

AsureQuality
Kaitiaki Kai

Interim Report 2020





Helping Aotearoa
shape a better
food world

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Chair and Chief Executive Report

Results Overview

AsureQuality is ahead of budgeted revenue and profit at the end of the first half of this year. Revenue was \$18.6 million ahead of budget and net profit \$2.0 million ahead of budget.

The above budget revenue over the first six months of the year is a result of strong demand for animal export services, TB testing, biosecurity response services and manufacturing of diagnostics kits.

During the first half of the year AsureQuality continued to focus on getting the fundamentals of the business right, and implementing efficiencies throughout its business units. This focus on operational excellence, in conjunction with the higher than targeted revenue, has contributed to the higher than budgeted profit.

AsureQuality's international strategy of partnering with Bureau Veritas in Australia and South East Asia is also helping drive the above budget performance.

Shareholder Dividend

During the six months ending 31 December 2019, a final dividend of \$8.2 million and a special dividend of \$7.2 million was paid to the shareholder for the year ended 30 June 2019. This brings the total dividend paid relating to the 2019 financial year to \$18.4 million. In February 2020 an interim dividend of \$1.5 million was paid to the shareholder.

Strategic Direction

AsureQuality is in the second phase of its renewal strategy and the priorities are:

- **Engaging our people:** creating performance driven teams who are passionate about what we do
- **Engaging customers:** delivering great customer experience consistently
- **Ensuring sustainable profitability:** so we can reinvest in our future
- **Future growth:** developing BVAQ International, Assurance Marks, Digital Services and Environmental Assurance



In Conclusion

There has been a solid start to the financial year across the AsureQuality portfolio. Consistent revenue coupled with the focus on driving efficiencies has led to a positive six month performance versus budget. AsureQuality is seeking to maintain this momentum over the next six months and is forecasting to meet financial targets for the 2019/20 financial year.

AsureQuality's success is dependent on both the continued support of our customers, and the hard work and dedication of our team of food assurance and biosecurity experts.

We thank you all for your commitment, and we look forward to working with you in the second half of the year.



Alison Watters Chair



John McKay Chief Executive Officer

Business Overview 2020

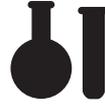


Health and Safety

Improving health and safety has been a key priority for the organisation over recent years. As a result of this focus, we have seen our incident rates continuing to drop while improving our engagement. While safety continues to remain a high priority for us, the new year will see us including wellbeing as a key focus area. Key highlights for the year to date include:

- Annual survey showing health and safety remains a key driver of engagement for the organisation
- The development of our wellbeing strategy
- Improved tools for people working in remote areas

New rtPCR technologies and rapid confirmation testing methods were launched



Testing Services

Testing volumes have continued to increase over the last six months, due to growth from dairy testing, particularly in general chemistry and microbiology testing. The mix of our testing work has changed during the first half of F20 to include lower levels of high value dairy products to meet the changing demand and production for many New Zealand dairy customers. This is a market-driven cyclic variation which occurs periodically. The impact of this is a reduction of the more sophisticated and higher-margin testing services, resulting in reduced margins.

Faster pathogen testing methods using new rtPCR technologies and rapid confirmation tests were launched which delivered real advantages for our customers. These testing methods have had good uptake by our key and high-volume customers. One-day rtPCR *Cronobacter* testing methods have recently been rolled out. The Wellington Laboratory has had a solid start to the year with increased revenue from *Mycoplasma bovis* testing, plus increased demand for dairy and other contaminant testing.

The AsureQuality and Bureau Veritas joint venture (BVAQ) in Australia has performed well in F20 with good margins and increased revenue, also driven by new dairy customers. Both revenue and EBIT have been above budget for the first half of FY20. BVAQ continues to consolidate its position as the leading food and environmental testing laboratory network in South East Asia. In the first half of 2019/20, the focus has been on driving the growth of the new start-up laboratories in Thailand, Vietnam and Indonesia, and rolling out a single Laboratory Information Management System (LIMS) across all five South East Asia laboratories. All laboratories are now connected in a single network, enabling testing to be efficiently allocated across the network according to customer requirements and the specific capabilities of each laboratory.



Inspection and Certification

The key priority for the first six months has been to implement Business Plans within each of the Business Units to ensure long term sustainability and build on gains made from the previous 12 months. This has included exiting or improving the performance of programmes that have been unprofitable or not strategically aligned to the business, as well as developing new business opportunities. The other major focus has revolved around digitising Inspection and Certification services. The standardisation of business processes from contracting to invoicing is providing a platform for more efficient operational procedures and management reporting through this digital platform.

The ongoing Mycoplasma bovis response continues to be of central focus for the Biosecurity business. Given this is a world first in attempting to eradicate the disease, there is constant change to the programme, and we continue to support MPI with this. Given the ongoing single fruit fly finds during the Northcote fruit fly response last year, the early part of this season has seen AsureQuality increase surveillance and baiting activity through spring and early summer to ensure there is no breeding population remaining. During this period the RFP for Biosecurity Response Services (with MPI) has been responded to. This supports a significant part of AsureQuality's activity within the biosecurity sector.



Supporting MPI in the Mycoplasma bovis response continues to be of central focus as a world first in attempting to eradicate the disease

The Training Academy has had another strong start to the year showing continued growth. We have had a strong focus on developing plans to ensure we continue to grow both in domestic and international markets. This has seen an increase in focus on targeted promotional activities domestically, while carefully assessing and evaluating international opportunities in the new calendar year.



Specialist Services

The focus for Diagnostics has been on customer and product diversification. While this is a long-term strategy, we are already seeing positive signs and significant growth as a result of these initiatives in the first half of F20. There has also been growth from large customers which has contributed to a very positive top line growth (more than 30%). Whilst we do not anticipate growth to continue at this level, diversification initiatives are ongoing, and expected to drive growth of 5-10% over the next 3+ years.

Our Global Proficiency business has continued to grow strongly in the first six months of the year with revenue and profit significantly ahead of the same period last year. New product launches being developed include cultured foods and UHT milk proficiency programmes.



Diagnostics business focus on customer and diversification delivering significant growth

The Assurance Marks business had a busy first half of the year with a focus on three key areas. Firstly, operational excellence in the delivery and management of existing customers to ensure we continue to add value to their brands. Secondly, continuing efforts to grow our cloud-based technology platform partnership established to strengthen our authenticity verification offering to customers. Thirdly, the establishment of holistic AQ Assured networks for enabling transparent and authentic exports to the important Chinese market for customers interested in both eCommerce and general trade distribution opportunities.

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 31 December 2019

	Note	6 months December 2019 Unaudited \$000	6 months December 2018 Unaudited \$000
REVENUE	6	123,564	119,735
Employee benefit expenditure		(67,005)	(60,995)
Consumables		(10,861)	(9,038)
Contractors and subcontractor testing		(11,433)	(16,113)
Transportation expenses		(6,749)	(5,558)
Rental and operating lease cost		(868)	(2,710)
Other expenses		(9,825)	(8,929)
OPERATING EXPENSES		(106,741)	(103,343)
Depreciation and amortisation		(4,454)	(2,818)
Finance costs (net)	7	(851)	(453)
Share of profit of associates and joint ventures	8	1,696	529
Gain on sale of investment in subsidiary	8	-	7,221
PROFIT BEFORE INCOME TAX		13,214	20,871
Income tax expense		(3,739)	(4,053)
PROFIT FOR THE PERIOD		9,475	16,818
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Change in foreign currency translation reserve		(81)	332
OTHER COMPREHENSIVE INCOME NET OF TAX		(81)	332
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		9,394	17,150
Profit for the period attributable to:			
Equity holders of the parent		9,457	16,870
Non-controlling interest		18	(52)
		9,475	16,818
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent		9,376	17,202
Non-controlling interest		18	(52)
		9,394	17,150

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 2019

	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 2018 (AUDITED)		22,100	9,614	137	25,678	57,529	95	57,624
Change in accounting policy		-	-	-	(853)	(853)	-	(853)
RESTATED TOTAL EQUITY AT 1 JULY 2018		22,100	9,614	137	24,825	56,676	95	56,771
Total comprehensive income for the period		-	-	332	16,870	17,202	(52)	17,150
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Capital contribution by non-controlling interest in subsidiary		-	-	-	-	-	10	10
Elimination of non-controlling interest on disposal of subsidiary		-	-	-	-	-	(53)	(53)
Dividend to equity holders	5	-	-	-	(4,000)	(4,000)	-	(4,000)
BALANCE AT 31 DECEMBER 2018 (UNAUDITED)		22,100	9,614	469	37,695	69,878	-	69,878
Total comprehensive income for the period		-	6,411	(995)	9,118	14,534	-	14,534
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Dividend to equity holders		-	-	-	(3,000)	(3,000)	-	(3,000)
BALANCE AT 30 JUNE 2019 (AUDITED)		22,100	16,025	(526)	43,813	81,412	-	81,412
Total comprehensive income for the period		-	-	(81)	9,457	9,376	18	9,394
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Arising on acquisition of business	9	-	-	-	-	-	830	830
Dividend to equity holders	5	-	-	-	(15,400)	(15,400)	-	(15,400)
BALANCE AT 31 DECEMBER 2019 (UNAUDITED)		22,100	16,025	(607)	37,870	75,388	848	76,236

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

Condensed Consolidated Statement of Financial Position
as at 31 December 2019

	Note	December 2019 Unaudited \$000	June 2019 Audited \$000
CURRENT ASSETS			
Cash and cash equivalents		3,463	3,131
Trade and other receivables		35,433	42,556
Inventories		5,093	4,454
TOTAL CURRENT ASSETS		43,989	50,141
NON-CURRENT ASSETS			
Property, plant and equipment		35,871	35,405
Right of use assets	10	14,005	-
Intangible assets		8,748	5,239
Investment in associates and joint ventures	8	44,741	42,855
Deferred income tax assets		4,130	4,774
TOTAL NON-CURRENT ASSETS		107,495	88,273
TOTAL ASSETS		151,484	138,414
CURRENT LIABILITIES			
Trade and other payables		30,135	31,813
Borrowings		9,700	-
Derivative financial instruments	15	416	454
Current income tax liabilities		1,695	5,865
TOTAL CURRENT LIABILITIES		41,946	38,132
NON-CURRENT LIABILITIES			
Borrowings		15,400	15,275
Lease liability	10	14,267	-
Payables		3,635	3,595
TOTAL NON-CURRENT LIABILITIES		33,302	18,870
TOTAL LIABILITIES		75,248	57,002
EQUITY			
Equity attributable to equity holders of the parent		75,388	81,412
Non-controlling interest		848	-
TOTAL EQUITY		76,236	81,412
TOTAL LIABILITIES AND EQUITY		151,484	138,414

The Board of Directors ofASUREQuality Limited authorised these financial statements for issue on 10 February 2020.



Alison Watters
Chair



Bruce Scott
Chair Audit Committee

Condensed Consolidated Statement of Cash Flows
for the six months ended 31 December 2019

	Note	6 months December 2019 Unaudited \$000	6 months December 2018 Unaudited \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		132,485	128,167
Payments to suppliers and employees		(111,168)	(108,258)
Interest paid net of interest and dividends received		(814)	(620)
Income tax paid		(7,264)	(3,807)
NET CASH GENERATED FROM OPERATING ACTIVITIES		13,239	15,482
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,460)	(984)
Purchase of intangibles		(72)	(403)
Capital contribution by non-controlling interest in subsidiary		-	10
Acquisition of subsidiary	9	(3,320)	-
NET CASH USED IN INVESTING ACTIVITIES		(5,852)	(1,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease principal payments	10	(1,480)	-
Proceeds from/(repayment of) borrowings		9,825	(10,153)
Dividend paid to shareholder		(15,400)	(4,000)
NET CASH USED IN FINANCING ACTIVITIES		(7,055)	(14,153)
NET INCREASE/(DECREASE) IN CASH		332	(48)
Cash and cash equivalents at beginning of six month period		3,131	5,159
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		3,463	5,111
RECONCILIATION OF THE PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE PERIOD		9,475	16,818
ADJUSTMENTS FOR:			
Depreciation and amortisation		4,454	2,818
Share of gain of associates and joint ventures		(1,696)	(529)
Gain on sale of subsidiaries		-	(7,221)
Other non-cash movements		370	13
IMPACT OF CHANGES IN WORKING CAPITAL			
Trade and other receivables		7,123	6,937
Income tax		(4,170)	73
Trade and other payables		(1,678)	(3,153)
Other non-cash movements		(639)	(274)
NET CASH GENERATED FROM OPERATING ACTIVITIES		13,239	15,482

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

Consolidated Notes to and forming part of the Interim Financial Statements for the six months ended 31 December 2019

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. STATEMENT OF COMPLIANCE

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 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 2019. The Condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the 2019 Annual Report, except for the adoption of NZ IFRS 16 - Leases on 1 July 2019.

Adoption of NZ IFRS 16 - Leases

The Group has adopted NZ IFRS 16 - Leases for the first time in the interim reporting period commencing 1 July 2019. The Group applied the simplified retrospective transition approach. Further details on the adoption of NZ IFRS 16 - Leases and the impact on the Group's financial performance and position are disclosed in Note 10.

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 2019 and new judgements required on the adoption of NZ IFRS 16. The adoption of NZ IFRS 16 required judgement in identifying whether a right-of-use asset and lease liability should be recognised and, if so, the measurement of those balances. Measurement of these balances required the determination of the lease term and the identification of a suitable discount rate.

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 2019, a final dividend of \$8,200,000 representing 34.45 cents per share and a special dividend of \$7,200,000 representing 30.25 cents per share, both relating to the 12 months period ended 30 June 2019, were paid by AsureQuality Limited to the shareholder (six months ending 31 December 2018: \$4,000,000 representing 16.81 cents relating to the 12 months period ended 30 June 2018).

Consolidated Notes to and forming part of the Interim Financial Statements
for the six months ended 31 December 2019

	6 months December 2019 Unaudited	6 months December 2018 Unaudited
	\$000	\$000
6. REVENUE		
Disaggregation of the Group's revenue from contracts with customers:		
Testing services	38,109	39,034
Inspection and certification	79,103	76,180
Specialist services	6,352	4,521
	123,564	119,735

7. FINANCE COSTS (NET)

Interest expense on borrowings	(429)	(589)
Interest expense on lease liabilities	(391)	-
Interest income on short-term bank deposits	6	5
Movement of derivatives held at fair value through profit or loss	38	(116)
Net foreign exchange gain	(75)	247
	(851)	(453)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name of entity	Country of Incorporation	Principal activities	Balance Date	Ownership and voting interest December 2019	Ownership and voting interest December 2019
Bureau Veritas AsureQuality Holdings Limited (BVAQ AU)	Australia	Independent food testing laboratories	31-December	49%	49%
BV-AQ (Singapore) Holdings Pte Ltd	Singapore	Independent food testing laboratories	31-December	49%	49%

On 1st December 2018 the Group sold its investment in subsidiary, AsureQuality Singapore Pte Ltd to BV-AQ (Singapore) Holdings Pte. Ltd (BVAQ SEA) in exchange for a 49% share of BVAQ SEA, resulting in a net gain of \$7,221,000.

	6 months December 2019 Unaudited
	\$000
CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	
Investment at the beginning of the period	42,855
Share of profit	1,696
Share of other comprehensive income of associates	190
BALANCE AT 31 DECEMBER 2019	44,741

Consolidated Notes to and forming part of the Interim Financial Statements
for the six months ended 31 December 2019

9. ACQUISITION OF SUBSIDIARY

On 1 December 2019 the Group acquired 80% shareholding and voting rights in NZIDT Limited for \$3,320,000. NZIDT Limited is a halal certification and verification business and is incorporated and domiciled in New Zealand. Through its majority shareholding and having the power to govern the financial and operating decisions of this company, the Group is deemed to have control over NZIDT Limited. The business combination has been accounted for using the acquisition method.

Fair value of acquisition

A non-controlling interest of \$830,000 was recognised on acquisition and was measured at the non-controlling interest's proportionate share of the fair value of the identifiable net assets of NZIDT Limited acquired by the Group.

Intangible assets arising on acquisition

Goodwill of \$4,109,000 was recognised on acquisition and represents the value of expected synergies, revenue growth, future market development and the assembled workforce of the business acquired. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

There has been no impairment in goodwill between the acquisition date of 1 December 2019 and the reporting date of 31 December 2019.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Impact of acquisition on the results of the Group:

Acquisition-related costs (included in other expenses in the Group's condensed consolidated statement of comprehensive income) for the period amounted to \$133,000.

The revenue included in the condensed consolidated statement of comprehensive income since 1 December 2019 contributed by the acquired business was \$177,000. The acquired business also contributed profit of \$88,000.

Had this business combination been effected at 1 July 2019, the condensed consolidated statement of comprehensive income would have included revenue of \$1,130,000 and profit of \$373,000.

10. ADOPTION OF NZ IFRS 16 - LEASES

NZ IFRS 16 Leases

The Group adopted NZ IFRS 16 Leases for the first time from 1 July 2019. The standard requires a lessee to recognise a lease liability reflecting the future lease payments and a 'right-of-use asset' for substantively all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets.

The Group applied the simplified retrospective transition approach where outstanding lease payments are discounted using the incremental borrowing rate at 1 July 2019. This results in the right-of-use asset being recognised at an amount equal to the lease liability. Comparative figures for the year ended 30 June 2019 are not restated but instead continue to reflect the accounting policies under NZ IAS 17 Leases. The Group applied the transitional provisions of NZ IFRS 16 'Leases' which allowed it to not account for leases, where the lease term ends within 12 months of 1 July 2019.

The Group held no finance leases at 30 June 2019.

The right-of-use assets recognised by Group relate to the lease of:

- property for offices and laboratories in New Zealand and Australia. The right-of-use asset is depreciated over the period until the expiry of the lease.
- motor vehicles in New Zealand. The right-of-use asset is depreciated over the period until the expiry of the lease.
- office equipment in New Zealand. The right-of-use asset is depreciated over the period until the expiry of the lease.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application was 6.0%. The variance between Operating lease commitments disclosed at 30 June 2019 of \$9,610,000 (applying NZ IAS 17) and Lease liabilities at 1 July 2019 of \$15,404,000 was a result of adjustments due to different treatment of extension and termination options and discounting using the incremental borrowing rate at the date of initial application.

The impact of the adoption of NZ IFRS 16 - Leases as at and for the period ended 31 December 2019 is as follows:

- **Statement of Comprehensive Income:** increase in Depreciation and amortisation costs of \$1,750,000 and Finance costs of \$391,000, and a decrease in Rental and operating lease costs of \$1,871,000;
 - **Statement of Financial Position:** new Right of Use assets of \$14,005,000 and Lease liabilities of \$14,267,000;
 - **Statement of cash flows:** decrease in Payments to suppliers and employees of \$1,871,000, and increase in Interest costs paid of \$391,000 and Lease principal payments of \$1,480,000.
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Consolidated Notes to and forming part of the Interim Financial Statements
for the six months ended 31 December 2019

11. CONTINGENT LIABILITIES

There are no material contingent liabilities as at 31 December 2019 (December 2018: Nil).

12. 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 basis. The Company made significant sales of biosecurity services to the Government, Ministry of Primary Industries, during the six month period. The remaining transactions were not significant 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 Veritas AsureQuality Holdings Limited and BV-AQ (Singapore) Holdings Pte. Ltd during the period.

The following transactions were carried out with related parties:

	6 months December 2019 Unaudited \$000	6 months December 2018 Unaudited \$000
SALES OF SERVICES:		
Sales of biosecurity services to Government	31,476	35,652
Services provided to associates	2,198	1,240
EXPENSES:		
Purchase of services from associate	180	596

13. SIGNIFICANT EVENTS AFTER INTERIM BALANCE DATE

On 10 February 2020, the Board of Directors declared an interim dividend of \$1,500,000 relating to the 12 months ending 30 June 2020, 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.

	December 2019 Unaudited \$000	December 2018 Unaudited \$000
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14. COMMITMENTS

CAPITAL COMMITMENTS

Capital expenditure contracted for at reporting date but not provided for	77	503
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Consolidated Notes to and forming part of the Interim Financial Statements
for the six months ended 31 December 2019

15. 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 2019	June 2019	December 2019	June 2019	December 2019	December 2018
	\$000	\$000	\$000	\$000	\$000	\$000
Interest rate swaps	7,644	11,310	(416)	(454)	38	(116)
	7,644	11,310	(416)	(454)	38	(116)

Comparison with performance targets including the Statement of Corporate Intent
For the six months ended 31 December 2019

	6 months December 2019 Target	6 months December 2019 Actual	12 months June 2020 Target
FINANCIAL PERFORMANCE TARGETS			
Revenue	\$105.0m	\$123.6m	\$206.7m
Earnings before interest and tax	\$11.5m	\$14.1m	\$21.9m
Net profit after tax	\$7.5m	\$9.5m	\$14.1m
Net cash flow from operating activities	\$9.0m	\$13.2m	\$24.8m
ANNUAL KEY RATIOS			
Operating margin ¹	15.3%	15.0%	15.0%
Solvency ²	1.3	1.0	1.1
NON-FINANCIAL PERFORMANCE TARGETS			
Critical programme audit failures	Nil	Nil	Nil
Critical facility audit failures	Nil	Nil	Nil
Staff turnover rate ³	<12%	10%	<12%
Total recordable injury frequency rate (TRIFR)	<4.4	3.5	<4.4

1. Operating margin is calculated as Earnings before interest, tax, depreciation and amortisation divided by Revenue
2. Solvency is calculated as total current assets divided by total current liabilities.
3. Staff turnover rate is calculated as a rolling average of permanent staff (excluding redundancy) who have left the business in the last twelve months.

Executive Remuneration Report

AsureQuality's Executive remuneration policy is based on the following principles:

- Fixed and Total remuneration are measured against the 'industrial and service' market median;
- The desired market position for Fixed Remuneration is between 80% - 120% of the market median;
- An individual's position in range (PIR) is determined on performance, where 90% to 105% is considered fully competent;
- The PIR will be achieved using a short-term performance incentive to provide an 'At Risk' component to achieve Total Remuneration;
- The short-term performance incentive shared priorities are based on stretch goals approved by the Board annually.

Total remuneration is made up of two components: fixed remuneration and short-term performance incentives. Short-term performance incentives are deemed 'at-risk' because the outcome is determined by performance against a combination of predetermined financial and non-financial objectives.

The People and Culture Committee (PCC) reviews the annual performance appraisal outcomes for all members of the Executive Team and approves the outcomes for all Executive Team members other than the Chief Executive. The Chief Executive's remuneration is approved by the Board on the recommendation of the PCC. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

External benchmarking is commissioned by the PCC from an expert party, Korn Ferry Hay Group. Korn Ferry Hay Group is required to declare independence of any management influence in the collation of the information provided.

Fixed Remuneration

Fixed remuneration consists of base salary and benefits. AsureQuality's policy is to pay fixed remuneration with reference to the fixed pay market median.

Short-term Performance Incentives

Short-term incentives (STIs) are at-risk payments designed to share goals that create success and encourage and reward performance in the current financial year.

The target value of an STI payment is set annually, usually as a percentage of the executive's base salary. For FY2020 the relevant target percentage for the Chief Executive is 30% and for all the other executives is 25%.

50% of the STI is related to a shared set of Key Performance Indicators (KPIs) based on business priorities for the next 12 months, with the objective of aligning the Executive Team's focus with the company's priorities.

The shared KPIs in FY2020 cover the areas of People, Customer, and Sustainability with respective weightings applied across areas. The criteria are selected to closely align with AsureQuality's strategic objectives, purpose and goals.

The remaining 50% of the STI for the Chief Executive is related to meeting or exceeding the Group's annual net profit target. For the other Executive team members, the balance is related to a combination of meeting or exceeding the Group's annual net profit target and individual business group financial targets.

The Board retains discretion to ensure the final outcome of STI payments fairly reflects performance over the relevant financial year.

Chief Executive's Remuneration

	Base Salary	Benefits	Subtotal	STI	Total Remuneration
	\$	\$	\$	\$	\$
12 months to 30 June 2020 (Package)	492,349	24,617	516,966	155,090	672,056
12 months to 30 June 2019 (Actual)	478,473	23,924	502,397	140,492	642,889

Benefits include Kiwisaver and an additional week of annual leave.

The STI payment relating to the 12 months to 30 June 2019 was paid in September 2019.

The value of the STI payment relating to the 12 months ending 30 June 2020 will depend on the achievement of KPIs and will be paid in September 2020.



Kaitiaki Kai

Guardians of food



AsureQuality's people are deeply connected to New Zealand's food and primary production sectors, working alongside our partners sharing the knowledge and insights gained from over 100 years of experience.

Helping Aotearoa shape a better food world



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