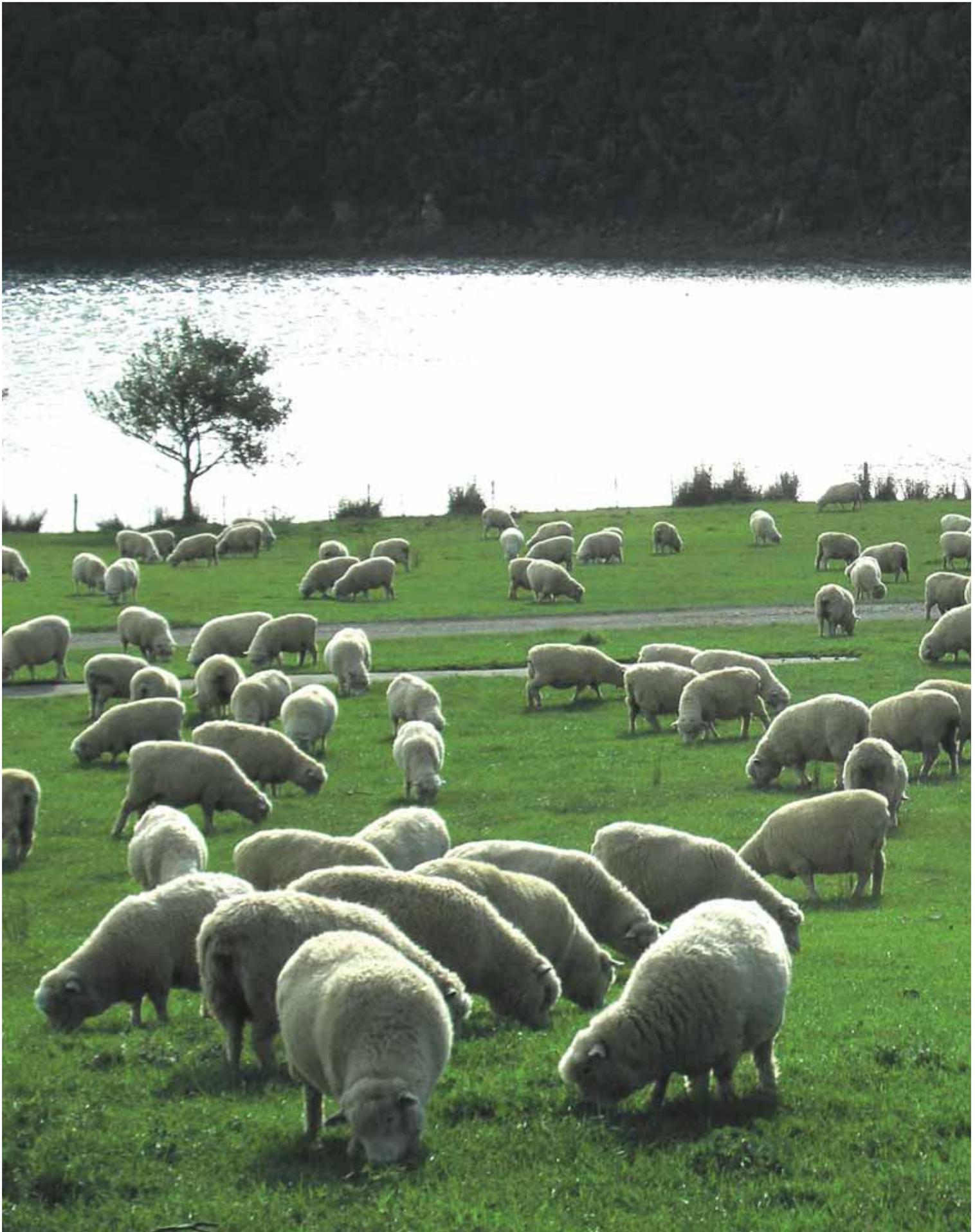


ANNUAL REPORT 2006

AGMARDT

The Agricultural and Marketing
Research and Development Trust



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ABOUT US

AGMARDT's vision is:

to foster leadership, capability and capacity to successfully meet the challenges of tomorrow's markets for products of the agriculture, horticulture and forestry sectors.

Our Strategic Intent is to:

- ¥ Be a catalyst for the translation of international consumer, market, environmental and trade policy trends into potential opportunities
- ¥ Create a greater understanding of world-class marketing, global supply chains, new products and technologies, and business models within the agribusiness community
- ¥ Foster greater efficiency in production, processing and distribution
- ¥ Enhance the speed of innovation and application throughout the production and marketing systems
- ¥ Improve the understanding of business-science linkages and associated commercialisation of technology
- ¥ Foster capability development in research, education and training towards advanced expertise.



"Trustees Bill Kain, Max Purnell, Sam Robinson (Chairman), Sandra Martin and General Manager, Peter Kettle."

AGMARDT's activities support the Government's priorities aimed at 'economic transformation'. Specifically, the programmes will contribute to:

- ¥ Growing economically competitive firms
- ¥ World class infrastructure
- ¥ Innovative and productive workplaces underpinned by high standards in education, skills and research, and environmental sustainability.

we are always open to new ideas

TRUSTEES' REPORT

It gives us very great pleasure to present AGMARDT's 2006 Annual Report.

This year we implemented decisions that will result in significant improvements in managing the Trust and developing stakeholder relationships as we move from being a passive investor to becoming a more active one.

During the year we completed a review of our activities and refreshed our strategic direction in response to our changing operating environment. We also realigned our operating principles to more effectively and efficiently meet the requirements and intent of our Trust Deed.

This year has also seen some movements within our organisation. After 12 years as Secretary Manager, Sue Christie has resigned. Sue is well known in the sector and respected for her pleasant and effective management of the Trust's affairs. We would like to express our thanks to her for her strong support and assistance in this role.

In January our head office shifted to Wellington — and soon after, the appointment of our General Manager, Dr Peter Kettle, was announced. Peter started his career in parasitology research at Wallaceville Animal Research Centre and is well known to many of our stakeholders. Prior to taking up his role as General Manager of the Trust, Peter held senior positions within the Ministry of Agriculture and Forestry in the areas of science management and policy development.

In line with the Trust's vision and strategic intent, we are proud to be involved in the ongoing development of the following projects:

- ¥ Food and Agribusiness Market Experience (FAME). The objective of this course is to train and expose aspiring agribusiness leaders to high-performance value chains for perishable land-based products in international markets. The joint-venture partners running this course are University of Otago, Lincoln University and Massey University. Together, they bring their respective strengths in marketing, agribusiness and food technology.
- ¥ Agribusiness Market Challenge. This competition is part of The National Bank Young Farmer Contest. Supported by AGMARDT, the winner of this section of the contest receives a scholarship for the FAME course.
- ¥ Agribusiness Research and Education Network (AREN). This is a joint venture that was established during the year involving AgResearch, Waikato University, Lincoln University and Massey University. AREN is a virtual centre of agribusiness excellence — it seeks to encourage knowledge and development of business skills that are critical for success in tomorrow's agribusiness markets.
- ¥ Distinguished Visiting Fellowship. This fellowship brings to our country international experts for speaking engagements — and we are proud to have supported the fellowship for the first time this year. This year's award was made to Professor John Casti from Vienna, Austria, a noted authority and author who spoke on the decline and fall of globalisation and managing agribusiness complexity in a highly uncertain world. Professor Casti presented seminars and conducted workshops on these themes throughout the main agribusiness centres of New Zealand. He received a very favourable response from the attendees.

-
- ¥ Alistair Betts Memorial Trust for Agribusiness Excellence. This trust, administered by the Massey University Foundation, held a national seminar series on agribusiness marketing that was presented by two internationally recognised experts, Dr Alan Jackson and Dr Ong Po Seng. The presentations updated participants on the trends and developments of the agri-food markets in the Asian and Western developed worlds, and were very well received
 - ¥ Research Fellowship programme. A significant project run by the University of Otago's School of Marketing and funded by AGMARDT under this programme, was completed this year. It focused on consumer preferences of genetically-modified fruit (modified so that they didn't need to be sprayed) alongside conventional and organic counterparts. The study was carried out in New Zealand and Europe, and provided valuable insights into the reaction of consumers to genetically-modified fruit, as well as valuable training for students in market research from non-English- and English-speaking countries.

During the year, these and other fellowships and scholarships were awarded to increase capabilities in key areas of strategic national importance to the food and fibre industries of New Zealand organisations — and these are summarised in this report.

We have evaluated our performance this year against our key performance criteria, which included the successful completion of fellowships, scholarships and projects, leveraging funding for projects at application, and facilitating succession funding after seed funding has been provided by us. The completion rate of projects, including post-doctorate fellowships and PhD projects, has been high. For instance, of the 97 people who were granted scholarships since the scholarships were first offered in 1993, 66 have completed their projects and 27 are still working on theirs; only four people did not finish.

We wish to thank our stakeholders, providers (namely the universities, Crown Research Institutes and co-funding agencies such as Dairy InSight), Foundation for Research Science and Technology, and Meat and Wool New Zealand for their support this year.



The inaugural FAME scholars meet for the first time at the Clear Water Resort, Christchurch in May 2006.

FINANCIAL RESULTS

At balance date, our capital and reserves total \$65.7m, and our initial capital of \$32m (set in 1987) has been protected against inflation by setting aside a reserve each year. Since inception, between \$2m and \$3m has been funded each year into a range of programmes and initiatives, consistent with the objectives outlined in our Trust Deed.

AGMARDT's investment portfolio returned 10 per cent for the financial year, driven by strong performances from equity markets, particularly offshore markets. Our equity investments returned 20 per cent, while our cash and fixed interest investments generated more modest returns of between 3.9 per cent and 7.5 per cent.

For the year in review the allocation of assets was 30 per cent equities, 55 per cent fixed interest and 15 per cent cash. Our global assets were fully hedged against currency movements for most of the year so that the fluctuations in the New Zealand dollar over the year had little effect on returns.

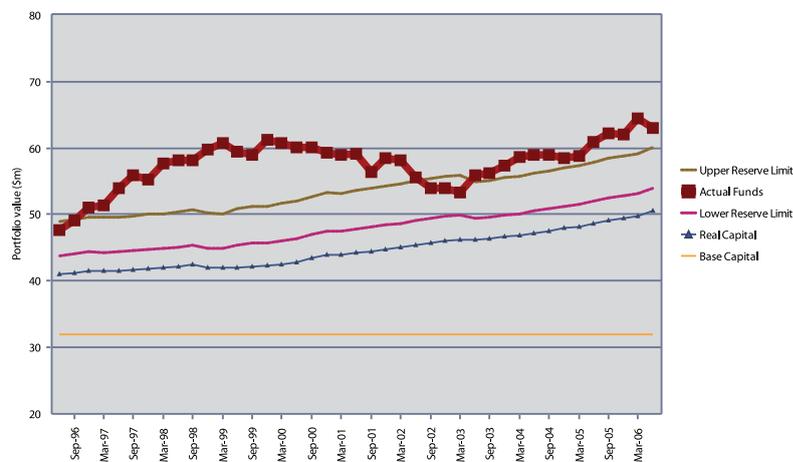
We regularly measure our investment risk in order to generate satisfactory returns — and our reserving policy (adopted some years ago) ensures we are able to make distributions every year, even when returns generated from investments have been insufficient.

Recent years have seen a healthy increase in our reserves. After taking advice from investment advisers, Russell Investment Group, we increased our allocation to growth assets from 30 per cent to 40 per cent and expanded the range of investments in our portfolio to include modest allocations to global property, hedge funds and commodity futures. The net result is an increase in our expected returns and a slight increase to our risk.

On advice we have also decided to calculate the real capital of AGMARDT by measuring it against the CPI.

We recognise there is some capacity to increase our flexibility and expand the current programmes through which grants are made — and this will be done gradually over the next few years.

Fund versus Reserves for the period 1 June 1996 to 30 June 2006



OPERATING PRACTICES

In line with the requirements of our Trust Deed, we embrace best practices in the management of our financial portfolio, distribution of our funds, and achievement of our mission.

We:

- ¥ Appreciate that we are a small, virtual and a largely outsourced organisation that requires the support of our key stakeholders to operate effectively and efficiently
- ¥ Appreciate that appropriately focused programmes that are well aligned to our strategic objectives (and strategic partners) will have the most significant impact
- ¥ Recognise the independence resulting from our not-for-profit nature enables us to effectively network with agribusiness stakeholders in a unique and productive manner
- ¥ Acknowledge that providing seed investment with clearly-defined entry and leverage strategies linked with strategic partners is key to making a difference
- ¥ Appreciate that ideas and creative opportunities come from individuals as well as groups and organisations
- ¥ Recognise that user innovation has a rapid rate of adoption
- ¥ Ensure sound funding decisions are guided by strategic fit, relevance and quality as judged by independent expert advisers drawn from stakeholding groups.

Our intentions will be realised through our programmes

Food and Agribusiness Market Experience

The Food and Agribusiness Market Experience (FAME) course is aimed at preparing tomorrow's leaders for tomorrow's global marketplace. It is a three-module executive immersion course offered through Otago, Massey and Lincoln universities that provides first-hand market experience in the critical competencies required to be world class (see www.fame.ac.nz).

AGMARDT sponsors this programme, with ASB Bank as the major supporter. The first module began in May 2006 and was grown from an idea first expressed by the late Alistair Betts, who was Chairman of AGMARDT at the time. The course will be thoroughly evaluated and modified as the experiences of those attending come to light. Every effort has and will continue to be made to ensure the experience and knowledge gained by participants is widely distributed to maximise the benefits of the initiative.

While the next course is scheduled for 2008, work on it will be ongoing with a particular emphasis on building up financial support. We are also committed to continuing funding for the Agribusiness Market Challenge Awards 2006 and 2007 as an element of the National Bank Young Farmer of the Year Contest.

Agribusiness Innovation Grants (\$1m budgeted for 2006/07)

These grants enable groups to develop and evaluate innovative ideas to a stage where they can be applied, or attract other funding, for further development or commercialisation. A group can include farmers, growers, farm consultants, vets, and research or technology providers.

Doctoral Scholarships (\$546,000 budgeted for 2006/07)

The aim of these scholarships is to enhance New Zealand's capability and capacity in key areas of science. Five or six PhD candidates will receive a doctoral scholarship to enable them to undertake studies in fields related to agriculture, horticulture or forestry. The term of the grants is three years.

Post-Doctoral Fellowships (\$760,000 budgeted for 2006/07)

The aim of these fellowships is to meet recognised needs for capability in key areas of science. Four or five post-doctoral fellowships will be granted to universities or Crown Research Institutes, with preference given to applications in priority areas that will be set in April 2007.

Unlike other fellowships, it is the supervisors or mentors of the research who apply to AGMARDT for funding. If they are successful, the supervisors or mentors can then identify suitable candidates to do the work — and funding will be provided to the host institution as long as it is clear that fellows will be treated within the spirit of the fellowships.

Research Fellowships (\$600,000 budgeted for 2006/07)

Up to two fellowships will be granted to researchers in universities or Crown Research Institutes as a rapid response to emerging issues of national importance.

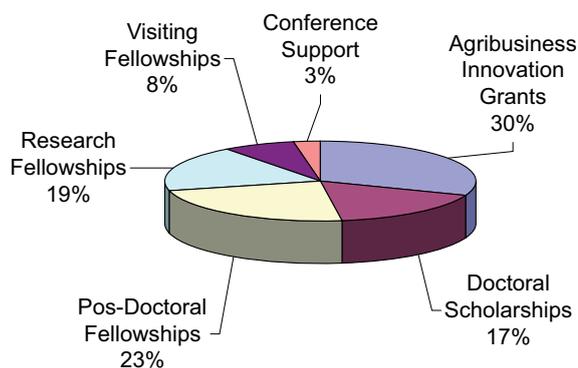
Visiting Fellowships (\$250,000 budgeted for 2006/07)

Funding will be available for two types of visiting fellowships: Distinguished Fellowships for internationally renowned experts who are invited to speak at a particular event or for a particular purpose; and Visiting Fellowships for those who conduct two or three short visits to New Zealand over 12 to 18 months to look at specific areas of strategic interest to agribusiness.

Conference Support (\$86,000 budgeted for 2006/07)

Conferences are recognised as key forums at which industry groups and societies exchange information and ideas. To enhance their effectiveness, AGMARDT can provide travel assistance to conference organisers to enable key-note speakers to come to New Zealand for conferences that focus on creating and realising value for New Zealand food and agribusiness.

Summary of Projected Grants



Agribusiness Innovation Grants	\$1,000,000
Doctoral Scholarships	\$546,000
Post-Doctoral Fellowships	\$760,000
Research Fellowships	\$600,000
Visiting Fellowships	\$250,000
Conference Support	\$86,000
Total grants	\$3,242,000

GRANTS 2005/06

Agribusiness Innovation Grants, \$1,156,940

Eight groups received funding to develop and evaluate innovative ideas through our Agribusiness Innovation Grant this year:

- ¥ **Improving kumara yield and quality by modifying soil nitrogen levels**
\$50,000 for 2005 — 2007 (Grant no.20602 to Northern Wairoa Vegetable Growers' Association)
- ¥ **Virus-free export lily bulbs**
\$128,300 for 2006 — 2007 (Grant no.20605 to Bulb Exporters of New Zealand)
- ¥ **Apple production to match consumer value in United States supermarkets**
\$87,750 for 2007 (Grant no.20618 to SunDale — Heartland Consumer Apple Quality Group)
- ¥ **Improving the yield and quality of yacon for export**
\$120,000 for 2006 (Grant no.20616 to Yacon Growers' Group)
- ¥ **Development of mobile and fixed upright shearing platforms**
\$120,000 for 2006 (Grant no.20610 to Perkins Mobile Shear Limited)
- ¥ **Managing variability in high-performance dryland sheep systems**
\$80,890 for 2007 (Grant no.20614 to Professor Tony Bywater)
- ¥ **Johnes Disease – carcass diagnosis within deer slaughter premises**
\$120,000 for 2006 — 2009 (Grant no.20615 to Johnes' Research Group)
- ¥ **New Zealand Agribusiness: structure, conduct and performance**
\$450,000 for 2006 — 2007 (Grant no.20606 to the Agribusiness Research and Education Network (AREN))
- ¥ **Doctoral Scholarships, \$455,000 (\$91,000 each over three years)**
Five outstanding students received a three-year doctoral scholarship (\$25,000 each) to enable them to develop research skills and build the foundations for a career in agriculture, horticulture or forestry:
- ¥ **Sam Carrick.** Project: The influence of sample volume on the measurement and modelling of soil water and solute transport. Lincoln University (Grant no.20680)
- ¥ **Carolyn Hedley.** Project: Developing new soil characterisation tools using proximal sensors and GPS. Massey University (Grant no.20681)
- ¥ **Ross Johnson.** Project: Advancing gene targeting towards precision breeding in plants. University of Auckland (Grant no.20682)
- ¥ **Peter Tait.** Project: Assessing the role of environmental externalities in Canterbury agriculture. Lincoln University (Grant no.20684)
- ¥ **Danitsja van der Linden.** Project: Effects of ewe size and nutrition during pregnancy on foetal development, animal growth and reproductive performance. Massey University (Grant no.20685).

Post-Doctoral Fellowships, \$610,000 (\$152,500 each over two years)

Four New Zealand universities were awarded a two-year fellowship from AGMARDT this year for research that recognised needs in key areas of science.

- ¥ **Dr Rebecca Laurie.** Project: Comparative genetics of flowering in legumes. University of Otago (Grant no.20690)
- ¥ **Dr Kate Orwin.** Project: Soil microbial dynamics and function under urine patches in pasture systems. Lincoln University (Grant no.20691)
- ¥ **Dr Andrew Greer.** Project: Role of host nutrition in immune responses to nematodes in sheep. Moredun Institute in association with Lincoln University (Grant no.20692)
- ¥ **Dr Baisen Zhang.** Project: How much pasture will I grow? Harnessing new technologies to meet the farming challenges of the 21st century. Massey University (Grant no. 20693).

Research Fellowships

Although no research fellowships were awarded this year, a major research fellowship on the willingness of overseas consumers to purchase genetically modified food products was concluded this year.

This fellowship supported the exposure of student training in researching predominantly non-English-speaking European markets led by Dr John Knight, Damien Mather and Dr David Holdsworth. Their findings reported that the implications of this research for New Zealand are that genetic modification (GM) technology — particularly in non-food applications — would seem unlikely to impact adversely on exports of primary products to key markets in Europe, or to the increasingly burgeoning economies of China and India. Furthermore, in view of the findings on consumer acceptance, it appears likely that GM te

Since New
projects th
for high va



Anna Wellingham beside her strawberry stall in Sweden, where sales of strawberries labelled as 'organic', 'ordinary' and 'spray-free GM' were compared. Students such as Anna played a vital role in the study carried out under the fellowship.

Visiting Fellowships, \$25,000

Distinguished Fellowship – Professor John Casti

Professor John Casti from Vienna, Austria, presented a series of workshops and seminars in Hamilton, Hastings, Wellington and Christchurch in August 2006. The seminars were on the decline and fall of globalisation and the workshops were on managing agribusiness complexity in a highly uncertain world. Professor Casti was brought to New Zealand under the AGMARDT Distinguished Fellowships scheme through an initiative of the Agribusiness, Research and Education Network (AREN).

Participants of the workshops and seminars strongly endorsed the concept of bringing leading international experts to New Zealand to speak about agribusiness interests, and provided helpful comments on how to optimise the value of our awards. (Grant no.20622)

New Zealand Master Class Seminar Series in Agribusiness Excellence, \$16,875

The Alistair Betts Memorial Trust for Agribusiness Excellence, administered by the Massey Foundation, ran the first seminars of the New Zealand Master Class Seminar Series on agribusiness marketing. Seminars featuring Dr Alan Jackson and Dr Ong Po Seng were run in Auckland, Tauranga, Palmerston North, Christchurch and Dunedin. While the level of attendance was disappointing the seminar series was very well received. (Grant no.20604)

Conference Support, \$95,915

This year, AGMARDT provided travel assistance for international keynote speakers at New Zealand agricultural conferences that focused on creating and realising value for New Zealand food and agribusiness:

- ¥ **Young Farmer of the Year Contest**
\$40,750 —for 2006 — 2008. Includes FAME scholarship for 2008 valued at \$20,000, excluding GST. (Grant no.20603 to the National Bank Young Farmer of the Year contest)
- ¥ **Annual workshop: Implementing sustainable nutrient management strategies in agriculture (keynote speaker – Professor Ewald Schnug)**
\$2,250 for 2006 (Grant no.20607 to Fertiliser and Lime Research Centre, Massey University)
- ¥ **13th Australasian Plant Breeding Conference (keynote speaker – Dr Stephen Tanksley or Dr Susan McCouch)**
\$5,625 for 2006 (Grant no.20608 to Australasian Plant Breeding Conference Organising Committee)
- ¥ **Advancing Sheep and Beef Agribusiness Conference (general sponsorship)**
\$16,875 for 2006 (Grant no.20611 to Advancing Sheep and Beef Society)
- ¥ **The 4th Australasian Soil-borne Diseases Symposium (ASDS) (keynote speaker – Dr Funck Jensen)**
\$6,500 for 2006 (Grant no.20612 to ASDS Organising Committee)
- ¥ **2006 Large herds Conference (keynote speaker – Dr Martha Roberts)**
\$7,375 for 2006 (Grant no.20613 to 2006 Large Herds Conference Organising Committee)
- ¥ **Seasonal Approach to Managing Mastitis (SAMM) Milk Quality Conference (keynote speaker – Professor Stephen Oliver)**
\$3,000 for 2006 (Grant no.20617 to National Mastitis Advisory Committee)

- ¥ **R-Fest: Workshops on S, R and Bio-conductor and the ASC/NZSA 2006: Statistical Connections Conference (keynote speaker – Professor Robert Gentleman)**
\$3,960 for 2006 (Grant no.20619 to Department of Statistics, University of Auckland)
- ¥ **New Zealand Truffle Association Annual Conference (keynote speaker – Andrea Gogan)**
\$5,080 for 2006 (Grant no.20620 to New Zealand Truffle Association Inc)
- ¥ **New Zealand Merino Conference: Past, Present and Future – the New Zealand Merino Journey (contribution towards keynote speakers)**
\$4,500 for 2006 (Grant no.20621 to the New Zealand Merino Company Limited).



Sam Robinson, Chair of AGMARDT, presenting the winner of the 2006 National Bank Young Farmer of the Year contest and AGMARDT Market Challenge, John McCaw, with his FAME Scholarship.

Summary of Grants



Agribusiness Innovation Grants	\$1,156,940
Doctoral Scholarships	\$455,000
Post-Doctoral Fellowships	\$610,000
Visiting Fellowships	\$25,000
Conference Support	\$95,915
Total grants	\$2,359,730

STATEMENT OF RESPONSIBILITY

for the year ended 30 June 2006

In terms of the Public Finance Act 1989, we certify that:

1. We have been responsible for the preparation of these financial statements and the judgements used therein; and,
2. We have been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and,
3. We are of the opinion that these financial statements fairly reflect the financial position as at 30 June 2006 and the results of operations for the year ended on that date.

On behalf of the Trust



S A Robinson

Chairman



P R Kettle

General Manager

19 October 2006

AUDIT REPORT

to the readers of agricultural and marketing research and development trust's financial statements for the year ended 30 June 2006

The Auditor-General is the auditor of the Agricultural and Marketing Research and Development Trust (the Trust). The Auditor-General has appointed me, J R Smaill, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust, on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion the financial statements of the Trust on page 15.

- ¥ comply with generally accepted accounting practice in New Zealand; and
- ¥ fairly reflect:
 - the Trust financial position as at 30 June 2006; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 19 October 2006, 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 Trustees 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 Trustees;
- ¥ confirming year-end balances;
- ¥ determining whether accounting policies are appropriate and consistently applied; and
- ¥ 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 Trustees and the Auditor

The Board of Trustees is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Trust as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Board of Trustees responsibilities arise from the Public Finance Act 1989.

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 the Public Finance Act 1989.

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 Trust.



J R Smaill
Audit New Zealand
On behalf of the Auditor-General

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2006

	2006 Actual	2006 Budget	2005 Actual
Income			
Interest earned on short term investments	222,713	244,000	205,918
Profit on Investment Portfolio	5,662,299	4,242,000	5,231,781
	<u>5,885,012</u>	<u>4,486,000</u>	<u>5,437,699</u>
Less Expenses			
Administration costs	296,376	302,500	262,576
Audit fee	16,813	15,000	14,625
Depreciation - office equipment	981	1,500	1,006
Portfolio investment advice	42,309	42,000	41,394
Portfolio management fees	48,270	50,000	49,792
Programme and strategy development	5,000	60,000	119,312
Rental of premises	9,614	13,500	13,298
Trustees' remuneration (Note 4)	77,760	78,000	77,760
	<u>497,123</u>	<u>562,500</u>	<u>579,763</u>
Surplus of Income over Expenditure before Allocation of Grants	5,387,889	3,923,500	4,857,936
Allocation of Grants			
Grants made this year (Accounting policy 2.4, Note 5)	3,144,646	3,352,000	3,167,258
Grants relinquished this year (Accounting policy 2.4, Note 5)	(52,212)	-	(243,611)
	<u>3,092,434</u>	<u>3,352,000</u>	<u>2,923,647</u>
Net Surplus for the year	2,295,455	571,500	1,934,289
Balance of Accumulated Income at beginning of year	4,394,050	4,394,050	2,459,761
Transfer to Income Fluctuation Reserve (Note 3)	(820,617)	(153,000)	-
Transfer to Capital Fund Maintenance Reserve (Note 2)	(2,056,016)	(845,000)	-
Balance of Accumulated Income at end of year	\$3,812,872	\$3,967,550	\$4,394,050

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2006

	2006 Actual	2006 Budget	2005 Actual
Equity as at 1 July	60,816,121	60,816,121	58,881,832
Net Surplus for the year	2,295,455	571,500	1,934,289
Total recognised revenues and expenses	<u>2,295,455</u>	<u>571,500</u>	<u>1,934,289</u>
Equity as at 30 June	\$63,111,576	\$61,387,621	\$60,816,121

STATEMENT OF FINANCIAL POSITION

as at 30 June 2006

	2006 Actual	2006 Budget	2005 Actual
Trust Funds			
Capital	32,000,000	32,000,000	32,000,000
Capital Reserves			
Capital Fund Maintenance Reserve (Note 2)	17,830,843	16,619,827	15,774,827
Income Fluctuation Reserve (Note 3)	9,467,861	8,800,244	8,647,244
Revenue Reserves			
Accumulated income	3,812,872	3,967,550	4,394,050
Total Trust Funds	\$63,111,576	\$61,387,621	\$60,816,121
Represented by:			
Current Assets			
Cash at bank and call deposit	338,448	268,837	608,682
Interest Receivable	0	-	1,479
Accounts Receivable	0	-	329
Payments in advance	0	-	8,540
Total Current Assets	338,448	268,837	619,030
Less Current Liabilities			
Accounts payable and accruals	59,614	30,000	42,193
Provision for Current Grants (Note 5)	2,124,411	2,280,070	2,159,306
Total Current Liabilities	2,184,025	2,310,070	2,201,499
Working Capital	(1,845,577)	(2,041,233)	(1,582,469)
Investments (Note 6)	67,396,522	64,945,856	63,684,856
Fixed Assets (Note 7)	1,935	3,045	2,545
Non-Current Liabilities			
Provision for Non-Current Grants (Note 5)	(2,441,304)	(1,520,047)	(1,288,811)
Net Assets	\$63,111,576	\$61,387,621	\$60,816,121

On behalf of Trust Board



S A Robinson
Chairman
28 October 2005



P R Kettle
General Manager

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2006

	2006 Actual	2006 Budget	2005 Actual
Cash Flows from Operating Activities			
Cash was provided from:			
Interest and dividends received	2,055,210	1,952,097	1,908,683
Cash was applied to:			
Payments to suppliers and employees	481,801	575,633	575,460
Payments for Grants (Note 5)	1,974,836	3,000,000	1,637,606
	2,456,637	3,575,633	2,213,066
Net cash flows from operating activities (Note 10)	(401,427)	(1,623,536)	(304,383)
Cash Flows from Investing Activities			
Cash was provided from:			
Maturity and sale of investments	145,421,034	350,000,000	349,990,831
Cash was applied to:			
Purchase of investments	146,652,722	347,894,804	350,028,252
Purchase of fixed assets	372	2,000	392
	146,653,094	347,896,804	350,028,644
Net cash flows from investing activities	(1,232,060)	2,103,196	(37,813)
Net increase/(decrease) in cash held	(1,633,487)	479,660	(342,196)
Plus opening cash	12,789,177	12,789,177	13,131,373
Closing cash balance	\$11,155,690	\$13,268,837	\$12,789,177
Closing cash balance represented by:			
Cash at bank and call deposit	338,448	268,837	608,682
Provision for Non-Current Grants (Note 5)	10,817,242	13,000,000	12,180,495
	\$11,155,690	\$213,268,837	\$12,789,177

STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 June 2006

The Agricultural and Marketing Research and Development Trust was established by a Deed of Trust dated 20 October 1987 and the financial statements have been prepared pursuant to Clause 17 of the said Deed and the Public Finance Act 1989.

1. Measurement System

The measurement base adopted for investments is the closing market value for equities and closing market yields for fixed interest investments at balance date. Other assets are recorded at historical cost. Reliance is placed on the fact that the Trust is a going concern.

2. Accounting Policies

The following accounting policies which materially affect the measurement of financial performance and financial position have been applied:

2.1 Asset Valuation

Investments are valued at market value with any resultant increase or decrease over cost or previous market value being reflected in the Statement of Financial Performance. The difference between the capital cost and market value of the investments at balance date is separately disclosed in the Notes to the Financial Statements (Note 6). Physical assets, which comprise office equipment, are recorded at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to allocate the cost of an asset, less any estimated residual value, over its estimated useful life. The estimated useful life of the office equipment is 5 years.

2.2 Income Tax

There is no provision for income tax in these financial statements. Under current legislation, income derived by the Trust, being a registered Charitable Trust, is exempt in terms of section 61 (25) and 61 (27) of the Income Tax Act 1976.

2.3 Goods and Services Tax

The Trust is not a registered person in terms of the Goods and Services Tax Act 1985. Consequently, all expenses and capital acquisitions are shown inclusive of GST.

2.4 Grants

Any grants approved by the Trustees and subject to any unfulfilled requirements or agreements have been accounted for within the classification of Current Liabilities and Non-Current Liabilities. Future benefits may accrue to the Trust as a result of certain grants made. These benefits are not able to be quantified with any certainty and therefore have not been recognised in these financial statements.

2.5 Allocations of Income

Provisions are included in the Statement of Financial Performance to allocate sufficient income to maintain the real value of the Trust Capital and to account for the transfer to or from the Income Fluctuation Reserve in terms of Note 3.

2.6 Hedging Instruments

The Trust, through its Fund Manager, enters into hedging instruments such as futures, options and forward exchange contracts. These are converted to the New Zealand Dollar rate at balance date with all realised and unrealised gains and losses being recognised in the Statement of Financial Performance.

2.7 Foreign Currencies

Transactions recognised in foreign currencies are translated to New Zealand Dollars at the exchange rate prevailing at the transaction date. All amounts denominated in foreign currencies are converted to New Zealand Dollars at balance date and all realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

2.8 Profit on Investment Portfolio

The profit on the Investment Portfolio in the Statement of Financial Performance includes all realised and unrealised gains and losses. Unrealised gains and losses, being the difference between the capital cost and market value of the assets at balance date, are separately disclosed in the Notes to the Financial Statements (Note 6). The Trust's reserving policy ensures that unrealised gains and losses are excluded from any distributions of income.

2.9 Statement of Cash Flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the Trust and cash payments made for the supply of goods and services.

Investing activities are those activities relating to the Managed Funds and the acquisition and disposal of non-current assets.

2.10 Financial Instruments

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, investment portfolio (including equities, bonds and cash), debtors and creditors. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

2.11 Budget Figures

The budget figures are those approved by the Trustees at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Trustees for the preparation of the financial statements.

3. Changes in Accounting Policies

There have been no changes in the accounting policies since the date of the last audited financial statements. The policies have been applied on a basis consistent with other years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

1. Capital

The Capital of the Trust was set by Clause 1(b) of the Deed of Trust to be \$32,000,000. This capital was settled in April 1988 and is to be retained in perpetuity and used to generate income for the Trust. In terms of Clause 4(b), only with the approval of the Minister of Agriculture may any of the capital be applied towards the objects of the Trust.

2. Capital Fund Maintenance Reserve

The Capital Fund Maintenance Reserve represents the additional amount necessary to preserve the real value of the capital after allowing for inflation as measured by the Producers Price Index. Due to a change in policy in the 2000 income year to use the Producers Price Index rather than the Consumers Price Index, the Trust Capital had been maintained by more than the inflation rate to the extent of approximately \$2.6m. At their meeting in April 2003 the Trustees resolved that no further transfers will be made to the Capital Fund Maintenance Reserve until the inflation-adjusted position based on using PPI since the inception of the Trust, has been attained. Accordingly an amount of \$2,056,016 (2005: \$Nil) has been provided for in the current year.

	2006	2005
Balance 1 July	15,774,827	15,774,827
Transfer from/(to) Accumulated Income	<u>2,056,016</u>	<u>-</u>
Balance 30 June	<u>\$17,830,843</u>	<u>\$15,774,827</u>

3. Income Fluctuation Reserve

The Trust has a reserving policy to enable it to meet its investment objectives and manage the fluctuations in investments earnings.

	2006	2005
Balance 1 July	8,647,244	8,647,244
Transfer from/(to) Accumulated Income	<u>820,617</u>	<u>-</u>
Balance 30 June	<u>\$9,467,861</u>	<u>\$8,647,244</u>

4. Trustee Remuneration

Trustee	2006	2005
Mr S Robinson	23,760	23,760
Dr W Kain	18,000	18,000
Dr S Martin	18,000	18,000
Mr M Purnell	<u>18,000</u>	<u>18,000</u>
Total Trustee Remuneration	<u>\$77,760</u>	<u>\$77,760</u>

5. Provision for Grants

Balance 1 July	3,448,117	2,162,076
Add grant applicants approved	<u>3,144,646</u>	<u>3,167,258</u>
	6,592,763	5,329,334
Less grants relinquished	(52,212)	(243,611)
Less grants paid	<u>(1,974,836)</u>	<u>(1,637,606)</u>
Balance 30 June (Note (a))	<u>\$4,565,715</u>	<u>\$3,448,117</u>

Comprising grants made in the following years which have not yet been paid out:

1997	0	1,043
1999	4,000	4,000
2000	5,315	9,097
2001	31,257	55,383
2002	104,259	116,983
2003	21,700	199,129
2004	170,694	462,461
2005	1,387,407	2,600,030
2006	2,841,083	0
	\$4,565,715	\$3,448,117

Note (a): Provision for Grants comprising:

Current	2,124,411	2,159,306
Non-Current	2,441,304	1,288,811
Total Provision for Grants	\$4,565,715	\$3,448,117

2006

2005

6. Investments

Managed Funds

Fixed Interest:	Domestic	17,488,533	16,424,989
	Offshore	17,155,379	16,616,213
Equities:	Offshore (Note (a))	21,874,362	18,434,088
Short Term Deposits (Note (b))		10,878,248	12,209,568
Total Investments		\$67,396,522	\$63,684,858

Note (a). Equities:

With effect from 1 July 2003 the mandates for New Zealand and global equities were implemented via a single unit-holding in the Russell World Shares Fund. Twenty percent of the total Fund is allocated to managers that focus on New Zealand and Australian shares.

Note (b). Short Term Deposits comprising:

Accrued Income	73,367	53,382
Outstanding Settlements	-	-
Management Fees	(12,361)	(24,309)
Cash on Deposit	10,817,242	12,180,495
Total Short Term Deposits	\$10,878,248	\$12,209,568

Note (c). Unrealised Gains/(Losses):

Total Investments (Market Value)	67,396,522	63,684,858
Total Investments (Capital Cost)	64,913,866	62,656,689
Unrealised Gains/(Losses)	\$2,482,656	\$1,028,169

Note (d). Face Value of Financial Instruments:

The face value of financial instruments entered into in relation to offshore equities and bonds not recognised in the financial statements is \$53,369,461 (2005: \$26,689,828)

7. Fixed Assets

Office Equipment		
Cost	14,042	30,703
Less accumulated depreciation	(12,107)	(28,159)
Net Book Value of Fixed Assets	\$1,935	\$2,544

8. Lease Commitments

Office Lease

One year	7,428	0
One to Two Years	5,571	0
Total Office Lease Commitment	\$12,999	\$0

9. Contingent Liabilities and Financial Commitments

The Trust had a performance guarantee of \$5,000 with the Bank of New Zealand as at 30 June 2006 (2005: \$5,000). There were no financial commitments as at 30 June 2006 other than those referred to in Note 6 (2005: Nil).

10. Reconciliation of Net Surplus/(Deficit) for the year with Net Cash Flows from Operating Activities

	2006 Actual	2006 Budget	2005 Actual
Net Surplus/(Deficit) for the year	2,295,455	571,500	1,934,289
Add (less) non-cash items:			
Change in market value of investments	(3,851,266)	(2,542,000)	(3,488,810)
Depreciation	981	1,500	1,006
	(3,850,285)	(2,540,500)	(3,487,804)
	(1,554,830)	(1,969,000)	(1,533,515)
Add (less) movements in working capital items:			
Accounts payable and accruals	17,421	(12,193)	(3,271)
Accounts receivable	329	329	(329)
Interest receivable	1,479	1,479	(1,401)
Payments in advance	8,540	8,540	(4,876)
Managed Funds working capital	8,036	(4,691)	(27,031)
Provision for Grants made this year	1,117,598	352,000	1,286,040
	1,153,403	345,464	1,249,132
Net cash flows from operating activities	(\$401,427)	(\$1,623,536)	(\$304,383)

11. Financial Instruments

The financial instruments are subject to the normal market risks associated with markets in which they are traded. However there is limited credit risk relating to the Fund Managers or the Custodians and because of the diversification of investments, there are no significant concentrations of credit risk within the investment portfolios. Foreign currency hedges are taken out by the Fund Managers to minimise the exposure to exchange fluctuations. Both the Offshore Fixed Interest Portfolios and the Offshore Equities Portfolio are fully hedged back to the New Zealand dollar. The maximum deviation from the neutral exposure for both portfolios is +/- 5%. No comparison is provided between the carrying value and estimated fair value of financial instruments due to the carrying value reflecting market price.

	2006	2005
New Zealand		
Bonds and Deposits	28,366,781	28,634,557
Equities (Note 6 (a))	<u>0</u>	<u>0</u>
	<u>28,366,781</u>	<u>28,634,557</u>
Global		
Bonds and Deposits	17,155,379	16,616,213
Equities (Note 6 (a))	<u>21,874,362</u>	<u>18,434,088</u>
	<u>39,029,741</u>	<u>35,050,301</u>
Total		
Bonds and Deposits	45,522,160	45,250,770
Equities	<u>21,874,362</u>	<u>18,434,088</u>
	<u>\$67,396,522</u>	<u>\$63,684,858</u>

12. Employee Remuneration

The number of employees whose total remuneration including benefits was in excess of \$100,000, in \$10,000 bands, is:

Remuneration Band	2006	2005
110-119	<u>0</u>	1

13. Post Balance Date Events

There were no post balance date events.

DIRECTORY

Board of Trustees

Mr Samuel Robinson (Chairman)
Dr William Kain
Dr Sandra Martin
Mr Max Purnell

Management

Dr Peter Kettle
General Manager

Trust Office

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1 Willeston Street	Panama Street
Wellington	Wellington
Tel (04) 499 6173	Fax (04) 472 8620

Accountants

Curtis McLean Ltd Chartered Accountants

Investment Adviser

Russell Investment Group Ltd

Auditor

Audit New Zealand
on behalf of the Auditor-General

Bankers

Bank of New Zealand

Solicitors

Izard Weston



**AGMARDT
ANNUAL REPORT**

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and Development Trust