is a loss of \$1,222,000. Continuing production difficulties, stock write-downs, and some of the one-off costs referred to have contributed to this very poor result.

Demand for BOTRY-Zen in New Zealand remains strong and indeed the product is in short supply. We chose to return from Germany quantities of BOTRY-Zen to assist with that situation. We have also adopted an allocation method so that customers can obtain a quantity of BOTRY-Zen so vital to their strategic sustainability. With ARMOUR-Zen back in production, we hope to supply the encouraging scale of orders now being obtained by our sales manager who was appointed in August.

The business community is increasingly recognising the importance of sustainable practices. In the wine industry in New Zealand, and offshore, sustainability is fast becoming the standard, so the opportunities for Botry-Zen Limited are excellent.

There have been significant changes of personnel at the governance and senior management levels. Mr Michael Mellon has been appointed to the board as has, on his recommendation, Mr Tim Dunn, an experienced Chartered Accountant based in Dunedin. Mr Stephen Higgs, who is a director of a number of companies, particularly in an independent capacity, has been appointed as independent Chairman.

Dr Max Shepherd, Chairman of the company since its formation in 2001 has stepped down from the board, as has Mr John Gilks. Mr John Scandrett, the Chief Executive Officer since 2002, announced prior to the Special General Meeting his intention to retire from his position and has now stepped down. It is appropriate to acknowledge them on your behalf for the roles they have played in the development of the company, and for the difficult financial challenges they have overseen in recent times.

The new board has decided that for such a small company, the position of CEO should be disestablished, and the head office will be closed as soon as practical and moved into empty office space adjoining the factory. Recognising the key role of reliable and efficient production, and growth, to the company's future success, we are currently recruiting a person to the combined role of General and Technical Manager, with a key focus on technical and production experience.

It is the unanimous opinion of both the previous and present boards that the costs, both direct and indirect, of being listed on the New Zealand Stock Exchange are not warranted, given the small scale and position of the company. We therefore propose a Special General Meeting of shareholders to approve the delisting of the company from the NZX. Further detail will be provided to shareholders as part of this process but it is appropriate to highlight now that we recognise that shareholders will still require regular information, so we propose to incorporate, in company policy, rules that require an equivalent to the continuous disclosure required by the NZX listing rules.

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**DIRECTORS' STATEMENT (continued)**

It would be inappropriate for the board to communicate anything to shareholders other than the reality of the challenges that the company still faces. The company requires additional capital, more efficient and more reliable production, and significant sales growth domestically and off-shore. With the continuing support of shareholders and staff, the board is seeing those as positive challenges.

Despite the extreme financial position that the company found itself in, and the personal stress that created for a number of them, staff at all levels have remained remarkably loyal and supportive. There is a strong belief in the products, the value they can bring to the horticulture sector in New Zealand and internationally, and in the future of the company. The board extends its thanks to all staff for their efforts for the company and its shareholders.



Mr Stephen Higgs  
Chairman

**FINANCIAL REPORT**

**INCOME STATEMENT - For the 6 Months Ended 30 September, 2008**

	<b>6 mths 30 Sep 08 (Unaudited) \$'000s</b>	<b>6 mths 30 Sep 07 (Unaudited) \$'000s</b>	<b>12 mths 31 Mar 08 (Audited) \$'000s</b>
<b>REVENUES</b>			
Trading revenue	14	2	342
Cost of Sales	(287)	(69)	(512)
Gross Profit / (Loss)	(273)	(67)	(170)
Interest Received	2	1	1
Other Income	2	232	232
	(269)	166	63
<b>LESS</b>			
Distribution expenses	22	49	95
Marketing expenses	57	-	-
Occupancy expenses	77	68	136
Administrative expenses	255	316	569
Finance costs	303	19	64
Other expenses	239	258	421
	953	710	1,284
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>	(1,222)	(544)	(1,221)
Taxation	-	-	-
<b>NET SURPLUS/(DEFICIT) FOR THE PERIOD</b>	(1,222)	(544)	(1,221)
<b>Earnings per Share:</b>			
Basic (cents per share)	(0.64)	(0.3)	(0.7)
Diluted (cents per share)	(0.64)	(0.3)	(0.7)

Calculated on a weighted average basis of the number of shares on issue.

**BOTRY-ZEN LIMITED**  
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**STATEMENT OF RECOGNISED INCOME AND EXPENSE - For the 6 Months Ended 30 September, 2008**

	6 mths 30 Sep 08 (Unaudited) \$'000s	6 mths 30 Sep 07 (Unaudited) \$'000s	12 mths 31 Mar 08 (Audited) \$'000s
Net income recognised directly in equity	-	-	-
Net Surplus/(Deficit) for the Period	(1,222)	(544)	(1,221)
<b>TOTAL RECOGNISED INCOME AND EXPENSE</b>	<u>(1,222)</u>	<u>(544)</u>	<u>(1,221)</u>

**STATEMENT OF MOVEMENTS IN EQUITY - For the 6 months ended 30 September, 2008**

	1,150	1,672	1,671
<b>EQUITY AT BEGINNING OF THE PERIOD</b>			
Net Surplus/(Deficit) for the period	(1,222)	(544)	(1,221)
Issue of ordinary shares	707	705	750
Share issue costs	(24)	-	(50)
<b>EQUITY AT END OF PERIOD</b>	<u>611</u>	<u>1,833</u>	<u>1,150</u>

**BALANCE SHEET - As at 30 September, 2008**

Notes	6 mths 30 Sep 08 (Unaudited) \$'000s	6 mths 30 Sep 07 (Unaudited) \$'000s	12 mths 31 Mar 08 (Audited) \$'000s
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and short term deposits	1	1	-
Accounts receivable	26	27	46
Prepayments	8	7	21
Inventory	239	336	179
GST Receivable	38	-	-
	<u>312</u>	<u>371</u>	<u>246</u>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	2,006	2,205	2,164
Intangible Assets	23	25	25
	<u>2,341</u>	<u>2,601</u>	<u>2,435</u>
<b>CURRENT LIABILITIES</b>			
Bank Overdraft	854	462	983
Accounts Payable	276	300	296
Redeemable Preference Shares	-	6	6
	<u>1,130</u>	<u>768</u>	<u>1,285</u>
<b>NON CURRENT LIABILITIES</b>			
Term Loans	3 600	-	-
<b>OWNERS EQUITY</b>			
Share Capital	4 10,294	9,616	9,610
Reserves	(9,683)	(7,783)	(8,460)
	<u>611</u>	<u>1,833</u>	<u>1,150</u>
<b>TOTAL LIABILITIES &amp; OWNERS EQUITY</b>	<u>2,341</u>	<u>2,601</u>	<u>2,435</u>
<b>Net Tangible Assets per Share:</b>			
Basic (cents per share)	0.28	1.05	0.65

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**STATEMENT OF CASHFLOWS - For the 6 Months Ended 30 September, 2008**

	Notes	6 mths 30 Sep 08 (Unaudited) \$'000s	6 mths 30 Sep 07 (Unaudited) \$'000s	12 mths 31 Mar 08 (Audited) \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from (applied to):</b>				
Trading revenue		21	-	545
Interest received/(paid)		1	1	(62)
Other Income		2	232	-
Payments to suppliers and employees		(1,023)	(790)	(1,489)
Interest on Borrowings		(99)	-	-
Goods & Services Taxation (Paid)/Received		(29)	(2)	1
<b>Net cash inflow (outflow) from operating activities</b>	2	<u>(1,127)</u>	<u>(559)</u>	<u>(1,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from (applied to):</b>				
Purchase of Property, plant and equipment		(20)	(30)	(134)
Sale of Property, plant and equipment		-	1	1
<b>Net cash inflow (outflow) from investing activities</b>		<u>(20)</u>	<u>(29)</u>	<u>(133)</u>
<b>CASH FLOWS FINANCING ACTIVITIES</b>				
<b>Cash was provided from (applied to):</b>				
Issues of shares		707	750	750
Term Loans		600	-	-
Issue Expenses		(24)	(45)	(17)
Redeemable Preference Shares		(6)	-	-
<b>Net cash inflow (outflow) from financing activities</b>		<u>1,277</u>	<u>705</u>	<u>733</u>
Net increase/(decrease) in cash held		130	117	(405)
Add cash and short term deposits at start of period (overdraft)		(983)	(578)	(578)
Foreign exchange gain		-	-	-
<b>Balance at end of period (overdraft)</b>		<u><u>(853)</u></u>	<u><u>(461)</u></u>	<u><u>(983)</u></u>
<b>COMPRISED OF:</b>				
Overdraft		<u><u>(853)</u></u>	<u><u>(461)</u></u>	<u><u>(983)</u></u>

# BOTRY-ZEN LIMITED

## INTERIM REPORT FOR THE SIX MONTHS TO 30 SEPTEMBER 2008

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS - For the 6 Months Ended 30 September, 2008

### 1. SUMMARY OF ACCOUNTING POLICIES

#### Statement of Compliance

Botry-Zen Limited ("Botry-Zen" or "Company") is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its annual financial statements comply with that Act.

The unaudited interim financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards 34 ("NZ IAS-34") "Interim Financial Reporting".

#### Basis of Preparation

The financial statements have been prepared on the basis of historical cost.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies adopted by the Company have been applied in preparing the interim financial statements for the six months ended 30 September, 2008, the comparative information presented in these interim financial statements for the six months ended 30 September, 2007, and in the preparation of the previous full year financial statements at 31 March, 2008, the Company's NZ IFRS comparative financial statements.

The information is presented in New Zealand dollars.

#### Changes in Accounting Policies

There have been no changes in accounting policies used. The same accounting policies and method of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

### 2. RECONCILIATION OF NET PROFIT AFTER TAXATION WITH NET CASHFLOWS FROM OPERATING ACTIVITIES

	6 mths 30 Sep 08 (Unaudited) \$'000s	6 mths 30 Sep 07 (Unaudited) \$'000s	12 mths 31 Mar 08 (Audited) \$'000s
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	(1,222)	(544)	(1,221)
<b>Adjustments for non-cash items:</b>			
Depreciation	136	140	285
Net loss/(gain) on sale of Property, plant and equipment	44	1	1
<b>Movement in working capital</b>			
Accounts receivable	20	(4)	(23)
Prepayments	13	54	6
Accounts payable	(20)	(12)	(16)
GST	(38)	-	-
Inventories	(60)	(194)	(37)
<b>NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES</b>	<u>(1,127)</u>	<u>(559)</u>	<u>(1,005)</u>

### 3. TERM LOANS

Loan proceeds were received from Melic Innovators Ltd in early September 2008, \$500,000 and \$100,000 respectively. The loans are for a term of 3 years and will bear interest at the prevailing Bank of New Zealand Overdraft base rate plus a margin payable of 1.75%. The purposes of the loans are to reduce bank indebtedness and provide working capital. The Company has a further agreed loan facility with Melic Innovators Limited of \$250,000, which is expected to be drawn down in December to assist with working capital requirements.

### 4. SHARE CAPITAL

<b>Balance at beginning of period (172,083,332)</b>	9,611	8,911	8,911
Shares issued (35,372,807)	707	750	750
Share issue costs	(24)	(45)	(50)
<b>Balance at end of period (207,456,139)</b>	<u>10,294</u>	<u>9,616</u>	<u>9,611</u>

At 31 March 2008 there were 172,083,332 shares on issue (31 March 2007:153,333,332; 30 September 2007: 172,083,332). During the half year ended 30 September 2008 the Company issued 35,372,807 ordinary shares. The shares were issued at a value of 2 cents per share and amounted to \$707,456.

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## INTERIM REPORT FOR THE SIX MONTHS TO 30 SEPTEMBER 2008

### 5. RELATED PARTY TRANSACTIONS

Dr M G Shepherd is a director and shareholder of BioCell Corporation Limited and was the Chairperson of Botry-Zen Limited until the appointment of Stephen Higgs in September 2008.

During the period the Company has made payments to BioCell Corporation Limited for services provided to Botry-Zen Limited to the value of \$2,693.13. The net balance owing to BioCell Corporation Limited at 30 September 2008 was \$42,797.50 being Directors Fees payable to Dr MG Shepherd (March 2008: \$495).

During the period Stephen Higgs and Tim Dunn were appointed as Chairperson and Director respectively. Polson Higgs, of which Stephen Higgs and Tim Dunn are partners, provide accounting services to Botry-Zen Limited in the form of monthly management reports and business advice. Invoices for the six month period to 30 September 2008 totalled \$42,569 plus GST.

Michael Mellon is a director of Melic Innovators Limited which has provided debt financing to Botry-Zen Limited. Michael Mellon is a new director to the Board of Botry-Zen in the current period.

John Scandrett (ex CEO) in the half year to 30 September 2008 was repaid \$6,000 for Redeemable Preference Shares owned in Botry-Zen Limited.

### 6. CAPITAL COMMITMENTS, CONTINGENT LIABILITIES

There were no capital commitments or contingent liabilities as at 30 September, 2008 (2007: \$Nil).

### 7. CYCLICALITY OF OPERATIONS

The interim financial statements for the six months ended 30 September, 2008 will not reflect a half year's trading as the company's main trading period is from October to February.

### 8. BREACH OF FACILITY LIMITS

During July and August 2008 the company breached the Bank of New Zealand's overdraft facility limits set at a maximum of \$1.7m. After additional capital and debt financing was secured in early September 2008 the company subsequently complied with the Bank of New Zealand's requirements. The current loan agreement with the Bank of New Zealand is for a limit of \$1.2m and is repayable on or before 30 April 2009.

### 9. PRODUCTION PROBLEMS

In the interim period to 30 September 2008 the company has suffered from production problems. Due to the complexity of the production process, significant testing has been undertaken during the period at various stages of the production cycle. The production difficulties have resulted in a gross deficit.

### 10. TRADING STOCK

Trading stock is valued at the lesser of cost or net realisable value. Obsolete stock with a total book value of \$64,788 was written off during the period.

### 11. PROPERTY, PLANT AND EQUIPMENT

A review of the Fixed Asset Register has been undertaken in the half year to 30 September 2008. Obsolete assets with a total book value of \$43,299 have been written off during the period.

### 12. GOING CONCERN

The financial statements have been prepared using the going concern assumption.

While a significant loss has been recorded for the period to 30 September 2008, the Company's equity has reduced considerably, and the loan with the Bank of New Zealand has an expiry date of 30 April 2009, the Company has prepared forecasts which indicate that cash generated as a result of operations and issuance of share capital and/or debt financing will enable the Company to continue operating for a period of 12 months from the date these financial statements are approved.

The Directors believe the going concern assumption is valid and have reached this conclusion having regard to the circumstances which they consider likely to affect the Company during the period of one year from the date of these financials are approved, and to circumstances which they believe will occur after that date which could affect the validity of the going concern assumption. The cashflow forecasts prepared by the Directors support the carrying value of the property, plant and equipment and intangible assets.

While the Directors believe in the company's ability to continue as a going concern, there is significant uncertainty as to whether the Company will be able to raise additional cash by way of new capital and/or debt financing. In the event it cannot raise additional cash, it is likely the company will not be able to continue as a going concern.

Even in the event the planned share and/or debt issuance raises sufficient cash to enable the Company to operate for the next financial year, there remains uncertainty as to whether the Company can achieve the sales and cash flows predicted within the timeframe set out in the Board of Directors' plans prior to utilisation of current and any future available cash resources. Accordingly there is uncertainty as to whether the Company can continue as a going concern and, therefore, whether they will be able to pay their debts as and when they become due and payable.

If the Company were unable to continue in operational existence, and pay debts as and when they become due and payable, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. This situation would likely impact significantly the carrying value of property, plant and equipment and intangible assets in particular.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

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