



HRL Holdings Limited

Level 9 Waterfront Place, 1 Eagle Street
Brisbane Queensland 4000, Australia

GPO Box 216

Brisbane Queensland 4001, Australia

Tel +61 7 3105 5960

Email admin@hrlholdings.com

31 October 2018

ASX Announcement

Strategic Dairy Testing Joint Venture with MilkTestNZ and First Quarter Trading Update

HRL Holdings Limited (ASX: HRL) (**HRL or the Company**) is pleased to announce that it has entered into an agreement with MilkTestNZ to create a new joint venture company which will initially provide analytical testing service to the wider New Zealand dairy industry. The joint venture agreement represents an expansion of the existing strategic alliance between HRL and MilkTestNZ, which is currently limited to liquid milk testing only.

Analytical Dairy Testing Opportunity

Analytical testing in the New Zealand dairy industry targets a wide range of dairy products including:

- Cheese;
- Yoghurt;
- Ice-creams;
- Milk powders;
- Infant formulas and many more.

Both HRL Holdings and MilkTestNZ currently have limited exposure to the testing of these products, with the current focus on the testing of liquid milk only.

The market size for dairy testing of non-liquid milk products is estimated to be around \$80M NZD per annum, with around half of that attributed to in-house testing by the producers. The new joint venture will target the remaining estimated \$40M NZD market for third party contract laboratory testing.

There are a limited number of competitors in this space. The joint venture will leverage off the proven strengths of its partners to attract market share through:

- Industry leading turnaround times delivered through high-throughput innovative laboratory workflows;
- Superior distribution network and logistics;
- High levels of service and technical support;
- Attractive pricing; and
- IT solutions tailored to give customers superior data.

The joint venture company will offer a full suite of testing services that covers finished products, ingredients, and in-process samples.



Joint Venture Structure

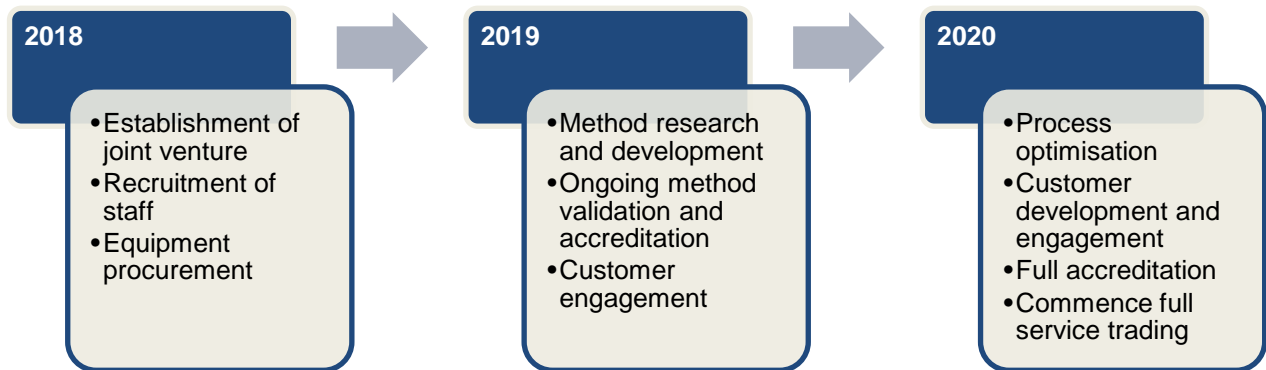
Ownership of the joint venture company will be an equal 50% HRL and 50% MilkTestNZ. Each party will appoint two members to the joint venture board.

The joint venture company will operate independently from its partners and establish its own premises, employees and operations.

The joint venture company will require funding of around \$3M NZD to establish operations, develop the necessary testing methods and go to market, with funding to be provided over a 2 year period.

Development Timeline

Establishment of a full-service dairy testing operation is estimated to be a two-year process, with trading commencing in calendar year 2020, moving into full scale operations through calendar year 2021.



Over the mid-term, the joint venture will provide a launch pad for possible expansion of dairy testing services into new geographic territories and also other food-based testing across the Pacific region.

About MilkTestNZ

MilkTestNZ is a world leading milk testing laboratory using highly automated processes and advanced technology. 100% of New Zealand dairy farm supplier samples are tested at MilkTestNZ. A range of microbiology, composition, analytical and specialty tests are carried out in the laboratory on a variety of milk types including cow, goat, sheep, buffalo and deer milk.

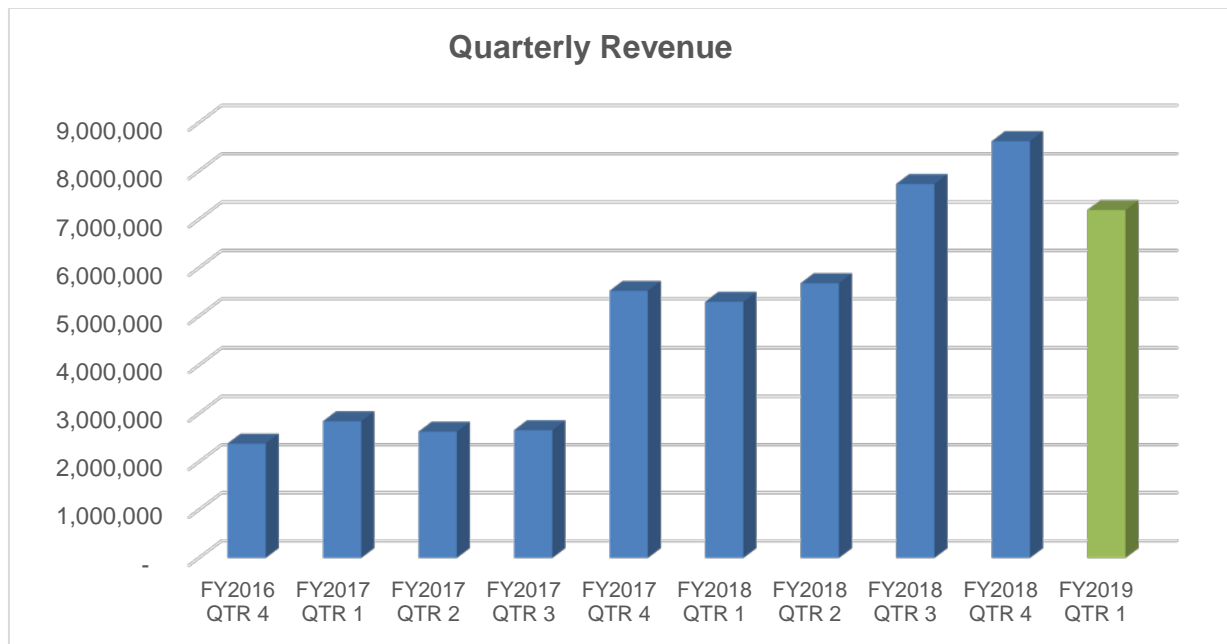
During the peak season, MilkTestNZ process over 25,000 samples per day. In addition to the standard milk tests required for farmer payment and milk quality purposes, MilkTestNZ through the strategic alliance agreement with HRL Holdings, provide an expanded testing scope to include milk products and residue testing.



First Quarter Trading Update

During the quarter, HRL generated revenues of \$7.2M. Analytica became part of the HRL Group in December 2017 and now contributes around 40% of the Group's revenue.

Most of Analytica's major service lines (Milk, Honey, Food Origin), are seasonal and therefore are heavily weighted to the second half of the financial year, from January to June. Accordingly, the HRL Group's first half revenues will be lower than second half revenues. The expected revenue make-up for FY2019 is roughly estimated to be 35-40% first half and 60-65% second half.



Food and environmental laboratory services

The Food and Environmental Laboratory division incorporates the Analytica Laboratories business unit acquired on 30 November 2017.

First quarter Analytica trading has been in line with expectation. Analytica's traditional service line of milk and honey testing has traded in line with budget, taking into account the seasonality of these services.

The recently launched environmental service line which incorporates laboratory testing on air, water, soil including organic and inorganics, has shown strong growth in the quarter. Business development remains a key focus with a number of emerging opportunities coming to market. Analytica is close to having a validated method for a class of contaminants called *Per- and poly-fluoroalkyl substances* (PFAS), which have been widely used in a range of ways including heat insulation and as flame retardants. Analytica expects to launch this new testing service in Q2 of FY2019.

In line with previous commentary, laboratory testing for drugs of abuse has fallen back to calendar year 2017 levels with the market appearing to have now stabilised. The bulk of the testing is arising from private clients and insurance related claims.

In light of recent reports of product substitution in the Australia honey industry, HRL has begun engaging with Australian producers and industry bodies to investigate what services can be provided to ensure honey sold in Australia is free from substituted products.

Analytica holds a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China assisting greatly with supply chain bottlenecks. IANZ accreditation for the updated testing requirements, as well as



continuation of existing accreditations, was confirmed during September. The final round of CNAS assessment required to provide the full offering to infant formula exporters was conducted in September and full certification is anticipated before the end of this calendar year. Once this certification is granted CAIQTest (Pacific) Limited will be able to provide full New Zealand and Chinese certification to exporters under the new Chinese importation guidelines.

HAZMAT & Occupational Hygiene

Precise Consulting in New Zealand continued to experience declines in property contamination testing revenue. Whilst the inspection market for private clients and insurance claims has stabilised, Precise's major public housing client - Housing New Zealand Corporation, has sharply decreased the number of property inspections. Meth testing of public housing remains a significant political issue in New Zealand but Precise does not expect volumes to recover in the short term.

Precise staff continue to be cross skilled across a range of disciplines with resources refocused on the range of other HAZMAT services Precise provide.

In Australia, the asbestos market continued to remain solid underpinned by OCTIEF's ongoing works with the QLD state government. The environmental engineering/sciences service line has had a quieter quarter as projects roll-off, but it is seeing a strong pipeline of opportunities heading into the back end of this calendar year.

The new acid sulphate soils laboratory service was launched by OCTIEF in late June 2018 and since then has seen pleasing volumes and customer enquiry. Armed now with customer validation of the testing process, OCTIEF will be ready to market this service line to the wider market in the coming months. The acid sulphate soils service line was developed with, and under the supervision of, the Analytica team.

Geotechnical

With accommodating weather during the quarter, Morrison Geotechnic saw a return to normal historical revenues. Pricing pressure still remains with high competition in the sector. Morrison Geotechnic is aware of at least one investigation by NATA into competitors offering fabricated test results.

Morrison Geotechnic has recently installed new equipment and technologies to automate components of the geotechnical test process. Combined with other cost savings initiatives underway, margins are expected to improve in the second half of FY2019. Other construction material laboratory testing opportunities are being investigated which would not be weather impacted.

Underlying civil infrastructure and large-scale commercial development activity remains strong and Morrison Geotechnic is seeing a consistent project pipeline.

Software

The OCTFOLIO business remained focussed on business development during the period. A number of new opportunities across both the HAZMAT sector and other new markets are well advanced, and OCTFOLIO is optimistic a number of the opportunities will be converted to contract stage in the coming months. OCTFOLIO is also focused on scoping and designing software improvements tailored to the needs of potential customers in new market segments.



For further information contact:

Investor and media:

Mr Steven Dabelstein
CEO

Ph: +61 405 770 166

steven.dabelstein@hrlholdings.com