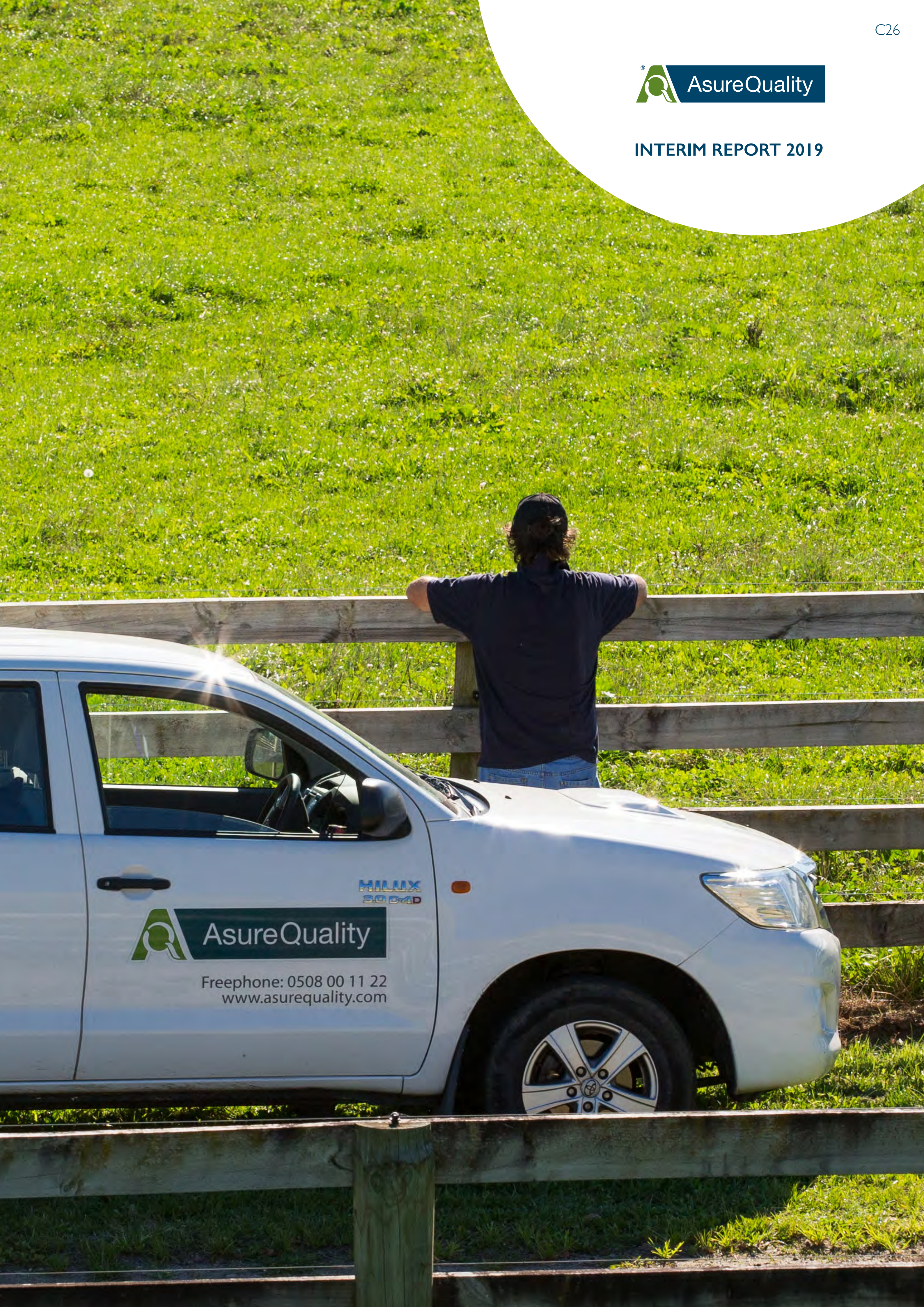
AsureQuality

INTERIM REPORT 2019



VISION

GLOBAL EXPERTS IN FOOD ASSURANCE

PURPOSE

TOGETHER WE BUILD AND PROTECT CONSUMER CONFIDENCE

CONTENTS

CHAIR AND CHIEF EXECUTIVE REPORT

RESULTS OVERVIEW

AsureQuality is ahead of budgeted revenue at the end of the first half of the year and forecasting to exceed its budgeted profit for the year.

Increased revenue from high demand for Food Testing services in New Zealand and continued Mycoplasma bovis biosecurity response work has led to the positive revenue results for the first half of the year.

Earnings before Interest and Tax (EBIT) is also above budget for the first half of the year. AsureQuality has been ensuring the fundamentals of the business are right, including improving customer experience, and this activity has led to a number of efficiencies, increased margins and an improvement in EBIT.

EBIT has also increased by the inclusion of a $7.3 million NZD gain on sale in relation to the sale of AsureQuality's Singapore Laboratory business into a Bureau Veritas and AsureQuality joint venture in South East Asia.

The strong revenue and the gain on sale of the Singapore Laboratory has resulted in a $15.4 million increase in Net Profit relative to the same period last year.

SHAREHOLDER DIVIDEND

During the six months ending 31 December 2018, a final dividend of $4.0 million was paid to the shareholder for the year ended 30 June 2018. This brings the total dividend paid relating to the 2018 financial year to $5.5 million. In February 2019 an interim dividend of $3.0 million was paid to the shareholder. This higher than budgeted interim dividend payment reflects the above budget performance for the first six months of the year.

STRATEGIC DIRECTION

Our focus on our strategic priorities continues as we transform AsureQuality toward higher value technology-led analysis, insights and assurance across the supply chain. Our priorities are:

- Having highly motivated, performance driven teams. We are focused on creating alignment behind a 'one-AQ' approach, which will drive performance with clear accountabilities, open communication and trust.
- Doing the basics well, first and foremost. There will be a continued emphasis on delivering a consistently high standard of service and customer experience; supported by efficient processes, systems and technology.
- Partnering to deliver higher value services. AsureQuality's strategy is to grow through partnerships. We will invest in opportunities to provide analytics, insights and assurance-based services that deliver more value for customers and AsureQuality; making better use of science & technology and partnerships.

IN CONCLUSION

Over the last six months there has been strong revenue growth across the AsureQuality portfolio. This coupled with the concentration on driving efficiencies and the gain on sale of our Singapore Laboratory has led to a very positive six month performance. AsureQuality is forecasting to continue this momentum over the next six months and is forecasting to exceed financial targets for the 2018/19 financial year.

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

We thank you all for your commitment, and we look forward to continuing to enhance the business performance in the second half of the year.

JANINE SMITH CHAIR

JOHN MCKAY CHIEF EXECUTIVE OFFICER

BUSINESS OVERVIEW

HEALTH & SAFETY

Ensuring our people return home to their families safe and healthy every day remains a key priority for AsureQuality. Our continued focus on health and safety has seen our incident rates drop to the lowest level recorded. Key highlights for the year to date include:

- Bow Tie analysis completed for all critical risks
- A new structure for our Health and Safety committees, to improve our employee engagement and participation
- Increase in the number of Health and Safety workshops being held.

TESTING SERVICES

Higher testing volumes due to growth from dairy testing have developed in the last six months. Additional automation and revised labour models have enabled the laboratories to deliver improved margins. The focus on getting the basics right has also helped achieve these improved margins.

We validated and successfully launched faster pathogen testing methods using new rtPCR technologies which deliver real advantages to our customers. These began to be rolled out widely in 2018 and will provide more efficient solutions for our New Zealand and Singapore customers. Additional PCR methodology has been set up in Auckland to test milk and swab samples for Mycoplasma bovis on behalf of MPI. One day PCR Cronobacter testing methods have been accredited for launching in the new quarter.

The Wellington Laboratory has had a solid start to the year with revenue increased by Mycoplasma bovis testing and demand for dairy and other contaminants testing being slightly higher than budget.

The AsureQuality and Bureau Veritas joint venture in Australia has progressed well with the benefits of the restructuring in F18 flowing through in the form of better margins in F19. Revenue has been slightly below budget, but EBIT margin percentage has been slightly higher.

INSPECTION AND CERTIFICATION

The key priority for the first six months has been on implementing Business Plans within each of the Business Units to ensure long term sustainability. This has included exiting or improving programmes that are unprofitable or not strategically aligned to the business. The second half of the year will see continued work in this arena with a number of key contracts up for renewal. We will continue to standardise the operational activity across each Business Unit, building on the strong gains and learnings made in some areas of the business.

The Biosecurity business has had a busy start to the financial year contributing to multiple biosecurity responses and pest management activities. Our largest contribution over this period has been to the Mycoplasma bovis response. This response has had a substantial impact across the Inspection and Certification business during the first half of the year. The decision by MPI and industry to drive for eradication has led to AsureQuality establishing a dedicated Business Unit to deliver operational services. The team have also supported the third year of Pea Weevil response and contributed to Myrtle Rust and Invasive Pest Plant responses and surveillance activities.

The training Academy has had the busiest start to the financial year in its history. We have presented courses in Laos, Qatar and Thailand. We are building strong relationships with key partners to design and deliver high quality courses led by our expert trainers. As a team we are continually scanning the horizon for new trends and methods of training delivery that assist our students' learning and ultimately improve performance outcomes for our customers.

INTERNATIONAL SERVICES

In December AsureQuality expanded upon its successful joint venture with Bureau Veritas in Australia by establishing a joint network of food testing laboratories across five key South East Asian markets: Singapore, Malaysia, Thailand, Vietnam and Indonesia. This consolidates AsureQuality as the leading testing provider across New Zealand, Australia and South East Asia, and enables us to provide seamless and consistent service to customers across this important region.

Our Global Proficiency business has grown strongly in the first six months of the year with revenue and profit significantly ahead of the same period last year. New product launches including Raw Milk and Raw Cream quality control products along with a concerted customer development drive in Australia have added to this growth.

In December AsureQuality concluded the third mission in our on-going engagement with the Qatar Ministry of Public Health. The mission focused on developing materials and delivering training on HACCP and ISO22000 to the Ministry's inspectors. AsureQuality is looking to continue this work with further engagement in the second half of the year.

AsureQuality's joint venture laboratory in Jeddah was accredited to the ISO17025 standard by the by the Saudi Accreditation Committee and testing services are being provided to a range of food manufacturing customers in Saudi Arabia and the UAE. As a consequence of our tightened focus on the AsiaPac region, in August AsureQuality sold its share of the joint venture food testing laboratory in Saudi Arabia to our partner Motabaqah.

Revenue for the Diagnostics business was close to budget. The focus for the year has been customer and product diversification and further growth is expected over the next 3+ years.

The Assurance Marks business has had a busy first half of the year. Work to support New Zealand food and beverage exporters to China via e-commerce continues with NZ Post. Some early issues associated with export documentation requirements has slowed progress against original timelines, however we remain confident that this will be very successful and of value to customers. Our cloud-based technology platform partnership established to strengthen our authenticity verification offering to customers opens some significant opportunities in the coming months. The first phase of our trials on blockchain-based technology for supply chain transparency and integrity are coming to an end. The post project review will help set the course for future work in this developing area.

CONTINUOUS IMPROVEMENT

The Continuous Improvement teams have been centred on improving invoicing outcomes across the Inspection and Certification businesses. Incorporating an Agile delivery method, more work is now being billed in a more accurate and timely way resulting in monthly accruals being significantly reduced. In addition, the key delivery processes of those businesses are being standardised which will further simplify the invoicing activity, reduce errors and improve customer satisfaction.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	NOTE	6 MONTHS DECEMBER 2018 UNAUDITED $000	6 MONTHS DECEMBER 2017 UNAUDITED $000
REVENUE	6	**119,735**	**93,025**
Employee benefit expenditure		(60,995)	(56,563)
Consumables		(9,038)	(8,640)
Contractors and subcontractor testing		(16,113)	(5,515)
Transportation expenses		(5,558)	(5,356)
Rental and operating lease cost		(2,710)	(2,658)
Other expenses	7	(8,929)	(8,449)
OPERATING EXPENSES		**(103,343)**	**(87,181)**
Depreciation and amortisation		(2,818)	(2,857)
Finance costs (net)	8	(453)	(385)
Share of profit/(loss) of associates and joint ventures	9	529	(391)
Gain on sale of investment in subsidiary	9/10	7,221	-
PROFIT BEFORE INCOME TAX		**20,871**	**2,211**
Income tax expense		(4,053)	(834)
PROFIT FOR THE PERIOD		**16,818**	**1,377**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Change in foreign currency translation reserve		332	965
OTHER COMPREHENSIVE INCOME NET OF TAX		**332**	**965**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**17,150**	**2,342**
Profit for the period attributable to:			
Equity holders of the parent		16,870	1,757
Non-controlling interest		(52)	(380)
		16,818	**1,377**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent		17,202	2,722
Non-controlling interest		(52)	(380)
		17,150	**2,342**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	NOTE	SHARE CAPITAL $000	REVALUATION RESERVE $000	TRANSLATION RESERVE $000	RETAINED EARNINGS $000	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
BALANCE AT 30 JUNE 2017 (AUDITED)		**22,100**	**9,614**	**(880)**	**20,097**	**50,931**	**183**	**51,114**
Total comprehensive income for the period		-	-	965	1,757	2,722	(380)	2,342
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Dividend to equity holders	5	-	-	-	(2,200)	(2,200)	-	(2,200)
BALANCE AT 31 DECEMBER 2017 (UNAUDITED)		**22,100**	**9,614**	**85**	**19,654**	**51,453**	**(197)**	**51,256**
Total comprehensive income for the period		-	-	52	7,524	7,576	(409)	7,167
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Capital contribution by non-controlling interest in subsidiary		-	-	-	-	-	701	701
Dividend to equity holders		-	-	-	(1,500)	(1,500)	-	(1,500)
BALANCE AT 30 JUNE 2018 (AUDITED)		**22,100**	**9,614**	**137**	**25,678**	**57,529**	**95**	**57,624**
Change in accounting policy	2	-	-	-	(853)	(853)	-	(853)
RESTATED TOTAL EQUITY AT 1 JULY 2018		**22,100**	**9,614**	**137**	**24,825**	**56,676**	**95**	**56,771**
Total comprehensive income for the period		-	-	332	16,870	17,202	(52)	17,150
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Capital contribution by non-controlling interest in subsidiary		-	-	-	-	-	10	10
Elimination of non-controlling interest on disposal of subsidiary	10	-	-	-	-	-	(53)	(53)
Dividend to equity holders	5	-	-	-	(4,000)	(4,000)	-	(4,000)
BALANCE AT 31 DECEMBER 2018 (UNAUDITED)		**22,100**	**9,614**	**469**	**37,695**	**69,878**	**-**	**69,878**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	NOTE	DECEMBER 2018 UNAUDITED $000	JUNE 2018 AUDITED $000
CURRENT ASSETS			
Cash and cash equivalents		5,111	5,159
Trade and other receivables		31,922	41,246
Inventories		4,617	4,929
Contract work in progress		-	853
TOTAL CURRENT ASSETS		**41,650**	**52,187**
NON-CURRENT ASSETS			
Property, plant and equipment		28,071	33,102
Intangible assets		5,627	5,908
Investment in associates and joint ventures	9	43,186	31,440
Deferred income tax assets		3,405	3,578
TOTAL NON-CURRENT ASSETS		**80,289**	**74,028**
TOTAL ASSETS		**121,939**	**126,215**
CURRENT LIABILITIES			
Trade and other payables		25,961	30,756
Borrowings		4,700	5,000
Derivative financial instruments	15	194	78
Current income tax liabilities		2,415	2,342
TOTAL CURRENT LIABILITIES		**33,270**	**38,176**
NON-CURRENT LIABILITIES			
Borrowings		15,361	25,213
Loan from non-controlling interest		-	1,662
Payables		3,430	3,540
TOTAL NON-CURRENT LIABILITIES		**18,791**	**30,415**
TOTAL LIABILITIES		**52,061**	**68,591**
EQUITY			
Equity attributable to equity holders of the parent		69,878	57,529
Non-controlling interest		-	95
TOTAL EQUITY		**69,878**	**57,624**
TOTAL LIABILITIES AND EQUITY		**121,939**	**126,215**

The Board of Directors of AsureQuality Limited authorised these financial statements for issue on 20 February 2019.

Janine Smith
Chair

Bruce Scott
Chair Audit Committee

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	NOTE	6 MONTHS DECEMBER 2018 UNAUDITED $000	6 MONTHS DECEMBER 2017 UNAUDITED $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		128,167	98,413
Payments to suppliers and employees		(108,258)	(89,398)
Interest paid net of interest and dividends received		(620)	(619)
Income tax paid		(3,807)	(1,805)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**15,482**	**6,591**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(984)	(1,664)
Purchase of intangibles		(403)	(316)
Capital contribution by non-controlling interest in subsidiary		10	-
Proceeds from sale of subsidiary	9	11,219	-
Acquisition of investment in joint venture	9	(11,219)	-
NET CASH USED IN INVESTING ACTIVITIES		**(1,377)**	**(1,980)**
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of)/proceeds from borrowings		(10,153)	975
Dividend paid to shareholder		(4,000)	(2,200)
NET CASH USED IN FINANCING ACTIVITIES		**(14,153)**	**(1,225)**
NET (DECREASE)/INCREASE IN CASH		**(48)**	**3,386**
Cash and cash equivalents at beginning of six month period		5,159	4,402
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,111**	**7,788**
RECONCILIATION OF THE PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE PERIOD		**16,818**	**1,377**
ADJUSTMENTS FOR:			
Depreciation and amortisation		2,818	2,857
Share of (gain)/loss of associates and joint ventures		(529)	391
Gain on sale of subsidiaries		(7,221)	-
Other non-cash movements		13	(1,000)
IMPACT OF CHANGES IN WORKING CAPITAL			
Trade and other receivables		6,937	4,283
Income tax		73	(592)
Trade and other payables		(3,153)	(347)
Other non-cash movements		(274)	(378)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**15,482**	**6,591**

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

1. REPORTING ENTITY

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

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

2. STATEMENT OF COMPLIANCE

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

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

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for year ending 30 June 2018. The Condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the 2018 Annual Report, except for the application of the following standards as of 1 July 2018:

- NZ IFRS 15 – Revenue from Contracts with Customers
- NZ IFRS 9 – Financial Instruments

The impact of the adoption of these new standards is disclosed below.

NZ IFRS 15 Revenue from Contracts with Customers
The Group adopted NZ IFRS 15 Revenue from Contracts with Customers for the first time from 1 July 2018. The standard provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers and introduces new disclosures about revenue. The Group has reviewed its contracts with customers and assessed that the profile of revenue and profit recognition will not change significantly. The Group applied 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).

The Group identified changes 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 against retained earnings at 1 July 2018.

The Group's accounting policies for its revenue streams are disclosed in note 6 below.

NZ IFRS 9 Financial Instruments
The Group adopted NZ IFRS 9 Financial Instruments for the first time from 1 July 2018. The standard introduces new classifications and removal of some existing classification and measurement regime for financial assets and liabilities. The complete version of this standard was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss. There is a new expected credit losses model that replaced the incurred loss impairment model used in NZ IAS 39. The Group was required to revise its impairment methodology under NZ IFRS 9 for Trade and other Receivables. There was no material impact from this change in accounting policy.

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

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

The judgements and estimates used in the preparation of these interim financial statements are consistent with those used in the annual report for the year ended 30 June 2018.

4. SEASONALITY OF OPERATIONS

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

5. DIVIDENDS

During the six months ended 31 December 2018, a dividend of $4,000,000 representing 16.81 cents per share, relating to the 12 months period ended 30 June 2018, was paid by AsureQuality Limited to the shareholder (six months ending 31 December 2017: $2,200,000 representing 9.24 cents relating to the 12 months period ended 30 June 2017).

	6 MONTHS DECEMBER 2018 UNAUDITED $000	6 MONTHS DECEMBER 2017 UNAUDITED $000
6. REVENUE		
Revenue from operations comprises:		
Revenue from the rendering of services	118,338	90,725
Revenue from the sale of goods	1,385	2,295
Other income	12	5
	119,735	**93,025**

POLICIES

Revenue is measured at the fair value of the consideration received.
Revenue from the rendering of services is recognised in profit or loss over time, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total service to be provided.
Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and is recorded net of returns.

7. OTHER OPERATING EXPENSES

Other operating expenses include donations of $8,000 (December 2017: $2,000).

8. FINANCE COSTS (NET)

	6 MONTHS DECEMBER 2018 UNAUDITED $000	6 MONTHS DECEMBER 2017 UNAUDITED $000
Interest expense on borrowings	(589)	(619)
Interest income on short-term bank deposits	5	5
Movement of derivatives held at fair value through profit or loss	(116)	50
Net foreign exchange gain	247	179
	(453)	**(385)**

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

NAME OF ENTITY	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITIES	BALANCE DATE	OWNERSHIP AND VOTING INTEREST DECEMBER 2018	OWNERSHIP AND VOTING INTEREST DECEMBER 2017
Bureau Veritas AsureQuality Holdings Limited (BVAQ AU)	Australia	Independent food testing laboratories	31-December	49%	49%
Sievert Veritas Pte. Ltd (BVAQ SEA)	Singapore	Independent food testing laboratories	31-December	49%	-

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 Sievert Veritas Pte Ltd in exchange for a 49% share of Sievert Veritas Pte Ltd.

Sievert Veritas Pte. Ltd is strategic for the Group's presence and growth in the South-East Asia market. Sievert Veritas 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.

	6 MONTHS DECEMBER 2018 UNAUDITED $000
The effects of the disposal and acquisition on the consolidated statement of cash flows were:	
Sale proceeds for sale of subsidiary	11,219
Acquisition of investment	(11,219)
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES	-
NET DECREASE IN CASH OR CASH EQUIVALENTS	-
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**

JUDGEMENT
The Group is deemed to have joint control over its investment in Sievert Veritas 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.

CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	
Investment at the beginning of the period	31,440
Acquisition of investment	11,219
Share of profit	529
Share of other comprehensive income of associates	(2)
BALANCE AT 31 DECEMBER 2018	**43,186**

	6 MONTHS DECEMBER 2018 UNAUDITED $000

10. SALE OF INVESTMENT IN SUBSIDIARY

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 consolidated statement of cash flows 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	(57)
Less transaction costs incurred	(12)
NET LOSS RECOGNISED IN PROFIT OR LOSS	**(34)**

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**

11. CONTINGENT LIABILITIES

There are no material contingent liabilities as at 31 December 2018 (December 2017: Nil).

12. RELATED PARTY TRANSACTIONS

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

The Group made sales to and purchases from its associates, Bureau Veritas AsureQuality Holdings Limited and Sievert Veritas Pte. Ltd during the period.

The following transactions were carried out with related parties:

	6 MONTHS DECEMBER 2018 UNAUDITED $000	6 MONTHS DECEMBER 2017 UNAUDITED $000
SALES OF SERVICES:		
Sales of biosecurity services to Government	35,652	13,755
Services provided to associate	1,240	1,221
EXPENSES:		
Purchase of services from associate	596	550

13. SIGNIFICANT EVENTS AFTER INTERIM BALANCE DATE

On 20 February 2019, the Board of Directors declared an interim dividend of $3.0 million relating to the 12 months ending 30 June 2019, representing 12.61 cents per share. As the dividend was declared after balance date the financial effect has not been recognised in these financial statements.

	DECEMBER 2018 UNAUDITED $000	DECEMBER 2017 UNAUDITED $000
14. COMMITMENTS		
CAPITAL COMMITMENTS		
Capital expenditure contracted for at reporting date but not provided for	503	1,033

15. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group is party to financial instruments as part of the normal course of operations. These financial instruments include bank accounts, short-term deposits, borrowings, derivatives, trade receivables and payables.

Cash, trade receivables, payables and non-current liabilities are disclosed in the condensed 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.

Derivative financial instruments

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

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

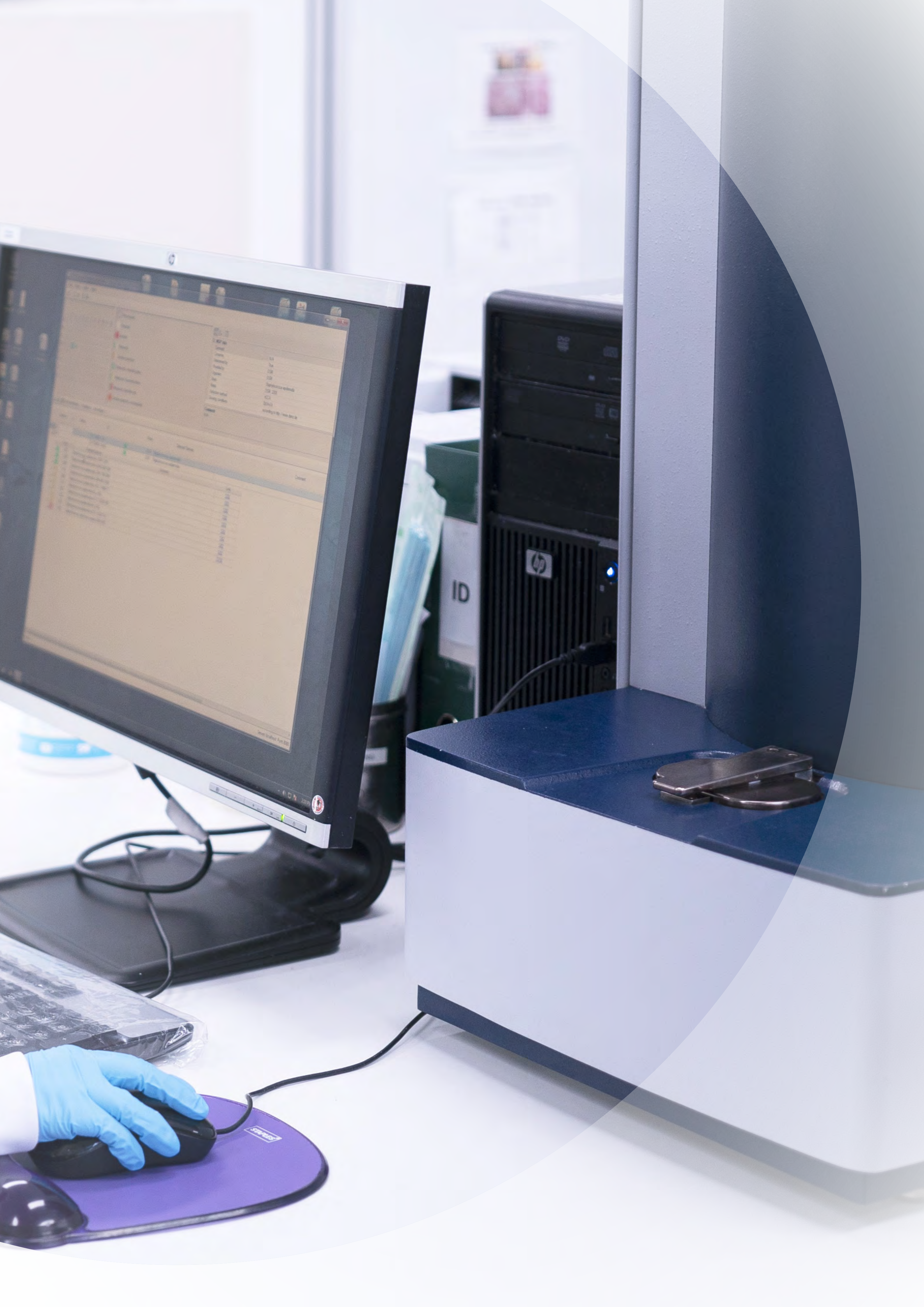
The Group holds the following instruments:

	NOTIONAL PRINCIPAL		FAIR VALUE		MOVEMENT OF DERIVATIVES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS	
	DECEMBER 2018	JUNE 2018	DECEMBER 2018	JUNE 2018	DECEMBER 2018	DECEMBER 2017
	$000	$000	$000	$000	$000	$000
Interest rate swaps	11,349	17,801	(194)	(78)	(116)	50
	11,349	**17,801**	**(194)**	**(78)**	**(116)**	**50**

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

	6 MONTHS DECEMBER 2018 TARGET	6 MONTHS DECEMBER 2018 ACTUAL	12 MONTHS JUNE 2019 TARGET
FINANCIAL PERFORMANCE TARGETS			
Revenue	$89.5m	$119.7m	$183.2m
Earnings before interest and tax	$5.7m	$21.3m	$13.8m
Net profit after tax	$3.5m	$16.8m	$8.7m
Net cash flow from operating activities	$7.4m	$15.5m	$14.6m
ANNUAL KEY RATIOS			
Operating margin [1]	9.6%	20.2%	11.0%
Solvency [2]	1.4	1.3	1.4
NON-FINANCIAL PERFORMANCE TARGETS			
Critical programme audit failures	Nil	Nil	Nil
Critical facility audit failures	Nil	Nil	Nil
Staff turnover rate [3]	<12%	12%	<12%
Total recordable injury frequency rate (TRIFR)	<4.9	4.1	<4.9

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