

AsureQuality
Kaitiaki Kai

Interim Report
2023





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Chair and CEO Report

Results Overview

AsureQuality's revenue performance for the first six months of the year was \$3.6 million above the budgeted revenue target of \$110 million. However, during this period the business has fallen below the budget profit target by \$1.7 million. This reflects the mix of business activities (higher relative percentage of lower margin business).

In the first six months there has been strong performance from meat inspection (primarily due to increased hours worked) Diagnostics (Manufacturing), and relatively good results from food testing. Business profitability has been impacted however by inflationary pressures, reduced demand for horticulture, food audits and biosecurity services (including M.bovis sampling) and delays in expected new business. There are also residual impacts of Covid with high staff turnover making people planning difficult in some areas of the business.

During this period, we have focused on the six critical areas that resulted from a Materiality Assessment: employee safety and well-being, employee attraction and retention, customer experience, technology driven assurance and systems and processes.

We are proud to see our efforts in these areas reflected in our results. This includes the continued high customer Net Promoter Scores (NPS) (>40) over the last six months, high service delivery levels and continual improvements in lead and lag safety indicators. Under our new people strategy and business partner structure, we are also making strong progress with the introduction of living wage and implementation of new initiatives to improve our attractiveness as an employer. We have also made good progress with the launch of pivotal projects which will improve our systems and processes to enable tech driven assurance and improved customer experience.

Shareholder Dividend

During the six months ended 31 December 2022, a final dividend of \$2.9 million was paid to the shareholder for the year ended 30 June 2022. This brings the total dividend paid relating to the 2022 financial year to \$4.4 million. In February 2023 an interim dividend of \$1.5 million was paid to the shareholder.

Strategic Direction

AsureQuality is making good progress towards our strategic vision of becoming an integrated assurance partner with customers. The pillars of this include:

- **Service Excellence** – delivering service as promised, providing fit for purpose systems and processes and making it easier for customers to do business with us.
- **Insights and Expertise** – creating value for customers by turning data into insights for enhanced decision support and sharing our technical expertise and knowledge.

- **New Assurance Models** – using technology to enable assurance, integration of services and strategic venture growth options

There are a number of projects underway which align to these core pillars. These include:

- a data architecture and capability roadmap
- future audit management system
- laboratory operational excellence
- livestock service improvements
- assurance innovation roadmaps for key services

In Conclusion

Although there are still considerable challenges for AsureQuality, there has been significant progress made strengthening our core business and services, as well as on strategic initiatives which help to ensure our relevance to our customers in the future.

Our success is dependent on continuing to meet the needs of our customers, and the hard work and commitment of our people.

We thank our people, our customers and our stakeholders for their continued support and dedication, and we look forward to the second half of the year.

Ngā mihi,




Paul McGilvary
Acting Chair




Kim Ballinger
Chief Executive Officer



Business Overview

People and Culture

We are well underway with the delivery of priorities in our people strategy, in the key focus areas of safety and wellbeing, leadership, and talent and capability. In parallel with this, we are actively strengthening our people foundations.

Forming our 'belonging' story is a key milestone achievement in the first phase of our culture roadmap. We have also committed to embed a holistic and authentic Te Ao Māori journey.

Safety and Wellbeing

Keeping our people safe is vital, and safety indicator results are very pleasing for the first six months. There has been good progress on the revision of the risk management framework and defining a framework for actively engaging and managing critical overlapping duties.

A people-led, 'wellbeing by design' workshop, run in collaboration with the Business Leaders' Health and Safety Forum, was held in our Christchurch laboratory as a pilot activity for AsureQuality.

Leadership and Talent and Capability

There has been good progress made on the framework and tools to support active talent management and accelerate leadership capability development across the organisation. These tools will be implemented in the business over the next twelve months.

Field Services

The Livestock team are managing record export cattle numbers in the approach to the live cattle sea shipments export ban. All export services to date have been completed safely and efficiently, on time, with regulatory requirements and animal health and wellbeing a priority.

Successful pilots have been completed for the delivery of Johne's Disease testing service at a herd level, enabling commercialisation of the service across New Zealand.

AsureQuality remains committed to assisting farmers and customers with cost effective, time efficient on-farm services.

Our strategy to provide excellent customer service has seen record numbers of seasonal crop inspections being completed in the first six months of the year.

The Plant Health Lab has successfully implemented the Labware laboratory information management system (LIMS) and the Seed Lab implementation is underway. The new software provides improved traceability of sample workflow through the laboratory, and our customers will benefit from access to the LabConnect portal which provides greater visibility of sample progression.

Food Processing

AsureQuality secured a significant new opportunity in auditing cementing our place as the undisputed market leader in food auditing, known for the capability and commitment of our people.

We are proud of our meat service team who have consistently delivered meat inspection services despite the on-going challenges with below optimal labour capacity at many of the meat company facilities. AsureQuality continues to carry out some M.bovis surveillance activity in the meat plants however this has been lower than expected due to the required focus on biosecurity response initiatives rather than surveillance initiatives.

Food Testing

The Auckland laboratory team has undertaken an "Operational Excellence" programme to embed new ways of working and to deliver cost effective, efficient turnaround times for customers. Examples include optimisation of samples through the laboratory reception area and implementation of visual tools for streamlined management of testing workflows. There is also ongoing investment in automation to further improve turnaround time for customers.



Development of the Auckland laboratory site is at the detailed design stage for a new people hub. This will accommodate all non-testing activities and create space to expand testing services and future automation.

Specialty Services

Biosecurity

The Biosecurity service team are working with MPI to support Foot and Mouth Disease (FMD) response preparedness, as well as ongoing involvement in the M.bovis surveillance for New Zealand. In addition to biosecurity services provided to MPI, we continue to seek opportunities with regional councils across the country.

Specialty Testing

The Wellington Speciality Testing laboratory has processed a significant number of serology samples, aligned to the record number of live animal exports. Our scientists have also received an increase in market requests for their scientific expertise and method development services.

Diagnostics

Demonstrating a strong rebound from Covid, the Diagnostics business is experiencing high demand in manufacturing opportunities. The business is gaining a reputation as a leader in the development of novel products and services. This is creating demand across the industry and generating excellent prospects for growth. Promising new opportunities in distribution will support the business growth in the future.

Global Proficiency

In addition to continued strong performance, the Global Proficiency business has renewed key contracts, including: Australian Soil and Plant Analysis Council (ASPAC) for the delivery of soil and plant proficiency programmes, and with MPI for the delivery of the National Contaminants and Residues Programme (NCRP) for honey sampling coordination.

Academy

Following the successful completion of the external evaluation and review (governed by New Zealand Qualifications Authority (NZQA)), the AsureQuality Academy has achieved category 1 status as a Private Training Establishment (PTE). This status will remain in place for a further four years, providing a comprehensive platform to deliver NZQA accredited programmes, alongside non-accredited programmes.

Innovation and New Ventures

Integrated Assurance

The data architecture and capability roadmap has been developed. This underpins our vision to be an integrated assurance partner. Implementation of people, process and technology initiatives to deliver the roadmap are in progress.

Data Modelling

Our strength in animal epidemiological data modelling has been extended across a range of biosecurity outbreak scenarios. This includes the preparedness work relating to FMD and modelling of avian influenza for the Canadian government.

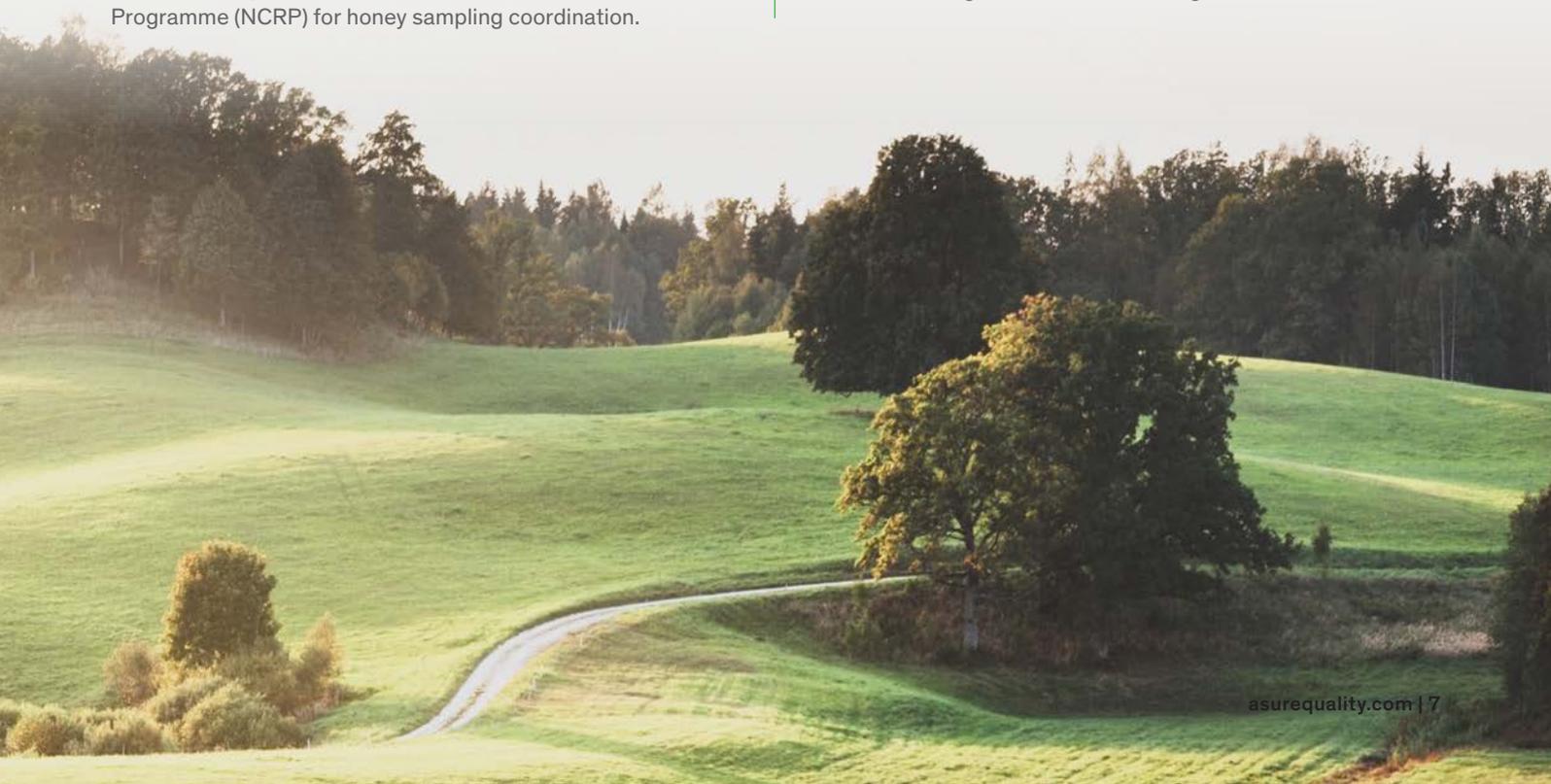
Environmental Services

The Ministry for the Environment (MfE) has selected AsureQuality to establish a process for appointing certifiers and auditors for Freshwater Farm Plans (FW-FP).

This significant achievement supports our goal to provide expertise in integrated farm planning and the growing on-farm environmental activities related to biodiversity, water and carbon management.

Innovation

AsureQuality is working on the development of new business models, for the future of testing, inspection and certification services, enabling efficient and enduring food assurance.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2022

	Note	6 months December 2022 Unaudited \$000	6 months December 2021 Unaudited \$000
Revenue	6	113,381	104,618
Employee benefit expenditure		(73,458)	(67,484)
Consumables		(11,925)	(11,256)
Contractors and subcontractors		(1,844)	(1,732)
Transportation expenses		(4,629)	(2,623)
Rental and operating lease cost		(749)	(781)
Other expenses		(11,726)	(9,906)
Operating expenses		(104,331)	(93,782)
Depreciation and amortisation		(4,720)	(5,014)
Finance costs (net)	7	(963)	(299)
Share of profit of associates and joint ventures	8	1,337	1,019
Loss on sale of investment in subsidiary		-	(60)
Profit before income tax		4,704	6,482
Income tax expense		(1,114)	(1,757)
Profit for the period		3,590	4,725
Other comprehensive income net of tax			
Items that may be reclassified subsequently to profit or loss:			
Translation of foreign operations		(257)	16
Other comprehensive income net of tax		(257)	16
Total comprehensive income for the period, net of tax		3,333	4,741
Profit for the period attributable to:			
Equity holders of the parent		3,590	4,656
Non-controlling interest		-	69
		3,590	4,725
Total comprehensive income for the period attributable to:			
Equity holders of the parent		3,333	4,672
Non-controlling interest		-	69
		3,333	4,741

The accompanying notes form part of these condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2022

	Note	Share capital \$000	Revaluation reserve \$000	Translation reserve \$000	Retained earnings \$000	Attributable to equity holders of the parent \$000	Non-controlling interest \$000	Total equity \$000
Balance at 30 June 2021 (Audited)		22,100	26,133	(203)	54,172	102,202	516	102,718
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Total comprehensive income for the period		-	-	16	4,656	4,672	69	4,741
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Transactions with owners recorded directly in equity								
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Acquisition of additional shares in subsidiary		-	-	-	-	-	(621)	(621)
Elimination of non-controlling interest on disposal of subsidiary		-	-	-	-	-	153	153
Dividend to equity holders	5	-	-	-	(10,200)	(10,200)	(117)	(10,317)
Balance at 31 December 2021 (Unaudited)		22,100	26,133	(187)	48,628	96,674	-	96,674
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Total comprehensive income for the period		-	-	2,073	2,624	4,697	-	4,697
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Transactions with owners recorded directly in equity								
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Dividend to equity holders		-	-	-	(1,500)	(1,500)	-	(1,500)
Balance at 30 June 2022 (Audited)		22,100	26,133	1,886	49,752	99,871	-	99,871
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Total comprehensive income for the period		-	-	(257)	3,590	3,333	-	3,333
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Transactions with owners recorded directly in equity								
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Dividend to equity holders	5	-	-	-	(2,900)	(2,900)	-	(2,900)
Balance at 31 December 2021 (Unaudited)		22,100	26,133	1,629	50,442	100,304	-	100,304

The accompanying notes form part of these condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

	Note	December 2022 Unaudited \$000	June 2022 Audited \$000
Current assets			
Cash and cash equivalents		3,868	2,211
Trade and other receivables		36,637	33,441
Inventories		7,743	7,595
Current income tax assets		1,775	2,898
Derivative financial assets		996	806
Total current assets		51,019	46,951
Non-current assets			
Property, plant and equipment		54,179	54,059
Intangible assets		4,169	4,514
Right-of-use assets	9	10,397	11,088
Investment in associates and joint ventures	8	52,109	51,664
Trade and other receivables		4,851	4,851
Deferred income tax assets		4,657	4,706
Total non-current assets		130,362	130,882
Total assets		181,381	177,833
Current liabilities			
Trade and other payables		32,988	31,352
Borrowings		15,000	13,000
Current lease liabilities		2,237	2,237
Total current liabilities		50,225	46,589
Non-current liabilities			
Borrowings		19,066	18,864
Non-current lease liabilities	9	8,801	9,381
Payables		2,985	3,128
Total non-current liabilities		30,852	31,373
Total liabilities		81,077	77,962
Equity			
Equity attributable to equity holders of the parent		100,304	99,871
Total equity		100,304	99,871
Total liabilities and equity		181,381	177,833

The Board of Directors of AsureQuality Limited authorised these financial statements for issue on 14 February 2023.


Paul McGilvary
Chair


Alison Posa
Chair Finance & Risk Committee

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2022

	6 months December 2022 Unaudited \$000	6 months December 2021 Unaudited \$000
	Note	
Cash flows from operating activities		
Receipts from customers	112,212	103,216
Payments to suppliers and employees	(104,580)	(95,750)
Interest paid net of interest and dividends received	(1,194)	(547)
Income tax refunded/(paid)	58	(3,781)
Net cash generated from operating activities	6,496	3,138
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,050)	(4,007)
Purchase of intangibles	(177)	(664)
Dividends received from associate	225	-
Proceeds from sale of property, plant and equipment	93	-
Acquisition of shares in subsidiary	-	(621)
Net cash used in investing activities	(2,909)	(5,292)
Cash flows from financing activities		
Proceeds from borrowings	2,203	12,652
Dividend paid to shareholder	(2,900)	(10,200)
Lease principal payments	(1,228)	(1,501)
Dividend paid to non-controlling interest	-	(117)
Net cash (used in)/from financing activities	(1,925)	834
Net increase/(decrease) in cash	1,662	(1,320)
Cash and cash equivalents at beginning of six month period	2,211	3,260
Exchange losses on cash balances	(5)	(10)
Cash and cash equivalents at the end of the period	3,868	1,930
Reconciliation of the profit for the year with cash flows from operating activities		
Profit after tax for the year	3,590	4,725
Adjustments for:		
Depreciation and amortisation	4,720	5,014
Share of profit of associates and joint ventures	(1,337)	(1,019)
Loss on sale of subsidiary	-	60
Other non-cash movements	108	(521)
Impact of changes in working capital		
Trade and other receivables	(3,196)	(2,504)
Income tax	1,123	(1,908)
Trade and other payables	1,636	(335)
Inventories	(148)	(374)
Net cash generated from operating activities	6,496	3,138

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

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2022

1. Reporting entity

AsureQuality Limited is a company registered under the Companies Act 1993 and is a company incorporated and domiciled in New Zealand. Condensed consolidated interim financial statements are presented, comprising AsureQuality Limited and its subsidiaries, and its investments in associates and joint ventures (the "Group"). The Group provides food quality assurance and biosecurity services and manufactures and sells animal diagnostic products.

The Group is designated as a profit-oriented entity for financial reporting purposes.

2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the State-Owned Enterprises Act 1986 and generally accepted accounting practice in New Zealand ('NZ GAAP') as appropriate for profit-orientated entities.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 and IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for year ending 30 June 2022. The Condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the 2022 Annual Report. A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

The financial information contained in this report has not been audited by AsureQuality's auditors.

3. Accounting judgements and estimates

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

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

The judgements and estimates used in the preparation of these interim financial statements are consistent with those used in the annual report for the year ended 30 June 2022.

4. Seasonality of operations

AsureQuality's revenues are seasonal and largely follow the primary production industry cycle.

5. Dividends

During the six months ended 31 December 2022, a final dividend of \$2,900,000 representing 12.18 cents per share, relating to the 12 months period ended 30 June 2022, was paid by AsureQuality Limited to the shareholder (six months ending 31 December 2021: a final dividend of \$10,200,000 representing 42.86 cents, relating to the 12 months period ended 30 June 2021).

6. Revenue

	6 months December 2022 Unaudited	6 months December 2021 Unaudited
Note	\$000	\$000
Disaggregation of the Group's revenue from contracts with customers:		
Food Testing services	30,263	28,968
Food Processing services	44,226	40,143
Field services	16,150	15,254
Specialty services	17,391	15,485
Other	5,351	4,768
	113,381	104,618

7. Finance costs (net)

	6 months December 2022 Unaudited \$000	6 months December 2021 Unaudited \$000
Interest expense on borrowings	(984)	(336)
Interest expense on lease liabilities	(211)	(211)
Interest income on short-term bank deposits	2	-
Movement of derivatives held at fair value through profit or loss	190	259
Net foreign exchange gain/(loss)	40	(11)
	(963)	(299)

8. Investments in associates and joint ventures

Name	Country of Incorporation	Principal activities	Balance Date	Ownership and Voting interest 2022	Ownership and Voting interest 2021
Bureau Veritas AsureQuality Holdings Limited (BVAQ AU)	Australia	Independent food testing laboratories	31-December	49%	49%
BV-AQ (Singapore) Holdings Pte. Ltd (BVAQ SEA)	Singapore	Independent food testing laboratories	31-December	49%	49%

Carrying amount of investments in associates and joint ventures

	6 months December 2022 \$000
Investment at the beginning of the period	51,664
Share of profit	1,337
Dividend received	(225)
Share of other comprehensive income of associates	(667)
Balance at 31 December 2022	52,109

9. Right-of-use assets

During the six months ended 31 December 2022, the Group had lease additions and modifications of \$663,000 (six months ended 31 December 2021: \$353,000). There have been no material disposals or reductions to the right of use assets (December 2021: Nil).

10. Contingent assets and liabilities

During the reporting period, liquidators instigated proceedings against the Group to set aside payments totalling \$3.7 million made by a customer on the grounds that these were insolvent transactions. The Group's lawyers have advised that they do not consider that the claim has merit, and the claim has been contested. No provision has been made in these financial statements as the Group's management does not consider that there is any probable loss. There are no further contingent liabilities as at 31 December 2022 (December 2021: Nil).

11. Related party transactions

The ultimate shareholder of the Company is the Crown. The Company undertakes many transactions with other State-Owned Enterprises and Government entities and departments in the normal course of business. These transactions are carried out on a commercial and arm's length and are exempt from related parties disclosures (under NZ IAS 24 (Revised) Related Party Disclosures). The following represents the major ongoing transaction types but should not be taken as a complete list: product and environmental testing services, animal health services, accident compensation levies, air travel services, energy products, postal and courier services, specific scientific advisory services and rental and leasing services.

The Group made sales to and purchases from its associates, Bureau VeritasASUREQuality Holdings Limited and BV-AQ (Singapore) Holdings Pte. Ltd during the period.

The following transactions were carried out with related parties:

	6 months December 2022 Unaudited \$000	6 months December 2021 Unaudited \$000
Sales of services:		
Services provided to associates	1,696	1,827
Expenses:		
Purchase of services from associates	193	187

12. Significant events after interim balance date

On 14 February 2023, the Board of Directors declared an interim dividend of \$1,500,000 relating to the 12 months ending 30 June 2023, representing 6.30 cents per share. As the dividend was declared after balance date the financial effect has not been recognised in these financial statements.

13. Commitments

	December 2022 Unaudited \$000	December 2021 Unaudited \$000
Capital commitments		
Capital expenditure contracted for at reporting date but not provided for	4,584	3,457

14. Derivative financial instruments

The Group enters into various financial instruments to either eliminate or manage its exposure to interest rate and foreign currencies movements. Interest rate swaps are used to economically convert the Group's exposure to floating interest rates to fixed rates.

Forward exchange rate contracts are used to economically convert material exposures to foreign exchange. Other financial instruments may be used from time to time to reduce risk.

The Group holds the following instruments:

	Notional principal		Fair value		Movement of derivatives held at fair value through profit or loss	
	December 2022 \$000	June 2022 \$000	December 2022 \$000	June 2022 \$000	December 2022 \$000	June 2022 \$000
Interest rate swaps	15,847	16,005	996	806	190	259

COMPARISON WITH PERFORMANCE TARGETS INCLUDING THE STATEMENT OF CORPORATE INTENT

For the six months ended 31 December 2022

	6 months December 2022 Target	6 months December 2022 Actual	12 months June 2023 Target
Financial performance targets			
Revenue	\$109.8m	\$113.4m	\$223.4m
Earnings before interest and tax	\$7.8m	\$5.7m	\$18.1m
Net profit after tax	\$5.3m	\$3.6m	\$12.2m
Net cash flow from operating activities	\$7.7m	\$6.5m	\$22.3m
Operating margin ¹	11.8%	9.2%	13.0%
Non-financial performance targets			
Critical programme audit failures	Nil	Nil	Nil
Critical facility audit failures	Nil	Nil	Nil
Staff turnover rate ²	<15%	19%	<15%
Total recordable injury frequency rate (TRIFR)	<3.8	3.1	<3.8

1. Operating margin is calculated as Earnings before interest, tax, depreciation and amortisation divided by Revenue

2. Staff turnover rate is calculated as a rolling average of permanent staff (excluding redundancy) who have left the business in the last twelve months.

Helping Aotearoa
shape a better food world



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