



# CONTENTS

1	Directors' Report
7	Remuneration Report (audited)
15	Auditor's Independence Declaration
16	Consolidated Statement of Profit or Loss
17	Consolidated Statement of Other Comprehensive Income
18	Balance Sheet
19	Consolidated Statement of Changes in Equity
20	Consolidated Statement of Cash Flows
21	Notes to the Consolidated Financial Statements
21	1. Corporate Information
21	2. Summary of Significant Accounting Policies
30	3. Significant Accounting Judgements, Estimates and Assumptions
31	4. Profit from Operations
33	5. Income tax
34	6. Dividends Paid and Proposed
35	7. Earnings Per Share (EPS)
35	8. Trade and Other Receivables
36	9. Inventories
36	10. Investment in Associates
38	11. Property, Plant and Equipment
38	12. Intangible Assets
39	13. Trade and Other Payables
39	14. Financial Assets and Financial Liabilities
42	15. Provisions
43	16. Issued capital
43	17. Reserves
43	18. Cash flow information
45	19. Information relating to HGL Limited (parent)
46	20. Segment Information
47	21. Related Party Disclosures
47	22. Commitments and Contingencies
47	23. Events after the Reporting Period
48	24. Auditors' Remuneration
48	25. Investment in Controlled Entities
49	26. Business Combinations and Acquisition of Non-controlling Interests
50	Directors' Declaration
51	Independent Auditor's Report
55	ASX Additional Information
56	Five Year Summary
57	Corporate Information

# DIRECTORS' REPORT

for the year ended 30 September 2017

Your directors submit their report for the year ended 30 September 2017.

## Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

### Peter Miller, FCA (Chairman)

Non executive Chairman, appointed 2000. Peter Miller is a Chartered Accountant with over 30 years experience in public practice. He is Chairman of the Nomination and Remuneration Committee, and a member of the Audit Committee.

### Dr Frank Wolf, BA (Hons), PhD (Director)

Non executive Director, appointed 2000. Frank Wolf has over 30 years experience in strategic planning, financing and corporate advice. Dr Wolf was appointed Managing Director of the listed Abacus Property Group in 2006. He is Chairman of the Audit Committee, and was a member of the Nomination and Remuneration Committee until 31 October 2017.

### Kevin Eley, CA, F Fin, FAICD (Director)

Non executive Director, appointed 1985. Kevin Eley is a Chartered Accountant with significant executive and director experience, including as Chief Executive Officer of HGL Ltd from 1985 to 2010. Kevin is a member of the Audit Committee. He is a director of Milton Corporation Ltd (since December 2011), EQT Holdings Ltd (formerly Equity Trustees Ltd) (since November 2011) and Pengana Capital Group Ltd since 2017 (formerly Hunter Hall International Ltd from 2015 to 2017), and was a director of Po Valley Energy between June 2012 and April 2016.

### Julian Constable (Director)

Non executive Director, appointed 2003. Julian Constable has 30 years experience in the stockbroking industry, and is an authorised representative of Bell Potter Securities Ltd. He is a member of the Nomination and Remuneration Committee. Julian is a director of Hunter Hall Global Value Limited (since May 2010).

### Cheryl Hayman (Director)

Non executive Director, appointed 1 December 2016. Cheryl Hayman brings International experience including significant strategic and marketing expertise derived from a 20 year corporate career which spanned local and global consumer retail organisations. Her skills include developing marketing and business strategy across diverse industry segments, growth orientated innovation and product development. Cheryl has expertise in traditional and digital communications, an ability to carve out a competitive edge for business development and the ability to drive strategic brand development. Cheryl is a director of ASX listed Clover Corporation Ltd, as well as other unlisted and not-for-profit companies.

Cheryl was appointed chair of the Nomination and Remuneration Committee as of 26 September 2017.

### Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the directors held no options, and the interests of the directors in the shares of HGL Limited were:

	Number of direct shares	Number of indirect shares
Peter Miller	51,191	12,441,565
Dr Frank Wolf	–	721,038
Kevin Eley	–	898,040
Julian Constable	200,000	6,210,264
Cheryl Hayman	–	–

# DIRECTORS' REPORT

continued

## Key Management Personnel

The following names and details are of the key management personnel of the Company. Key management personnel were in office for the entire period unless otherwise stated.

### Chief Executive Officer

Henrik Thorup, BSc (Econ), GAICD

Appointed CEO in 2013, Henrik has over 20 years experience in CEO and other senior executive roles across a number of businesses, including Pandora Jewellery, Nilfisk and ISS Facility Service.

### Chief Financial Officer & Company Secretary

Iain Thompson, BEc (Accg), Grad Dip CSP, FGIA, GAICD

Appointed CFO/Company Secretary in 2015, Iain has over 20 years experience in finance and company secretarial roles, the most recent being at Brickworks Ltd. He also has directorship experience in the Not For Profit sector, focussing on early childhood intervention.

## Dividends

The Directors have declared a final dividend of 1.5 cents per share fully franked. The record date for the dividend will be 9 January 2018, with a payment date of 23 January 2018.

Dividends paid since the end of the previous financial year were as follows:

	Payment Date	Cents	\$'000
Interim dividend for the current year on ordinary shares	19/07/17	1.25	708
Final dividend for the previous year on ordinary shares	24/01/17	1.50	835

All dividends declared or paid are fully franked at 30%

## Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) was established by the directors to provide shareholders with the opportunity of reinvesting their dividends in ordinary shares in the Company. No brokerage is payable if shares are allotted under the DRP. Participation is open to shareholders holding more than 1,000 shares.

During the year the total number of shares issued under the DRP was 1,701,662 (2016: 1,701,908).

## Share Buy-Back

The Company operates an unlimited duration on-market share buy-back. No ordinary shares were acquired pursuant to the on-market buy-back during the current and prior years.

## Principal Activities

The principal activity during the year of the entities within the consolidated group was the distribution of branded products.

## Operating and Financial Review

For the year ended 30 September 2017 HGL reports an underlying profit of \$2.3 million (2016 \$3.0 million), and Statutory Profit of \$2.7 million (2016 \$4.3 million). Statutory profit includes \$0.7 million of deferred tax adjustments (2016 \$1.5 million).

Group revenue, including 100% of Mountcastle, increased by 2% to \$69.5 million with organic sales growth recorded for the third consecutive year. Combined revenue in JSB Lighting, Mountcastle, SPOS Group and Nido Interiors increased by \$4.5 million. Sales revenue in Leutenegger, Biante and BLC Cosmetics reduced by \$3.1 million. Sales revenue of the wholly owned group was \$52.1 million (2016 \$52.3 million).

The overall gross margin was 44.6% (2016: 44.9%), reflecting continued cost pressures.

Despite an increase in costs in additional sales staff across most business units, and extra costs of product marketing, operating expenses were stable at \$22.0 million, following cost savings in BLC Cosmetics, Nido Interiors and HGL Head Office.

The Underlying EBIT of \$2.3 million is attributed to diverse performance trends and market conditions across the Group, generating significantly different outcomes.

JSB Lighting, SPOS Group, Mountcastle and Nido Interiors increased revenues, with EBIT up by \$0.9 million. Leutenegger, Biante and BLC Cosmetics had lower revenues resulting in a net loss \$1.6 million below the prior year.

### **Corporate Strategy and Reposition of Company Portfolio**

The HGL strategic plan is to position the company's portfolio to secure representation in industry sectors with long-term growth prospects. Our strategy targets investments in profitable companies in growth industries, with emphasis on Building Products, Medical Devices, Personal Care, School and Corporate Wear and Retail Marketing products.

HGL is currently investigating potential opportunities in Medical Devices and Retail Marketing, and has recently completed the acquisition of Intralux Australia in the Building Products segment.

HGL has received a number of approaches from third parties interested in acquiring businesses in the Group. Each of these is being assessed on merit, including consideration of the future opportunities for that particular business.

### **Acquisition of Intralux Australia**

HGL's wholly-owned subsidiary, JSB Lighting, completed the acquisition of Intralux Australia on 21 September 2017.

Intralux Australia is a specialist lighting company dedicated to designing and manufacturing technically advanced, energy efficient and innovative commercial lighting products for niche market segments. The company was established in 1986 and is based in Brisbane.

The up-front investment was \$0.5 million, with a trailing 7 year royalty payment based on future sales. The integration of the Intralux operations into the JSB business structure is progressing well, with JSB expanding the brand in Australia and New Zealand, and exploring opportunities in the global marketplace.

The Intralux acquisition provides an opportunity for JSB to expand a key brand with company owned intellectual property in line with our strategic objective to increase sales generated from our own IP products.

### **Business Unit Review**

**JSB Lighting** is a leading supplier of commercial lighting products within the Australian and New Zealand interior design and architectural lighting markets.

JSB Lighting achieved revenue growth of 8.3% to \$23.9 million, successfully expanding its market share with specific geographical emphasis on Sydney, Melbourne and Perth, employing additional sales executives in these markets.

New sales offices were opened in Auckland and Christchurch during 2017, with three new sales executives. Although the business is in a start-up phase, the New Zealand operations were profitable in 2017, with further positive signs for 2018.

**Biante** produces, imports and distributes scale model replica cars in diecast and resin formats, sold to motoring enthusiasts, supercar fans and classic car collectors in Australia.

Delays in production and shipments arriving prior to balance date reduced sales by \$1.8 million and contributed to an EBIT loss of \$0.2 million.

A new business manager was appointed in October 2017 and a number of restructuring activities have been implemented to improve model selection and production flow on a lower operating cost base. There has been an encouraging uplift in pre-order levels on announced new models, indicating higher sales volumes on the upcoming production schedule.

The company expects to sell more than 35,000 road and supercars over the next 12 to 18 months.

Biante is not considered a core part of the HGL Group. Regardless of the expected improved outlook, the Group is considering an opportunity that has arisen to divest the Biante business.

**BLC Cosmetics** imports and distributes high quality skincare products, devices and nutritional supplements to beauty salons, spas, wellness centres and skincare clinics in the Australia/Pacific region.

BLC Cosmetics had a 7.5% decline in sales, however solid sales growth was experienced for the Alpha-H, Comfort Zone and Lightstim brands.

Thalgo sales were below last year consistent with an enduring decline in market demand for marine based beauty products from consumers switching to brands offering anti-aging skincare treatment. The global product development strategy of Thalgo is focussed specifically on the European market, with recent product rationalisation by Thalgo reducing product categories popular in the Australian market.

# DIRECTORS' REPORT

continued

To replace lost revenue in its major brand Thalgo, BLC Cosmetics continues to develop its emerging cosmeceutical brands offering anti-aging solutions in the salon and spa market. The company is pursuing exclusive distribution rights for brands with elevated formulations allowing expansion into medical skincare treatments.

BLC Cosmetics has implemented significant organisational changes with renewal of both sales and educational teams to further lift sales. Promotional activities in 2018 includes focus on e-commerce solutions for Thalgo, Kerstin Florian and Comfort Zone.

BLC Cosmetics relocated to HGL's premises in Macquarie Park to reduce operational expenses and utilise the shared services available.

The **Homewares** segment comprises Nido Interiors and Leutenegger.

**Nido Interiors** is a contemporary home interior business designing private label branded products delivered indent to major homewares chains, specialist retailers, online sites and department stores. The product portfolio is concentrated on indoor and outdoor cushions and bedding.

Now in its second year, Nido increased sales by 89%. Overheads reduced, however were offset by lower gross margins.

Nido's business strategy shifted during the year to focus on supply of private label products into existing and new major retail customers. The 2018 sales pipeline is already showing growth over 2017, which will facilitate a profitable and growing business unit in 2018.

**Leutenegger** design, manufacture and promote premium fabrics, contemporary craft and needlecraft products to specialist retailers in Australia and New Zealand.

Whilst significant investment in merchandising services and point-of-sale fixtures in major retailers increased sales, Leutenegger did not yield the required or expected return on investment.

A review of the Leutenegger business is considering various restructuring or divestment options. The outcome of this review is imminent.

The **SPOS Group** is a retail marketing business selling tailored retail display solutions in Australia and New Zealand.

SPOS achieved sales revenue of \$10.5 million, up 4% on the prior period, driven by improved off-the-shelf product sales to major retail chains as well as profitable custom projects for global brands.

The company's performance continues to improve, maintaining gross margins and controlling expenses, with an improved EBIT to sales ratio of 6.1%, up from 4.0% last year.

SPOS has recently won new client projects and maintained its position as a preferred supplier to Aldi supermarkets, which is expected to contribute incremental revenue growth in 2018. The performance of the New Zealand operations is continually improving, with an expanding pipeline of work.

**Mountcastle**, a 50% owned company, is a manufacturer and distributor of uniforms, headwear and bags to public and private schools, government and corporate clients in Australian and overseas.

Mountcastle increased its market share in the private and public school wear market and recorded strong sales growth of 9.6% to \$17.4 million.

The partnership with The School Locker, a Harvey Norman owned specialist retail chain, continues to evolve and contributed significant uplift in public school uniform sales to \$5.7 million, up from \$3.0 million in the prior period.

The School Locker recently announced a merger with two other subsidiaries in the Harvey Norman group, selling technology product and service solutions to the corporate and education sectors. With the combined product offering and new geographical coverage in the educational sector, The School Locker is poised for significant future growth with a sales force more than 30 staff and a support network of 150 service professionals.

On the back of the major growth in school wear this year and outlook to significantly increased demand by the School Locker, Mountcastle is expanding capacity in its manufacturing facility in Vietnam to enable production of the required current and future volumes.

The prospect of continued increased sales volumes of both private and public school uniforms provides a promising performance outlook for Mountcastle cementing its position as a leading school wear supplier in Australia.

## Our People

HGL remains committed to support all employees to reach their full potential. During 2017 an additional development program for emerging leaders was initiated. We continue to invest in leadership, talent management and staff training in our ongoing efforts to develop high performing teams. The board acknowledges and thanks our employees for their effort and contribution throughout the year.

## Cash Flow

Net operating cash outflow was \$0.2 million (2016 net inflow of \$0.1 million). The major impact on operating cash flow was the performance of Leutenegger.

The Net Cash balance at 30 September 2017 was \$2.1 million, down \$1.7 million on the prior year. Major outflows included \$0.6 million in dividend payments and \$0.5 million for the acquisition of Intralux. The banking facilities of \$2.8 million were renewed during the year.

Gross Gearing levels (Debt to Debt + Equity) remain very low, although this increased slightly to 7.3% from 6.4% in the prior period.

## Balance Sheet

The net assets of the group increased to \$28.4 million from \$27.2 million, largely due to the recognition of a deferred tax asset on unused revenue losses.

Strong 4th quarter sales in 2017 compared to 2016 increased debtors at balance date.

Increases in inventory of \$1.1 million over the prior year reflect \$0.4 million of stock acquired through the Intralux acquisition, plus \$0.3 million of goods in transit for a one-off sale transaction completing in October 17. Small increases across most of the business units were focussed on high turn stock items, as all businesses performed well in clearing surplus stock at or above carrying value.

Trade creditors and accruals reduced by \$0.8 million compared to last year, reflecting lower purchases in underperforming businesses during the second half of 2017, as well as ensuring key supplier payment terms are met, building longer term partnership loyalty.

An ongoing focus on working capital levels, and improved operational efficiencies, should result in a reduction of working capital in future periods.

## Risk Management

The achievement of our business objectives in HGL may be affected by internal and external incidents potentially impacting the operational and financial performance of the business. The Group has developed an Enterprise Risk Management and Reporting System, which identifies strategic and operational risks and specifies mitigation actions. Dedicated risk mitigation actions, executed in each business unit, are reported quarterly to the HGL board and monitored accordingly.

### Key risks for the Group include:

*Supplier risk* – Reliance on a small number of key suppliers is being managed through the use of distribution agreements for key suppliers, ongoing development of long term supplier relationships, and the use of complimentary product range brands to decrease percentage contribution from important suppliers.

*Currency risk* – Exposure to foreign currency fluctuations (predominantly USD and Euro) is mitigated through the use of hedging structures, and adjusting selling prices for changes in exchange rates on key contracts.

*Financing risk* – Access to funding for working capital and growth initiatives is important for future growth. Transparent and positive relationships with lenders, low net debt levels, and utilisation of alternative funding sources will provide mitigation of this risk.

*WH&S risk* – The HGL Group is committed to ensuring the work health and safety (WH&S) of its employees, customers and the general public. Wherever possible manual handling is reduced or eliminated, and training is made available to staff on safety related matters.

Although we have little exposure to environmental risks, we strive to be environmentally friendly and embrace technologies and processes that limit environmental impact.

# DIRECTORS' REPORT

continued

## **The Environment**

Although our operations have limited environmental impact, the consequences of business decisions on the environment are seriously considered. Although we have little exposure to environmental risks, we strive to be environmentally friendly and embrace technologies and processes that limit environmental impact.

## **Dividend**

The Directors have declared a final dividend of 1.5 cents per share fully franked, to be paid on 23 January 2018 to shareholders on the ordinary register at 5pm on 9 January 2018.

The full year dividend of 2.75 cents per share reflects the Directors' confidence in the 2018 outlook for the Group.

The dividend reinvestment plan will continue to be available to all shareholders holding greater than 1,000 shares with no discount.

## **Outlook**

There is an ongoing improved outlook for our businesses, and together with suitable acquisitions we are confident of revenue, earnings and dividend growth for the year. Businesses considered outside the stated strategic direction of HGL may be divested if appropriate.

## **Significant Changes in the State of Affairs**

There have been no significant changes in the state of affairs of the Group during the year other than those referred to in the Operating and Financial Review.

## **Significant Events after the Balance Date**

There have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

## **Likely Developments and Expected Results**

Likely developments in the operations of the Group are detailed in the Operating and Financial Review.



## Remuneration Report (audited)

The remuneration report outlines the director and executive remuneration arrangements of the Company for the 2017 financial year, in accordance with the requirements of the Corporations Act 2001 and its Regulations. It has been audited in accordance with section 300(A) of the Corporations Act 2001.

### Details of Key Management Personnel

Key Management Personnel (KMP) are those individuals with authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly including any director of the parent. The list below outlines the KMP of the Group during the financial year ended 30 September 2017. Unless otherwise indicated, the individuals were KMP for the entire financial year.

#### Directors

Peter Miller	Non-Executive Chair
Dr Frank Wolf	Non-Executive Director
Kevin Eley	Non-Executive Director
Julian Constable	Non-Executive Director
Cheryl Hayman	Non-Executive Director

#### Executives

Henrik Thorup	Chief Executive Officer
Iain Thompson	Chief Financial Officer & Company Secretary

### Remuneration Governance

#### Remuneration Committee

The Board has an established Nomination and Remuneration Committee which operates under the delegated authority of the Board of Directors. A summary of the Committee charter is included on the HGL website. Membership of the Committee is as follows:

Cheryl Hayman	Committee Chair	Elected to the Committee as Chair on 26 September 2017
Peter Miller	Previous Committee Chair	Ceased as Committee Chair on 26 September 2017 but remains a member of the Committee
Julian Constable		
Dr Frank Wolf		Resigned from Committee on 31 October 2017

The main remuneration functions of the Committee are to assist the Board by making recommendations on:

1. Executive remuneration and incentive policies;
2. Remuneration packages of senior management, including incentive schemes;
3. Recruitment, retention and termination policies for senior management;
4. Remuneration framework for directors; and
5. Statutory reporting on remuneration.

The Committee is authorised by the Board to obtain external professional advice, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

# DIRECTORS' REPORT

continued

## Remuneration Report (audited) (continued)

### Use of Remuneration Consultants

Where the Nomination and Remuneration Committee will benefit from external advice, it will engage directly with a remuneration consultant, who reports directly to the Committee. In selecting a suitable consultant, the Committee considers potential conflicts of interest and requires independence from the Group's KMP and other executives as part of their terms of engagement.

Where sought, remuneration recommendations are provided to the Committee as one input into decision making only. The Committee considers any recommendations in conjunction with other factors in making its remuneration determinations.

### Executive Remuneration Arrangements

#### Remuneration Policy

The Group operates from three main locations in Australia and markets its products predominantly across Australia and New Zealand. All Executive KMP are based in Australia.

Through an effective remuneration framework, the Group aims to:

1. Provide fair and equitable rewards;
2. Align rewards to business outcomes that are linked to creation of shareholder value;
3. Stimulate a high performance culture;
4. Encourage the teamwork required to achieve business and financial objectives;
5. Attract, retain and motivate high calibre employees; and
6. Ensure that remuneration is competitive in relation to peer companies in Australia.

#### Principles of Remuneration

The Group's executive remuneration strategy seeks to match the goals of the KMP to those of the shareholders. This is achieved through combining market levels of guaranteed remuneration with incentive payments. These incentive payments are only paid on attainment of previously agreed performance targets.

Remuneration packages are reviewed with due regard to performance and other relevant factors. In order to retain and attract executives of sufficient calibre to facilitate the effective and efficient management of the Company's operations the Nomination and Remuneration Committee, when necessary, seeks the advice of external advisers in connection with the structure of remuneration packages.

#### Components of Remuneration

##### *Not at Risk Remuneration*

Base remuneration is structured as a total employment package and includes salary, superannuation and other benefits, with the allocation between salary and other benefits at the executive's discretion. Base remuneration is reviewed but not necessarily increased each year. The base remuneration is at market rates for the role and the individual. Total remuneration above the market rate can be achieved through the attainment of previously agreed performance targets.

Long term employee benefits is the amount of long service leave entitlements accrued during the year.

##### *At Risk Remuneration*

During the year an Executive Incentive Scheme was introduced for the HGL CEO. The scheme provides the CEO with the opportunity to earn an incentive payment once minimum threshold targets are achieved. The value of the maximum incentive opportunity is 75% of fixed annual remuneration.

##### *Key Structural Components*

The variable component is assessed against targets set by the Board of Directors at the start of each financial year. Testing is performed on completion of the audited financial statements for the same financial year, and this assessment occurs once, with no subsequent re-testing.

Any variable component earned for the financial year is then split, with 50% payable immediately, 25% deferred for 12 months and 25% deferred for 24 months. Payment is made in cash in the December pay run of the relevant year.

The deferred payment amounts are only payable subject to ongoing employment, and can be cancelled in the event of fraud or dishonesty. The deferred component may be paid if the CEO leaves the Company on good terms, at the absolute discretion of the board.

## **Remuneration Report (audited) (continued)**

### **Performance hurdles for 30 September 2017**

The performance measures determined by the Board are Group EPS and Return on Funds Employed (ROFE). Target levels are set in advance by the Board.

- 75% of variable remuneration is based on statutory EPS as disclosed in the annual report, adjusted for extraordinary items which are determined at the absolute discretion of the board; and
- The remaining 25% of variable remuneration is based on ROFE, measured as Earnings Before Interest and Tax (EBIT) as a percentage of average funds employed.

Incentive payments are only calculated once a threshold performance level has been achieved, and are then based on a pro rata scale. The specific targets will be determined by the Board based on a number of factors, which may include the following:

- ‘Threshold’ level (0% of total entitlement - generally equal to the prior year performance)
- ‘Target’ level (60% of total entitlement - expected to be equal to the approved budget)
- ‘Stretch’ level (maximum 100% of entitlement - board to set performance requirements)

There are no incentive scheme payments to be made in relation to the 2017 financial year, as the threshold targets were not achieved.

There was no formal incentive scheme in place during the 2017 financial year for any other KMP. The Nomination and Remuneration Committee has determined there will be no short term incentives paid to other KMP in relation to the 2017 financial year, due to the disappointing financial results for the Group.

There was no formal incentive scheme in place during the 2016 financial year. Short term incentives totalling \$110,000 were paid in relation to the 2016 financial year.

### ***Employment Contracts***

Terms of employment are formalised in employment letters to each of the KMP. There are no fixed term contracts in place, however personnel must give a minimum notice period. The CEO has a twelve month notice period, and the CFO has a three month notice period. The payment of any termination benefit is at the discretion of the Nomination and Remuneration Committee.

# DIRECTORS' REPORT

continued

## Remuneration Report (audited) (continued)

### Executive & Board Remuneration

2017	Short term benefits				Post employment benefits	Long term benefits			Total \$	Percentage variable remuneration %
	Salary & fees \$	Short term bonus \$	Non monetary benefits \$	Annual leave \$	Super-annuation \$	Long term incentives \$	Long service leave \$	Termination payments \$		
<b>Directors</b>										
Peter Miller	100,457	–	–	–	9,543	–	–	–	110,000	–
Dr Frank Wolf	63,927	–	–	–	6,073	–	–	–	70,000	–
Julian Constable	54,795	–	–	–	5,205	–	–	–	60,000	–
Kevin Eley	52,656	–	–	–	7,344	–	–	–	60,000	–
Cheryl Hayman <sup>(1)</sup>	45,662	–	–	–	4,338	–	–	–	50,000	–
Total Directors	317,497	–	–	–	32,503	–	–	–	350,000	–
<b>Executives</b>										
Henrik Thorup	455,000	–	21,496	36,923	25,000	–	7,633	–	546,052	–
Iain Thompson	245,276	–	–	20,385	19,724	–	4,423	–	289,808	–
Total executives	700,276	–	21,496	57,308	44,724	–	12,056	–	835,860	–
Total KMP remuneration	1,017,773	–	21,496	57,308	77,227	–	12,056	–	1,185,860	–

(1) C Hayman commenced as a director on 1 December 2016.

2016	Short term benefits				Post employment benefits	Long term benefits			Total \$	Percentage variable remuneration %
	Salary & fees \$	Short term bonus <sup>(2)</sup> \$	Non monetary benefits \$	Annual leave \$	Super-annuation \$	Long term incentives \$	Long service leave \$	Termination payments \$		
<b>Directors</b>										
Peter Miller	100,457	–	–	–	9,543	–	–	–	110,000	–
Dr Frank Wolf	63,927	–	–	–	6,073	–	–	–	70,000	–
Julian Constable	54,795	–	–	–	5,205	–	–	–	60,000	–
Kevin Eley	54,795	–	–	–	5,205	–	–	–	60,000	–
Total Directors	273,974	–	–	–	26,026	–	–	–	300,000	–
<b>Executives</b>										
Henrik Thorup	455,000	80,000	12,097	36,923	25,000	–	7,653	–	616,673	13
Julian Pidcock <sup>(1)</sup>	107,642	–	–	3,144	8,901	–	–	–	119,687	–
Iain Thompson	230,615	30,000	–	19,231	19,385	–	3,835	–	303,066	10
Total Executives	793,257	110,000	12,097	59,298	53,286	–	11,488	–	1,039,426	23
Total KMP remuneration	1,067,231	110,000	12,097	59,298	79,312	–	11,488	–	1,339,426	23

(1) J Pidcock ceased as KMP from 5 February 2016, however remained employed in the HGL Group. Remuneration information shown covers the period he was considered a KMP.

(2) Represents short term bonuses earned in relation to the 2016 Financial Year, which were paid in December 2016.

## Remuneration Report (audited) (continued)

### Relationship between the Remuneration Policy and Company Performance

Short term incentives are largely determined by the underlying profit (EBIT), Earnings Per Share (EPS) and Return on Funds Employed (ROFE) of the Group. These criteria are important among a number of factors used to determine dividend payments, with underlying profit being a preferred indicator to assess future earnings and therefore dividend opportunities. The Board is focused on increasing shareholder value through increasing dividends.

Underlying Profit is a non-statutory measure designed to reflect statutory profit excluding the effect of irregular transactions that are not part of the core or ongoing business operations. A reconciliation of statutory net profit after tax to underlying profit is shown in Note 4.5 of the financial statements.

No portion of any incentive schemes are solely linked to the HGL share price.

The following table shows a number of relevant measures of Group performance over the past five years. A detailed discussion on the current year results is included in the review of operations and is not duplicated in full here, however given the disappointing performance in the current year, there have been no incentive payments made to KMP in relation to the current financial year.

	2013	2014	2015	2016	2017
Total Revenue (\$000)	68,986	50,771	52,000	52,252	52,061
Underlying profit (\$000)	(421)	533	2,615	3,008	2,253
Net profit after tax (\$000)	(8,772)	(21,430)	3,722	4,313	2,727
Return on Funds Employed (%)	(16.6)	(50.7)	19.8	19.1	10.4
Share price at year end (\$)	0.525	0.490	0.360	0.445	0.500
Underlying Earnings Per Share (cents)	(0.8)	1.0	4.8	5.4	3.9
Statutory Earnings per Share (cents)	(16.8)	(39.4)	6.9	7.9	4.8
Dividends – ordinary shares (cents)	4.0	2.0	1.5	2.5	2.75

### Non-executive Director Remuneration Arrangements

Non-executive directors are not employed under employment contracts. Non-Executive Directors are appointed under a letter of appointment and are subject to election and rotation requirements as set out in the ASX listing rules and the Company's constitution.

The remuneration of non-executive Directors is determined by the full Board after consideration of Group performance and market rates for Directors' remuneration. Non-executive Director fees are fixed each year, and are not subject to performance-based incentives.

The maximum aggregate level of fees which may be paid to non-executive directors is required to be approved by shareholders in a general meeting. This figure is currently \$500,000, and was approved by shareholders at the Annual General Meeting on 5 February 2008. Total Non-Executive Director's remuneration including superannuation paid at the statutory prescribed rate for the year ended 30 September 2017 was \$350,000 which is within the approved amount.

Non-Executive Directors fees have not changed during the current or prior financial year, with the increase in aggregate fees paid due to the appointment of an additional director during the 2017 financial year.

# DIRECTORS' REPORT

continued

## Remuneration Report (audited) (continued)

### Key Management Personnel Shareholdings

The key management personnel and their relevant interest in the fully paid ordinary shares of the Company as at year end are as follows:

30 September 2017	Opening Balance	DRP shares	Purchases	Disposals	Closing balance	Indirect Holding
<b>Executive directors</b>						
Peter Miller	11,883,709	609,047	–	–	12,492,756	12,441,565
Dr Frank Wolf	721,038	–	–	–	721,038	721,038
Kevin Eley	854,258	43,782	–	–	898,040	898,040
Julian Constable	6,107,534	302,730	–	–	6,410,264	6,210,264
Cheryl Hayman <sup>(1)</sup>	–	–	–	–	–	–
<b>Senior executives</b>						
Henrik Thorup	–	–	–	–	–	–
Iain Thompson	5,323	274	–	–	5,597	–

(1) Commenced as a director on 1 December 2016

– End of Audited Remuneration Report –

## Indemnification and Insurance of Directors and Officers

During the year, the Company purchased Directors' and Officers' Liability Insurance to provide cover in the event a claim is made against the directors and officers in office during the financial year and at the date of this report, as far as is allowable by the Corporations Act 2001. The policy also covers the Company for reimbursement of directors' and officers' expenses associated with such claims if the defence to the claim is successful. The total amount of insurance premium paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement. As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above.

The Company's Rules provide for an indemnity of Directors, executive officers and secretaries where liability is incurred in connection with the performance of their duties in those roles other than as a result of their negligence, default, breach of duty or breach of trust in relation to the Company. The Rules further provide for an indemnity in respect of legal costs incurred by those persons in defending proceedings in which judgement is given in their favour, they are acquitted or the Court grants them relief.

## Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Deloitte Touche Tohmatsu, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Deloitte Touche Tohmatsu during or since the financial year.

## Auditor Independence and Non-Audit Services

The directors have received a declaration from the auditor of HGL Limited. This has been included on page 15.

## Non-Audit Services

The following non-audit services were provided by the entity's auditor, Deloitte Touche Tohmatsu. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Deloitte Touche Tohmatsu received or are due to receive the following amounts for the provision of non-audit services:

	<b>Consolidated entity \$</b>
Tax compliance services	8,750
Tax advisory services	10,000
	<b>18,750</b>

## Options

During the 2015 financial year, options over 4,350 unissued ordinary shares in Nido Interiors Pty Ltd (Nido) were granted to CMK Home Designs Pty Ltd (CMK). If the options are exercised, Nido will issue 4,350 ordinary shares at 10c per share to CMK. The option expires in November 2019, and does not give rights to CMK to participate in any share issue or interest in any other group entity. All options remained outstanding at the date of this report.

No other options over unissued shares or interests in HGL Limited or a controlled entity were granted during or since the end of the financial year and there were no other options outstanding at the date of this report. No shares or interests have been issued during or since the end of the year as a result of the exercise of any option over unissued shares or interests in HGL or any controlled entity.

# DIRECTORS' REPORT

continued

## Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' meetings	Meetings of committees	
		Audit	Nomination and Remuneration
<b>Number of meetings held:</b>	12	4	3
<b>Number of meetings attended:</b>			
Peter Miller	12	4	3
Dr Frank Wolf	11	4	3
Kevin Eley	12	4	N/A
Julian Constable	12	N/A	3
Cheryl Hayman <sup>(1)</sup>	10	N/A	N/A

(1) C Hayman was appointed to the board of HGL on 1 December 2016, and to the Nomination and Remuneration Committee on 26 September 2017. Cheryl has attended every board meeting since her appointment. There were no Committee meetings held between her appointment to the Committee and the reporting date.

## Corporate Governance

The Company's Corporate Governance Statement for the year ended 30 September 2017 is effective 21 November 2017 and was approved by the Directors on 21 November 2017. The Corporate Governance Statement is available on the HGL Ltd website at [www.hgl.com.au/about/corporate-governance](http://www.hgl.com.au/about/corporate-governance).

## Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the class order applies.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Peter Miller  
**Chairman**

Sydney, 21 November 2017



Dr Frank Wolf  
**Director**



# AUDITOR'S INDEPENDENCE DECLARATION

## Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney, NSW, 2000  
Australia

Phone: +61 2 9322 7000  
www.deloitte.com.au

21 November 2017

The Board of Directors  
HGL Limited  
Level 2  
68-72 Waterloo Road  
MACQUARIE PARK NSW 2113

Dear Board Members

### HGL Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of HGL Limited.

As lead audit partner for the audit of the financial statements of HGL Limited for the financial year ended 30 September 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 September 2017

	Notes	Consolidated entity	
		2017 \$'000	2016 \$'000
Sales revenue	4.1	52,061	52,252
Cost of sales		(28,861)	(28,792)
<b>Gross profit</b>		<b>23,200</b>	<b>23,460</b>
Other income	4.4	65	103
Sales, marketing and advertising expenses		(9,530)	(9,232)
Occupancy expenses		(1,555)	(1,404)
Freight and distribution expenses		(2,106)	(2,495)
Administration and other expenses		(8,842)	(8,459)
Finance costs	4.3	(134)	(133)
Share of profit of an associate	10	942	957
<b>Profit before tax</b>		<b>2,040</b>	<b>2,797</b>
Income tax benefit	5	687	1,516
<b>Profit for the year</b>		<b>2,727</b>	<b>4,313</b>
Attributable to:			
Equity holders of the Parent		2,727	4,313
		<b>Cents</b>	<b>Cents</b>
Earnings per share			
Basic	7	4.8	7.9
Diluted	7	4.8	7.9

These statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 September 2017

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Profit for the year</b>	2,727	4,313
<b>Other comprehensive income</b>		
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences on translation of foreign operations	(31)	32
<b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>	(31)	32
<b>Total comprehensive income for the year, net of tax</b>	<b>2,696</b>	<b>4,345</b>
Total comprehensive income attributable to:		
Equity holders of the Parent	2,696	4,345

These statements should be read in conjunction with the accompanying notes.

# BALANCE SHEET

as at 30 September 2017

	Notes	Consolidated entity	
		2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	4,381	5,626
Trade and other receivables	8	9,754	9,137
Inventories	9	6,950	5,813
Prepayments		1,445	1,180
<b>Total current assets</b>		<b>22,530</b>	<b>21,756</b>
<b>Non current assets</b>			
Investment in associates	10	4,994	4,852
Property, plant and equipment	11	1,261	1,410
Intangible assets	12	12,066	10,166
Deferred tax assets	5	2,817	2,065
<b>Total non current assets</b>		<b>21,138</b>	<b>18,493</b>
<b>Total assets</b>		<b>43,668</b>	<b>40,249</b>
<b>Current liabilities</b>			
Trade and other payables	13	7,687	8,386
Interest bearing loans and borrowings	14	2,250	1,800
Provisions	15	2,795	2,560
<b>Total current liabilities</b>		<b>12,732</b>	<b>12,746</b>
<b>Non-current liabilities</b>			
Provisions	15	852	1,188
Other financial liabilities	14	1,702	–
<b>Total non current liabilities</b>		<b>2,554</b>	<b>1,188</b>
<b>Total liabilities</b>		<b>15,286</b>	<b>13,934</b>
<b>Net assets</b>		<b>28,382</b>	<b>26,315</b>
<b>Equity</b>			
Issued capital	16	38,496	37,582
Other capital reserves	17	(1,077)	(1,046)
Accumulated losses		(9,037)	(10,221)
<b>Total equity</b>		<b>28,382</b>	<b>26,315</b>

These statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2017

	Attributable to the equity holders of the parent				Total equity \$'000
	Issued capital (Note 16) \$'000	Foreign Currency Reserve (Note 17) \$'000	Other Reserve (Note 17) \$'000	Retained earnings/ (Accum. losses) \$'000	
<b>For the year ended 30 September 2017</b>					
As at 1 October 2016	37,582	(145)	(901)	(10,221)	26,315
Shares issued under a Dividend Reinvestment Plan	922	–	–	–	922
Costs associated with issues of shares	(8)	–	–	–	(8)
Profit for the year	–	–	–	2,727	2,727
Translation of overseas controlled entities	–	(31)	–	–	(31)
Total comprehensive income	–	(31)	–	2,727	2,696
Dividend paid (Note 6)	–	–	–	(1,543)	(1,543)
<b>As at 30 September 2017</b>	<b>38,496</b>	<b>(176)</b>	<b>(901)</b>	<b>(9,037)</b>	<b>28,382</b>

	Attributable to the equity holders of the parent				Total equity \$'000
	Issued capital (Note 16) \$'000	Foreign Currency Reserve (Note 17) \$'000	Other Reserve (Note 17) \$'000	Retained earnings/ (Accum. losses) \$'000	
<b>For the year ended 30 September 2016</b>					
As at 1 October 2015	36,802	(177)	(901)	(13,175)	22,549
Shares issued under a Dividend Reinvestment Plan	786	–	–	–	786
Costs associated with issues of shares	(6)	–	–	–	(6)
Profit for the year	–	–	–	4,313	4,313
Translation of overseas controlled entities	–	32	–	–	32
Total comprehensive income	–	32	–	4,313	4,345
Dividend paid (Note 6)	–	–	–	(1,359)	(1,359)
<b>As at 30 September 2016</b>	<b>37,582</b>	<b>(145)</b>	<b>(901)</b>	<b>(10,221)</b>	<b>26,315</b>

These statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2017

	Notes	Consolidated entity	
		2017 \$'000	2016 \$'000
<b>Operating activities</b>			
Cash receipts in the course of operations		56,035	57,704
Cash payments in the course of operations		(56,962)	(58,077)
Interest received		63	59
Interest paid		(134)	(133)
Dividends received from associates		800	550
<b>Net cash flows (used in)/from operating activities</b>	18	<b>(198)</b>	<b>103</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		3	40
Purchase of property, plant and equipment	11	(368)	(427)
Acquisition of a subsidiary, net of cash acquired	26	(511)	–
<b>Net cash flows used in investing activities</b>		<b>(876)</b>	<b>(387)</b>
<b>Financing activities</b>			
Proceeds from borrowings		450	1,800
Dividends paid		(621)	(573)
<b>Net cash flows (used in)/from financing activities</b>		<b>(171)</b>	<b>1,227</b>
Net (decrease)/increase in cash and cash equivalents		(1,245)	943
Cash and cash equivalents at 1 October	18	5,626	4,683
<b>Cash and cash equivalents at 30 September</b>	18	<b>4,381</b>	<b>5,626</b>

These statements should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2017

## 1. Corporate Information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2017 were authorised for issue in accordance with a resolution of the directors on 21 November 2017.

HGL Limited (the Company or the parent) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Group is principally engaged in the importation and distribution of market leading branded products. The Group's principal place of business is Level 2, 68-72 Waterloo Road, Macquarie Park, NSW, 2113. Further information on the nature of the operations and principal activities of the Group is provided in the directors' report.

## 2. Summary of Significant Accounting Policies

### 2.1 Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for certain financial instruments.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

The consolidated financial statements provide comparative financial information in respect of the previous period.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

### 2.2 Compliance with International Financial Reporting Standards (IFRS)

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

## 2.3 Changes in Accounting Policies, Disclosures, Standards and Interpretations

### (i) Changes in Accounting Policies, New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial reporting period, and have been consistently applied throughout the years presented unless noted below.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

There were no new and revised Standards that have had a material impact on the financial statements beyond changes in disclosures.

### (ii) Accounting Standards and Interpretations Issued but not yet Effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 September 2017. The directors have not early adopted any of these new or amended standards or interpretations. The directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 2. Summary of Significant Accounting Policies (continued)

### 2.3 Changes in Accounting Policies, Disclosures, Standards and Interpretations (continued)

#### (ii) Accounting Standards and Interpretations Issued but not yet Effective (continued)

	Expected to be initially applied in the financial year ending	Assessment of impact
AASB 9 'Financial Instruments', and the relevant amending standards	30 September 2019	The main impact of this standard on the Group will be through a simpler treatment of hedge accounting for the group, with more hedging transactions likely to qualify for hedge accounting through equity, and through a change to the accounting for doubtful debt provisions, with a less customer specific approach to accounting provisions to be used. The Group is still determining the final impact of this standard, however initial assessments suggest there will not be a material impact of this standard on the financial statements of the group.
AASB 15 'Revenue from Contracts with Customers' and the relevant amending standards	30 September 2019	The new revenue recognition standard will require businesses to recognise revenue in line with the satisfaction of separate performance obligations within a customer contract. The Group transacts predominantly through repeating individual sales of goods which are not subject to supply contracts beyond standard trading terms of sale. Whilst a project is underway to assess the full impact of this new standard, the initial assessment suggests there will not be a material impact of this standard on the financial statements of the group.
AASB 16 'Leases'	30 September 2020	The Group is a lessee under a number of arrangements currently classified as operating leases, mainly based around property leases. The new leasing standard requires operating leases to be brought on balance sheet, with the recognition of both assets and liabilities associated with the lease. There will also be a change to the expense pattern, with the 'rent' expense being split into depreciation and interest components, increasing both EBIT and EBITDA profit measures. With the Group's existing lease profile, this standard is expected to result in a non-material increase in total assets, total liabilities, EBIT and EBITDA.

The impact of the following relevant accounting standards, with an application date to the Group of 30 September 2018, have been assessed as follows:

AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	Not relevant to the group. No impact on accounting policies or calculations.
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	No impact on accounting policies or calculations. Some existing disclosures within the financial statements may change.



## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies

#### (a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 September 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

#### (b) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (b) Business Combinations and Goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standards. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

#### (c) Investment in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (d) Foreign Currency Translation

The Group's consolidated financial statements are presented in Australian dollars (\$), which is also the parent's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### *Transactions and Balances*

Foreign currency transactions are translated into Australian currency (the functional currency) at the rate of exchange at the date of the transaction. Amounts receivable or payable in foreign currencies are translated at the rates of exchange ruling at balance date. The resulting exchange differences are brought to account in determining the profit or loss for the year.

#### *Group Companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates during the year. The exchange differences arising on translation for consolidation purpose are recognised in other comprehensive income. On disposal of a foreign operation, the components of other Comprehensive Income relating to that particular foreign operation is recognised in Profit or Loss.

#### (e) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

#### *Sale of Goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

#### *Rendering of Services*

Service contract revenue is brought to account by reference to the expired period of the contract. Amounts received and receivable in relation to the unexpired period of contracts at year end are treated as deferred revenue.

#### *Interest Income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### *Dividends*

Revenue is recognised from dividends when the Group's right to receive the dividends payment is established, which is generally when the record date of the dividend.

#### (f) Taxes

##### *Current Income Tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

##### *Deferred Tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available for utilisation.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (f) Taxes (continued)

##### *Tax Consolidation Legislation*

HGL Limited and its wholly-owned Australian controlled entities have implemented tax consolidation, and entered into tax funding and tax sharing agreements.

The head entity, HGL Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right, adjusted for intercompany transactions.

In addition to the current and deferred tax amounts, HGL Limited also recognises the current tax liabilities (or assets) and the deferred tax assets from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities, recorded at the tax equivalent amount, arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

##### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- When receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

#### (g) Cash Dividend and Non-Cash Distribution to Equity Holders of the Parent

The Company recognises a liability to pay cash or make non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

#### (h) Property, Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

##### *Depreciation*

Items of plant and equipment are depreciated over their estimated useful lives using the straight line and reducing balance method, or over their expected units of production where the assets are identified as relating to specific products for sale. The estimated useful lives and depreciation method is reviewed at the end of each reporting period.

The cost of improvements to or on leasehold properties is depreciated over the lesser of the period of the lease or the estimated useful life of the improvement.

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

- |                              |   |
|------------------------------|---|
| – Plant and equipment        | 3 to 10 years                               |
| – Leased plant and equipment | the lease term<br>(typically up to 5 years) |

##### *Leased Assets*

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of leased items, are capitalised at the lower of fair value or present value of the minimum lease payments, disclosed as property, plant and equipment and amortised over the period during which the Group is expected to benefit from use of the leased assets.

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased items, are charged to the profit or loss statement in the period in which they are incurred.

#### (i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

##### *Group as a Lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (i) Leases (continued)

##### *Group as a Lessee (continued)*

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

#### (j) Borrowing Costs

Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### (k) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### (l) Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### (i) Financial Assets

##### *Initial Recognition and Measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, Available for Sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group has only had financial assets classified as loans and receivables during the current and prior financial year.

##### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost less impairment.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 8.

##### *Impairment of Financial Assets*

##### *Financial Assets carried at Amortised Cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

#### (ii) Financial Liabilities

##### *Initial Recognition and Measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (l) Financial Instruments - Initial Recognition and Subsequent Measurement (continued)

##### (ii) *Financial Liabilities (continued)*

##### *Subsequent Measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Loans and Borrowings*

This is the category most relevant to the Group. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 14.

##### *De-recognition*

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### (m) Derivative Financial Instruments and Hedge Accounting

##### *Initial Recognition and Subsequent Measurement*

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

#### (n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is calculated with reference to purchase price, including freight and other associated costs, and is based on a weighted average cost. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

The Group's inventories are analysed by business unit each reporting period for recoverability of the carrying value. This involves judgements around physical stock levels, sell through rates on specific product lines, and recent selling prices achieved.

An allowance is made against the cost of inventory items where evidence indicates that product ranges are no longer on range, or volumes on hand exceed reasonable sale periods. An allowance is also made when historical selling prices approach cost, to reflect the potential requirement for discounting product to clear.

#### (o) Impairment of Non-financial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Goodwill is tested for impairment annually as at 30 September and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (p) Cash and Short-term Deposits

For purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

#### (q) Provisions

##### *General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

##### *Restructuring Provisions*

Restructuring provisions are recognised by the Group only when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline and the employees affected have been notified of the plan's main features.

##### *Onerous Contracts Provisions*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

#### (r) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and are capable of being measured reliably. Employee benefits expected to be settled wholly within 12 months are measured at their nominal values using the remuneration rate expected to apply at time of settlement. Employee benefit provisions, which are not expected to be settled wholly within 12 months, are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (s) Fair Value Measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between category levels during the current or prior financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Significant Accounting Policies (continued)

#### (t) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. Operating segments are based on products, having been identified based on the information provided to the Board of Directors.

Segment EBIT represents the profit before interest and tax earned by each segment. This is the measure reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance.

Some items which are not attributable to specific segments, such as finance costs and some other expenses, and central administration costs are listed separately in the segment note as 'unallocated' items.

The accounting policies used by the Group in reporting segments internally are the same as those used by the Group in these consolidated financial statements.

## 3. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements.

Actual results may differ from these estimates. The 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.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies for the Group are set out below:

### Deferred Tax Assets (Note 5)

Determining the extent to which deferred tax asset balances should be recognised requires an estimation of future taxable profit. The key assumptions in the estimation of future profitability are sales growth rates, changes in selling margins, and future expenses. The amount of profits from non-taxable or franked sources is also considered.

The amount of taxable income created, and the consistency of generating taxable income over a number of historical periods, is a key consideration in the recognition of deferred tax assets associated with revenue losses available to the group. The Group expects that revenue losses utilisation will increase significantly over the 2018 financial year and beyond, as the group profile changes.

As the Group continues to generate future taxable profits, this deferred tax asset will be brought to account.

### Acquisition Accounting (Note 26)

An assessment of the fair value of assets acquired and liabilities assumed, on the acquisition of business operations, requires assumptions to be made on the future use of those assets and liabilities. In addition, the identification of separate identifiable intangible assets, along with their fair values, requires an assessment of the relative components of intangible assets acquired.

Calculation of deferred contingent consideration requires assumptions surrounding future performance of the portion of the business acquired, potentially covering a number of years into the future.

The key assumption for the calculation of deferred contingent consideration relate to projected future sales of the Intralux line of products. Estimates have been based on historical sales levels, size of the sales force, channels to market and size of market.



## 4. Profit from Operations

### 4.1 Revenue

	Notes	Consolidated entity	
		2017 \$'000	2016 \$'000
Sales revenue		52,061	52,252

### 4.2 Expenses

#### Depreciation

Expensed to profit and loss – Plant and Equipment		419	308
Depreciation – absorbed into inventory		211	224
Total depreciation	11	630	532

#### Employee benefit expenses

Salary and wages		13,580	13,237
Defined contribution superannuation expense		877	889
		14,457	14,126

Bad debts		(57)	(42)
Write down of inventories to net realisable value		(138)	(631)
Operating lease expenses – minimum lease payments		1,450	1,318
Foreign exchange loss/(gain)		76	(9)

### 4.3 Finance Costs

Financial institutions – interest expense and line fees		134	133
<b>Total finance costs</b>		<b>134</b>	<b>133</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 4. Profit from Operations (continued)

### 4.4 Other Income

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Interest</b>		
Financial Institutions	62	60
<b>Total interest</b>	<b>62</b>	<b>60</b>
Other income	3	43
<b>Total other income</b>	<b>65</b>	<b>103</b>

### 4.5 Significant Items

The board manages the business using underlying profit, which is a non-statutory measure designed to reflect statutory profit excluding the effect of irregular transactions that are not part of the core or ongoing business operations. Underlying profit is a key consideration used by the board when determining short term incentive payments for key management personnel, and also when determining the level of any dividends declared. A summary of the items considered to be non-underlying, and a reconciliation from reported net profit after tax to underlying profit after tax is as follows:

<b>Underlying profit after tax</b>	2,253	3,008
<b>Non-underlying items</b>		
Non-underlying profit from equity accounted associate <sup>(1)</sup>	8	90
Restructuring costs <sup>(2)(3)</sup>	(137)	(238)
Other non-underlying items <sup>(2)</sup>	(61)	–
Total non-underlying items before tax	(190)	(148)
Recognition of deferred tax assets	664	1,453
Total non-underlying items after tax	474	1,305
<b>Statutory profit after tax</b>	<b>2,727</b>	<b>4,313</b>

(1) Disclosed in "Share of associates profit/(loss)" in statement of profit and loss

(2) Disclosed in "Administration expenses" in statement of profit and loss

(3) Disclosed in "Sales, marketing and advertising expenses" in statement of profit and loss

## 5. Income tax

The major components of income tax expense for the years ended 30 September 2017 and 2016 are:

### Consolidated statement of profit or loss

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Current tax</b>		
Over provision In respect of prior years	(23)	(63)
	<b>(23)</b>	<b>(63)</b>
<b>Deferred tax</b>		
In respect of the current year	517	470
Relating to origination and reversal of temporary differences	(27)	(1,923)
Re-recognition of deferred tax assets	(1,154)	–
	<b>(664)</b>	<b>(1,453)</b>
<b>Total income tax expense recognised in the current year relating to continuing operations</b>	<b>(687)</b>	<b>(1,516)</b>
Prima facie income tax benefit on profit from ordinary activities at 30% (2016: 30%)	612	839
Differences in overseas tax rates	3	(3)
Equity accounted investments	(43)	(122)
Recognition of deferred tax assets	(27)	(1,923)
Recognition of deferred revenue losses	(1,154)	–
Non allowable expenses	27	89
Usage of previously unrecognised revenue losses	–	(328)
Over provision of prior years	(23)	(63)
Other	(82)	(5)
	<b>(687)</b>	<b>(1,516)</b>

### Deferred tax

Deferred tax assets comprises:

Consolidated entity	Provisions \$'000	Plant & Equipment \$'000	Other \$'000	Revenue Losses \$'000	Total \$'000
<b>2017</b>					
Opening balance	1,761	161	143	–	2,065
Charged to income	(256)	(122)	(24)	1,154	752
<b>Total</b>	<b>1,505</b>	<b>39</b>	<b>119</b>	<b>1,154</b>	<b>2,817</b>
<b>2016</b>					
Opening balance	611	–	–	–	611
Charged to income	1,150	161	143	–	1,454
<b>Total</b>	<b>1,761</b>	<b>161</b>	<b>143</b>	<b>–</b>	<b>2,065</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 5. Income Tax (continued)

### Deferred tax (continued)

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. As the Group is currently generating taxable profits, a deferred tax asset of \$1.154m representing \$3.8 million of revenue losses has been recognised during the current financial year.

The group has a further \$14.6 million of gross revenue losses, and \$11.1 million of gross capital losses, which have not been brought to account at 30 September 2017.

## 6. Dividends Paid and Proposed

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Declared and paid during the year:</b>		
Final dividend for 2016: 1.5 cents per share (2015: 1.5 cents)	835	810
Interim dividend for 2017: 1.25 cents per share (2016: 1.0 cents)	708	549
	<b>1,543</b>	<b>1,359</b>
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:		
Paid in Cash	621	573
Satisfied by issue of shares under DRP	922	786
<b>Dividends paid</b>	<b>1,543</b>	<b>1,359</b>
<b>Proposed dividends on ordinary shares:</b>		
Proposed final dividend of 1.5 cents per share not recognised as a liability as at 30 September (2016: 1.5 cents per share)	860	835
<b>Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2016: 30%)	9,417	9,822
Franking debits that will arise from the payment of dividends subsequent to the end of the financial year	(369)	(358)
	<b>9,048</b>	<b>9,464</b>

### Dividend reinvestment plan

Brief details of the Plan are:

- shareholders are eligible to participate, except where local legislation prevents it;
- participation is optional;
- full or partial participation is available;
- minimum holding requirement of 1,000 ordinary shares;
- payment is made through the allotment of shares, rather than cash, at a discount determined by the Directors at the date of declaration of up to 7.5% on the average market price of the Company's ordinary shares;
- no brokerage, commission, stamp duty, or administration costs are payable by shareholders; and
- participants may withdraw from the plan at any time by notice in writing to the Registry.

## 7. Earnings Per Share (EPS)

The following reflects the income and share data used in the basic and diluted EPS computations:

	Consolidated entity	
	2017 \$'000	2016 \$'000
Profit attributable to ordinary equity holders of basic EPS	2,727	4,313
Profit attributable to ordinary equity holders for diluted EPS	2,727	4,313
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares for basic EPS	56,487,167	54,851,549
Weighted average number of ordinary shares for diluted EPS	56,487,167	54,851,549
	<b>Cents</b>	<b>Cents</b>
Basic Earnings per Share	4.8	7.9
Diluted Earnings per Share	4.8	7.9

## 8. Trade and Other Receivables

Trade receivables	9,471	9,008
Allowance for doubtful debts	(159)	(237)
Net trade receivables	9,312	8,771
Other debtors	442	366
<b>Total receivables</b>	<b>9,754</b>	<b>9,137</b>
<b>Movement in allowance for doubtful debts</b>		
Opening balance	(237)	(302)
Additional provisions	57	42
Amounts written off	21	23
	<b>(159)</b>	<b>(237)</b>
<b>Trade receivables past due</b>		
Not yet due	7,806	7,032
Past due 0-30 days	971	1,351
Past due 31-60 days	272	336
Past due 61-90 days	216	145
Past due greater than 90 days	206	144
	<b>9,471</b>	<b>9,008</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 8. Trade and Other Receivables (continued)

Trade receivables and other debtors have carrying amounts that reasonably approximate fair value.

Trade receivables are non-interest bearing and are generally on terms of 30 days.

An allowance for doubtful debts is recognised when there is objective evidence that the customer will not be able to pay. As the concentration of credit risk is limited due to the customer base being large and unrelated, there is no further credit provision required in excess of the allowance for doubtful debts.

## 9. Inventories

	Consolidated entity	
	2017 \$'000	2016 \$'000
Finished goods (at lower of cost or net realisable value)	6,950	5,813

## 10. Investment in Associates

	Ownership interest %	Carrying value \$'000	Profit contribution \$'000
<b>2017</b>			
Mountcastle Pty Ltd	50	4,896	934
Createc Pty Ltd (in liquidation)	50	98	8
		<b>4,994</b>	<b>942</b>
<b>2016</b>			
Mountcastle Pty Ltd	50	4,762	867
Createc Pty Ltd (in liquidation)	50	90	90
		<b>4,852</b>	<b>957</b>

### Mountcastle Pty Ltd

The principal activity of Mountcastle was headwear and uniform distribution.

	Consolidated entity	
	2017 \$'000	2016 \$'000
Current assets	11,111	11,720
Non-current assets	747	717
Current liabilities	(1,810)	(2,708)
Non-current liabilities	(257)	(206)
<b>Net Assets</b>	<b>9,791</b>	<b>9,523</b>
Ownership interest	50%	50%
<b>Carrying amount of the investment</b>	<b>4,896</b>	<b>4,762</b>

## 10. Investment in Associates (continued)

	Consolidated entity	
	2017 \$'000	2016 \$'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	1,018	1,149
Current financial liabilities	(649)	(1,191)
Non-current financial liabilities	(58)	–
Revenues	17,433	15,900
Profit after income tax from continuing operations	1,868	1,735
Share of dividends paid	800	550
The above profit for the year includes the following:		
Depreciation and amortisation	86	74
Interest expenses	39	28
Interest income	5	5
Income tax expense	800	743

There were no capital or lease commitments, and no contingent liabilities incurred at balance date.

### Createc Pty Ltd

During the 2017 financial year, Createc Pty Ltd was placed in voluntary liquidation by the members. The carrying value at 30 September 2017 reflects the expected distribution to shareholders on winding up.

Current assets	197	217
Current liabilities	–	(17)
<b>Net Assets</b>	<b>197</b>	<b>200</b>
Ownership Interest	50%	50%
<b>Carrying amount of the investment</b>	<b>98</b>	<b>90</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 11. Property, Plant and Equipment

	Consolidated entity	
	2017 \$'000	2016 \$'000
<i>Plant and equipment</i>		
At cost	3,243	2,879
Accumulated depreciation	(1,982)	(1,469)
<b>Net carrying value</b>	<b>1,261</b>	<b>1,410</b>

Reconciliation of carrying amounts at the beginning and the end of the year

*Plant and equipment*

### Written down value

Net book value at the beginning of the financial year	1,410	918
Additions	368	427
Acquisitions of a subsidiary (Note 26)	44	–
Transfers from prepayments	72	599
Depreciation expense	(630)	(533)
Exchanges differences	(3)	(1)
<b>Net book value at the end of the financial year</b>	<b>1,261</b>	<b>1,410</b>

## 12. Intangible Assets

*Goodwill*

At cost	12,066	10,166
	<b>12,066</b>	<b>10,166</b>

Reconciliation of carrying amounts at the beginning and the end of the year

*Goodwill*

### Cost or valuation

At 1 October	10,166	10,166
Acquisition of business (provisionally accounted) (Note 26)	1,900	–
At 30 September	<b>12,066</b>	<b>10,166</b>

### Allocation of Goodwill

The carrying value remaining of goodwill is allocated to the building products segment. The original cost of goodwill for all other segments has been fully written down in prior periods.

### Impairment Testing

Impairment testing is conducted at Cash Generating Unit (CGU) level, and considers both value in use and fair value less costs of disposal calculations.

### Impairment Charges

There were no impairment charges in the current or previous financial year.



## 12. Intangible Assets (continued)

### Key Assumptions

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires estimation of the future cash flows expected to arise from the cash generating unit, and application of a suitable discount rate to calculate present value.

The key assumptions for the value in use calculations are those regarding discount rates, long term growth rates, expected changes in margins and expenses. The assumptions regarding long term growth rates, together with changes in margins and expenses are based on past experience and expectations of changes in the market.

The value in use calculations use cash flow projections based on the financial budgets approved by the board for the following year, and extrapolated over five years using a combination of reasonably anticipated revenue and cost changes in year two, and future growth rates appropriate for the markets in which the businesses operate. These forecasts are extrapolated beyond five years based on estimated long term growth rates.

A pre tax discount rate, based on the pre-tax WACC, of 13.6% (2016: 13.8%) was applied to the cash flow projections.

Long term growth rates used were between 2.5% (sales) and 5% (costs) (2016: 2.5% and 5%).

There are no reasonably foreseeable changes in assumptions which would result in an impairment to the carrying value of goodwill.

## 13. Trade and Other Payables

	Consolidated entity	
	2017 \$'000	2016 \$'000
Trade payables and accruals	7,687	8,386

The average credit period on purchases is generally 30-60 days.

## 14. Financial Assets and Financial Liabilities

### 14.1 Financial Liabilities, Interest-Bearing Loans and Borrowings

#### Secured bank loan

##### Current

##### Secured at amortised cost

Variable rate bank loans	2,250	1,800
--------------------------	-------	-------

The borrowing facility is a \$2.8 million cash advance and trade finance facility with an annual review in January each year, secured under a fixed and floating charge over all present and future assets, undertakings and unpaid or uncalled capital of the Group. The values of assets pledged as security are as presented on the balance sheet.

Interest is payable based on floating rates determined with reference to the Bank Bill Rate at each drawdown.

The carrying amounts of borrowings reasonably approximate fair value.

#### Other financial liabilities

##### Non current

Contingent consideration (Note 3)	1,702	–
-----------------------------------	-------	---

As part of the purchase agreement with the previous owner of Intralux Australia, an amount of contingent consideration has been agreed. The consideration is dependant on the sales of Intralux during a 7 year period (see Note 26). There has been no change in the fair value of the contingent consideration since the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 14. Financial Assets and Financial Liabilities (continued)

### 14.1 Financial Liabilities, Interest-Bearing Loans and Borrowings (continued)

The contingent consideration was estimated using the discounted cash flow method to capture the present value of the expected future cash outflows arising from the transaction. Future royalty payments to the vendor are based on sales revenues from branded product ranges over a base level of sales. Probability-adjusted revenues range from a low point of \$1,500,000 in the first year to a high of \$8,000,000 in the final year of the agreement. Reasonably foreseeable variations in the sales forecasts, and their associated probabilities used, could result in a material increase in fair value.

### 14.2 Financial Risk Management Objectives and Policies

#### Capital Management

HGL manages its capital to ensure that the underlying business units will have funding to expand through organic growth and acquisitions. The capital structure is reviewed regularly and is balanced through the payment of dividends and on-market share buy backs as well as the level of debt.

The capital structure consists of net debt, which includes borrowings (Note 14.1) less cash and cash equivalents, and total equity, which includes issued capital (Note 16), reserves (Note 17) and accumulated losses/retained earnings.

#### Financial Risk Management

The activities of the Group expose it to a variety of financial risks, primarily to the risk of changes in foreign exchange rates, and to a lesser extent credit risk of third parties with which the underlying businesses trade. HGL's risk management program works to minimise material potential negative impacts on the financial performance of the Group.

Foreign exchange contracts are used to manage currency risk, but must be used within the scope of the policy approved by the Board. The policy prohibits the use of financial instruments for speculative purposes.

#### Significant Accounting Policies

A summary of the significant accounting policies adopted in relation to financial instruments are disclosed in Note 2 to the financial statements. Information regarding the significant terms and conditions of each significant category of financial instruments are included within the relevant note for that category.

#### Categories of Financial Instruments

Details of consolidated financial assets and liabilities contained in the financial statements are as follows:

	Notes	Consolidated entity	
		2017 \$'000	2016 \$'000
<b>Financial assets</b>			
Cash at bank and on hand	18	4,381	5,626
Trade receivables	8	9,471	9,008
		<b>13,852</b>	<b>14,634</b>
<b>Financial liabilities</b>			
Creditors and accruals	13	7,687	8,386
Borrowings - Variable rate loans	14.1	2,250	1,800
Contingent consideration		1,702	–
		<b>11,639</b>	<b>10,186</b>

Fair values of financial assets and liabilities are disclosed in the notes to the accounts where those items are listed.

## 14. Financial assets and financial liabilities (continued)

### 14.2 Financial Risk Management Objectives and Policies (continued)

#### Liquidity Risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements.

Details of credit facilities available to the Group, and the amounts utilised under those facilities, are as follows:

	Consolidated entity	
	2017 \$'000	2016 \$'000
Credit facilities	2,800	2,800
Amount utilised	2,741	1,800
Unused credit facility	59	1,000

The Group has a \$2.8 million (2016: \$2.8 million) cash advance and trade finance facility with the Australia and New Zealand Banking Group Limited (ANZ), which is subject to an annual review. The facility is subject to covenant testing at specific measurement dates.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay, and includes both principal and interest cash flows.

#### Maturing in 1 year or less

Trade payables and accruals	7,687	8,386
	<b>7,687</b>	<b>8,386</b>
	%	%

#### Weighted average interest rate

Trade payables and accruals	–	–
Borrowings - Variable rate loans	4.16	4.17

#### Currency Risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

Exchange rate exposure is managed utilising forward foreign exchange contracts and foreign exchange bank accounts. At year end the Group has \$2,621,000 (2016: \$2,544,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has \$1,629,000 (2016: \$555,000) of foreign currencies monetary assets mainly in USD and NZD.

In addition the Group has \$1,879,000 (2016: \$2,629,000) of foreign currency forward contracts outstanding at balance date, in a net liability fair value position of \$25,000 (2016: \$22,000) that were classed as level 2 financial instruments.

The average contract length approximates 50 days, and is generally in accordance with payment terms.

The Group used a 10% sensitivity analysis and concluded there was no material impact on the 2017 and 2016 net outstanding foreign currency exposure.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 14. Financial assets and financial liabilities (continued)

### 14.2 Financial Risk Management Objectives and Policies (continued)

#### Credit Risk

The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group measures credit risk on a fair value basis. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

#### Interest Rate Risk

The Group is exposed to interest rate risk as funds are borrowed at floating interest rates. The Group manages interest rate risk by maintaining an appropriate mix between fixed and floating rate borrowings.

If interest rates had been +/- 1% per annum throughout the year, with all other variables held constant, the operating profit after income tax would have been \$19,000 higher or lower respectively (2016: \$18,000).

## 15. Provisions

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Current</b>		
Employee benefits	2,316	2,081
Surplus lease and make good provisions	479	479
	<b>2,795</b>	<b>2,560</b>
<b>Non current</b>		
Employee benefits	523	389
Surplus lease and make good provisions	329	799
	<b>852</b>	<b>1,188</b>
		<b>Surplus lease provisions 2017 \$'000</b>
Balance at beginning of financial year		1,278
Reductions arising from payments		(470)
Balance at the end of financial year		808
Current		479
Non-current		329
		<b>808</b>

## 16. Issued capital

Ordinary shares issued and fully paid	2017		2016	
	Number	\$'000	Number	\$'000
Balance at the beginning of the financial year	55,657,919	37,582	53,956,011	36,802
Allotted pursuant to HGL dividend reinvestment plan	1,701,662	922	1,701,908	786
Costs associated with shares issued	–	(8)	–	(6)
<b>Balance at the end of the financial year</b>	<b>57,359,581</b>	<b>38,496</b>	<b>55,657,919</b>	<b>37,582</b>

During the current and prior year no ordinary shares were purchased pursuant to the on market share buy back. Details of the HGL Limited Dividend Reinvestment Plan are disclosed in Note 6.

## 17. Reserves

	Consolidated entity	
	2017 \$000	2016 \$000
Foreign currency translation reserve	(176)	(145)
Other reserve	(901)	(901)
	<b>(1,077)</b>	<b>(1,046)</b>

The Foreign currency translation reserve arises on the retranslation of the opening net assets of overseas subsidiaries, at year end rates of exchange, net of tax.

The Other reserve represents the excess of the purchase consideration over the share of net assets acquired on the increase in equity interests, classified as common controlled transactions under AASB 3 Business Combinations.

## 18. Cash flow information

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 30 September:

Cash at banks and on hand	4,381	5,626
<b>Cash and cash equivalents</b>	<b>4,381</b>	<b>5,626</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 18. Cash Flow Information (continued)

	Consolidated entity	
	2017 \$'000	2016 \$'000
<b>Reconciliation of cash flow from operations with operating profit after income tax</b>		
Profit after tax from continuing operations	2,727	4,313
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation	633	533
Losses/(profits) on sale of property, plant and equipment	(3)	(40)
Share of profits of associates not received as dividends	(142)	(407)
Changes in assets and liabilities		
(Increase)/decrease in trade and term debtors	(618)	(1,182)
(Increase)/decrease in inventories	(715)	(590)
(Increase)/decrease in prepayments	(265)	(327)
(Increase)/decrease in deferred taxes	(754)	(1,453)
Increase/(decrease) in trade creditors and accruals	(736)	(355)
Increase/(decrease) in provision for income tax	–	(63)
Increase/(decrease) in other current provisions	155	(54)
Increase/(decrease) in other non-current provisions	(480)	(272)
<b>Net cash flows (used in)/from operating activities</b>	<b>(198)</b>	<b>103</b>

## 19. Information relating to HGL Limited (parent)

	Parent entity	
	2017 \$'000	2016 \$'000
Current assets	600	683
Non current assets	19,128	16,057
<b>Total assets</b>	<b>19,728</b>	<b>16,740</b>
Current liabilities	2,419	2,205
Non current liabilities	45	3,280
<b>Total liabilities</b>	<b>2,464</b>	<b>5,485</b>
<b>Net assets</b>	<b>17,264</b>	<b>11,255</b>
Issued capital	38,496	37,582
Reserves	381	380
Accumulated losses	(59,220)	(59,220)
Retained earnings	37,607	32,513
<b>Total equity</b>	<b>17,264</b>	<b>11,255</b>
Total comprehensive income/(loss) of the Parent entity	<b>6,641</b>	<b>(1,190)</b>

As noted above, there is a working capital deficiency of \$1,864,000 (2016: \$1,522,000). The Group has undistributed profits within wholly owned subsidiaries which will be received by the Parent entity in the form of cash dividends subsequent to balance date.

Consolidation entries recorded in the prior year in respect of the stand-alone parent entity were not correct, and as a consequence, the comparative figures in the parent entity note have been restated to ensure compatibility and consistency with the current year.

The restatement resulted in a decrease in non-current assets of \$4,317,000, a decrease in retained earnings of \$3,127,000, an increase in accumulated losses of \$1,191,000, and a decrease in total comprehensive income of \$3,560,000 as at ended 30 September 2016.

The restatement did not impact the consolidated financial statements for the year ended 30 September 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 20. Segment Information

2017	Building products \$'000	Collectables \$'000	Health & beauty \$'000	Homewares \$'000	Retail marketing \$'000	Aggregated segments \$'000
Revenue from sales to external customers	23,850	3,989	6,093	7,771	10,358	52,061
Depreciation	203	87	40	69	9	408
Segment EBIT	4,208	(145)	43	(1,080)	643	3,669

### 2016

Revenue from sales to external customers	22,018	5,849	6,587	7,747	10,051	52,252
Depreciation	204	49	28	6	8	295
Segment EBIT	3,806	329	158	(380)	402	4,315

### Reconciliation of Profit or Loss

	2017 \$'000	2016 \$'000
Segment Earnings Before Interest and Tax (EBIT)	3,669	4,315
<b>Unallocated items of income and expenditure</b>		
Share of profit from equity accounted investments	942	867
Finance costs	(134)	(73)
Significant items	(190)	(148)
Other unallocated expenses	(2,247)	(2,164)
<b>Profit before tax</b>	<b>2,040</b>	<b>2,797</b>

- Retail marketing segment (SPOS) provides standard and customised shelving product solutions to brand owners and retailers
- Homewares segment (Leutenegger and Nido) distributes homewares and traditional sewing and crafts supplies
- Collectables segment (Biante) distributes collectable model cars
- Building product segment (JSB Lighting) distributes architectural lighting for the commercial market
- Health & beauty segment (BLC Cosmetics) distributes cosmetics and skincare products through salon, spa and retail markets

The Group has a large number of customers to which it provides products. There are no individual customers that account for more than 10% of external revenues. The Group operates predominately in Australia with some operations in New Zealand. Total revenues from sales outside Australia for the financial year were \$4.2 million (2016: \$2.8 million)



## 21. Related Party Disclosures

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

There were no loans to other related parties at any time during the financial year.

Directors and their related entities are able, with all staff members, to purchase goods distributed by the Group on terms and conditions no more favourable than those available to other customers.

There were no other transactions with key management personnel during the period.

### Compensation of Key Management Personnel of the Group

	Consolidated entity	
	2017 \$	2016 \$
Short-term employee benefits	1,096,577	1,248,626
Post-employment benefits	77,227	79,312
Other long-term benefits	12,056	11,488
<b>Total compensation paid to key management personnel</b>	<b>1,185,860</b>	<b>1,339,426</b>

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

## 22. Commitments and Contingencies

### Operating Lease Commitments – Group as Lessee

	Consolidated entity	
	2017 \$'000	2016 \$'000
Within one year	1,459	1,491
After one year but not more than five years	1,365	2,449
	<b>2,824</b>	<b>3,940</b>

The operating leases are in respect of warehouses and offices occupied by Group companies. The leases expire at various future dates and a number contain option provisions.

### Capital Commitments

There are no significant capital expenditure commitments at balance date.

### Contingent Liabilities

There are no significant contingent liabilities at balance date.

## 23. Events after the Reporting Period

There have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 24. Auditors' Remuneration

The auditor of HGL Limited is Deloitte Touche Tohmatsu.

	Consolidated entity	
	2017 \$	2016 \$
<i>Amounts received or due and receivable by Deloitte Touche Tohmatsu for:</i>		
An audit or review of the financial report of the entity and any other entity in the consolidated group	244,600	237,600
Other non-audit services in relation to the entity and any other entity in the consolidated group	18,750	–

## 25. Investment in Controlled Entities

### Significant Controlled Entities

	Country of incorporation	Ownership interest	
		2017 %	2016 %
Baker & McAuliffe Holdings Pty Limited (trading as JSB Lighting)	Australia	100	100
Biante Pty Limited	Australia	100	100
BLC Cosmetics Pty Limited	Australia	100	100
Hamlon Pty Limited (trading as SPOS)	Australia	100	100
J Leutenegger Pty Limited	Australia	100	100
Nido Interiors Pty Ltd <sup>(1)</sup>	Australia	100	100
The Point-of-Sale Centre (New Zealand) Limited	New Zealand	100	100
JSB Lighting (New Zealand) Limited	New Zealand	100	100

Certain immaterial entities have not been disclosed in the above listing of controlled entities. All wholly owned entities within the Group have been consolidated into these financial statements.

## 26. Business Combinations and Acquisition of Non-controlling Interests

### Acquisitions in 2017

#### Intralux Australia

On 21 September 2017, the Group acquired the business and assets of Intralux Australia, a manufacturer of high quality lighting solutions. The purchase price was settled through the payment of \$511,000 of cash and contingent amounts are also payable based upon a percentage of revenue above an agreed revenue target for the financial years 2018 to 2024. The fair value of the obligation at acquisition date is \$1,702,000.

The acquisition of Intralux gives the building products segment access to products that fills a potential gap in the Group's product offering, as well as opening up previously unavailable export markets.

#### Assets acquired and Liabilities Assumed

	\$'000
<b>Purchase consideration</b>	
Cash Paid	511
Contingent consideration	1,702
<b>Total consideration</b>	<b>2,213</b>
<b>Assets and liabilities</b>	
Inventories	423
Property, plant and equipment (Note 11)	44
Deferred tax assets	68
Employee entitlements assumed	(222)
Goodwill (a)	1,900
<b>Fair value of net assets acquired</b>	<b>2,213</b>

Upon acquisition the acquired business was integrated within the existing building products segment. There were no sales of Intralux products recognised between acquisition and balance date.

#### (a) Provisional Accounting

Given the proximity to year end, the acquisition accounting has been prepared on a provisional basis. The assets for which final accounting has not been completed include intellectual property intangible assets.

#### (b) Acquisition Cost

The Group incurred acquisition costs of \$6,000. These costs have been included in Administration and other expenses.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of HGL Limited, we state that:

1. In the opinion of the directors:
  - a. the consolidated financial statements and notes of HGL Limited for the financial year ended 30 September 2017 are in accordance with the *Corporations Act 2001*, including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 September 2017 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards and the *Corporations Regulations 2001*;
  - b. the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.2; and
  - c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 September 2017.

On behalf of the board



Peter Miller  
**Chairman**

Sydney, 21 November 2017



Dr Frank Wolf  
**Director**

# INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited

## Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060  
Grosvenor Place  
225 George Street  
Sydney, NSW, 2000  
Australia

Phone: +61 2 9322 7000  
www.deloitte.com.au

### Independent Auditor's Report to the Members of HGL Limited

#### Report on the Audit of the Financial Report

##### Opinion

We have audited the financial report of HGL Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 September 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 September 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

##### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited continued

## Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Recognition of Deferred Tax Assets</b></p> <p>As disclosed in Notes 3 and 5 at 30 September 2017, the Group has recognised \$2.8 million of deferred tax assets, of which \$1.2m relate to unused tax losses, in the consolidated statement of financial position.</p> <p>We have identified the recognition of deferred tax assets as a key audit matter due to the management judgment involved in determining the extent to which deferred tax assets should be recognised in relation to unused tax losses. Management's judgement is based on a number of factors, including the estimate of taxable profits available in future periods to support recognition.</p>	<p>Our procedures performed in conjunction with our taxation specialists, included, amongst others:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process management and the directors had undertaken to determine the extent to which deferred tax assets should be recognised in respect of unused tax losses;</li> <li>• Evaluating the reasonableness of management's operating budgets, including an assessment of the historical accuracy;</li> <li>• Challenging the significant tax adjustments made to reconcile the taxable profit forecasts to management's operating budgets; and</li> <li>• Assessing the appropriateness of the disclosures included in Notes 3 and 5.</li> </ul>
<p><b>Accounting for Acquisitions</b></p> <p>As disclosed in Note 26 'Business Combinations', the Group made an acquisition on 21 September 2017 which was accounted for on a provisional basis.</p> <p>Accounting for this transaction is complex, requiring management to estimate the fair value of the total purchase consideration. One of the components of the purchase consideration is contingent in nature and judgement is required to calculate the future amount payable.</p> <p>As a result the assessment of the accounting for the acquisition was a key audit matter.</p>	<p>Our procedures performed in conjunction with our valuation specialists, included, amongst others:</p> <ul style="list-style-type: none"> <li>• Understanding the process that management and the directors have undertaken to provisionally account for the transaction;</li> <li>• Understanding the terms and conditions of the purchase contract to enable us to critically assess management's accounting treatment including the determination of the composition of the purchase consideration;</li> <li>• Evaluating the methodology used by management to calculate the contingent consideration including assessment as to the reasonableness of key assumptions being projected future sales volumes and the discount rate applied;</li> <li>• Assessing managements provisional purchase price allocation, relating specifically to any likely identified intangibles; and</li> <li>• Assessing the appropriateness of the disclosures included in Note 26.</li> </ul>

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 September 2017, but does not include the financial report and our auditor's report thereon.

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

## Deloitte.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial report, 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting 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 report 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.

# INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited continued

## Deloitte.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on the Remuneration Report

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 7 to 12 of the Directors' Report for the year ended 30 September 2017.

In our opinion, the Remuneration Report of HGL Limited, for the year ended 30 September 2017, complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants  
Sydney, 21 November 2017



# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 October 2017.

## (a) Distribution of equity Securities

### (i) Ordinary share capital

	Total Holders	Units
1 - 1,000	525	160,290
1,001 - 5,000	420	1,136,605
5,001 - 10,000	193	1,480,056
10,001 - 100,000	319	9,971,193
100,001 and over	59	44,611,437
<b>Total</b>	<b>1,516</b>	<b>57,359,581</b>

- 57,359,581 fully paid ordinary shares are held by 1,516 individual shareholders
- Number of shareholders holding less than a marketable parcel (1,087 shares) is 532.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

### (b) Twenty largest holders of quoted equity securities

	Units	% of Units
Sery Pty Limited	10,310,417	18.0
IJV Investments Pty Ltd	6,209,639	10.8
J P Morgan Nominees Australia Limited	5,833,657	10.2
LPO Investments Pty Limited	1,976,804	3.4
Armada Trading Pty Limited	1,645,278	2.9
Kitwood Pty Limited	1,568,180	2.7
ANZ Trustees Limited <Queensland Common Fund A/C>	1,419,088	2.5
HSBC Custody Nominees (Australia) Limited	1,194,103	2.1
Mr George Edward Curphey	1,119,252	2.0
Jennifer Ann Drummond	953,978	1.7
KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C>	898,040	1.6
F M Wolf Pty Limited <F M Wolf Superfund A/C>	721,038	1.3
Dr Ida Constable	590,845	1.2
Fiske Plc	527,926	1.0
Mr Alister John Forsyth	436,389	0.9
John Rainone Pty Ltd <Rainone Super Fund A/C>	403,626	0.8
Mr Robert Julian Constable + Mrs Janet Marie Constable <RJ Realty Provident Fund A/C>	670,128	0.7
Ms Elizabeth Rasmussen	418,328	0.7
Donald Cant Pty Ltd	385,997	0.7
Australasian & General Securities Ltd	372,111	0.6
<b>Total</b>	<b>37,654,824</b>	<b>65.6</b>

### (c) Substantial holders

Ordinary shareholders	Fully paid Number
Sery Pty Limited and its associates	13,144,401
Mrs Ida Constable and her associates	12,550,948

# FIVE YEAR SUMMARY

## HGL Limited and Controlled Entities

	2017	2016	2015	2014	2013
<b>Total Revenue</b>	<b>52,061</b>	<b>52,252</b>	<b>52,000</b>	<b>50,771</b>	<b>68,986</b>
<b>Underlying profit/(loss) (\$000)</b>	<b>2,253</b>	<b>3,008</b>	<b>2,615</b>	<b>533</b>	<b>(421)</b>
Significant items (\$000)	474	1,305	1,107	(21,963)	(8,500)
<b>Reported profit/(loss) (\$000)</b>	<b>2,727</b>	<b>4,313</b>	<b>3,722</b>	<b>(21,430)</b>	<b>(8,921)</b>
Underlying earnings per share (cents)	3.9	5.4	4.8	1.0	(0.8)
Underlying return on shareholders' funds (%) <sup>(a)</sup>	8.6	13.3	13.9	1.2	(0.7)
Reported earnings per share (cents)	4.8	7.9	6.9	(39.4)	(16.8)
Return on shareholders' funds (%) <sup>(b)</sup>	10.4	19.1	19.8	(50.7)	(16.6)
<b>Dividend per share (cents)</b>	<b>2.75</b>	<b>2.5</b>	<b>1.5</b>	<b>2.0</b>	<b>4.0</b>
Shares on issue	57,359,581	55,657,919	53,956,011	53,956,011	53,647,751
Total shareholders' equity (\$000)	28,382	26,315	22,550	18,804	43,157
HGL shareholders' equity (\$000)	28,382	26,315	22,550	18,804	42,302
Net cash/(debt) (\$000)	2,131	3,825	4,683	2,185	1,941

(a) Underlying profit divided by opening HGL shareholders equity

(b) Reported profit divided by opening HGL shareholders equity

# CORPORATE INFORMATION

ABN 25 009 657 961

## Directors

Peter Miller  
Dr Frank Wolf  
Kevin Eley  
Julian Constable  
Cheryl Hayman

## Chief Executive Officer

Henrik Thorup

## Company Secretary & Chief Financial Officer

Iain Thompson

## Registered Office and Principle Place of Business

Level 2  
68-72 Waterloo Road  
Macquarie Park NSW 2113  
Australia

Phone: +61 2 8667 4660

Fax: +61 2 8667 4669

## Share Register

Computershare Investor Services Pty Ltd  
Level 4, 60 Carrington Street  
Sydney NSW 2000

Phone: 1300 855 080

Fax: +61 3 9415 4000

HGL Limited shares are listed on the Australian Stock Exchange – **ASX Code : HNG** (not HGL)

## Bankers

ANZ Banking Group Limited

## Auditors

Deloitte Touche Tomatsu



HGL Limited  
**ASX CODE:** HNG  
ABN 25 009 657 961  
Incorporated in Queensland  
Level 2, 68-72 Waterloo Rd  
Macquarie Park NSW 2113  
PO Box 1445  
Macquarie Centre NSW 2113  
**P** +61 2 8667 4660  
**F** +61 2 8667 4669  
**E** [info@hgl.com.au](mailto:info@hgl.com.au)  
**W** [www.hgl.com.au](http://www.hgl.com.au)

