

AsureQuality
Kaitiaki Kai

Interim Report

2024





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Chair and CEO Report

Results Overview

AsureQuality's performance reflects the overall current primary sector challenges with lower revenue and profitability versus the same time last year. Revenue of \$110.5 million YTD is however on track to meet full year budgeted revenue and with a positive contribution from meat inspection (primarily due to increased hours worked), offsetting a slow start to the dairy season and reduced demand for other services.

The profitability at \$1.0 million YTD is down versus last year but on track to meet budget. The decrease from last year reflects the mix of business activities (lower demand for dairy and serology testing, biosecurity and field services and lower diagnostics volumes) together with inflationary pressures.

The Board approved a redevelopment of the company's main testing laboratory at Lynfield in Auckland, in consultation with the Shareholder, and work has commenced this financial year. This laboratory was originally built in 1980 and was designed to house approximately 80 people. It is now the largest food testing laboratory in the Southern Hemisphere, underpinning New Zealand's \$70B food industry and exports, employing 450 people as the New Zealand food and primary industry has grown. The laboratory is of critical importance to New Zealand with the reliance on this facility for both exports and to ensure safe food supply to local retailers. The redevelopment will provide greater confidence in maintaining New Zealand's reputation for the highest standards of food safety and nutritional composition.

During this period, we have continued to focus on the six critical areas that resulted from a Materiality Assessment: employee health, safety and well-being, employee attraction and retention, customer experience, data and insights, technology enabled assurance and systems and processes.

We are pleased to see the efforts in these areas achieving results. This includes the improved annual customer satisfaction survey results (12% increase), highest ever service delivery levels in testing and auditing, doubling of our employee engagement results, employee turnover reducing and continual improvements in lead and lag safety indicators. We have made good progress with modernising our core infrastructure including the introduction of a new world-class Audit Management System and new payroll systems.

Strategic Direction

Demand from New Zealand's export markets and customers for new areas of testing and assurance continue to grow. AsureQuality's strategy is to become an integrated assurance partner with New Zealand food companies and the primary industry it serves. This is underpinned by three key pillars aligned with customer requirements now, and in the future:

- **Service Excellence** – delivering our services expediently and efficiently at the highest standard and earning the right for broader opportunities with our customers.

- **Decision Support** – providing data and insights along with technical expertise.
- **New Assurance Models** – new technology, automation and new business models to remain relevant for our customers in the future.

AsureQuality is investing in this strategy with a focus on culture, innovation, data and insights, automation and technology for the future.

AsureQuality is making very good progress towards our strategic vision of becoming an integrated assurance partner with our customers. This has been accelerated with the implementation of the new operating audit system and the result of establishing a strong data architecture and capability.

The strong results from service delivery are assisting us grow our opportunity pipeline from existing and new customers supporting the growth forecast in FY25 and FY26.

To further support our strategy and business transformation, we have been working with our people to invest in building the right future-ready culture.

In Conclusion

With financial performance on track to achieve the full year budget, AsureQuality remains well placed to meet the opportunities ahead and the challenges due to the headwinds currently experienced by the primary sector. There has been significant progress to strengthen our core business and services, as well as on strategic initiatives which will ensure our continued relevance to our customers and stakeholders 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,



Peter Landon-Lane
Chair



Kim Ballinger
Chief Executive Officer



Business Overview

People and Culture

Deployment of Strategy

There has been significant progress across the three pillars that underpin the people and culture strategy. This has enabled a sustained positive shift in our quarterly engagement results.

Building on the AQ belonging story launched in FY23, we are well underway with the co-creation of our future desired culture, led by our team of culture architects. This work will result in future focussed values and behaviours which will be launched and activated from Q4 of FY24.

Te Roopu Aka Whiri Hou (our bicultural committee) continues to guide our cultural competence development, as we embed a holistic and authentic Te Ao Māori journey. This will result in the creation of a new and holistic Māori leadership role before the end of FY24.

In addition to our strategic pillars, we continue to build strong people foundations, with a successful upgrade to our core payroll platform and the automation of timesheets for a large segment of our workforce.

Safety and Wellbeing

Keeping our people safe is vital, and safety indicator results are very pleasing for the first six months. We are embedding our critical risk framework through education and tools and improve our considerable shared responsibilities with other PCBUs (Person Conducting a Business or Undertaking), deepening our expertise and progress in this critical area. We are growing the impact of our Safety and Wellbeing reps through regular learning and tools. Our wellbeing focus is gaining momentum through targeted deployment of the Wellbeing by Design programme, with more teams to engage in this work over 2024.

Leadership and Talent and Capability

We are well underway with the development and deployment of leadership development approach, Te Ara Whakapakari,

to accelerate leadership capability development across the organisation. Three out of four experiences: (Onboarding, Labs, Coaching) have been successfully deployed with strong engagement and positive feedback. The first pilot of the fourth experience (Navigator) is set for February, with a further six cohorts planned for 2024. We are embedding our AQ Talent Approach, through a quarterly organisational wide leadership conversation, building action and accountability in the development of our talent and the mitigation of our risks.

Audit Services

The formation of a new Audit Services group takes effect at the beginning of February 2024. The group consists of three operational delivery portfolios: Horticulture; Animal Products; Food and Global along with two functional teams that enable the service delivery teams: Commercial Services; and Quality and Technical.

Over the next 18 months we are focussed on expanding the audit programmes and the roll out of a new Audit Management System and onboarding all audit programmes is a key priority. This system will enable standardised practices, efficiency gains and enhanced customer-centric services.

Food Testing

Following on from the initiatives undertaken in FY23 on the Operation Excellence Programme (known as 'Good to Great'), Food Testing has implemented additional automation in both the Auckland Laboratory's Chemistry and Microbiology departments. To maintain a competitive edge in the market and enhance our customer service, AsureQuality will leverage these advancements, and continue exploring ways we can better meet the needs of our customers and enable continuous improvements to our service delivery.

Specialty Testing

The Speciality Testing team at our Wellington laboratory has had a challenging operating environment with the cessation of live cattle exports by sea and reduction in *M. bovis* samples. Increased performance in the core chemistry testing has resulted in increased demand and the retention and expansion of work for national residue surveys both in New Zealand and Australia. A successful reset of the food forensics service has seen performance improve and revenue increase.

Biosecurity and Field Services

The cessation of live cattle exports by sea and the change in procurement strategy from MPI saw a reduction in work for Biosecurity and Livestock services which resulted in adjustments to staff numbers and responsibilities. A new Biosecurity and Field Services team has been formed with a dedicated focus on the farm and livestock industry.

Meat Services

Meat Services have taken the first steps towards transforming how we operate, preparing for how technology and the changing labour market will impact and improve our service in the future. We have completed a key project that ensures we are doing the basics better and modernising how we record pay information for our people, which will ensure increased accuracy and timeliness.

We continue to support *M. bovis* surveillance and are successfully expanding our service offering with sampling programmes in other key areas.

Diagnostics

Diagnostics provides a unique level of capacity in the Australasian market and investment in facilities and equipment this year will enable the business to respond to increased customer demand for manufacturing opportunities.

Innovation and New Ventures

Integrated Assurance

The implementation of our new Central Data Hub has been successfully completed. This establishes a step change in AsureQuality's data capabilities across system, process and people. The platform unlocks the development and delivery of more sophisticated decision support tools to better serve our customers.

Environmental Services

We continue to work closely with the Ministry for the Environment to support the progressive roll-out of Freshwater Farm Plans (FW-FP), through the management of the appointment process for FW-FP Certifiers and Auditors. This process is now live with the first councils on board, applications for certifiers being received and appointed to the national register.

Innovation

AsureQuality is actively working with customers and industry, running various proof of concepts and pilots for new assurance models, designed to enable efficient and enduring food assurance.

Academy

In addition to achieving category 1 status as a Private Training Establishment (PTE), the AsureQuality Academy has now been admitted to the Quality Tertiary Institutions (QTI) Board. This is further evidence of the key role we play in Food Assurance training. We are modernising our training approach and expanding our portfolio to enable more people access to develop the skills and knowledge needed for safe and sustainable food production across Aotearoa, New Zealand.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2023

	Note	6 months December 2023 Unaudited \$000	6 months December 2022 Unaudited \$000
Revenue	6	110,500	113,381
Employee benefit expenditure		(76,080)	(73,458)
Consumables		(9,474)	(11,925)
Contractors and subcontractors		(1,653)	(1,844)
Transportation expenses		(3,550)	(4,629)
Rental and operating lease cost		(612)	(749)
Other expenses		(13,592)	(11,726)
OPERATING EXPENSES		(104,961)	(104,331)
Depreciation and amortisation		(4,187)	(4,720)
Finance costs (net)	7	(1,414)	(963)
Share of profit of associates and joint ventures	8	1,061	1,337
Profit before income tax		999	4,704
Income tax expense		(22)	(1,114)
Profit for the period		977	3,590
Other comprehensive income net of tax			
Items that may be reclassified subsequently to profit or loss:			
Translation of foreign operations		248	(257)
Other comprehensive income net of tax		248	(257)
Total comprehensive income for the period, net of tax		1,225	3,333

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 2023

	Note	Share capital \$000	Revaluation reserve \$000	Translation reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 30 June 2022 (Audited)		22,100	26,133	1,886	49,752	99,871
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Total comprehensive income for the period		-	-	(257)	3,590	3,333
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Transactions with owners recorded directly in equity						
Dividend to equity holders	5	-	-	-	(2,900)	(2,900)
Balance at 31 December 2022 (Unaudited)		22,100	26,133	1,629	50,442	100,304
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Total comprehensive income for the period		-	-	427	310	737
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Transactions with owners recorded directly in equity						
Dividend to equity holders		-	-	-	(1,500)	(1,500)
Balance at 30 June 2023 (Audited)		22,100	26,133	2,056	49,252	99,541
Total comprehensive income for the period		-	-	248	977	1,225
Balance at 31 December 2023 (Unaudited)		22,100	26,133	2,304	50,229	100,766

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2023

ASSETS	Note	December 2023 Unaudited \$000	June 2023 Audited \$000
Current assets			
Cash and cash equivalents		2,389	1,211
Trade and other receivables		33,530	31,469
Inventories		7,396	7,323
Current income tax assets		1,325	666
Derivative financial assets		597	923
Total current assets		45,237	41,592
Non-current assets			
Property, plant and equipment		57,103	56,001
Intangible assets		2,324	2,615
Right-of-use assets	9	9,777	8,246
Investment in associates and joint ventures	8	53,949	53,180
Trade and other receivables		4,851	4,851
Deferred income tax assets		6,432	6,080
Total non-current assets		134,436	130,973
Total assets		179,673	172,565
LIABILITIES			
Current liabilities			
Trade and other payables		36,531	35,896
Borrowings		300	9,300
Current lease liabilities		2,446	1,646
Total current liabilities		39,277	46,842
Non-current liabilities			
Borrowings		28,920	16,005
Non-current lease liabilities		7,931	7,091
Payables		2,779	3,086
Total non-current liabilities		39,630	26,182
Total liabilities		78,907	73,024
Equity			
Equity attributable to equity holders of the parent		100,766	99,541
Total equity		100,766	99,541
Total liabilities and equity		179,673	172,565

The Board of Directors ofASUREQuality Limited authorised these financial statements for issue on 13 February 2024.


Peter Landon-Lane
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 2023

	Note	6 months December 2023 Unaudited \$000	6 months December 2022 Unaudited \$000
Cash flows from operating activities			
Receipts from customers		111,777	112,212
Payments to suppliers and employees		(107,724)	(104,580)
Interest paid net of interest and dividends received		(1,042)	(1,194)
Income tax refunded/(paid)		(1,034)	58
Net cash generated from operating activities		1,977	6,496
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,533)	(3,050)
Purchase of intangibles		(3)	(177)
Dividends received from associate		-	225
Proceeds from sale of property, plant and equipment		1,660	93
Net cash used in investing activities		(3,876)	(2,909)
Cash flows from financing activities			
Proceeds from borrowings		3,915	2,203
Dividend paid to shareholder		-	(2,900)
Lease principal payments		(835)	(1,228)
Net cash from/ (used in) financing activities		3,080	(1,925)
Net increase in cash		1,181	1,662
Cash and cash equivalents at beginning of six month period		1,211	2,211
Exchange losses on cash balances		(3)	(5)
Cash and cash equivalents at the end of the period		2,389	3,868
Reconciliation of the profit for the year with cash flows from operating activities			
Profit after tax for the year		977	3,590
Adjustments for:			
Depreciation and amortisation		4,187	4,720
Interest capitalised in the construction of property		(13)	-
Share of profit of associates and joint ventures		(1,061)	(1,337)
Other non-cash movements		45	108
Impact of changes in working capital			
Trade and other receivables		(2,061)	(3,196)
Income tax		(659)	1,123
Trade and other payables		635	1,636
Inventories		(73)	(148)
Net cash generated from operating activities		1,977	6,496

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 2023

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 2023. The Condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the 2023 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 2023.

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 2023, no dividend was paid by AsureQuality Limited to the shareholder as we will be utilising cash usually paid as a final dividend, to fund the start of the re-development of the strategically important Auckland food testing facility (six months ending 31 December 2022: a final dividend of \$2,900,000 representing 12.18 cents was paid, relating to the 12 months period ended 30 June 2022).

6. Revenue

	6 months December 2023 Unaudited	6 months December 2022 Unaudited
Note	\$000	\$000
Disaggregation of the Group's revenue from contracts with customers:		
Food Testing services	31,309	30,263
Food Processing services	48,724	44,226
Field services	11,133	16,150
Specialty services	12,575	17,391
Other	6,759	5,351
	110,500	113,381

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2023

7. Finance costs (net)

	6 months December 2023 Unaudited \$000	6 months December 2022 Unaudited \$000
Interest expense on borrowings	(758)	(984)
Interest expense on lease liabilities	(275)	(211)
Interest income on short-term bank deposits	6	2
Movement of derivatives held at fair value through profit or loss	(327)	190
Net foreign exchange gain/(loss)	(60)	40
	(1,414)	(963)

8. Investments in associates and joint ventures

Name	Country of Incorporation	Principal activities	Balance Date	Ownership and Voting interest December 2023	Ownership and Voting interest December 2022
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 2023 \$000
Investment at the beginning of the period	53,180
Share of profit	1,061
Share of other comprehensive income of associates	(292)
Balance at 31 December 2023	53,949

9. Right-of-use assets

During the six months ended 31 December 2023, the Group had lease additions and modifications of \$2,491,000 (six months ended 31 December 2022 \$663,000). There have been no material disposals or reductions to the right of use assets (December 2022: Nil).

10. Contingent assets and liabilities

There are no material contingent assets or liabilities as at 31 December 2023 (December 2022: \$3.7m).

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2023

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 basis 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: biosecurity services, 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 2023 Unaudited \$000	6 months December 2022 Unaudited \$000
Sales of services:		
Services provided to associates	1,955	1,696
Expenses:		
Purchase of services from associates	139	193

12. Significant events after interim balance date

There were no significant events after balance date that required adjustment or disclosure in the financial statements.

13. Commitments

	December 2023 Unaudited \$000	December 2022 Unaudited \$000
Capital commitments		
Capital expenditure contracted for at reporting date but not provided for	3,117	4,584

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 2023 \$000	June 2023 \$000	December 2023 \$000	June 2023 \$000	December 2023 \$000	December 2022 \$000
Interest rate swaps	15,868	15,902	597	923	(327)	190

COMPARISON WITH PERFORMANCE TARGETS INCLUDING THE STATEMENT OF CORPORATE INTENT

For the six months ended 31 December 2023

	6 months December 2023 Target	6 months December 2023 Actual	12 months June 2024 Target
Financial performance targets			
Revenue	\$108.0m	\$110.5m	\$222.6m
Earnings before interest and tax	\$2.8m	\$2.4m	\$6.0m
Net profit after tax	\$1.3m	\$1.0m	\$2.9m
Net cash flow from operating activities	(\$0.9m)	\$2.0m	\$8.7m
Operating margin ¹	6.7%	6.0%	7.0%
Non-financial performance targets			
Critical programme audit failures	Nil	Nil	Nil
Critical facility audit failures	Nil	Nil	Nil
Staff turnover rate ²	<15%	15%	<15%
Total recordable injury frequency rate (TRIFR)	<3.8	3.5	<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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