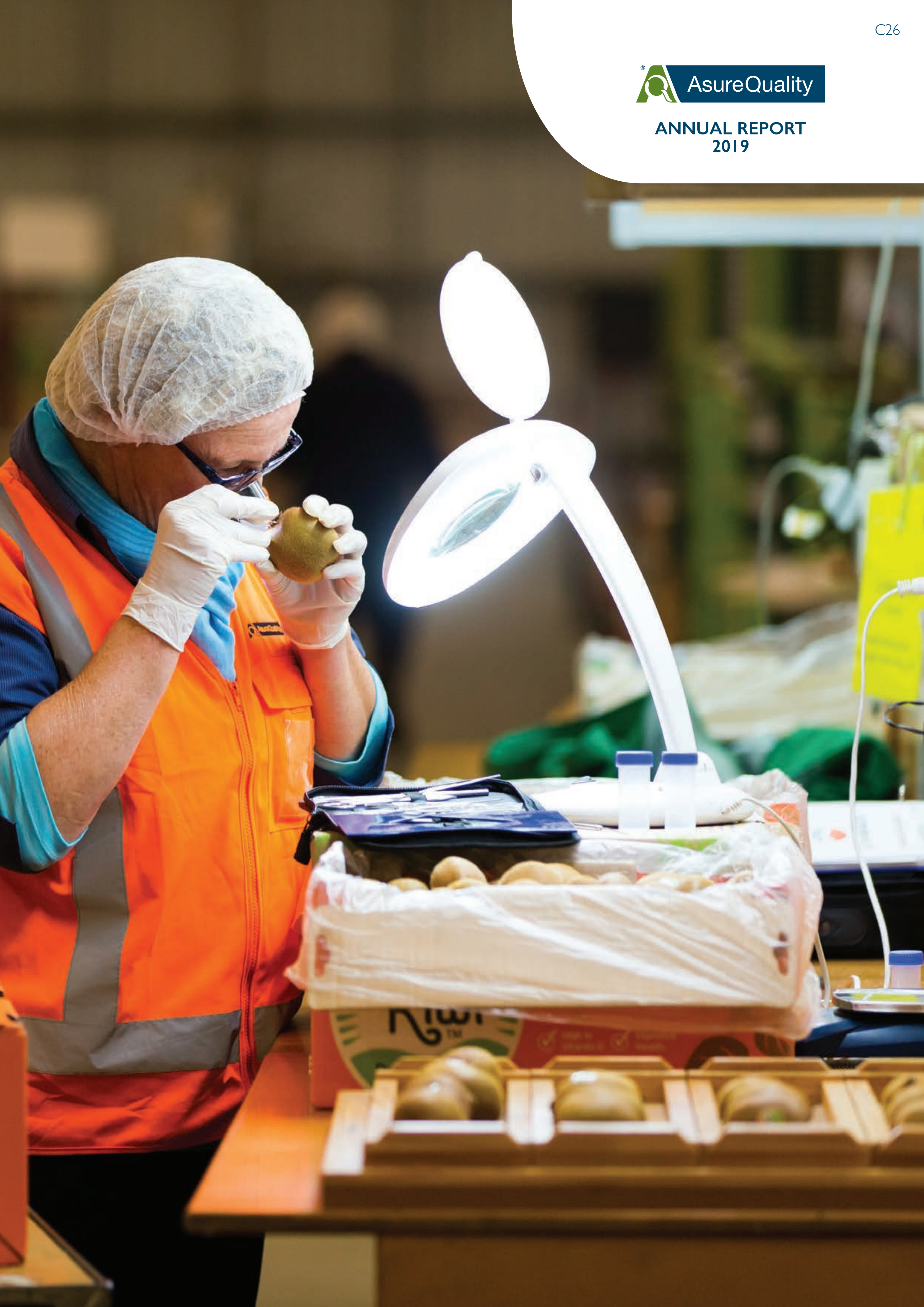
AsureQuality

# ANNUAL REPORT 2019



OUR PURPOSE

# HELPING AOTEAROA SHAPE A BETTER FOOD WORLD

OUR ROLE

## GLOBAL EXPERTS IN FOOD ASSURANCE

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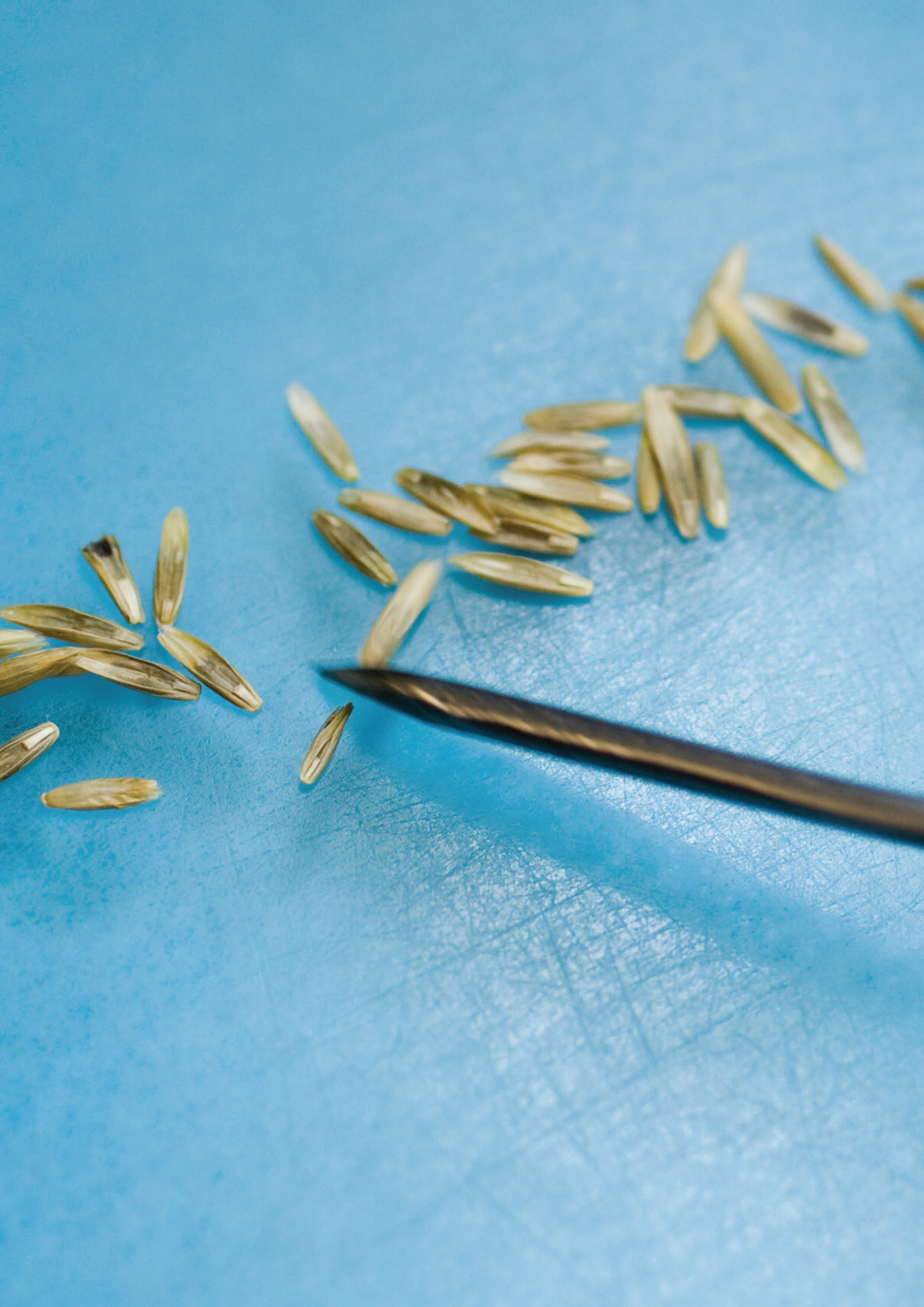


# ASUREQUALITY OVERVIEW

At AsureQuality we understand that food assurance can be complicated and challenging, and if things go wrong the consequences can be serious. That is why our customers need an assurance provider they can trust: someone that inspires confidence right across their supply chain. As a leading provider of food assurance services to the primary production and food manufacturing sectors for over 100 years, AsureQuality is part of New Zealand's global reputation for safe, quality food production and transparent assurance systems.

Our services help customers to achieve access to their chosen markets, gain competitive advantage and protect their products, brands and reputation. We provide a range of services to producers, processors, wholesalers, retailers and regulators across the food supply chain including dairy, food, meat, poultry and seafood, horticulture and wine, arable, forestry and biosecurity.

**Our business activities are grouped across three broad areas:**

## FOOD TESTING SERVICES

Food testing and analysis against regulatory and retailer standards for pathogens, toxins, allergens, chemical residues, genetically modified organisms and nutritional information

## INSPECTION AND CERTIFICATION

Independent audit, inspection, verification and certification against local and international regulatory and retailer standards

Veterinary and field technician services including: farm assurance, dairy farm assessment, sample collection, TB testing and related disease management

Specialist plant and pest taxonomy, border control and pathology services

Ante-mortem and post-mortem meat inspection

Seed testing and certification for arable, dairy, livestock farming and export

Biosecurity services provided under agreement with the Ministry for Primary Industries (MPI), including readiness, capability, incursion response and surveillance services

## SPECIALIST SERVICES

Specialist provider of proficiency testing, reference materials, and related services

Contract manufacturing of diagnostic products and distribution of specialist veterinary test kits for use in disease management programmes

International food testing and analysis against regulatory and retailer standards

AsureQuality owned and branded endorsement marks licensed to customers for use on their customer or consumer-facing packaging, with two distinct value propositions

Advisory services to support food industry clients with risk management, improving operational and supply chain efficiency and enabling growth

INPUTS

PRODUCTION

PROCESSING

DISTRIBUTION

WHOLESALE AND RETAIL

FOOD LABORATORIES

MEAT INDUSTRY SERVICES

INSPECTION AND CERTIFICATION SERVICES

FARM AND LIVESTOCK SERVICES

SEED AND PEST LABORATORIES

BIOSECURITY

GLOBAL PROFICIENCY

DIAGNOSTICS

INTERNATIONAL FOOD LABORATORIES

ASSURANCE MARKS

ADVISORY

# INTERNATIONAL ACCREDITATIONS

## DIAGNOSTICS MANUFACTURING

### CERTIFICATIONS HELD:

ISO 9001:2015 Quality Management Systems

ISO 13485:2016 Medical Devices Quality Management Systems

Licences and Permits:
- MPI
- APVMA
- USDA
- Australian Government
- Victorian State Government

Products:
- Observe™ Tuberculin PPD Avian 2500IU
- Observe™ Tuberculin PPD Bovine 3000IU

## TESTING

### PROFICIENCY TESTING PROVIDER ACCREDITATION: ISO/IEC 17043:2010

### REFERENCE MATERIAL PRODUCER ACCREDITATION: ISO 17034:2016

Microbiological Proficiency Testing

Chemical Proficiency Testing

### LABORATORIES: ISO/IEC 17025:2017 (IANZ, CNAS), ISTA, cGMP

Chemistry
- General
- Inorganic
- Organic
- Nutritional
- Contaminants
- Pesticides
- Dioxins

Microbiology
- General
- Pathogens

Serology

Entomology

Nematology

Seed and Plant Pest and Disease

## INSPECTION

### INSPECTION BODY: ISO/IEC 17020:2012

MPI Recognised Agency - Dairy
- Risk Management Programme Evaluation
- Risk Management Programme Verification
- Heat Treatment Evaluation
- Premises Evaluation
- Official Assurance Verification
- Regulated Control Scheme (Transport and Vehicle Docking Facilities)
- Non-Dairy Transport RMP
- Raw Milk RCS Dairy

MPI Recognised Agency
- Food Act Evaluation
- Food Act Verification:
  - Custom Food Control Plan
  - National Programmes 1,2 & 3
  - Template Food Control Plan

MPI Recognised Agency
- Bee Products

MPI Official Organics Assurance Programme

MPI Live Animal and Animal Germplasm Official Assurance Programme

MPI Independent Verification Agency for Plant Import and Export Certification

Ante Mortem and Post Mortem Inspection of Animal Products for the Domestic and Export Market

Farm Dairy Assessment
(Awaiting JAS-ANZ Board approval)

## CERTIFICATION

### MANAGEMENT SYSTEMS CERTIFICATION: ISO/IEC 17021-1:2015

ISO 9001 Quality Management Systems

ISO 22000 Food Safety Management Systems

ISO 14001 Environmental Management Systems

FSSC 22000 Food Safety System Certification

FSSC-Q Food Safety and Quality System Certification

Forest Management Systems Scheme

### PRODUCT CERTIFICATION: ISO/IEC 17065:2012

Organics

BRC – Food Safety

BRC – Agents and Brokers

SQF

LEAF

GLOBALG.A.P. / NZGAP Equivalent

AsureQuality Timber Treatment Scheme

PINENZ - Pine Manufacturers Association Scheme

AsureQuality Verification of

Timber Products Scheme

CodeMark (Transferring to BV)

AsureQuality Engineered Wood Programme

Programme for the Endorsement of Forest Certification Schemes

Alliance Group Farm Assurance Programme

Ovation Farm Assurance Programme

AFFCO Farm Assurance Programme

ANZCO Foods Farm Quality Assurance Programme

The Silver Fern Farms Assurance Programme

JBS Farm Assurance Programme

Synlait Lead with Pride Programme

New Zealand Farm Assurance Programme

Fonterra Trusted Goodness Scheme

AsureQuality Animal Welfare Scheme

The ZQ Grower Programme

### IFOAM

AsureQuality Organic Standard

# CHAIR AND CHIEF EXECUTIVE REPORT

## Welcome to AsureQuality's annual report for the 2018 – 2019 financial year.

The safety of our people is a key indicator of our performance and we have significantly reduced our Total Recordable Injury Frequency Rate for a second year, with a 20% reduction in injuries, following a 14% reduction in 2017-2018. We remain committed to continuing to improve our health, safety and wellbeing culture and outcomes.

From a financial perspective, it was a year of positive change with AsureQuality implementing a focused renewal strategy to ensure our underlying business is sustainable. Implementation of this strategy throughout the business resulted in an improvement in financial performance. The net profit for 2019 was a record $25.9m. This compares to a net profit of $8.5m in 2018 and was delivered on the back of a record revenue of $254m.

Revenue was positively impacted by the strong demand for food and speciality testing services in New Zealand, which were at record levels. The revenues were also positively impacted by the continuing high levels of biosecurity activity, with AsureQuality contracted to work on multiple fruit fly responses as well as the Mycoplasma bovis eradication programme. Towards the end of the year AsureQuality also secured the nationwide contract for the continuance of the eradication of TB in New Zealand.

Profits throughout AsureQuality's business units improved significantly, with underperforming parts of the business either enhanced or exited, and a number of efficiency initiatives successfully implemented during the year. AsureQuality's net profit was positively impacted by a one-off gain on sale of $7.2m through the sale of the Singapore food testing business into a wider Southeast Asian joint venture with our international partner Bureau Veritas. Dairy Technical Services, our joint venture with Bureau Veritas in Australia, delivered above target returns for the year with the business securing key food testing customers during the year. As part of its renewal strategy and a desire to focus on Australia and South East Asia, AsureQuality also exited from the Saudi Arabian market, selling its stake in the joint venture to former partner Motabaqah.

### SHAREHOLDER DIVIDEND

AsureQuality paid an interim dividend of $3.0m in February 2019. A final dividend of $8.2 million, and a special dividend of $7.2m were declared in August, to be paid in September 2019. This brings the total dividend for 2019 to $18.4 million.

### BOARD CHANGES

In December 2018 Hamish Stevens finished an eight-year term with the Board of AsureQuality. Hamish provided a significant contribution to the business over his term, including as Chairman of the international joint venture in Australia. Alison Posa joined the board in January 2019.

REVENUE

$254M

NET PROFIT AFTER TAX

$25.9M

COMMERCIAL VALUATION

$216M

## STRATEGIC PRIORITIES FOR 2019-2020

AsureQuality will move to the second phase of its renewal strategy with a focus on four key outcomes:

- **Engaged people:** Performance driven teams who are passionate about what we do
- **Engaged customers:** Great customer experience delivered consistently
- **Sustainable profitability:** So we can reinvest in our future
- **Future growth:** Develop four new growth models – BVAQ International, Assurance Marks, Digital Services and Environmental Assurance Services.

## IN CONCLUSION

2019 has been a very busy year for AsureQuality with significant increases in demand for our services and many changes implemented within the business to improve its underlying sustainability. Our people have made significant time commitments to help with biosecurity responses during the year, particularly the fruit fly responses and the continued effort to eradicate Mycoplasma bovis. This commitment, ultimately for the good of New Zealand, has often meant a sacrifice of time spent with family, and we would like to sincerely thank our people for this. We would also like to thank our entire staff for embracing change this year, your work is greatly appreciated. We look forward to working closely with our customers as we continue to deliver new and improved services that will better support them to achieve their business outcomes.

**JANINE SMITH** CHAIR

**JOHN MCKAY** CHIEF EXECUTIVE OFFICER

# BUSINESS OVERVIEW

## HEALTH AND SAFETY

The safety and wellbeing of our team continues to be a high priority for AsureQuality. We continue to see a reduction in the number of incidents with our Total Recordable Injury Rate reducing from 4.9 to 3.8. Over the past year we have increased our focus on improving engagement with our Health and Safety representatives, and were pleased to have one of our Health and Safety representatives (Mel Brown) as a finalist in the Health and Safety representative of the year category at the New Zealand SafeGuard awards. The annual engagement survey has also shown a positive increase across safety related questions.

## TESTING SERVICES

Demand for food testing services increased during the year due to new dairy start-up companies, product diversification of some manufacturers, and food manufacturers moving from high volume commodity products to more complex high value products. This led to variable and challenging demand for testing services, but ultimately saw us exceeding the F19 target.

A strong emphasis on improving business sustainability drove increases in efficiency for each of our testing locations, which led to improved margins at more sustainable levels. Year-end EBIT levels exceeded the F19 target.

AsureQuality validated and successfully launched new faster pathogen testing methods using new rtPCR technologies which offer increased advantages for our New Zealand and Singapore customers. Additional rtPCR services are planned for the new financial year.

In addition to our extensive range of accreditations, this year the Auckland laboratory was accredited for a range of Chinese testing methods by the Chinese accreditation body CNAS. AsureQuality is the first non-Chinese company to receive CNAS accreditation outside of China. This has benefits for New Zealand manufacturers exporting to China as we can now produce a CNAS accredited Certificate of Analysis (COA).

The Wellington and Christchurch laboratories experienced higher than expected testing volumes as their customers experienced growth. This was in both animal serology and dairy testing. Environmental project work continued with a focus on emerging contaminant testing, and the Wellington laboratory led the way with fire retardant testing (PFAS) in New Zealand.

This year represents the third year of operations for the AsureQuality and Bureau Veritas joint venture in Australia. Following a challenging few years within the Australian dairy industry, Dairy Technical Services achieved revenue growth and successfully restored profitability to sustainable levels.

## INSPECTION AND CERTIFICATION

The past twelve months has seen the Food and Dairy business achieve positive transformation. The business has achieved significant change across three key areas simultaneously. These are improved customer satisfaction, increased compliance performance and building sustainability into the heart of the business. The goal for the year ahead is to continue sustainably growing in these three areas, with a deliberate emphasis on our people engagement and customer engagement.

The Plant and Seed business has continued to consolidate and improve our service offering around core services. There has been a marked increase in demand for our specialist diagnostic services with the Lincoln based Plant Health Laboratory investing in a DNA Extraction Robot as part of the PCR facility. This new technology ensures that customer turnaround times can be consistently met when receiving a high volume of samples. The PestLab in Auckland has supported the Kiwifruit industry through providing specialist pest diagnosis work as part of industry-wide surveys. The Seed Laboratory developed and gained provisional MPI approval for an Early Germination Assessment (EGA) process for the New Zealand and Australian seed markets. This provided early evidence of a positive germination result, enabling earlier shipment by exporters.

It has been a year of change and improvement, for our Livestock team. Within the changing regulatory environment of Dairy Assessments, we successfully gained approvals for 19 Recognised Persons. This allows us to continue to support the Ministry for Primary Industries (MPI) and the New Zealand Dairy Industry. Significant effort has been put in by our Technical and IT team to successfully transition the majority of our assurance services into our new mobile data capture platform. This provides increased control and visibility of workflow and is contributing to significant improvements in customer reporting.

An important accomplishment has been securing the national contract for Cattle and Deer TB Testing on behalf of OSPRI. We have a strong history of delivering TB testing and are committed to working with OSPRI for the eradication of TB. Securing this contract is important for AsureQuality as it reinforces our position on farms throughout New Zealand and also provides an increased AsureQuality presence in regions where we previously we did not hold the TB Testing contracts.

Whilst it was a slower season for sheep and lamb, demand for beef has remained strong with our Meat Inspection team inspecting over 26 million carcasses over the past year. The Livestock and Meat business continues to demonstrate the strength and expertise of our team across our Field Technicians, Meat Inspectors and Veterinarians.

The Biosecurity readiness and response team has continued to make a significant contribution to one of New Zealand's largest ever biosecurity responses during the year, assisting MPI to undertake a world first, that is attempting to eradicate the cattle disease Mycoplasma bovis from New Zealand. Additional activity for the biosecurity team occurred with the discovery of two different types of fruit flies through routine surveillance trapping in three separate areas of Auckland. The fruit fly responses were assisted by AsureQuality's upgraded geo-spatial data capture ability which resulted in the improved effectiveness and efficiency of this operation.

During the year the AsureQuality Academy moved their focus to commercial customers mainly in the food assurance training area. There were over 600 courses delivered with over 5000 students enrolled in courses throughout the year. Workshops were also held internationally in Qatar, Laos, Indonesia and Thailand.

## SPECIALIST SERVICES

In December 2018 AsureQuality and Bureau Veritas established a new joint venture covering five key markets across Southeast Asia: Singapore, Malaysia, Thailand, Vietnam and Indonesia. The joint venture forms the most comprehensive food testing laboratory network across the region, and together with our market-leading joint venture with Bureau Veritas in Australia, cements AsureQuality's position as the leading food assurance provider in Southeast Asia and Australasia.

As part of this heightened focus on Australasia, the Saudi Arabian laboratory business was divested in August 2018. Although AsureQuality no longer has a permanent presence in the region, a small number of established customers in the Middle East continue to use AsureQuality's services. AsureQuality also completed further training and development work for the Ministry of Public Health in Qatar during the financial year.

Global Proficiency had another year of strong performance, exceeding the revenue target set for the year and delivering over 15% growth on last year. Over the past year, there was active promotion of Global Proficiency services through direct sales and marketing, as well as the development and launch of several new products including in the Australian market.

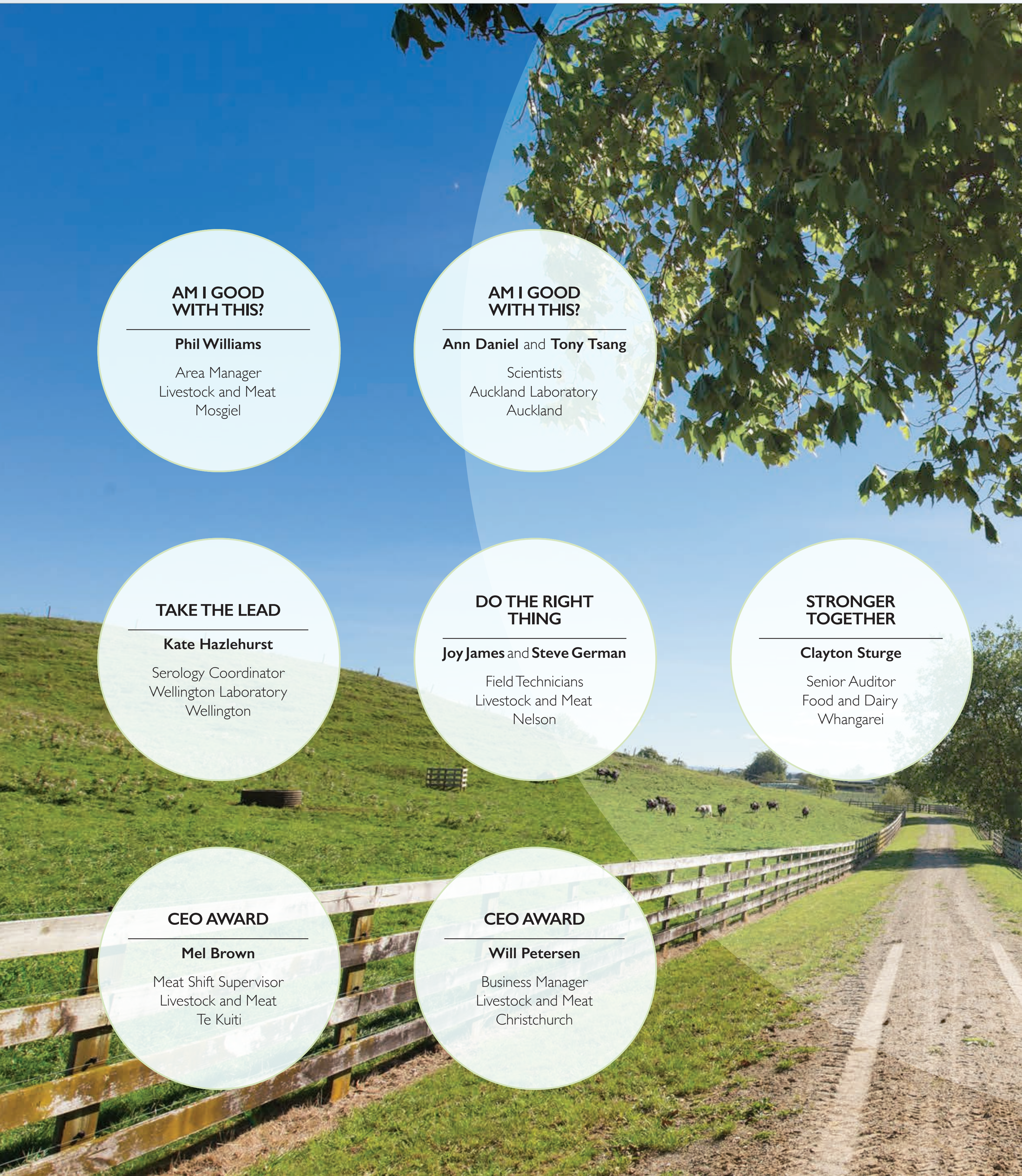
The Assurance Marks business had a year of consolidation after the strong performance from the previous year's work. A key area of emphasis has been the effective and efficient servicing of existing customers. A collaboration with a New Zealand-owned technology company specialising in brand protection has enabled an enhanced version of our authenticity verification offering to customers. Further new customers were engaged, with more in the pipeline for the next financial year. Pilots for supply chain transparency and integrity for exports into China are currently in delivery and will be reviewed post-pilot. This will help set the course for future work in supporting New Zealand food, beverage and primary industry exporters to China via general trade and e-commerce. The business continues to engage with customers looking for our support to strengthen the independent verification of brand claims, such as animal welfare, grass fed and free range. Growth in these areas of certification is forecast in for the year ahead.

## IN SUMMARY

Over the past year, as part of the AsureQuality renewal strategy, there has been a focus of doing the basics well, first and foremost and securing core business. This centred on five key projects which were accurate costing, optimised pricing, demand and supply planning, international footprint and enhanced invoicing. This single-minded focus has led to a significant improvement in AsureQuality's operating result. This now moves AsureQuality into a more robust position versus competitors and ensures that the core business of AsureQuality is strong and positioned for growth.

# ASUREQUALITY EXCELLENCE AWARDS

## OUR 2019 AWARDS



### AM I GOOD WITH THIS?

**Phil Williams**

Area Manager
Livestock and Meat
Mosgiel

### AM I GOOD WITH THIS?

**Ann Daniel** and **Tony Tsang**

Scientists
Auckland Laboratory
Auckland

### TAKE THE LEAD

**Kate Hazlehurst**

Serology Coordinator
Wellington Laboratory
Wellington

### DO THE RIGHT THING

**Joy James** and **Steve German**

Field Technicians
Livestock and Meat
Nelson

### STRONGER TOGETHER

**Clayton Sturge**

Senior Auditor
Food and Dairy
Whangarei

### CEO AWARD

**Mel Brown**

Meat Shift Supervisor
Livestock and Meat
Te Kuiti

### CEO AWARD

**Will Petersen**

Business Manager
Livestock and Meat
Christchurch

## EXCEED EXPECTATIONS

**Claudia Bruning, Gemma Turner, Paddy Kennedy, Mckayla Fitzpatrick, Rob Warren, Michael McGrath**

TB Testing Field Technician Team
West Coast

# BOARD OF DIRECTORS

AsureQuality's Board of Directors has been selected from a diverse range of backgrounds and abilities to ensure we are governed effectively, and continue to build on our success in the fields of food assurance and biosecurity.

**JANINE SMITH** was appointed to the Board in November 2010. She has been a company director for over 20 years and is a founding Principal of The Boardroom Practice Limited, Chair of REANNZ, a Council Member at AUT, the only independent member of Fonterra's Governance Development Committee, President of the London Business School alumni Auckland chapter and a well-known judge of business awards. She has held a number of other non-executive independent board positions as director and chair in public listed companies, State-Owned Enterprises, private companies and with companies in the arts and education sectors. In her CEO and senior management roles Janine spent over 15 years in the manufacturing and food sector with companies such as Tip Top Ice Cream and Arnott's NZ (part of Campbell US), where she was also an executive director. Janine was acknowledged in the 2015 New Year's Honours List receiving an MNZM for services to corporate governance.

**DR ALISON WATTERS** was appointed to the Board in May 2016. She has over 20 years' experience in governance roles spanning the commercial, educational, sporting and farming sectors. Alison is an elected Board Director for Livestock Improvement Corporation Ltd, owns a 600 cow dairy farm in the Wairarapa, and has a passion for all aspects of the primary industry. Her previous roles include Director of Human Nutrition at Massey University and Technical Manager for Fonterra, during which time she was involved in commercialising food innovation internationally.

**HAMISH STEVENS** was appointed to the Board in November 2010. He is a chartered accountant and independent director. Hamish is currently a Director of Restaurant Brands Ltd, Counties Power Ltd, Smart Environmental Ltd and East Health Services Ltd, and is the independent Chair of the Waikato Regional Council Audit and Risk Committee. He has a background in strategy, finance, and international business development in the food and beverage sector including senior executive positions with Heinz-Wattie's, Tip Top Ice Cream, and DB Breweries. Hamish retired from the board on 31 December 2018.

**MARGOT BUICK** was appointed to the Board in November 2013. She has over 25 years' experience as a director of public and not-for-profit companies and is a Fellow, and past President, of the Institute of Food Science and Technology. She has a background in food science and technology, particularly in R&D, food production and processing, and extensive product and business development experience.

**JANINE SMITH**
Chair

**DR ALISON WATTERS**
**Deputy Chair**

**HAMISH STEVENS**

**MARGOT BUICK**

**STEVE MURRAY** was appointed to the Board in May 2014. He is the CEO of Tuaropaki Trust which participates in energy generation, food production and the telecommunications sectors. He has a broad range of governance and management expertise gained from time as a Partner in IBM's Global Business Consulting, Managing Director of EDS New Zealand and as CEO of Tainui Group Holdings. He has also held senior executive roles overseas where he gained business experience in IT, communications, energy, banking and financing, aviation, merger and acquisitions and supply chain.

**BRUCE SCOTT** was appointed to the Board in May 2015. He holds advisory and governance roles in insurance and finance businesses within NZ, and provides strategic agri-business services internationally. His international expertise includes board representation, and leading diverse and multi-cultural workforces that has taken him to the Middle East, Russia and the Pacific. He is a member of Chartered Accountants Australia and New Zealand and Chartered member of the NZ Institute of Directors. Bruce has 25 years' executive management experience in FMCG, rural servicing, agri-business, shipping, fuels, and fishing sectors that includes roles as CEO of Tegel Foods Limited, and Chairman of the NZ Poultry Association.

**ALISON POSA** was appointed to the Board in January 2019. She has over 25 years' experience as a CFO and non-executive director in multi-national environments. Alison has experience in finance, strategy, risk management, governance of businesses across multiple countries and leading turnaround growth strategies in complex environments. Her previous roles have been across FMCG, Forestry and Pulp and Paper, and include roles such as Director Finance Controlling – Asia, Middle East and Africa for Mondelēz International, the world's third largest global branded food company, plus CFO roles with Fonterra Brands and Kraft Foods.

**PAUL MCGILVARY** was appointed to the Board in May 2017. He is currently Chairman of Maui Milk and Southern Cross Genetics, and a Director of Waikato Milking Systems. He previously held governance roles within the science, food, dairy and infrastructure industries. Paul's previous roles have been across a diverse range of industries and have included CEO of HortResearch, and Managing Director of NZ Milk Products (Europe). Most recently, he was the Chief Executive Officer of Tatua Dairy Company for almost nine years until January 2017. Paul is a member of the New Zealand Institute of Directors.

**STEVE MURRAY** **BRUCE SCOTT** **ALISON POSA** **PAUL MCGILVARY**

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for corporate governance. Corporate governance includes the direction of the Company, accountability of the Board to shareholders, the Company's performance, and compliance with laws and regulations. The following is an overview of the main corporate governance practices which ensure effective management, statutory obligations and best practice are met.

## SHAREHOLDER RELATIONSHIP

AsureQuality is a limited liability company and a State-Owned Enterprise with its shares held by two Ministers on behalf of the Crown, the Minister for State-Owned Enterprises and the Minister of Finance.

Under the State-Owned Enterprises Act 1986, the principal objective of a State-Owned Enterprise is to operate as a successful business which is:

- As profitable and efficient as comparable businesses not owned by the Crown
- A good employer
- An organisation which exhibits a sense of social responsibility having regard to the interests of the communities in which it operates, and by endeavouring to accommodate or encourage those interests when able to do so

AsureQuality is required to provide its shareholders with an annual business plan, annual budget, a Statement of Corporate Intent and quarterly reports on performance relative to the objectives set out in the business plan. The unaudited half-year financial statements, audited year-end financial statements and Statement of Corporate Intent are tabled in Parliament.

## THE ROLE OF THE BOARD OF DIRECTORS

The Directors are responsible for the governance of AsureQuality and its subsidiaries. The Board's principal responsibilities include:

- Ensuring that the Company goals are clearly established and that the strategies are in place for achieving them (such strategies being expected to originate from management in the first instance)
- Establishing policies for strengthening the performance of the Company including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital
- Monitoring the performance of management
- Appointing the CEO, setting the terms of the CEO's employment contract and the Company's remuneration policy
- Deciding on whatever steps are necessary to protect the Company's financial position and the ability to meet its debts and other obligations when they fall due
- Ensuring that the Company's financial statements are true and fair and otherwise conform with law
- Ensuring that the Company adheres to high standards of ethics, corporate behaviour and corporate social responsibility
- Ensuring that the Company has appropriate risk management and regulatory compliance policies in place
- Ensuring a healthy and safe workplace for all staff

The Board supports the values, principles and practices set out in the "Code of Practice for Directors" issued by the Institute of Directors in New Zealand. These include the expectations that Directors will:

- Act honestly and with integrity
- Comply with the law
- Avoid conflicts of interest
- Use company assets responsibly and in the best interest of the Company
- Be responsible and accountable for their actions
- Act in accordance with their fiduciary duties

Policies and procedures are regularly reviewed to ensure integrity standards within the organisation are maintained, and where appropriate, enhanced.

The orderly conduct and control of the business depends on effective and responsible delegation of authority. The Board has a formal delegation of authority policy establishing authority to the CEO and management. This policy establishes parameters and limits within which management can commit AsureQuality to a transaction or approve spending. These limits are reviewed annually.

## APPOINTMENT OF DIRECTORS AND COMPOSITION OF BOARD

AsureQuality's constitution sets out policies and procedures for the operation of the Board, including the appointment and removal of Directors. Directors are appointed by the shareholding Ministers; the Minister of Finance and the Minister for SOEs. Under the constitution Directors may be appointed for a fixed term not exceeding three years, and shareholding Ministers may choose to renew any such appointments for a further fixed term. The Ministers also appoint the Chair and Deputy Chair. All Directors are non-executive independent Directors.

The Chair of the Board's role is to manage the Board effectively, to provide leadership to the Board and to interface with the CEO.

## BOARD MEETINGS

The Chair, with the assistance of the CEO, establishes the agenda for each Board meeting to ensure proper coverage of key issues. Each Director is able to request items for the agenda.

The Directors receive comprehensive information on AsureQuality's operations before each meeting and have unrestricted access to any other information they require. The CEO and senior executives attend each meeting to answer questions and to assist the Directors in their understanding of the issues facing AsureQuality and the performance of the Company. The Board and its committees also meet in confidential sessions without management present. These sessions deal with management performance and remuneration issues, Director performance process, and discussions with the external auditors to promote a robust independent audit process.

In line with best practice, the Board undertook a Board Review by an external independent advisor.

For the year ended 30 June 2019 the Board met for 9 Board meetings. Details of attendance at Board and Committee meetings are set out in the following table.

| DIRECTOR | APPOINTMENT | BOARD ATTENDANCE | AUDIT COMMITTEE | PEOPLE & CULTURE COMMITTEE | RISK COMMITTEE |
|---|---|---|---|---|---|
| Janine Smith | 1 November 2010 | 9 | 3 | 4 | 0 |
| Hamish Stevens | 1 November 2010<br>(retired 31 December 2018) | 4 | 2 | 0 | 1 |
| Margot Buick | 1 November 2013 | 8 | 0 | 4 | 2 |
| Steve Murray | 1 May 2014 | 8 | 0 | 0 | 4 |
| Bruce Scott | 1 May 2015 | 8 | 4 | 0 | 0 |
| Dr Alison Watters | 1 May 2016 | 9 | 0 | 4 | 4 |
| Paul McGilvary | 1 May 2017 | 9 | 3 | 4 | 0 |
| Alison Posa | 1 January 2019 | 4 | 2 | 0 | 2 |

## BOARD COMMITTEES

The Board has three formally constituted committees. The Board reviews the membership and terms of reference for the committees annually.

### Audit Committee

The Audit Committee has authority to recommend to the Board and met four times in the year ended 30 June 2019. The objective of the Committee is to recommend the principles and standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of internal and external audit. The Committee will assist the Board in producing accurate financial statements in compliance with the appropriate legal requirements and accounting standards. The Committee comprised Bruce Scott (Chair), Hamish Stevens, Janine Smith, Paul McGilvary and Alison Posa.

**People & Culture Committee**

The People and Culture Committee has authority to recommend to the Board and met four times in the year ended 30 June 2019. The objective of the Committee is to assist the Board on remuneration and performance management policies, procedures relating to the CEO and senior management and their implementation, and health and safety. The Committee comprised Margot Buick (Chair), Janine Smith, Dr Alison Watters and Paul McGilvary.

**Risk Committee**

The Risk Committee has authority to recommend to the Board and met four times in the year ended 30 June 2019. The objective of the Committee is to recommend risk management strategy, policy and process to the Board as well as making recommendations on specific issues. The Committee will also assist the Board in ensuring that appropriate policies are in place regarding the impartiality of AsureQuality's certification activities. The Committee comprised Hamish Stevens (Chair until 31 December 2018), Dr Alison Watters (Chair from 1 January 2019), Margo Buick, Alison Posa and Steve Murray.

## DIRECTORS' REMUNERATION

Each year shareholding Ministers advise the Board of the total amount of fees which may be allocated to Directors of AsureQuality. The allocation of those fees in respect of the year ended 30 June 2019 is included in the statutory disclosure information.

## RISK MANAGEMENT

The Board has developed a rigorous process for risk management and internal control. AsureQuality has developed a comprehensive risk management framework which is reviewed for approval by the Board on an annual basis. The Company's management actively participates in the identification, assessment, and monitoring of new and existing risks. Particular attention is given to the market risks that could impact on AsureQuality.

## AUDIT

In accordance with Section 29 of the Public Finance Act 1989, the Auditor General is required to express an opinion on the Group's financial statements. Pursuant to Section 15 of the Public Audit Act 2001, the Auditor General has appointed Graeme Edwards of KPMG to undertake this audit on his behalf. The Audit Report is set out in the Financial Statements. The Board has adopted a strict policy to maintain the independence of the external auditor with their work limited to external audit assurance services only.

During the year Grant Thornton acted as internal auditor to monitor the Company's internal control systems, risk management processes and the integrity of the financial information reported to the Board. The Board sets the internal audit programme for the internal auditor.

Both the internal auditor and the external auditor have unrestricted access to the Audit Committee and to the Board.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Board recognises that AsureQuality has obligations under the State-Owned Enterprises Act to be a good employer, and to exhibit a sense of social responsibility by having regard to the interests of the communities in which it operates, and by endeavouring to accommodate or encourage these when able to do so. This means conducting business in a responsible fashion, including operating with a high level of business ethics.

AsureQuality's CSR philosophies are embedded in the Company's Vision and Values statements, and are reflected in how the Company operates across all activities on a day-to-day basis.

AsureQuality's approach to corporate social responsibility focuses on three broad strategic objectives:

- Reducing the Company's environmental impact
- Being a good employer
- Encouraging social and community involvement and support

AsureQuality has identified a number of specific programmes and initiatives aimed at contributing to the achievement of these objectives. For example: reducing the Company's carbon footprint, supporting staff who suffer hardship, and establishing a staff volunteer programme.

## CONFLICTS OF INTEREST

The Board has adopted a policy that prohibits any Director providing services, in any capacity, to the Company except with the prior approval of shareholding Ministers. All Directors are required to disclose any conflicts of interest or if they have an interest in any transaction, they will not be entitled to participate in the discussion or to vote in relation to the transaction. To facilitate the disclosure of interests and identification of any actual or perceived conflicts of interests, the Company's Disclosure of Interests Register is tabled and reviewed at the beginning of each Board meeting.

## ETHICAL BEHAVIOUR

The Board has adopted a number of policies to provide guidance to Directors, management and staff as to the expected standard of behaviour in conducting the business of the Company. These include policies covering drug and alcohol abuse, conflicts of interest, disclosure of information, personal and entertainment expenses for both Directors and staff, the treatment of fraudulent actions, protected disclosures, harassment, privacy, unsolicited electronic messages and the receipt of gifts.

## DIVERSITY

AsureQuality seeks to create an integrated and inclusive culture, which acknowledges, respects and values the varied perspectives different people and cultures bring to the workplace.

All existing and prospective staff are respected and treated equally regardless of gender, ethnicity, age, religious beliefs, marital status, culture, sexual orientation, political opinion, employment status or physical ability.

AsureQuality's recruitment and selection process aims to ensure that selection reflects open competition (equitably on merit) and equal employment opportunity.

DIRECTORS AND STAFF BY GENDER AS AT 30 JUNE 2019:

| | BOARD OF DIRECTORS | | EXECUTIVE | | ALL OTHER STAFF | |
|---|---|---|---|---|---|---|
| Female | 4 | 57% | 1 | 14% | 1120 | 56% |
| Male | 3 | 43% | 6 | 86% | 881 | 44% |

# MANAGEMENT TEAM

Effective leadership is a central part of AsureQuality's winning formula. Our management team leads with strong, inspirational leadership and has a strategic commitment to invest in world-class facilities, technology and people to ensure that AsureQuality remains the leader in its field.

**JOHN** joined AsureQuality in June 2014. His previous role was CEO of Hansells Food Group. He has a strong business development and customer-focused approach based on experience in Asia, Latin America and Europe including the roles of Global Brands Director for Fonterra based in Singapore, and Marketing Manager (Europe) for American Express. John is passionate about agribusiness and is personally connected with this sector as a part owner of a dairy and beef farming business, and having been raised on a dairy farm in Northland.

**ALASTAIR** joined AsureQuality in October 2014. His previous role was MD of Mondelez New Zealand (formerly Cadbury). He has over 20 years' experience in general management, marketing, and sales roles in many countries across Oceania, the Indian Sub-Continent, Central America, the Caribbean, and Latin America. His career commenced in Melbourne but an interest in travel and culture soon drew him overseas to roles including Managing Director for Fonterra Brands in Central America, Sri Lanka and Hub Manager for the Indian Sub-Continent.

**JEREMY** joined AsureQuality in October 2015. His previous roles have included seven years as Chief Financial Officer of DairyNZ, Finance Manager at Dexcel and various finance and accounting roles at Fonterra and L'Oréal in the United Kingdom. He also has some previous experience working in the manufacturing sector. He is an Associate Chartered Accountant of Chartered Accountants Australia and New Zealand and a member of the Institute of Directors.

**JOHN MCKAY**
**Chief Executive Officer**

**ALASTAIR DE RAADT**
**Group Director, Business Development and Marketing**

**JEREMY HOOD**
**Chief Financial Officer**

**EMMA** joined AsureQuality in January 2017. One of AsureQuality's key strategic priorities is to have people who are engaged and motivated to help the business perform through innovation and teamwork. Emma's team supports AsureQuality's people to do their work safely and to feel satisfied that they have the ability and environment to develop and achieve their goals. Emma has led People and Culture teams in a number of companies, including roles as GM Human Resources at Oceania Healthcare Ltd, and before that NZ Bus Ltd. Her previous experience has been gained in largely transportation and healthcare sectors.

**BRIAN** joined AsureQuality in October 2012. His responsibilities include the Auckland, Wellington and Christchurch Laboratories, as well as the Diagnostics manufacturing facility in Melbourne. Brian is a graduate director of AICD and has 30 years of experience in senior management roles in commercial testing companies. Brian was formerly the CEO of Bureau Veritas/NZ Laboratory Services (NZLABS).

**ALAN** joined AsureQuality in October 1999, and has held both executive and business manager positions within the organisation. His career has mostly been associated with the primary sector where he has held a range of technical manager, general manager and operational management positions. These included working within or supporting the wider horticultural and arable farming sectors, as well as the pipfruit, crop seed and meat industries.s.

**DARREN** joined AsureQuality in May 2013. He has a passion for technology and how it can enable customers to add value to their business and take advantage of new opportunities. As Chief Digital Officer, he leads the company's digital strategy and actively drives new ways to engage and improve how customers experience AsureQuality's services.

**EMMA BUTLER**
**General Manager People and Culture**

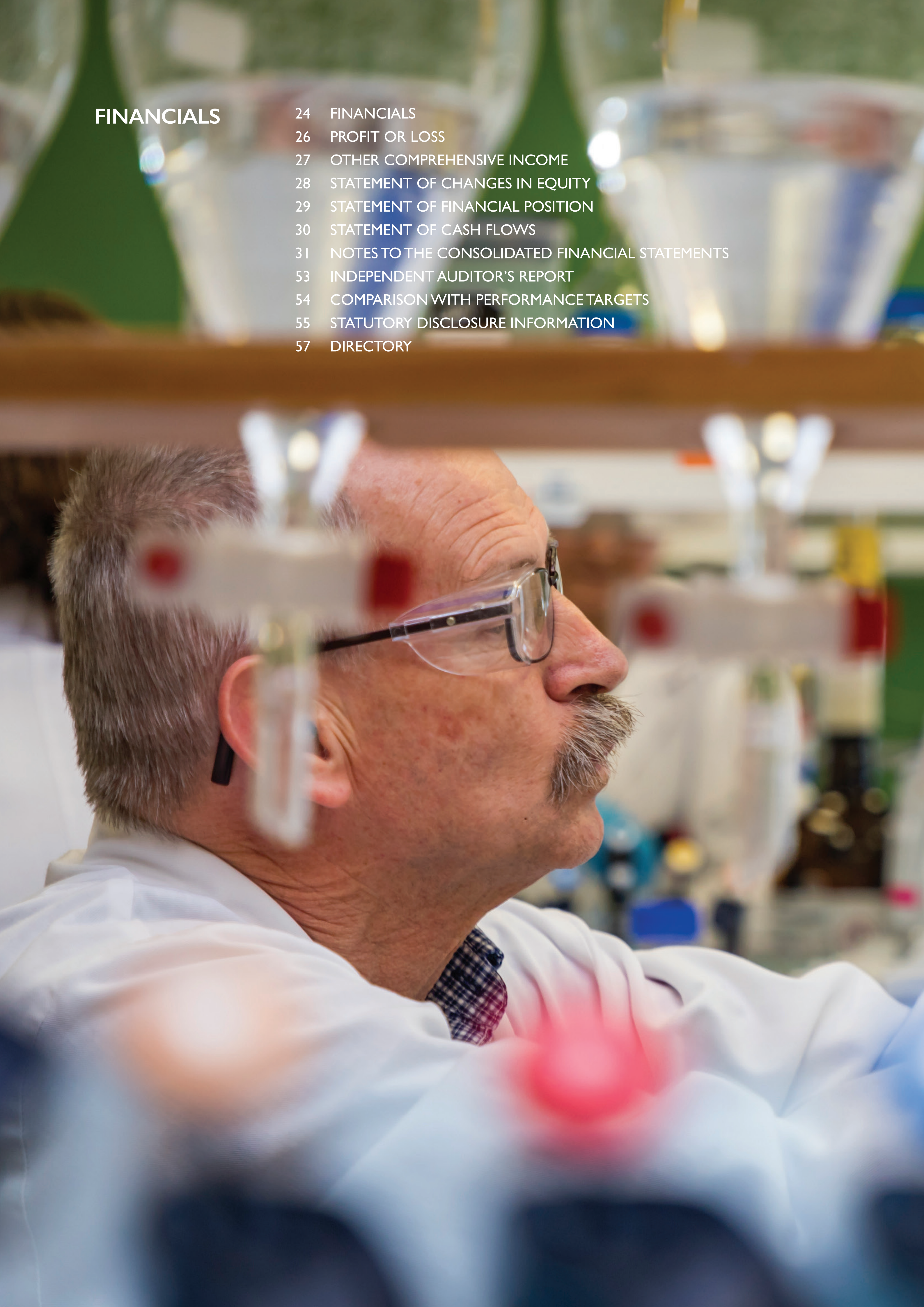
**BRIAN WATSON**
**Group Manager, Testing Services**

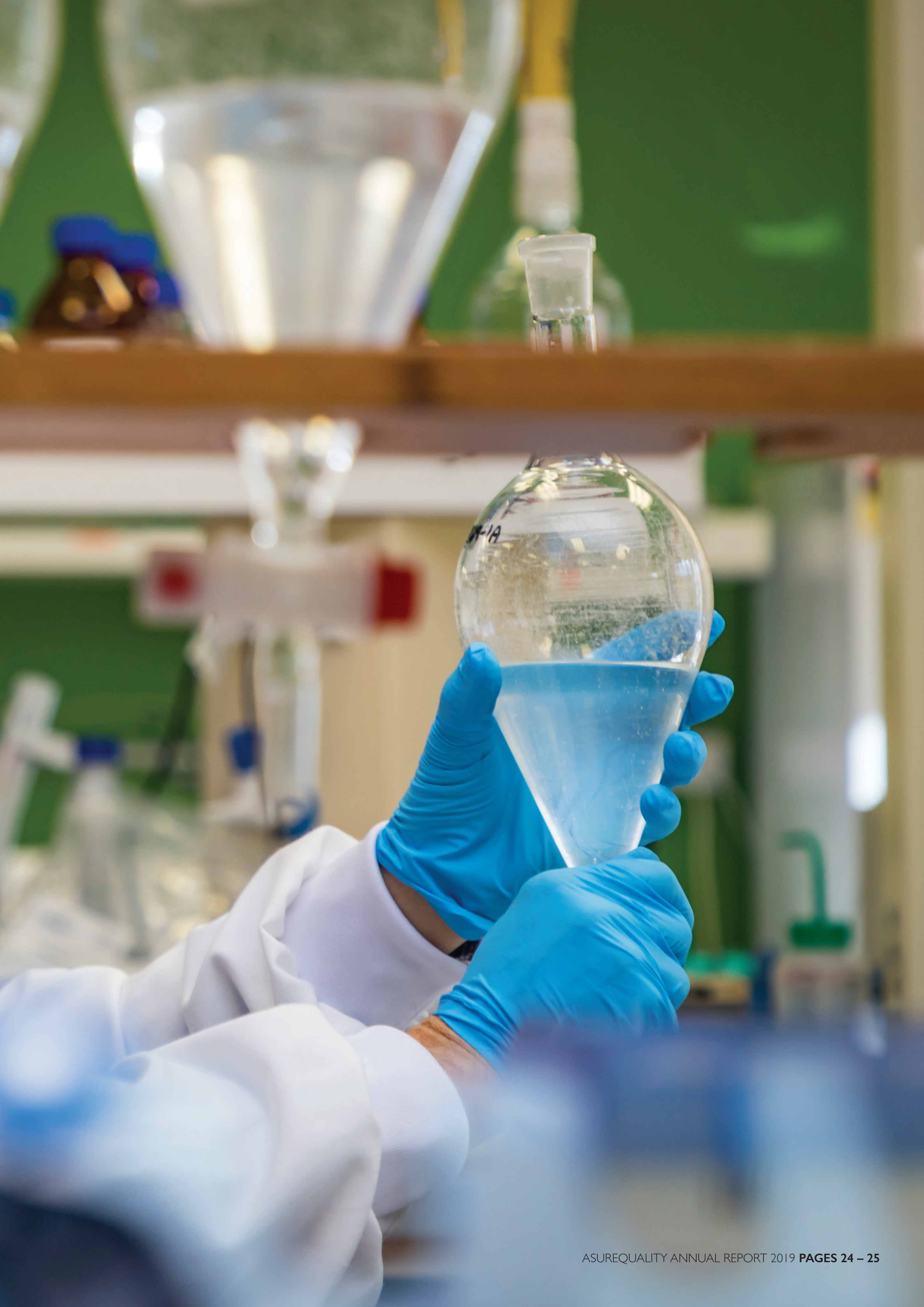
**ALAN ROBSON**
**Group Manager, Inspection and Certification**

**DARREN WILSON**
**Chief Digital Officer**

# FINANCIALS







**PROFIT OR LOSS**
**FOR THE YEAR ENDED 30 JUNE**

| | NOTE | 2019<br>$000 | 2018<br>$000 |
|---|---|---|---|
| **REVENUE** | 2 | **254,028** | **211,710** |
| Employee benefit expenditure | | (129,392) | (119,915) |
| Consumables | | (18,807) | (18,083) |
| Contractors and subcontractors | | (34,126) | (18,076) |
| Transportation expenses | | (11,759) | (11,480) |
| Rental and operating lease costs | 18 | (5,232) | (5,618) |
| Other expenses | 3 | (21,310) | (19,322) |
| **OPERATING EXPENSES** | | **(220,626)** | **(192,494)** |
| Depreciation and amortisation | | (5,415) | (5,732) |
| Impairment loss on revalued assets | | (2,505) | - |
| Finance costs (net) | 4 | (1,024) | (1,040) |
| Gain on sale of subsidiaries | 9 | 7,213 | - |
| Share of profit/(loss) of associates and joint ventures | 9 | 1,360 | (81) |
| **PROFIT BEFORE INCOME TAX** | | **33,031** | **12,363** |
| Income tax expense | 5 | (7,095) | (3,871) |
| **PROFIT FOR THE YEAR** | | **25,936** | **8,492** |
| **PROFIT FOR THE YEAR ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | | 25,988 | 9,281 |
| Non-controlling interest | | (52) | (789) |
| | | **25,936** | **8,492** |

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

## OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE

| | NOTE | 2019 $000 | 2018 $000 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | 25,936 | 8,492 |
| OTHER COMPREHENSIVE INCOME NET OF TAX | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Net change in land and buildings revaluation reserve | 7 | 6,411 | - |
| Translation of foreign operations | 14 | (663) | 1,017 |
| TOTAL OTHER COMPREHENSIVE INCOME NET OF TAX | | 5,748 | 1,017 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 31,684 | 9,509 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO: | | | |
| Equity holders of the parent | | 31,736 | 10,298 |
| Non-controlling interest | | (52) | (789) |
| | | 31,684 | 9,509 |

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

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE

| | 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 1 JULY 2017** | | **22,100** | **9,614** | **(880)** | **20,097** | **50,931** | **183** | **51,114** |
| Profit for the year | | - | - | - | 9,281 | 9,281 | (789) | 8,492 |
| Other comprehensive income | | - | - | 1,017 | - | 1,017 | - | 1,017 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **-** | **-** | **1,017** | **9,281** | **10,298** | **(789)** | **9,509** |
| Capital contribution by non-controlling interest in subsidiary | 9 | - | - | - | - | - | 701 | 701 |
| Dividends | 14 | - | - | - | (3,700) | (3,700) | - | (3,700) |
| **TOTAL TRANSACTIONS WITH OWNERS** | | **-** | **-** | **-** | **(3,700)** | **(3,700)** | **701** | **(2,999)** |
| **BALANCE AT 30 JUNE 2018** | | **22,100** | **9,614** | **137** | **25,678** | **57,529** | **95** | **57,624** |
| Change in accounting policy | 1 | - | - | - | (853) | (853) | - | (853) |
| **RESTATED TOTAL EQUITY AT 1 JULY 2018** | | **22,100** | **9,614** | **137** | **24,825** | **56,676** | **95** | **56,771** |
| Profit for the year | | - | - | - | 25,988 | 25,988 | (52) | 25,936 |
| Other comprehensive income | | - | 6,411 | (663) | - | 5,748 | - | 5,748 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **-** | **6,411** | **(663)** | **25,988** | **31,736** | **(52)** | **31,684** |
| Capital contribution by non-controlling interest in subsidiary | | - | - | - | - | - | 10 | 10 |
| Elimination of non-controlling interest on disposal of subsidiary | 9 | - | - | - | - | - | (53) | (53) |
| Dividends | 14 | - | - | - | (7,000) | (7,000) | - | (7,000) |
| **TOTAL TRANSACTIONS WITH OWNERS** | | **-** | **-** | **-** | **(7,000)** | **(7,000)** | **(43)** | **(7,043)** |
| **BALANCE AT 30 JUNE 2019** | | **22,100** | **16,025** | **(526)** | **43,813** | **81,412** | **-** | **81,412** |

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

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE

| | NOTE | 2019 $000 | 2018 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 3,131 | 5,159 |
| Trade and other receivables | 6 | 42,556 | 41,246 |
| Inventories | | 4,454 | 4,929 |
| Contract work in progress | | - | 853 |
| **TOTAL CURRENT ASSETS** | | **50,141** | **52,187** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 7 | 35,405 | 33,102 |
| Intangible assets | 8 | 5,239 | 5,908 |
| Investments in associates and joint ventures | 9 | 42,855 | 31,440 |
| Deferred income tax assets | 5 | 4,774 | 3,578 |
| **TOTAL NON-CURRENT ASSETS** | | **88,273** | **74,028** |
| **TOTAL ASSETS** | | **138,414** | **126,215** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | 31,813 | 30,756 |
| Borrowings | 11 | - | 5,000 |
| Derivative financial instruments | 12 | 454 | 78 |
| Current income tax liabilities | | 5,865 | 2,342 |
| **TOTAL CURRENT LIABILITIES** | | **38,132** | **38,176** |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 11 | 15,275 | 25,213 |
| Loan from non-controlling interest | | - | 1,662 |
| Payables | 10 | 3,595 | 3,540 |
| **TOTAL NON-CURRENT LIABILITIES** | | **18,870** | **30,415** |
| **TOTAL LIABILITIES** | | **57,002** | **68,591** |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent | | 81,412 | 57,529 |
| Non-controlling interest | | - | 95 |
| **TOTAL EQUITY** | | **81,412** | **57,624** |
| **TOTAL LIABILITIES AND EQUITY** | | **138,414** | **126,215** |

The Board of Directors of AsureQuality Limited authorised these financial statements for issue on 26 August 2019.

Janine Smith
Chair

Bruce Scott
Chair Audit Committee

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

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE

| | NOTE | 2019 $000 | 2018 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 250,706 | 200,855 |
| Payments to suppliers and employees | | (217,754) | (187,978) |
| Interest paid net of interest and dividends received | | (1,031) | (1,271) |
| Income tax paid | | (4,982) | (3,109) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | | **26,939** | **8,497** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (6,096) | (5,494) |
| Purchase of intangibles | | (755) | (647) |
| Capital contribution by non-controlling interest in subsidiary | | 10 | 701 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(6,841)** | **(5,440)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| (Repayment of)/proceeds from borrowings | | (14,938) | 1,157 |
| Dividend paid to shareholder | | (7,000) | (3,700) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | **(21,938)** | **(2,543)** |
| **NET INCREASE IN CASH** | | (1,840) | 514 |
| Cash and cash equivalents at beginning of the year | | 5,159 | 4,402 |
| Exchange gains on cash balances | | (188) | 243 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **3,131** | **5,159** |

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

| | NOTE | 2019 $000 | 2018 $000 |
|---|---|---|---|
| **RECONCILIATION OF THE PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **PROFIT AFTER TAX FOR THE YEAR** | | **25,936** | **8,492** |
| **ADJUSTMENTS FOR:** | | | |
| Depreciation and amortisation | | 5,415 | 5,732 |
| Impairment loss on revalued assets | | 2,505 | - |
| Gain on sale of subsidiaries | 9 | (7,213) | - |
| Share of (profit)/loss of associates and joint ventures | 9 | (1,360) | 81 |
| Other non-cash movements | | (760) | (1,533) |
| **NON-CASH MOVEMENTS** | | **(1,413)** | **4,280** |
| **IMPACT OF CHANGES IN WORKING CAPITAL** | | | |
| Trade and other receivables | | (3,697) | (10,604) |
| Income tax | | 3,523 | 1,970 |
| Trade and other payables | | 2,701 | 4,290 |
| Other non-cash movements | | (111) | 69 |
| **WORKING CAPITAL MOVEMENTS** | | **2,416** | **(4,275)** |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | | **26,939** | **8,497** |

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

## 1. BASIS OF ACCOUNTING

### Reporting entity

AsureQuality Limited is a company registered under the Companies Act 1993 and is a company incorporated and domiciled in New Zealand.

The consolidated financial statements presented are for the AsureQuality Limited Group ("AsureQuality" or "the Group") as at, and for the year ended 30 June 2019.

The Group comprises AsureQuality Limited and its subsidiaries, and its investments in associates and joint ventures. The Group provides food quality assurance and biosecurity services and manufactures and sells animal diagnostic products. During the year it operated in New Zealand, Australia, Singapore and Saudi Arabia.

The ultimate shareholder of the Group is the Minister of Finance and Minister of State-Owned Enterprises on behalf of the Crown.

### Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 26 August 2019.

### Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 1993, and the State-Owned Enterprises Act 1986 and generally accepted accounting practice in New Zealand ('NZ GAAP') as appropriate to Tier 1 for-profit entities.

The financial statements are prepared on the historical cost basis, except for certain financial instruments. Financial derivatives are carried at fair value.

The financial statements are presented in New Zealand dollars ($), rounded to the nearest thousand, which is the Group's presentation currency.

Items included in the financial statements of each of the Group's entities are recognised using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of operations in New Zealand is NZ$, Australia is AU$, Singapore is SG$ and Saudi Arabia is SAR.

The statements of profit or loss, other comprehensive income, cash flows and changes in equity are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST with the exception of trade receivables and trade payables, which include GST.

### Critical accounting estimates and judgements

AsureQuality's management is required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements. They have based these on historical experience and various other factors that they believe 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 and in the future periods affected.

Accounting policies, and information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Deferred tax recognition (Note 5)
- Property, plant and equipment valuation (Note 7)
- Impairment and valuation of goodwill (Note 8)
- Consolidation basis and classification of investments (Note 9)
- Valuation of retirement and long-service leave (Note 10)
- Impairment of trade receivables (Note 13)

### Significant accounting policies

***a) Comparatives***

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so. There were no changes to comparatives in these financial statements.

***b) New and amended accounting standards adopted***

New financial standards NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments were adopted from 1 July 2018. The impact of these new standards is discussed below:

*NZ IFRS 15 Revenue from Contracts with Customers*

NZ IFRS 15 supersedes NZ IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

The Group adopted NZ IFRS 15 retrospectively with the cumulative effect of applying the standard for the first time recognised at the date of initial application (1 July 2018). Comparative figures for the period ended 30 June 2018 have therefore not been restated.

The Group identified delays in the timing of revenue recognition as a result of the adoption of NZ IFRS 15 and accordingly there was a net $853,000 adjustment for the cumulative effect of previously recognised work in progress against retained earnings at 1 July 2018.

The following table summarises the impact of adopting NZ IFRS 15 on the Group's statement of financial position as at 30 June 2019 and the Group's statement of profit or loss and other comprehensive income for the year ending 30 June 2019. There was no impact on the Group's statement of cash flows for the year ending 30 June 2019.

Impact on the Statement of financial position

| | AS REPORTED | ADJUSTMENTS | AMOUNTS WITHOUT ADOPTION OF NZ IFRS 15 |
|---|---|---|---|
| | $000 | $000 | $000 |
| ASSETS | | | |
| Contract work in progress | - | 765 | 765 |
| EQUITY | | | |
| Retained Earnings | 43,813 | 765 | 44,578 |

Impact on the Statement of profit or loss

| | | | |
|---|---|---|---|
| Revenue | 254,028 | (88) | 253,940 |

*IFRS 9 Financial Instruments*
The standard introduces new classifications and changes some of the existing classification and measurement regime for financial assets and liabilities. It also introduces a new 'expected credit loss' (ECL) model. There was no impact on the Group's accounting for financial liabilities, as the standard's requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss. There was an impact on the Group's accounting for financial assets with the introduction of the ECL model, which required the Group to revise its impairment methodology for Trade and other Receivables. There was no material impact from this change in accounting policy.

All mandatory amendments to accounting standards have been adopted by the Group, with no impact on the Group financial statements.

## OTHER ACCOUNTING POLICIES
All other accounting policies are included with the applicable note.

## CHANGES IN ACCOUNTING POLICIES
Accounting policies have been consistently applied to all periods presented in these financial statements, with the exception of the accounting policies for Revenue and Financial Instruments which have changed as disclosed above.

## 2. REVENUE

Policy applicable from 1 July 2018

The Group recognises revenue from the following major sources:

- Testing services
- Inspection and Certification services
- Specialist services, including diagnostics product contract manufacturing and distribution, proficiency testing and food advisory services.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

*Testing services*

The Group provides food and contaminant testing services. Revenue is recognised as testing services are completed.

*Inspection and Certification services*

The Group provides independent audit, inspection,verification and certification against domestic and international regulatory and retailer standards. Biosecurity readiness, capability, incursion response and surveillance services are provided under agreement with New Zealand's Ministry for Primary Industries. Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these inspection and certification services based on the stage of completion of the contract.

*Specialist services*

The Group contract manufactures diagnostic products and distributes specialist veterinary test kits for use in disease management. Revenue is recognised when the control of the goods has transferred, being at the point the goods have been shipped to the customer. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

The Group also provides proficiency testing and food advisory services. Revenue is recognised as services are completed.

Policy applicable before 1 July 2018

Revenue from the rendering of services is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to work in progress reports.

| | | 2019 | 2018 |
|---|---|---|---|
| | NOTE | $000 | $000 |
| DISAGGREGATION OF THE GROUP'S REVENUE FROM CONTRACTS WITH CUSTOMERS: | | | |
| Testing services | | 73,476 | 63,684 |
| Inspection and certification | | 167,716 | 130,948 |
| Specialist services | | 12,836 | 17,078 |
| | | 254,028 | 211,710 |

## 3. OTHER OPERATING EXPENSES

Other operating expenses include donations of $9,000 (2018: $5,000).

## 4. FINANCE COSTS (NET)

| | | | |
|---|---|---|---|
| Interest expense on borrowings | | (1,013) | (1,289) |
| Net foreign exchange gains | | 348 | 84 |
| Interest income on short-term bank deposits | | 17 | 18 |
| Movement of derivatives held at fair value through profit or loss | 12 | (376) | 147 |
| TOTAL | | (1,024) | (1,040) |

Policies

Finance costs (net) include interest expense on borrowings and interest income on funds invested which are recognised using the effective interest rate method and the movement of derivatives held at fair value through profit or loss.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group has defined substantial time as being in excess of six months. There were no assets which met this criteria in the current year (2018: NIL).

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

| | NOTE | 2019<br>$000 | 2018<br>$000 |
|---|---|---|---|
| **5. TAXATION** | | | |
| **CURRENT TAXATION EXPENSE** | | | |
| Current year | | 8,505 | 4,762 |
| Adjustment in respect of prior years | | - | 317 |
| **DEFERRED TAXATION EXPENSE** | | | |
| Origination and reversal of temporary differences | | (1,406) | (1,159) |
| Adjustment in respect of prior years | | (4) | (49) |
| **INCOME TAX EXPENSE** | | **7,095** | **3,871** |
| **RECONCILIATION OF EFFECTIVE TAX RATE** | | | |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | | |
| Profit from operations | | 33,031 | 12,363 |
| | | | |
| Prima facie income tax @ 28% | | 9,249 | 3,462 |
| Effect of tax rates in foreign jurisdictions | | 17 | 305 |
| Non-deductible or non-assessable items | | (2,183) | (138) |
| Current period tax losses not recognised/(tax benefit of previously unrecognised tax losses) | | - | 245 |
| Change in recognised deductible temporary differences | | 16 | (271) |
| (Over)/under provision in prior years | | (4) | 268 |
| **TOTAL INCOME TAX EXPENSE** | | **7,095** | **3,871** |
| **INCOME TAX RECOGNISED DIRECTLY IN EQUITY** | | | |
| Income tax on income and expenses recognised directly in equity | | 214 | - |
| **IMPUTATION CREDITS DIRECTLY AND INDIRECTLY AVAILABLE TO SHAREHOLDERS AS AT 30 JUNE 2019 ARE:** | | | |
| Parent | | 19,032 | 19,450 |
| Subsidiaries | | 421 | 340 |
| | | **19,453** | **19,790** |

## 5. TAXATION (CONTINUED)

| | PROPERTY, PLANT & EQUIPMENT | EMPLOYEE ENTITLEMENTS | OTHER | TOTAL |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **DEFERRED TAX ASSETS AND LIABILITIES** | | | | |
| Balance at 1 July 2017 | (87) | 2,439 | 18 | 2,370 |
| Recognised in the profit in respect of prior years | - | 63 | (14) | 49 |
| Recognised in profit | 379 | 412 | 368 | 1,159 |
| **BALANCE AT 30 JUNE 2018** | **292** | **2,914** | **372** | **3,578** |
| Recognised in the profit in respect of prior years | - | 4 | - | 4 |
| Recognised in profit | 798 | 336 | 272 | 1,406 |
| Recognised in other comprehensive income | (214) | - | - | (214) |
| **BALANCE AT 30 JUNE 2019** | **876** | **3,254** | **644** | **4,774** |

**Policies**

Income tax expense comprises current and deferred tax and is calculated using rates enacted or substantially enacted at balance date.

Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or subsequently enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that sufficient future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Judgements**

Obtaining the benefits of the deferred tax balance is dependent upon deriving sufficient assessable income, meeting conditions for deductibility and complying with relevant tax legislation.

The value, and use of income tax offsets and tax losses within the Group, are subject to statutory requirements being met.

Deferred tax in relation to the New Zealand and Australian taxation jurisdictions has been recognised as an asset as the Directors consider that there will be sufficient taxable income in the future to obtain the benefits.

There are no tax losses not recognised as future tax benefits in the financial statements in the current year due to the sale of subsidiaries AsureQuality Singapore Pte Ltd and AsureQuality Motabaqah Limited. (2018: future tax benefits were NZ$10.7 million, tax effect NZ$1.5 million).

## 6. TRADE AND OTHER RECEIVABLES

| | NOTE | 2019<br>$000 | 2018<br>$000 |
|---|---|---|---|
| Trade receivables | | 40,735 | 40,067 |
| Impairment provision | 13 | (209) | (292) |
| Prepayments | | 1,285 | 1,237 |
| Receivables from associate and joint venture | 16 | 745 | 234 |
| | | **42,556** | **41,246** |

**Policies**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The movement in the amount of the provision is recognised through profit or loss. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss. The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each receivable. Refer to note 13 for credit risk information.

## 7. PROPERTY, PLANT AND EQUIPMENT

| | FREEHOLD LAND AT FAIR VALUE<br>$000 | BUILDINGS AT FAIR VALUE<br>$000 | LEASEHOLD IMPROVEMENTS AT COST<br>$000 | PLANT AND EQUIPMENT AT COST<br>$000 | CAPITAL WORK IN PROGRESS<br>$000 | TOTAL<br>$000 |
|---|---|---|---|---|---|---|
| Cost | 11,630 | 5,844 | 8,611 | 49,146 | 2,271 | 77,502 |
| Accumulated depreciation | - | (1,346) | (6,599) | (37,348) | - | (45,293) |
| **CARRYING AMOUNT 1 JULY 2017** | **11,630** | **4,498** | **2,012** | **11,798** | **2,271** | **32,209** |
| Additions / transfers | - | 2,036 | 1,058 | 3,821 | (1,421) | 5,494 |
| Disposals | - | - | (524) | (7) | (5) | (536) |
| Depreciation expense | - | (465) | (437) | (3,492) | - | (4,394) |
| Exchange differences | - | - | 60 | 224 | 45 | 329 |
| Cost | 11,630 | 7,880 | 8,992 | 53,415 | 890 | 82,807 |
| Accumulated depreciation | - | (1,811) | (6,823) | (41,071) | - | (49,705) |
| **CARRYING AMOUNT 30 JUNE 2018** | **11,630** | **6,069** | **2,169** | **12,344** | **890** | **33,102** |
| Additions / transfers | - | 259 | 334 | 5,298 | 215 | 6,106 |
| Disposals | - | - | (1,469) | (2,448) | - | (3,917) |
| Net revaluation increments | 5,710 | (1,590) | - | - | - | 4,120 |
| Depreciation expense | - | (648) | (223) | (3,190) | - | (4,061) |
| Exchange differences | - | - | 24 | 39 | (8) | 55 |
| Cost | 17,340 | 4,802 | 6,738 | 52,511 | 1,097 | 80,898 |
| Accumulated depreciation | - | (712) | (5,903) | (40,468) | - | (45,493) |
| **CARRYING AMOUNT 30 JUNE 2019** | **17,340** | **4,090** | **835** | **12,043** | **1,097** | **35,405** |

## 7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Policies

Property, plant and equipment other than land and buildings are recognised at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and other directly attributable costs incurred in bringing the property, plant and equipment to the location and condition necessary for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land and buildings are recognised at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued.

*Disposal of property, plant and equipment*

Gains and losses arising from disposal of property, plant and equipment are recognised in profit or loss in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

*Capital work in progress*

Capital work in progress represents costs relating to property, plant and equipment that at balance date are not yet operational and capitalised. Depreciation commences when the item is capitalised.

*Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised as an expense in profit or loss as incurred.

*Depreciation*

Depreciation is recognised as an expense in profit or loss on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings 10 – 25 years
- Plant and equipment 3 – 8 years
- Leasehold improvements 10 years or over the period of the lease if more appropriate
- Computer equipment 3 – 5 years

Land and capital work in progress are not depreciated.

### Judgements

Land and Buildings are revalued by an independent valuer every three years unless the Directors consider the value has changed significantly since the last formal valuation and it is necessary to obtain a more current valuation. Valuations are performed with sufficient frequency to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.

Darroch Limited, independent registered valuers and associates of the New Zealand Institute of Valuers, valued the Auckland Laboratory land and buildings at 30 June 2019 and the Wellington Laboratory land and buildings at 30 June 2019. Valuations were performed on the basis of recent market transactions on arm's length terms.

Management considers the carrying values to be reflective of fair value in total as at 30 June 2019.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | FREEHOLD LAND | BUILDINGS | TOTAL |
|---|---|---|---|
| | **$000** | **$000** | **$000** |
| Carrying amount 30 June 2018 | 2,465 | 6,590 | 9,055 |
| Carrying amount 30 June 2019 | 2,465 | 6,198 | 8,663 |

### Capital commitments

There were no material capital commitments at balance date.

## 8. INTANGIBLE ASSETS

| | GOODWILL | SOFTWARE | ACCREDITATION | RELATIONSHIP CONTRACTS | WORK IN PROGRESS | TOTAL |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Cost | 829 | 18,021 | 634 | 245 | 618 | 20,347 |
| Accumulated amortisation | - | (12,960) | (541) | (245) | - | (13,746) |
| **CARRYING AMOUNT 1 JULY 2017** | **829** | **5,061** | **93** | **-** | **618** | **6,601** |
| Additions / transfers | - | 1,033 | - | - | (386) | 647 |
| Disposals | - | - | (6) | - | - | (6) |
| Amortisation expense | - | (1,255) | (84) | - | - | (1,339) |
| Exchange differences | - | 1 | 4 | - | - | 5 |
| Cost | 829 | 19,058 | 680 | 245 | 232 | 21,044 |
| Accumulated amortisation | - | (14,218) | (673) | (245) | - | (15,136) |
| **CARRYING AMOUNT 30 JUNE 2018** | **829** | **4,840** | **7** | **-** | **232** | **5,908** |
| Additions / transfers | - | 379 | - | - | 376 | 755 |
| Disposals | - | (68) | - | - | - | (68) |
| Amortisation expense | - | (1,346) | (8) | - | - | (1,354) |
| Exchange differences | - | (3) | 1 | - | - | (2) |
| Cost | 829 | 19,239 | - | 245 | 608 | 20,921 |
| Accumulated amortisation | - | (15,437) | - | (245) | - | (15,682) |
| **CARRYING AMOUNT 30 JUNE 2019** | **829** | **3,802** | **-** | **-** | **608** | **5,239** |

Policies

*Software*

Software assets include both purchased software and direct costs associated with the development of internally developed software. Capitalised costs include the cost of all materials used in construction and the direct labour on the project. Costs cease to be capitalised as soon as the software is ready for productive use. Capitalised costs are amortised on a straight-line basis over the period of the expected benefits. This period is reviewed on an annual basis.

*Amortisation – software*

Software is amortised on a straight-line basis over three to eight years, being the estimated useful life.

*Accreditation costs*

Intangible assets in relation to accreditation costs are recognised at cost less amortisation. These represent directly attributable expenditure incurred to obtain external accreditation of AsureQuality's laboratories in Singapore and Christchurch. Amortisation and impairment expenses are charged to profit or loss. Accreditation costs are amortised on a straight-line basis over eight years being the estimated future life of the asset.

*Goodwill*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised. Goodwill is recognised as an asset and not amortised, but tested for impairment whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

*Impairment testing*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite life, including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset/s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows e.g. cash-generating units.

Judgements

To assess impairment, management must estimate the future cash flows of the cash generating units. This entails making judgements including:

- the expected rate of growth of revenues;
- margins expected to be achieved;
- the level of future maintenance expenditure required to support these outcomes; and
- the appropriate discount rate to apply when discounting future cash flows.

Goodwill has been allocated for impairment testing purposes to the New Zealand and Australian Global Proficiency subsidiaries (cash-generating units). The recoverable amounts of these cash-generating units are determined based on a value in use calculation which uses cash flow projections based on the latest financial forecasts using an average growth rate of 2% (2018: 2%) in perpetuity and a discount rate of 9.03% (2018: 9.03%) per annum.

The recoverable amount of each cash-generating unit to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the Group has determined that no impairment to goodwill has occurred during the period.

## 9. INVESTMENTS

**Judgements**
Classifying investments as subsidiaries, associates, or joint operations requires management to judge the degree of influence which the group holds over the investee.

These judgements impact upon the basis of consolidation accounting which is used to recognise the Group's investments in the consolidated financial statements.

**9.1 Investment in subsidiaries:**

| NAME | COUNTRY OF INCORPORATION | PRINCIPAL ACTIVITIES | BALANCE DATE | OWNERSHIP AND VOTING INTEREST 2019 | OWNERSHIP AND VOTING INTEREST 2018 |
|---|---|---|---|---|---|
| AsureQuality Asia Pacific Limited | New Zealand | Holding company | 30-June | 100% | 100% |
| AsureQuality Australia Pty Limited | Australia | Diagnostic manufacturing | 30-June | 100% | 100% |
| AsureQuality Singapore Pte Limited | Singapore | Laboratory services | 31-December | 0% | 100% |
| Global Proficiency Limited | New Zealand | Proficiency testing services | 30-June | 100% | 100% |
| Global Proficiency Pty Limited | Australia | Proficiency testing services | 30-June | 100% | 100% |
| AsureQuality Advisory Singapore Pte Limited | Singapore | Food advisory services | 30-June | 0% | 100% |
| AsureQuality (Shanghai) Advisory Co.,Ltd. | China | Food advisory services | 31-December | 0% | 100% |
| AsureQuality Motabaqah Limited | Saudi Arabia | Laboratory services | 31-December | 0% | 51% |

*AsureQuality Singapore Pte Limited*
On 1st December 2018 the Group sold it's investment in subsidiary, AsureQuality Singapore Pte Ltd to BV-AQ (Singapore) Holdings Pte Ltd in exchange for a 49% share of BV-AQ (Singapore) Holdings Pte Ltd. See note 9.2 for details of this transaction.

*AsureQuality Advisory Singapore Pte Limited*
On 17 June 2019 the Group resolved that AsureQuality Advisory Singapore Pte Limited be deregistered as the food advisory services this entity previously provided are now provided from New Zealand. There was no material impact on the Group from the closure of this company.

*AsureQuality (Shanghai) Advisory Co., Ltd*
AsureQuality (Shanghai) Advisory Co., Ltd was deregistered on the 19th April 2019 as the food advisory services this entity previously provided are now provided from New Zealand. There was no material impact on the Group from the closure of this company.

*AsureQuality Motabaqah Limited*
On 31 August 2018 the Group sold its 51% share in subsidiary AsureQuality Motabaqah Limited to its Saudi based partner Saudi Specialized Laboratories Co. (Motabaqah).

The effects of the disposal on the Group were:

| | |
|---|---|
| Payments to suppliers and employees | (12) |
| **NET CASH FLOW USED IN OPERATING ACTIVITIES** | **(12)** |
| **NET DECREASE IN CASH OR CASH EQUIVALENTS** | **(12)** |
| **LOSS ON SALE OF SUBSIDIARY** | |
| Total deemed proceeds on disposal | - |
| Less carrying value of assets sold | (18) |
| Less non-controlling interest | 53 |
| **GAIN ON SALE BEFORE RECLASSIFICATION OF FOREIGN CURRENCY TRANSLATION RESERVE** | **35** |
| Reclassification of foreign currency translation reserve | (58) |
| Less transaction costs incurred | (12) |
| **NET LOSS RECOGNISED IN PROFIT OR LOSS** | **(35)** |
| **CARRYING AMOUNT OF ASSETS AND LIABILITIES DISPOSED OF:** | |
| Property, plant & equipment | 1,552 |
| Other assets | 530 |
| **TOTAL ASSETS** | **2,082** |
| Trade and other payables | (402) |
| Loan from non-controlling interest | (1,662) |
| **TOTAL LIABILITIES** | **(2,064)** |
| **NET ASSETS DISPOSED OF** | **18** |

Policies

The Group financial statements consolidate the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the period are included in profit or loss from the effective date of acquisition or effective date of disposal, as appropriate.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*Business combinations*

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed. Acquisition-related costs are expensed as incurred.

Non-controlling interests in the net assets of the consolidated subsidiaries are identified separately from the Group equity. The interest of non-controlling shareholders is measured at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of acquisition.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under NZ IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

*Goodwill*

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets recognised. For the purposes of impairment testing, goodwill has been allocated to cash generating units. Unless otherwise stated, the cash generating unit is synonymous with the entity acquired. Any impairment loss is recognised immediately in profit in the statement of comprehensive income and is not reversed in a subsequent period.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortisation and accumulated impairment, on the same basis as intangible assets acquired separately.

*Translation of foreign operations*

On consolidation, the assets and liabilities of the Group's overseas operation are translated at exchange rates prevailing at balance date. Income and expense items are translated at the average exchange rate for the period unless exchange rates fluctuate significantly. If fluctuations are significant then the spot rate is used. Exchange differences arising, if any, are recognised in the foreign currency translation reserve and recognised in the statement of comprehensive income.

## 9. INVESTMENTS (CONTINUED)

### 9.2 Investments in associates and joint ventures

| NAME | COUNTRY OF INCORPORATION | PRINCIPAL ACTIVITIES | BALANCE DATE | OWNERSHIP AND VOTING INTEREST 2019 | OWNERSHIP AND VOTING INTEREST 2018 |
|---|---|---|---|---|---|
| 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% | 0% |

**Policies**

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Joint ventures are where the Group is a party to a joint arrangement, has joint control over the investee and has rights to the net assets relating to the arrangement. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost.
The Group's share of its associate and joint ventures post acquisition profits are recognised in profit for the year, and its share of post acquisition movements in other comprehensive income are recognised in other comprehensive income.

**Judgement**

The Group is deemed to have joint control over its investment in Bureau Veritas AsureQuality Holdings Pty Limited through the contractually agreed sharing of the financial and operating decisions. The investment has been accounted for as a joint venture and has been equity accounted.
The Group is deemed to have joint control over its investment in BV-AQ (Singapore) Holdings Pte Ltd through the contractually agreed sharing of the financial and operating decisions. The investment has been accounted for as a joint venture and has been equity accounted.

**Investment in Bureau Veritas AsureQuality Holdings Limited (BVAQ AU)**

On 31st May 2016 the Group sold its investment in associate, Dairy Technical Services Limited and contributed non-monetary assets and cash in exchange for a share in a new business, Bureau Veritas AsureQuality Holdings Pty Limited. Bureau Veritas AsureQuality Holdings Pty Limited was incorporated on 23 May 2016 and is owned 51% by Bureau Veritas Singapore Pte Ltd and 49% by AsureQuality Limited.

Bureau Veritas AsureQuality Holdings Limited is strategic for the Group's presence and growth in the Australian market. Bureau Veritas AsureQuality Holdings Limited is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in joint venture.

| | 2019 | 2018 |
|---|---|---|
| **Summarised statement of financial position for Bureau Veritas AsureQuality Holdings Limited** | **$000** | **$000** |
| Current assets | 19,864 | 12,423 |
| Non-current assets | 93,390 | 101,477 |
| Current liabilities | (19,411) | (15,021) |
| Non-current liabilities | (12,347) | (16,703) |
| NET ASSETS | **81,496** | **82,176** |
| Group interest in joint venture (49%) | 39,933 | 40,266 |
| Gain on sale not recognised | (9,060) | (9,060) |
| Foreign exchange difference | 233 | 234 |
| CARRYING VALUE OF INTEREST IN JOINT VENTURE, BUREAU VERITAS ASUREQUALITY HOLDINGS LIMITED | **31,106** | **31,440** |
| **Summarised statement of profit or loss for Bureau Veritas AsureQuality Holdings Limited** | | |
| Revenue | 64,086 | 59,511 |
| Profit/(Loss) for the year | 2,765 | (165) |
| Other comprehensive income | (3,446) | 2,404 |
| TOTAL COMPREHENSIVE INCOME | **(681)** | **2,239** |
| GROUP'S SHARE OF PROFIT/(LOSS) FOR THE YEAR | **1,355** | **(81)** |
| GROUP'S SHARE OF OTHER COMPREHENSIVE INCOME FOR THE YEAR | **(1,689)** | **1,178** |

Bureau Veritas AsureQuality Holdings Limited has a 31 December balance date and the numbers represent the balances as of 30 June 2019. The total comprehensive income includes the impact of the foreign currency translation from the spot rate on the date of acquisition to the exchange rate used by the Group at 30 June 2019.

9.2 Investments in associate and joint venture (continued)

Disposal of investment in subsidiary and acquisition of a joint venture
On 1st December 2018 the Group sold it's investment in subsidiary, AsureQuality Singapore Pte Ltd to BV-AQ (Singapore) Holdings Pte Ltd in exchange for a 49% share of BV-AQ (Singapore) Holdings Pte Ltd.

BV-AQ (Singapore) Holdings Pte Ltd is strategic for the Group's presence and growth in the South-East Asia market. BV-AQ (Singapore) Holdings Pte Ltd is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the joint venture.

The effects of the disposal and acquisition on profit and loss were:

| GAIN ON SALE OF INVESTMENT IN SUBSIDIARY | |
|---|---|
| Total deemed proceeds on disposal | 11,219 |
| Net assets disposed of | (3,734) |
| **GAIN ON SALE BEFORE RECLASSIFICATION OF FOREIGN CURRENCY TRANSLATION RESERVE** | **7,485** |
| Reclassification of foreign currency translation reserve | (127) |
| Less transaction costs incurred | (103) |
| **NET GAIN RECOGNISED IN PROFIT OR LOSS** | **7,255** |
| **CARRYING AMOUNT OF ASSETS AND LIABILITIES DISPOSED OF:** | |
| Property, plant & equipment | 2,257 |
| Other assets | 2,580 |
| **TOTAL ASSETS** | **4,837** |
| Trade and other payables | (1,103) |
| **TOTAL LIABILITIES** | **(1,103)** |
| **NET ASSETS DISPOSED OF** | **3,734** |
| Summarised statement of financial position for BV-AQ (Singapore) Holdings Pte Ltd | |
| Current assets | 12,116 |
| Non-current assets | 20,839 |
| Current liabilities | (4,006) |
| Non-current liabilities | (1,181) |
| **NET ASSETS** | **27,768** |
| Group interest in joint venture (49%) | 13,606 |
| Gain on sale not recognised | (1,857) |
| **CARRYING VALUE OF INTEREST IN JOINT VENTURE, BV-AQ (SINGAPORE) HOLDINGS PTE LTD** | **11,749** |
| **SUMMARISED STATEMENT OF PROFIT OR LOSS FOR BV-AQ (SINGAPORE) HOLDINGS PTE LTD** | |
| Revenue | 7,856 |
| Profit for the year | 10 |
| Other comprehensive income | 1,071 |
| **TOTAL COMPREHENSIVE INCOME** | **1,081** |
| **GROUP'S SHARE OF PROFIT FOR THE YEAR** | **5** |
| **GROUP'S SHARE OF OTHER COMPREHENSIVE INCOME FOR THE YEAR** | **525** |

BV-AQ (Singapore) Holdings Pte Ltd has a 31 December balance date and the numbers represent the balances as of 30 June 2019. The total comprehensive income includes the impact of the foreign currency translation from the spot rate on the date of acquisition to the exchange rate used by the Group at 30 June 2019.

| | NOTE | 2019<br>$000 | 2018<br>$000 |
|---|---|---|---|
| **10. TRADE AND OTHER PAYABLES** | | | |
| **CURRENT** | | | |
| Trade payables | | 9,083 | 9,081 |
| Trade payables due to related parties | 16 | 114 | 50 |
| Non trade payables and accrued expenses | | 6,912 | 7,962 |
| Deferred income | | 3,154 | 2,933 |
| Employee benefits | | 10,943 | 10,306 |
| Provision for restructuring and lease obligations | | 1,607 | 424 |
| **BALANCE AT 30 JUNE** | | **31,813** | **30,756** |
| **NON-CURRENT** | | | |
| Employee benefits | | 3,595 | 3,540 |
| **BALANCE AT 30 JUNE** | | **3,595** | **3,540** |

Policies

Trade and other accounts payables are recognised when the Group becomes obliged to make future payments as a result of a purchase of assets or services. Trade payables are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received. Trade payables are unsecured and are generally settled within 30 to 45 days.

Liabilities for benefits accruing to employees in respect of salaries and wages, annual leave, long service leave, retirement leave, accumulating sick leave and other similar benefits are recognised when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities in respect of employee benefits expected to be settled within 12 months, are recognised at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities in respect of employee benefits which are not expected to be settled within 12 months, are recognised at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services by employees up to reporting date.

*Defined contribution plans*

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in profit or loss as incurred.

Deferred income consists of customer advances for services to be performed within the next financial year.

Estimates

*Retirement leave and long service leave*

The non-current provision for employee entitlements for retirement leave and long-service leave, is based on an actuarial valuation completed by Erikson & Associates Limited as at 30 June 2019. This requires the use of assumptions and estimates by the actuary. The key economic assumptions used were: discount rates, of 1.03% to 4.30% (2018: 1.78% to 4.75%) and a salary increase rate of 2.50% (2018: 2.50%).

| | NOTE | 2019<br>$000 | 2018<br>$000 |
|---|---|---|---|
| **11. BORROWINGS** | | | |
| Current portion of long-term borrowings | | - | 5,000 |
| Non-current | | 15,275 | 25,213 |
| **TOTAL BORROWINGS** | | **15,275** | **30,213** |
| The exposure of the Group's borrowings to contractual maturity dates is as follows: | | | |
| Six months or less | | - | 5,000 |
| One to five years | | 15,275 | 25,213 |
| | | **15,275** | **30,213** |
| The carrying amounts of the Group's borrowings are denominated in the following currencies: | | | |
| NZ dollar | | - | 10,600 |
| AU dollar | 14 | 15,275 | 17,600 |
| SG dollar | 14 | - | 2,013 |
| | | **15,275** | **30,213** |
| **THE GROUP HAS THE FOLLOWING UNDRAWN BORROWING FACILITIES:** | | **24,725** | **9,787** |

Details and draw down of banking facilities

| 2019 | EXPIRY | FACILITY<br>$000 | DRAWDOWN<br>$000 |
|---|---|---|---|
| Revolving cash facility 1 | 31-Dec-19 | 5,000 | - |
| Revolving cash facility 2 | 31-Dec-20 | 25,000 | 15,275 |
| Revolving cash facility 3 | 31-Dec-21 | 10,000 | - |

The facility expiring within one year is an ongoing facility subject to annual review.

| 2018 | EXPIRY | FACILITY<br>$000 | DRAWDOWN<br>$000 |
|---|---|---|---|
| Revolving cash facility 1 | 31-Dec-18 | 5,000 | 5,000 |
| Revolving cash facility 2 | 31-Dec-19 | 25,000 | 24,614 |
| Revolving cash facility 3 | 31-Dec-20 | 10,000 | 600 |

**Policies**

Borrowings are recognised initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowing are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest method.

**Covenants**

The bank term borrowings are unsecured but are subject to a negative pledge and two financial covenants. The negative pledge agreement means that the Group may not grant a security interest greater than 5% of adjusted tangible total assets to another party without the consent of the bank. The two financial covenants are that equity cannot be less than 30% of adjusted total tangible assets and total permitted indebtedness cannot be more than 3.25 times earnings before funding costs, income tax, depreciation, amortisation and extraordinaries. The Group complied with these ratios during the years ended 30 June 2018 and 30 June 2019. The interest rates on the bank borrowings are floating, resetting quarterly and ranged from 2.40% - 3.16% per annum during the year ending 30 June 2019 (2018: 2.30% - 3.14% per annum).

## 12. 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 | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Interest rate swaps | 11,310 | 17,801 | (454) | (78) | (376) | 147 |

**Policies**
Derivative financial instruments are used to hedge exchange rate and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are recognised at fair value. Any resulting gains or losses are recognised in profit or loss within finance costs.

The fair value of financial derivatives and fixed rate debt is determined based on current market information from independent valuation sources.

## 13. FINANCIAL RISK MANAGEMENT

Exposure to credit, interest rate, foreign currency and liquidity risks arise in the normal course of the Group's business.
The Group manages commodity price risks through negotiated supply contracts which are not considered to be financial instruments.

### Credit risk

In the normal course of business, the Group incurs credit risk from trade receivables and financial institutions. The Group has a credit policy which is used to manage credit risk. As part of this policy, credit evaluations are performed on all customers requiring credit over a certain amount. Policy limits on exposure are set and approved by the Board of Directors and monitored on a regular basis.
The Group does not require any collateral or security to support financial instruments, as it only deposits with, or loans to banks and other financial institutions with high credit ratings. The Group does not expect the non-performance of any obligations at balance date.

### Impairment losses

From 1 July 2018 the Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

### Judgements

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The expected credit loss allowance as at 30 June 2019 was determined as follows for trade receivables:

| | CURRENT | PAST DUE 1 TO 30 DAYS | PAST DUE 31 TO 90 DAYS | PAST DUE MORE THAN 90 DAYS | TOTAL |
|---|---|---|---|---|---|
| 30 JUNE 2019 | | | | | |
| Expected loss rate | 0.1% | 0.3% | 0.9% | 36.9% | |
| Trade receivables | 32,328 | 8,062 | 700 | 390 | 41,480 |
| Impaired receivables | (33) | (26) | (6) | (144) | (209) |
| | **32,295** | **8,036** | **694** | **246** | **41,271** |

The ageing of trade and other receivables as at 30 June 2018:

| 30 JUNE 2018 | GROSS CARRYING AMOUNT | IMPAIRMENT LOSS PROVISION |
|---|---|---|
| Current | 33,557 | (61) |
| Past due 1 to 30 days | 5,155 | (78) |
| Past due 31 to 90 days | 1,359 | (85) |
| Past due more than 90 days | 230 | (68) |
| | **40,301** | **(292)** |

### Interest rate risk

The Group has exposure to interest rate risk to the extent that it borrows or invests with financial institutions. The Group manages its risk in accordance with an approved treasury policy. This allows for the use of interest rate swaps and interest rate options. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Details of interest rate swaps are disclosed in note 12.
Hedge accounting has not been applied to these balances.

### Currency risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities.
Where exposures are material and certain, it is policy to economically hedge these risks as they arise using forward exchange contracts.
The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign currency exchange differences arising on the translation of monetary assets and liabilities are recognised in the foreign currency translation reserve. This exposure is hedged as a net investment, refer to note 14.

### Liquidity risk

The Group monitors and manages its debt maturity profile, operating cash flows and the availability of funding. The Group targets maintaining funding facilities to meet the 115% of maximum debt level for normal trading activity forecast for the next 24 months, plus any confirmed commitments in the year.
A maturity analysis of the Group's borrowings is set out in note 11. The relevant maturity groupings are based on the remaining period from the reporting date to the contractual maturity date.

### Liquidity profile of financial instruments

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | LESS THAN 1 YEAR | BETWEEN 1 AND 2 YEARS | BETWEEN 2 AND 5 YEARS | OVER 5 YEARS |
|---|---|---|---|---|
| AT 30 JUNE 2019 | $000 | $000 | $000 | $000 |
| Borrowings | - | - | 15,275 | - |
| Derivative financial instruments | 5 | 33 | 416 | - |
| Trade and other payables | 9,727 | - | - | - |
| AT 30 JUNE 2018 | | | | |
| Borrowings | 5,000 | - | 25,213 | - |
| Derivative financial instruments | 58 | 10 | 10 | - |
| Trade and other payables | 11,084 | - | - | - |

### Fair values

Cash, trade receivables, payables and non-current liabilities are disclosed in the statement of financial position at their amortised cost which is equivalent to their fair value.
The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques such as discounted cashflows.

## 14. SHARE CAPITAL AND RESERVES

**Share capital**
Ordinary shares are classified as equity.
All shares carry equal voting rights and share equally in dividends and surplus in winding up. At 30 June 2019 there were 23,800,000 shares on issue (2018: 23,800,000).

**Foreign currency translation reserve**
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
The Group designates certain hedging instruments in respect of foreign currency exchange risk as a hedge of net investments in foreign operations. On an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated as a separate component of equity in the foreign currency translation reserve.
Hedge of net investment in foreign operations:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| HEDGING INSTRUMENT | LOCAL CURRENCY | EXCHANGE RATE | NZD | GAIN/(LOSS) RECOGNISED | LOCAL CURRENCY | EXCHANGE RATE | NZD | GAIN/(LOSS) RECOGNISED |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| SGD denominated borrowings | - | 0.9326 | - | 109 | 1,900 | 0.9437 | 2,013 | 173 |
| AUD denominated borrowings | 15,000 | 0.9820 | 15,275 | 325 | 16,535 | 0.9395 | 17,600 | 684 |

The remaining movement in the foreign currency translation reserve relates to foreign currency differences arising from the translation of the financial statements of foreign operations.

**Revaluation reserve**
The revaluation reserve relates to the revaluation of land and buildings for Auckland and Wellington laboratories. Refer Note 7.
Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, unless it offsets a previous decrease for the same asset recognised in profit or loss, in which case it is recognised in profit or loss. A decrease in carrying amount arising on the revaluation of land and buildings is recognised in profit or loss where it exceeds the balance held in the asset revaluation reserve relating to a previous revaluation of that asset.

**Dividend**
The distribution to equity holders represents 29.41 cents per share (2018: 15.55 cents per share).

**Capital risk management**
The Group's objectives when managing capital structure are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.
In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or increase available debt.
The Group monitors capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratio for the Group as at 30 June 2019 was 13% (2018: 32%).

## 15. AUDITOR'S REMUNERATION

| | 2019 | 2018 |
|---|---|---|
| | $000 | $000 |
| Amounts paid or payable to the auditors for: | | |
| Audit of the Group's financial statements | 178 | 196 |
| Audit of stand alone financial statements of subsidiaries | 20 | 32 |
| Risk Management Framework | - | 23 |
| | **198** | **251** |

There were no non-audit services, apart from the Risk Management Framework provided in 2018.

## 16. RELATED PARTY TRANSACTIONS

The Group undertakes many transactions with other State-Owned Enterprises and Government entities and departments in the normal course of business.

The Group made significant sales of biosecurity services to the Ministry for Primary Industries during the year.

The remaining transactions were not significant and are exempt from related party 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 and joint ventures, Bureau Veritas AsureQuality Holdings Limited and BV-AQ (Singapore) Holdings Pte Ltd during the year.

| | **2019** | **2018** |
|---|---|---|
| | **$000** | **$000** |
| RELATED PARTY TRANSACTIONS | | |
| The following transactions were carried out with related parties: | | |
| SALES OF SERVICES: | | |
| Sale of services to the Ministry for Primary Industries | 72,487 | 43,751 |
| Services provided to associate and joint venture | 3,548 | 2,077 |
| EXPENSES: | | |
| Purchases of services from associate and joint venture | 887 | 1,023 |
| RELATED PARTY BALANCES | | |
| OWED BY: | | |
| Ministry for Primary Industries | 16,847 | 13,441 |
| Associate and joint venture | 745 | 256 |
| OWING TO: | | |
| Associate and joint venture | 114 | 47 |
| These balances are unsecured and payable on demand. | | |
| KEY MANAGEMENT COMPENSATION | | |
| The compensation of the Directors and executives, being the key management personnel of the entity, is set out below: | | |
| Salaries, Directors' fees and other short-term employee benefits | 2,994 | 3,182 |

## 17. CONTINGENT LIABILITIES

AsureQuality Limited has undertaken to provide sufficient financial assistance to its subsidiary company AsureQuality Asia Pacific Limited as and when it is needed to enable AsureQuality Asia Pacific Limited to continue its operations and fulfil all of its financial obligations now and for the next 12 months.

There are no other contingent liabilities as at 30 June 2019 (2018: Nil).

Policies
Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

## 18. OPERATING LEASES

| | 2019 | 2018 |
|---|---|---|
| | $000 | $000 |
| Lease payments under operating leases recognised as an expense in the period | 5,232 | 5,618 |

| | | |
|---|---|---|
| Operating lease obligations payable after balance date on non-cancellable operating leases: | | |
| Less than one year | 4,484 | 4,496 |
| One to two years | 2,757 | 3,597 |
| Two to five years | 2,369 | 3,802 |
| **TOTAL OPERATING LEASE COMMITMENTS** | **9,610** | **11,895** |

The Group leases various offices, vehicles and computer equipment under non-cancellable operating lease agreements. The lease terms are between two and five years, and the majority of lease agreements are renewable at the end of lease period at market rate.

Policies
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks or rewards of ownership to the lessee. All other leases are classified as operating leases.
Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in profit or loss on a straight-line basis, net of any lease incentives, over the term of the lease.

## 19. NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following standards and interpretations which were considered relevant to the Group but not yet effective for the year ended 30 June 2019 have not been applied in preparing the financial statements.
NZ IFRS 16 Leases
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 standard is mandatory for reporting periods beginning on, or after 1 January 2019. The Group intends to use the modified retrospective approach with the right-of-use asset being equal to the lease liability as at commencement date for all existing leases at 1 July 2019.
Work has been undertaken to review all of the lease commitments of the Group to determine the impact NZ IFRS 16 will have on the financial statements. Currently the Group expects EBIT will increase by approximately $0.7 million for the year ending 30 June 2020, due to the reduction in lease costs offset by an increase in depreciation for $15.1 million of right-to-use assets. Finance costs are expected to increase by approximately $0.8 million. The adoption of the standard is also expected to increase the Group's gearing ratio by 10% due to $15.1 million of lease liabilities brought onto the Group's balance sheet.

## 20. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 26 August 2019, the Board of Directors declared a final dividend of $8,200,000 for the period ended 30 June 2019, representing 34.45 cents per share, and a special dividend of $7,200,000, representing 30.25 cents per share. As the dividends were declared after balance date the financial effect has not been recognised in these financial statements.

## INDEPENDENT AUDITOR'S REPORT
## TO THE READERS OF ASUREQUALITY LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of AsureQuality Limited group (the Group). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements of the Group on his behalf.

### OPINION

We have audited the financial statements of the Group on pages 26 to 52, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects
  - its financial position as at 30 June 2019; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting.

Our audit was completed on 26 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

### BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the State Owned Enterprises Act 1986.

### RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 25 and 54 to 57, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Group.

G. Edwards

Graeme Edwards
KPMG
On behalf of the Auditor-General, Auckland, New Zealand
26 August 2019

## COMPARISON WITH PERFORMANCE TARGETS INCLUDED IN THE STATEMENT OF CORPORATE INTENT FOR THE FINANCIAL YEAR ENDED 30 JUNE

| | ACHIEVEMENT | 2019 TARGET |
|---|---|---|
| **FINANCIAL PERFORMANCE TARGETS** | | |
| Revenue | $254.0m | $183.2m |
| Earnings before interest and tax (EBIT) | $34.1m | $13.8m |
| Net profit after tax (NPAT) | $25.9m | $8.7m |
| Net cash flows from operating activities | $26.9m | $14.6m |
| **ANNUAL KEY RATIOS** | | |
| Total shareholder return | 23% | 2% |
| Dividend yield | 4% | 2% |
| Dividend payout | 33% | 42% |
| Return on equity | 38% | 15% |
| Return on capital employed | 43% | 18% |
| Operating margin | 16% | 11% |
| Gearing ratio | 13% | 32% |
| Interest cover | 38 | 15 |
| Solvency | 1.3 | 1.4 |
| **NON-FINANCIAL PERFORMANCE TARGETS** | | |
| Staff turnover rate | 11% | < 12% |
| Total recordable injury frequency rate | 3.8 | < 4.9 |
| Critical programme audit failures | Nil | Nil |
| Critical facility audit failures | Nil | Nil |

## STATUTORY DISCLOSURE INFORMATION
## FOR THE FINANCIAL YEAR ENDED 30 JUNE

### 1. SHAREHOLDERS
In accordance with the State-Owned Enterprise Act 1986, the Company has two shareholders; The Minister for State-Owned Enterprises and the Minister of Finance.

### 2. DIRECTORS
The following people were Directors of AsureQuality Limited during the year 1 July 2018 to 30 June 2019:

- Janine Smith, Chair
- Dr Alison Watters, Deputy Chair
- Hamish Stevens (retired 31 December 2018)
- Margot Buick
- Steve Murray
- Bruce Scott
- Paul McGilvary
- Alison Posa (appointed 1 January 2019)

### 3. DIRECTORS' INTERESTS
Declaration of General Interest pursuant to section 140(2) of the Companies Act 1993 as at 30 June 2019 are set out below.
There were no declarations of interest made pursuant to section 140(1) of the Companies Act 1993 entered in the Interests Register of AsureQuality Limited or its subsidiary companies. No director of AsureQuality Limited is a shareholder of AsureQuality Limited or any of its subsidiary companies.
In accordance with section 211(1)(e) of the Companies Act 1993, particulars of the entries in the Interests Register of AsureQuality Limited made during the year are set out below:

**Janine Smith, Chair**
The Boardroom Practice Limited, Principal
AUT Council, Councillor
Fonterra Governance & Development Committee, Independent Member
REANNZ, Chair

**Dr Alison Watters, Deputy Chair**
Livestock Improvement Corporation, Director
Nga Tawa Diocesan School for Girls, Deputy Chair
AgInvest Holdings Limited, Shareholder
MyFarm Limited, Shareholder
Taumata Island Dairy Limited, Shareholder
Figured Limited, Shareholder

**Hamish Stevens (retired 31 December 2018)**
Marsden Maritime Holdings Limited, Director
East Health Services Limited, Chair
Counties Power Limited (and subsidiaries), Director
The Kennedys Limited, Chair
Governance & Advisory Limited, Director/Shareholder
Waikato Regional Council, External Chair - Audit and Risk Committee
Restaurant Brands New Zealand Limited (and subsidiaries), Director
Ormiston Health Properties Limited, Director
Pharmaco (NZ) Limited, Director
Pacific Radiology Group Limited, Director

**Margot Buick**
Mondeur Trust, Trustee
Clarance Theatre Trust, Trustee/Director
SouthPort, PGG Wrightson, AMP, Shareholder
Meat Industry Association Innovation Limited, Director

**Steven Murray**
Kaawai International Limited, Director
Tuaropaki Communications Limited, Director
Vins Sophora Limited, Director
Gourmet Mokai Limited, Director
Gourmet Paprika Limited, Director
Future Value Investments Limited, Director
Century Drilling and Energy Services (NZ) Limited, Director
Miraka Limited, Director

**Bruce Scott**
BV-AQ (Singapore) Holdings Pte Limited (and subsidiaries), Chair

**Paul McGilvary**
Waikato Milking Systems Limited (and subsidiaries), Director
Maui Milk Limited, Chair
Southern Cross Genetics Limited, Chair
Rezare Systems Limited, Director
Bureau Veritas AsureQuality Holdings Limited (and subsidiaries), Director

**Alison Posa (appointed 1 January 2019)**
Wing Acoustics Limited, Shareholder

### 4. DIRECTORS' TRANSACTIONS
All transactions in entities in which Directors disclosed an interest have been conducted in the normal course of business.

### 5. DIRECTORS' USE OF INFORMATION
There were no requests for information or disclosures or use of information that would not otherwise be available to the director.

### 6. INDEMNITY AND INSURANCE
AsureQuality Limited has arranged for directors and officers insurance for any act or omission in their capacity as a director or executive officer.

### 7. DIRECTORS' REMUNERATION

Shareholding Ministers advise the Board of the total allowance for fees available to Directors of AsureQuality Limited and its subsidiary companies. The following table sets out the total remuneration (including remuneration for standing committee membership) received or receivable from AsureQuality Limited by each Director of the Company during the year.

| DIRECTORS' FEES | 2019 | 2018 |
|---|---|---|
| Janine Smith, Chair | 70,000 | 70,000 |
| Dr Alison Watters, Deputy Chair | 43,750 | 36,458 |
| Hamish Stevens (retired 31 December 2018) | 18,750 | 37,500 |
| Margot Buick | 39,000 | 37,500 |
| Steve Murray | 35,000 | 35,000 |
| Bruce Scott | 38,000 | 37,500 |
| Paul McGilvary | 35,000 | 35,000 |
| Alison Posa (appointed 1 January 2019) | 17,500 | - |
| John Ashby (retired 30 April 2018) | - | 36,458 |
| | **297,000** | **325,416** |

### 8. EMPLOYEE REMUNERATION

The following table shows the number of employees who received remuneration and benefits greater than $100,000 per annum, during the financial year ended 30 June 2019. The remuneration figures shown in the table include all monetary payments actually paid during the year, plus the cost of all benefits provided to the individuals.

| | 2019<br>NUMBER OF EMPLOYEES IN THE GROUP |
|---|---|
| $640,001 - $650,000 | 1 |
| $400,001 - $410,000 | 1 |
| $370,001 - $380,000 | 1 |
| $360,001 - $370,000 | 1 |
| $340,001 - $350,000 | 1 |
| $300,001 - $310,000 | 1 |
| $280,001 - $290,000 | 1 |
| $250,001 - $260,000 | 1 |
| $230,001 - $240,000 | 1 |
| $220,001 - $230,000 | 1 |
| $210,001 - $220,000 | 2 |
| $200,001 - $210,000 | 1 |
| $190,001 - $200,000 | 1 |
| $180,001 - $190,000 | 3 |
| $170,001 - $180,000 | 5 |
| $160,001 - $170,000 | 7 |
| $150,001 - $160,000 | 4 |
| $140,001 - $150,000 | 8 |
| $130,001 - $140,000 | 14 |
| $120,001 - $130,000 | 19 |
| $110,001 - $120,000 | 37 |
| $100,000 - $110,000 | 43 |

### 9. CHANGE IN NATURE OF BUSINESS

There was no change in the nature of the business during the year.

## DIRECTORS

Janine Smith, Chair
Dr Alison Watters, Deputy Chair
Margot Buick
Steve Murray
Bruce Scott
Paul McGilvary
Alison Posa

## EXECUTIVES

John McKay - Chief Executive Officer
Alastair de Raadt - Group Director, Business Development & Marketing
Jeremy Hood - Chief Financial Officer
Emma Butler - General Manager, People & Culture
Brian Watson - Group Manager, Testing Services
Alan Robson - Group Manager, Inspection and Certification
Darren Wilson - Chief Digital Officer

## AUDITOR, BANKER & SOLICITOR

**Auditor** - Graeme Edwards, KPMG
**Banker** - Westpac Banking Corporation
**Solicitor** - Bell Gully

## CONTACT DETAILS

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**info@asurequality.com**

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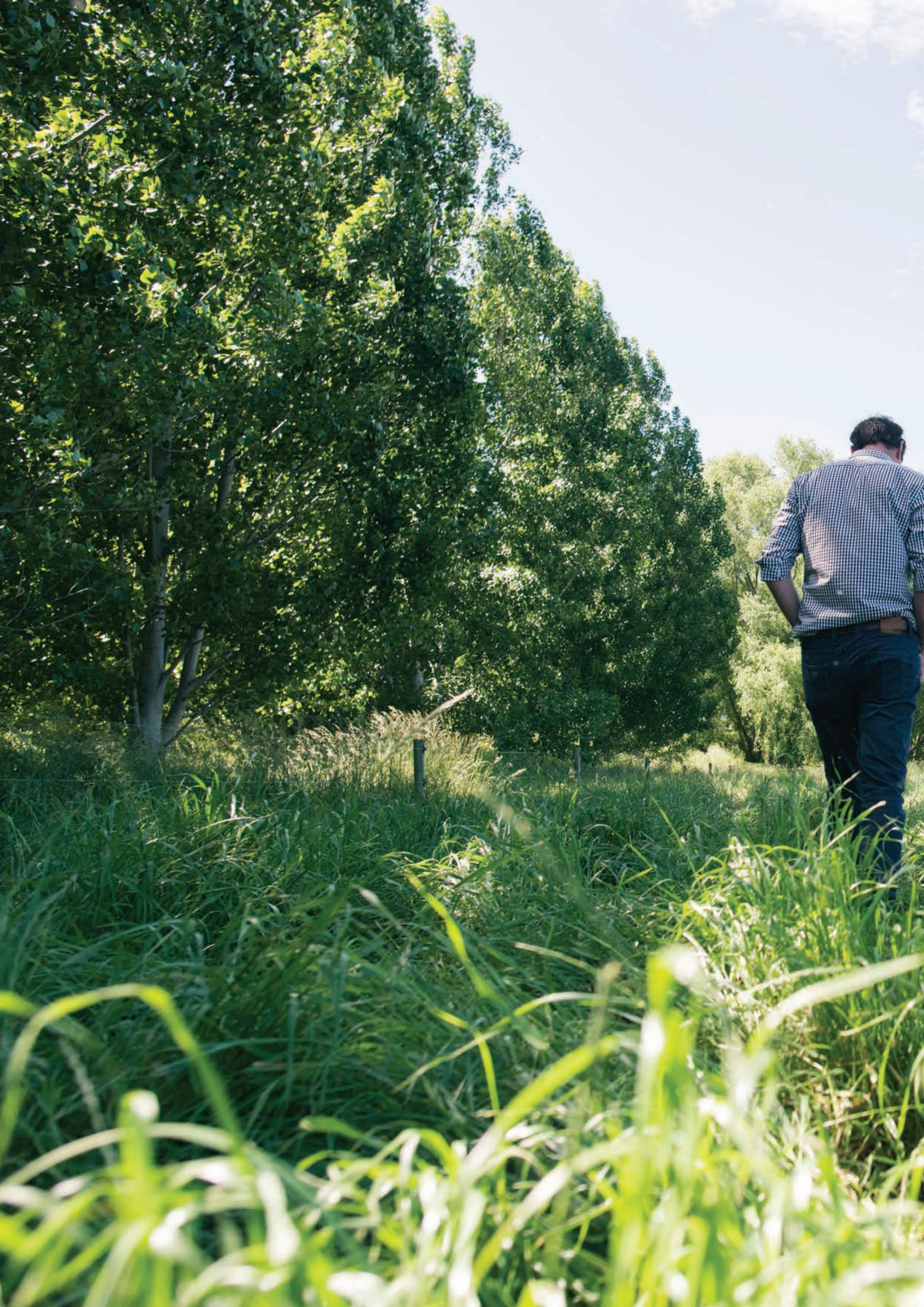

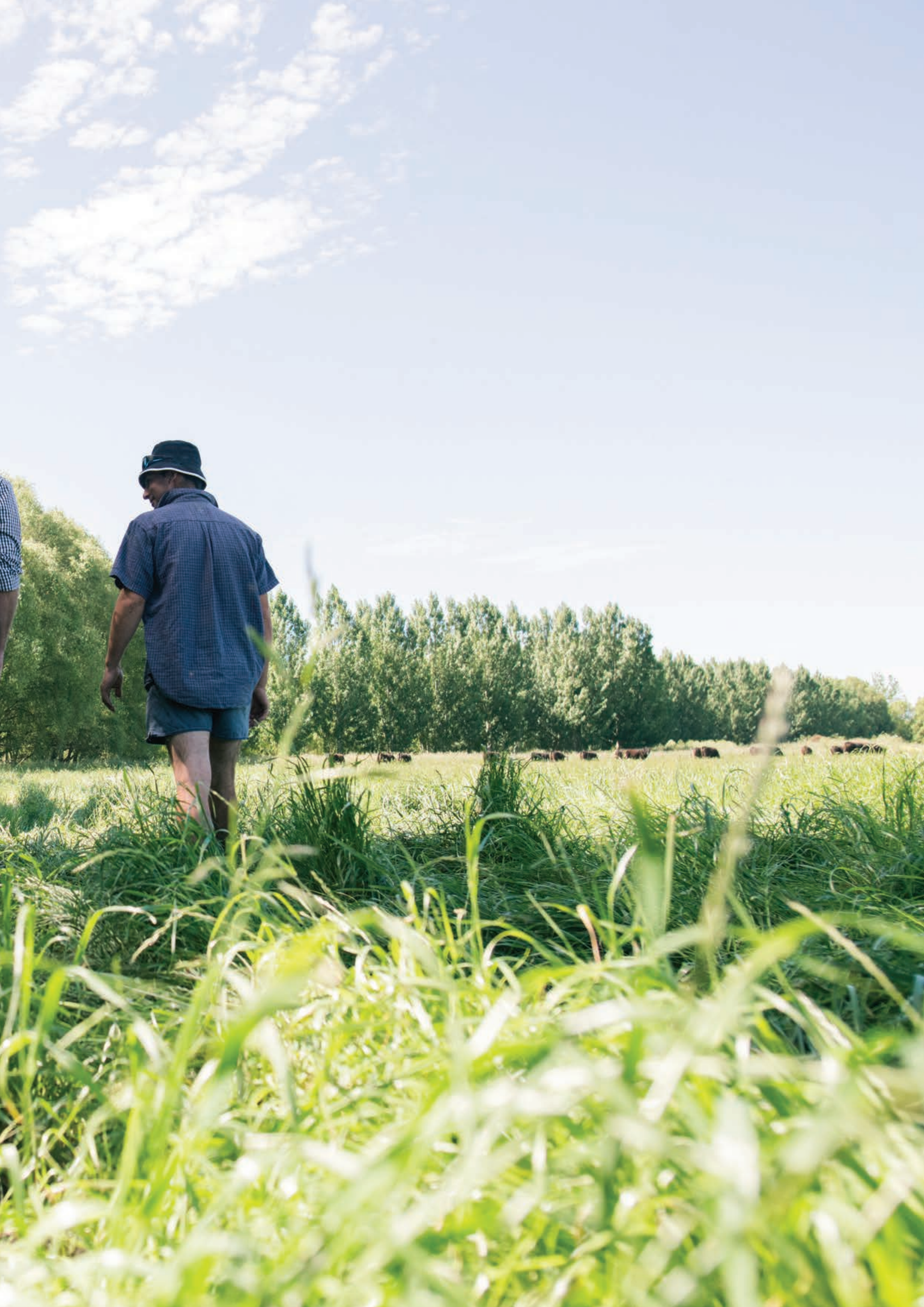


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