HGL


# Annual Report 2020

# Contents

# Directors' Report

**for the year ended 30 September 2020**

Your directors submit their report for the year ended 30 September 2020.

## 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.

### Alexander (Sandy) Beard, B.Com, FCA, MAICD (Chair)

Non executive Chair, appointed 29 October 2020. Alexander 'Sandy' Beard has been a Director of numerous public and private companies over the past 25 years. He is the former Chief Executive Officer of CVC Limited (ASX:CVC). He is a professional investor and has extensive experience with investee businesses, both in providing advice, assisting in acquisitions and divestments, capital raisings and in direct management roles, especially bringing management expertise to small cap companies in driving shareholder returns. Sandy is a Director of Probiotec Ltd (ASX:PBP), Centrepoint Alliance Ltd (ASX:CAF), and Pure Foods Tasmania (ASX:PFT).

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

Non executive Director, appointed 1985. Chair 5 June 2020 to 29 October 2020. 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 was appointed Chair on 5 June 2020 and has been head of the Audit & Risk function since 2018. He is a director of Milton Corporation Ltd (ASX:MLT, since December 2011), EQT Holdings Ltd (ASX: EQT, since November 2011) and Pengana Capital Group Ltd (ASX: PCG, since 2017).

### Peter Miller, FCA, FAICD (Director)

Non executive Director, appointed 2000. Peter Miller is a Chartered Accountant with over 45 years experience in public practice. He is a member of the Nomination and Remuneration Committee, and of the Audit and Risk Committee.

### Cheryl Hayman, B.Com, FAICD (Director)

Non executive Director, appointed 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 and business transformation. Cheryl is the lead director on the board for Nomination and Remuneration matters. Cheryl is a director of Shriro Holdings Ltd (ASX: SHM), a director of Chartered Accountants ANZ, as well as other unlisted and not-for-profit companies. She was a director of Clover Corporation Ltd (ASX: CLV) until her retirement from that board in November 2020.

### Joseph Constable BA(Hons), MPhil (Director)

Non executive Director, appointed 30 June 2020. Joseph has five years experience in equity markets. He is an Investment Manager for Supervised Investments Australia Limited, which is a substantial shareholder of HGL. He is also a Responsible Manager under Supervised Investments' AFSL. He has previous investment experience at Hunter Hall International and UK-based Smith and Williamson. Joseph has a Bachelor of Arts with Honours from the University of Melbourne and a Master of Philosophy from the University of Oxford. He brings to the board research and analytical skills in addition to knowledge of investing in public markets.

### The Hon. Helen Coonan BA, LLB (Director)

Non-executive Chair, retired 5 June 2020. The Honourable Helen Coonan is a former Senator in the Australian Parliament, serving from 1996 to 2011 in various Ministerial roles.

Ms Coonan holds Bachelor of Arts and Bachelor of Laws degrees from the University of Sydney, and worked as a lawyer prior to entering Parliament.

The Hon. Helen Coonan holds numerous board and advisory roles, including as Chair of the Australian Financial Complaints Authority (AFCA), and Chair of the Minerals Council of Australia (MCA), Crown Resorts Foundation, Place Management NSW and Supervised Investments Australia Ltd. Ms Coonan is also Chair of Crown Resorts Ltd, and was a non-executive director of Snowy Hydro Ltd.

# Directors' Report

**continued**

### Julian Constable (Director)

Non executive Director, retired 5 June 2020. Julian Constable has 35 years experience in the stockbroking industry, and is a senior client advisor of Bell Potter Securities Ltd. He was a member of the Nomination and Remuneration Committee and the Audit and Risk Committee.

### 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 |
|---|---|---|
| Alexander (Sandy) Beard | 1,340,724 | 7,000,000 |
| Kevin Eley | | 2,521,180 |
| Peter Miller | 134,469 | 25,274,971 |
| Cheryl Hayman | – | 175,000 |
| Joseph Constable | 55,569 | – |

## 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

Gregory Timar, BEC, CA (appointed 11 December 2019)

Greg has extensive experience across a range of sectors, including private equity, hospitality, property, education and aviation.

Prior to joining HGL, Greg held a number of senior executive positions based in Australia over 10 years with the Mulpha Group, a listed diversified conglomerate. During this time Greg was involved in major strategic initiatives in driving growth across the group, including M&A. Prior to this, Greg has had a long background in infrastructure and corporate finance. This included senior roles at various investment banks in Australia and overseas, where he also sat on a number of acquired investee company boards, as well as at Sydney Airport Corporation where he was responsible at different times for strategy and planning and aviation business development.

Greg is a Chartered Accountant and holds a Bachelor of Economics degree from Macquarie University.

### Chief Financial Officer & Company Secretary

Iain Thompson, BEc (Accg), CA, GAICD, Grad. Dip CSP

Appointed CFO / Company Secretary in 2015, Iain has 30 years experience in finance and company secretarial roles, including over a decade at ASX listed Brickworks Ltd. He also has directorship experience in the Not For Profit sector, focussing on early childhood intervention.

Iain is a Chartered Accountant and a member of the Australian Institute of Company Directors.

### Chief Executive Officer

Henrik Thorup, BSc (Econ), GAICD (resigned 20 December 2019)

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 Services.

## Dividends

There have been no dividends paid since the end of the previous financial year.

## Share buy-back

The Company previously operated an on-market share buy-back.There were no shares bought back during the current financial year (2019: 211,297 ordinary shares were acquired at a cost of $86,127).

## Principal activities

HGL invests in and actively supports an investment portfolio of wholly or partly-owned businesses bringing expertise and capital. The portfolio companies are independently operated, selling or renting premium quality products, under exclusive agency or company brands, in diversified niche markets.

## 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 with a registered address in Australia or New Zealand, and holding more than 1,000 shares.

During the year there were no shares issued under the DRP (2019: 1,863,424 shares).

## Operating and financial review

2020 has been a transformational year for HGL, with the undertaking of two significant capital raisings, the first in twenty five years. The Board is grateful for the support of shareholders in these capital raisings and looks forward to utilising the funds to assist undertaking a growth strategy.

In many aspects the underlying operations of HGL improved during the year, supported by Australian Federal Government initiatives to ensure business continuity. However, at a corporate level HGL was affected by the impact of COVID-19 and the pressure it placed on its banking facilities.

COVID-19 impacted business units significantly, and the board would like to acknowledge the considerable efforts of our management and staff who adjusted quickly and effectively, including voluntary reduction of hours and pay, as well as adapting to working from home. Support from landlords through reductions or rescheduling of rental costs through this period was also appreciated.

Leadership shown by the CEO's of each of the business units was inspiring and the Board thanks each of them for their dedication, flexibility and confidence during an unprecedented period in HGL's history.

The largest financial impact on HGL during the year has been the impairment of goodwill in JSB, necessitated by continuing business under-performance which was accentuated by COVID-19 and the lack of business scale. In recognition of this and likely financial requirements to achieve scale, HGL has undertaken to sell 50% of its business to synergistic competitor FOS Lighting, subsequent to year end. This is expected to result in improved business performance through wider product and service offerings, release of synergy benefits and additional market growth opportunities. FOS intend to pursue an IPO in 2021 which will give HGL the opportunity to further participate if it chooses at that time.

Similarly, 2020 has emphasised the need to further review the current operations of HGL including the cost structure of corporate head office relative to the current size of operations. It is evident that HGL will need to both remove costs and add additional revenue streams at the corporate level as well as review investments and structures to ensure sufficient capacity to support current and new operating businesses.

### Group Results Overview

Revenue from Continuing Operations for the twelve months ending 30 September 2020 was $38.1 million (FY19: $39.2 million), a 2.9% decrease on the prior corresponding period.

Underlying Earnings Before Interest and Tax ("EBIT") from Continuing Operations in FY20 of $1.9 million increased $1.3 million on the prior corresponding period, largely as a result of an increase in the contribution from Mountcastle, a return to profitability for BLC Cosmetics, receipt of COVID-19 related support payments and cost savings in Head Office, offset by a weaker performance by JSB Lighting.

| | Consolidated entity | |
|---|---|---|
| | **2020 $000** | **2019 $000** |
| **Underlying EBIT** | **1,934** | **605** |
| Interest cost | (492) | (205) |
| Significant items before tax | (11,460) | 1,669 |
| Tax expense | (2,681) | (610) |
| **Statutory Net Loss after Tax** | **(12,699)** | **1,459** |

# Directors' Report

**continued**

## Operating and financial review (continued)

| | Consolidated entity | |
|---|---|---|
| | **2020 $000** | **2019 $000** |
| **Significant items** | | |
| Impairment of intangible assets | (11,039) | – |
| Changes in value of financial assets and liabilities | 1,130 | 1,506 |
| Restructuring costs | (498) | – |
| Notice period payment for CEO resignation | (397) | – |
| Acquisition cost | – | (186) |
| Legal Claim | – | 508 |
| Other non-underlying items | (201) | (159) |
| | (11,005) | 1,669 |
| Share of associate's non-underlying items | (455) | – |
| **Total significant items** | **(11,460)** | **1,669** |

Statutory Net Loss After Tax for FY20 was $12.7 million due to the requirement to impair $11.0 million of the value of the intangible assets in the JSB Lighting business, as well as a $0.5 million restructuring loss relating to the surrender of the group's Macquarie Park premises lease and as a result moving to smaller existing premises at Seven Hills, saving some $1.2 million of payments over the balance of that lease. Non-cash profits of $1.1 million have also been recognised from the revaluation of the carrying values of the Pegasus put and call options and the Intralux deferred consideration estimate. Other significant items included a $0.5 million share of significant items from the Associates acquisition of LW Reid and costs associated with the termination of the previous CEO.

The carrying value of the Deferred Tax Assets associated with the Australian Tax Consolidated group was also impaired, as the structure of group earnings does not currently suggest utilisation of accumulated revenue losses in the near future.

The balance sheet was strengthened during the year by a $2.6 million capital raise in May 2020, and has been further improved subsequent to year end by a further raise of $4.1 million in November 2020 with an additional raise of $0.5 million subject to shareholder approval at the 2021 Annual General Meeting.

### Business unit review

**Mountcastle** is a manufacturer and distributor of uniforms, headwear and bags to public and private schools, government and corporate clients in Australia and overseas. HGL owned 45% of the Mountcaslte Group at balance date, down from 50% during the prior year.

During the year, Mountcastle completed the strategic acquisition of LW Reid, nearly doubling annual revenues to $45 million (annualised) from $23 million in FY19, and following a concurrent capital raising, HGL now owns approximately 44% of the combined business. Operational integration of the LW Reid business is proceeding well.

Sales performance and supply chain were impacted by COVID-19, but have now returned to forecast levels. Underlying EBIT in Mountcastle rose 60% in FY20 compared to the prior period, including the 9 month contribution from LW Reid. HGL's share of net profit after tax has increased 47% to $2.3 million.

The school wear and corporate wear segments have long-term growth opportunities driving improved company profitability. Mountcastle continues to strengthen its position in the school wear market in Australia, underpinned by its strategic partnership with The School Locker retail chain and additional investment in systems and supply network. Mountcastle remains focused on optimising its production capabilities and capacity in Sri Lanka and Vietnam.

**Pegasus Healthcare** is a supplier of high quality, clinically supported alternating pressure devices (pressure relieving mattresses) sold or rented to hospitals and also for aged care use. Pegasus' rehabilitation division supplies assistive technology devices, medical equipment, consumables and services to patients being nursed at home. HGL owns 70% of the Pegasus Healthcare Group.

Pegasus achieved sales revenue of $11.2 million, a 13.2% increase on the prior period, with growth across both the sales and mattress rental sides of the business. On the latter, growth was assisted by the first full year of revenues on the major new contract with Western Sydney Local Health District (WSLHD), including Westmead and Blacktown hospitals.

## Operating and financial review (continued)

Progress has also been made during the year breaking into the Victorian mattress rental market. Business development efforts have continued to be undertaken during the period on new mattress contracts. The business has also secured the right to sell Linet beds to NSW Health, a new activity.

Additional investment from growth into organisational resources and business development, as well as increased depreciation from new mattresses, did however see expenses increase. Pleasingly, Pegasus still delivered growth in underlying EBIT to $1.0 million in FY20, up from $0.9 million in FY19.

**BLC Cosmetics** imports and distributes high quality skincare products and devices to beauty salons, spas, wellness centres and skincare clinics in the Australia Pacific region. BLC is a wholly owned subsidiary of HGL.

Notwithstanding closure of customer premises through COVID-19, BLC increased revenues by over 16% in the year to $6.0 million. Thalgo continues to be the main brand for the business and has performed in line with expectations. The company secured the rights to distribute the HydroPeptide cosmeceutical brand which was relaunched by BLC in March. Growth will be challenged with the withdrawal of the agency for Alpha-H brand during the first half of FY21. BLC continues to explore new distribution and brand opportunities to complement its existing house of brands growth strategy.

Despite a small reduction in gross margins, due to a combination of foreign exchange and promotional activity, FY20 saw BLC return to profitability during the year with a positive EBIT of $0.1 million improved from a $0.6 million loss in FY19, assisted by JobKeeper payments and leadership on this business unit.

**SPOS Group** is a retail marketing business selling tailored retail display solutions in Australia and New Zealand. SPOS Group is wholly owned by HGL.

SPOS Group achieved revenue of $10.0 million, consistent with last year's $10.3 million. Both the Australian and New Zealand operations performed well, with a COVID-19 related slowdown in some traditional market segments. Fortunately, this was compensated for by new opportunities to sell hygiene related products throughout the pandemic.

With a decrease in gross margin, in part due to foreign exchange fluctuations during the period, SPOS Group generated an Underlying EBIT result of $0.7 million against $0.6 million in the prior corresponding period, assisted by JobKeeper.

**JSB Lighting** is a supplier of commercial lighting products within the Australian and New Zealand interior design and architectural lighting markets.JSB Lighting was wholly owned by HGL during the financial year.

JSB Lighting experienced a further reduction in sales with revenue of $10.9 million in 2020 compared to $13.9 million in the same period last year. The reduced level of sales saw EBIT drop to a loss of $0.5 million from a profit of $0.4 million last year.

As highlighted previously, subsequent to the end of the financial year HGL has agreed terms to merge the business with synergistic competitor FOS Lighting, who intends to pursue an ASX listing in 2021.

### Outlook

Whilst the Board currently believes in a return to more normalised trading conditions in 2021 for the majority of the businesses, underpinned by optimism around emerging vaccines and ongoing contact tracing regimes, it is premature to provide guidance for the 2021 financial year.

Immediate priorities for HGL for the 2021 financial year include:

- Continue to ensure the health and safety of our people
- Review corporate overhead with intention to both reduce costs and add additional revenue streams
- Simplify business operations and reporting structures to enable meaningful cost reduction at the corporate level
- Assist key operating investment companies in executing on business growth objectives
- Divest business units identified as non-core to liberate capital for alternative investments / investment strategies
- Build relationships with strategic partners to enhance deal flow quality and quantity
- Evaluate investment strategy and focus to enable execution of new investments in early 2021

### Risk management

The achievement of HGL's business objectives may be affected by internal and external variables potentially impacting the operational and financial performance of the business. The Group has an Enterprise Risk Management and Reporting System, which identifies strategic and operational risks and specifies mitigation actions and is reported to the board.

Key risks for the Group include:

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

*Currency risk* – Exposure to foreign currency fluctuations (predominantly USD and Euro) is mitigated through the use of hedging structures and adjusting selling prices for drops in exchange rates on key supply contracts. However certain of our products are only able to recoup impacts of adverse currency movements by adjusting the selling prices of goods in a competitive market, which may impact either sales volumes or margins. Certain contracts also provide fixed pricing for a period of time, such that any movement in foreign exchange rates during this period, will directly impact profitability under those contracts.

# Directors' Report

**continued**

## Operating and financial review (continued)

*Supplier risk* – Reliance on a small number of key suppliers is managed where possible through the use of distribution agreements, ongoing development of long-term supplier relationships and the use of complementary product range brands to decrease percentage contribution from important suppliers. Distribution agreements, where documented, are typically of a fixed term nature and subject to termination with notice from the supplier. In addition, a significant portion of products for our businesses are sourced from China. Any disruption in supply from China will significantly impact our ability to sell goods in our customer markets.

*COVID-19* – HGL's businesses are highly reliant on international products sourced from various overseas markets, to be sold principally in its key markets of Australia and New Zealand. International supply chains have and may continue to be impacted by COVID-19 related issues.

*Cyber / IT risk* – Our businesses are highly reliant on information systems for their management, including for supplier and sales processes. While many of these systems are provided by reputable third parties and hosted in safe 'cloud' environments, various businesses are still reliant on legacy locally based systems that could be subject to failure or attack by various actors seeking to cause disruption. HGL's businesses may at any point be implementing upgrades to systems which may be subject to delay or cost overrun, and / or cause disruption to suppliers or customers, or may fail to achieve all their intended functionality.

*WH&S risk* – HGL is committed to ensuring the work health and safety (WH&S) of all its group employees, customers and the general public. The group operates a number of warehouse facilities, some of which involve manual handling of products. Wherever possible manual handling is reduced or eliminated and training is made available to staff on safety related matters. Due to COVID-19, most of the employees of the group's businesses are now working from home. HGL has not been able to assess the suitability of employees' home environments to undertake work. This may give rise to additional risks.

*Climate risk* – HGL's portfolio does not contain any investments with direct risk from climate change (such as exposure to the energy sector). The Group acknowledges there are general economic risks associated with governmental responses to climate change, and will manage and respond to these risks as they develop further.

### 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.

## 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

On 21 October 2020 the company announced a $4.1 million capital raise, comprising a private placement of new shares representing 15% of issued capital coupled with a 1 for 4 partially underwritten non-renounceable entitlement offer at $0.125 per share. The offer closed on 17 November 2020 and raised the full amount of funds. The capital raise was directed at further strengthening the Company's balance sheet and assisting future growth of the Group.

Following his participation in the raise, Sandy Beard was invited to join the board of Directors, and he was appointed Chair of the Company on 29 October 2020.

During November 2020, the company received an offer to sell its interest in JSB Lighting. On 23 November 2020, the company announced that it had reached a binding heads of agreement to sell a 50% interest in JSB to the FOS Lighting Group, with FOS also having the option to purchase the remaining 50%. Consideration is in the form of 3,000,000 shares in FOS, plus 50% of JSB's Net Tangible Asset Value at the point the option is exercised. HGL has also undertaken to underwrite $500,000 in new shares in FOS as part of any future Initial Public Offering, which it intends pursuing during 2021. The financial impacts of this transaction have not been recognised in the financial statements as at 30 September 2020.

There have been no other 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 2020 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 2020. Unless otherwise indicated, the individuals were KMP for the entire financial year.

## Remuneration report (audited) (continued)

### Directors

| | |
|---|---|
| Alexander (Sandy) Beard | Non-Executive Chair (Appointed Chair 29 October 2020) |
| Kevin Eley | Non-Executive Director (Chair 5 June 2020 to 29 October 2020) |
| Peter Miller | Non-Executive Director |
| Cheryl Hayman | Non-Executive Director |
| Joseph Constable | Non-Executive Director (Appointed 30 June 2020) |
| The Hon Helen Coonan | Non-Executive Chair (Resigned 5 June 2020) |
| Julian Constable | Non-Executive Director (Resigned 5 June 2020) |

### Executives

| | |
|---|---|
| Gregory Timar | Chief Executive Officer (Appointed 11 December 2019) |
| Iain Thompson | Chief Financial Officer & Company Secretary |
| Henrik Thorup | Chief Executive Officer (Resigned 20 December 2019) |

### Remuneration governance

#### Remuneration committee

In July 2020, the Board resolved to absorb the function of the Nomination and Remuneration Committee (the Committee) into the remit of the full Board of directors. This decision was taken in recognition that with the size of the company, and a small Board of directors, it was less than effective to have this extra layer of governance for the Group. As part of this governance restructure, the board is retaining the Committee's Charter as guidance to the Board on remuneration and nomination matters. Cheryl Hayman, who had Chaired the Committee remains the designated key director in relation to remuneration related matters. References in this remuneration report to matters undertaken by the Committee should be interpreted as being undertaken by the Board as a whole.

Prior to July 2020, the Committee operates under the delegated authority of the Board of Directors. A summary of the Committee Charter is included on the HGL website www.hgl.com.au.

Membership of the Committee prior to July 2020 was as follows:

| | |
|---|---|
| Cheryl Hayman | Committee Chair |
| Peter Miller | |
| Julian Constable | (Resigned 5 June 2020) |

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;
5. Statutory reporting on remuneration; and
6. Oversight of Company culture and performance accordingly.

#### Use of remuneration consultants

Where the Committee or the Board will benefit from external advice, it is authorised to 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.

# Directors' Report

**continued**

## Remuneration report (audited) (continued)

Remuneration packages are reviewed annually 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 Committee, when necessary, seeks the advice of external advisers in connection with the structure of remuneration packages.

During the year ended 30 September 2020, the Committee engaged Allegis Partners to assist with recruitment of the Group CEO at a cost of $75,000. The services were provided directly to the Committee Chair with the Committee being satisfied there was no influence by KMP to the services delivered.

### Executive remuneration arrangements

#### Remuneration Policy

The Group operates from multiple locations across 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 responsibilities of the Committee and the Board include developing remuneration frameworks for senior management which incorporate the following considerations:

- The structure of the total remuneration package (TRP) including base salary, other benefits, short term incentive (bonus) and share-based long term incentive;
- The mechanism to be used to review and benchmark the competitiveness of the TRP;
- The Key Performance Indicators (KPIs) to be set;
- Changes in the amounts of different components of the TRP following annual performance reviews;
- Decisions on whether the Long Term Incentive Plan will be offered for any year; the structure of equity to be awarded to the CEO and subsequently specified Executives under this plan when offered; and setting of associated performance indicators for future assessment;
- Determination of the amount of equity and the associated vesting at the end of each agreed assessment period of the Long Term Incentive Plan, based on financial performance indicators previously established; and
- The remuneration and any other benefits of the Non-Executive Directors.

The Group's executive remuneration strategy seeks to match the goals of the KMP to those of the shareholders. This is achieved through combining appropriate market levels of guaranteed remuneration with incentive payments. These incentive payments are only paid on attainment of previously agreed annual performance targets which are developed against the business' strategic and financial goals, unless the Board considers a discretionary bonus is appropriate.

#### Components of remuneration

*Guaranteed fixed base remuneration*

Base remuneration, which is not at risk, is structured as a total employment package and includes salary, superannuation and other benefits, with the allocation between salary and other sacrificing benefits at the executive's discretion. Base remuneration is annually reviewed but not necessarily increased each year. The base remuneration is set at the appropriate level of market rate for the role and the individual and in consideration of the size of the Company.

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

*At risk remuneration*

*FY20 Financial Year*

The CEO and specified Executives are eligible for STI payments, while the CEO and CFO also have access to an LTI in the form of a Loan Funded Share Plan.

*Short term incentives*

Following the appointment of the HGL CEO during FY20, the Board included in the contract a short term incentive scheme which covers the HGL CEO as well as the existing CFO. The scheme provides the opportunity to earn an incentive payment against agreed annual targets set by the Board.

The eligibility for the CEO is set at 50% of base salary with 75% of the provided eligibility amount earnable upon achievement of budget performance targets and up to 120% earnable upon achievement of agreed stretch targets. This structure is reviewed annually between the Board and the CEO.

The Company's Executive remuneration is directly linked to its business performance and business strategy. The Board uses its annual strategy and budget process to identify key goals and challenges for the year.

## Remuneration report (audited) (continued)

For 2020 the KPI's included financial, strategic, leadership and cash flow KPI's as outlined in the following table:

| KPI Type | Percent Distribution to STI | Description |
|---|---|---|
| Financial | 40% | Achieving forecast Group Underlying EBIT from Continuing Operations |
| Strategic | 30% | Deep business analysis and strategic plan for each business by the end of the financial year and bedding down LW Reid |
| Leadership | 15% | Team leadership for enhanced capability for future growth |
| Cash Flow | 15% | Building cashflow and an equity base |

*Long term incentives*

The LTI is designed to enable a strategic focus on the longer term sustainability and growth of HGL.

At the AGM on 28 February 2020, shareholders approved the commencement of the HGL Employee Loan Funded Share Plan. Under the plan, the HGL CEO and CFO have been issued with 1,000,000 HGL Ltd shares and 200,000 HGL Ltd shares respectively, at an issue price of $0.27 per share, offset by an unsecured, interest free loan from the Company. The loans are limited recourse, meaning that if the market value of the Shares is less than the loan value at the end of the term of the loan, the Participant will not need to repay the remaining loan balance out of their own funds. The loans are repayable in full on the earlier of 5 years from the date the loan is made; the shares being acquired by a third party under a takeover bid or similar; the Participant ceasing employment with the Group or becoming insolvent or subject to bankruptcy proceedings; or on the date the Participant and the Company otherwise agree.

The board has the discretion to extend the plan to other participants, up to a maximum of 3,000,000 shares.

*Employment contracts*

Terms of employment are formalised in employment letters to each of the KMP. There are currently no fixed term contracts in place, however personnel must adhere to a minimum notice period as stipulated in their contracts of employment. The current CEO has a twelve month notice period, and the CFO has a three month notice period. Aside from statutory requirements, the payment of any negotiated termination benefit is at the discretion of the Board.

*Executive & Board remuneration*

| | Short term benefits | | | Post employment benefits | Long term benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | **Salary & fees $** | **Short term bonus $** | **Non monetary benefits $** | **Super-annuation $** | **Long term incentives[5] $** | **Long service leave $** | **Termination payments $** | **Total $** | **Percentage variable remunera-tion %** |
| **Directors** | | | | | | | | | |
| Kevin Eley | 58,494 | – | – | 5,557 | – | – | – | 64,051 | – |
| Peter Miller | 49,315 | – | – | 4,685 | – | – | – | 54,000 | – |
| Cheryl Hayman | 49,315 | – | – | 4,685 | – | – | – | 54,000 | – |
| Joseph Constable[1] | 11,128 | – | – | 1,057 | – | – | – | 12,185 | – |
| The Hon. Helen Coonan[2] | 59,244 | – | – | 5,628 | – | – | – | 64,872 | – |
| Julian Constable[2] | 35,546 | – | – | 3,377 | – | – | – | 38,923 | – |
| Total Directors | 263,042 | – | – | 24,989 | – | – | – | 288,031 | – |
| **Executives** | | | | | | | | | |
| Gregory Timar[3] | 214,617 | – | – | 17,298 | 33,750 | 4,074 | – | 269,739 | – |
| Iain Thompson | 256,291 | 30,000 | – | 21,073 | 6,750 | 4,573 | – | 318,687 | 9.4 |
| Henrik Thorup[4] | 259,630 | – | 3,809 | 22,668 | – | – | 296,418 | 582,525 | – |
| Total executives | 730,538 | 30,000 | 3,809 | 61,039 | 40,500 | 8,647 | 296,418 | 1,170,951 | |
| Total KMP remuneration | 993,580 | 30,000 | 3,809 | 86,028 | 40,500 | 8,647 | 296,418 | 1,458,982 | |

(1) Appointed 30 June 2020
(2) Resigned 5 June 2020
(3) Appointed 12 December 2019
(4) Resigned 19 December 2019
(5) Long term incentive represents the value ascribed to Employee Loan Funded Share Plan shares held during the financial year, and do not include any cash payments

# Directors' Report

**continued**

## Remuneration report (audited) (continued)

| 2019 | Short term benefits: Salary & fees $ | Short term benefits: Short term bonus $ | Short term benefits: Non monetary benefits $ | Post employment benefits: Super-annuation $ | Long term benefits: Long term incentives $ | Long term benefits: Long service leave $ | Termination payments $ | Total $ | Percentage variable remunera-tion % |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| The Hon. Helen Coonan[(2)] | 16,274 | – | – | 1,546 | – | – | – | 17,820 | – |
| Peter Miller | 92,846 | – | – | 8,820 | – | – | – | 101,666 | – |
| Julian Constable[(2)] | 54,795 | – | – | 5,205 | – | – | – | 60,000 | – |
| Kevin Eley | 54,795 | – | – | 5,205 | – | – | – | 60,000 | – |
| Cheryl Hayman | 54,795 | – | – | 5,205 | – | – | – | 60,000 | – |
| Total Directors | 273,505 | – | – | 25,981 | – | – | – | 299,486 | |
| **Executives** | | | | | | | | | |
| Henrik Thorup[(4)] | 504,151 | – | 20,487 | 25,000 | – | 10,350 | – | 559,988 | – |
| Iain Thompson | 274,951 | – | – | 20,649 | – | 5,684 | – | 301,284 | – |
| Total Executives | 779,102 | – | 20,487 | 45,649 | – | 16,034 | – | 861,272 | |
| Total KMP remuneration | 1,052,607 | – | 20,487 | 71,630 | – | 16,034 | – | 1,160,758 | |

### *Remuneration under COVID-19*

As announced on 17 April 2020, all HGL Directors and employees of the parent company took a temporary 20% reduction in fees and base salary, in recognition of the uncertainty surrounding COVID-19 impacts on the Group. Salaries started returning to 100% from July 2020, with the HGL CEO returning to full pay from 1 November 2020. Director fees have remained reduced by 20% to $48,000 for the time being.

The board acknowledges the sacrifices made by those Group employees who took voluntary reductions in number of working hours and a related temporary reduction in earnings across the second half of the financial year.

### *Relationship between remuneration policy and company performance*

Short term incentives are largely determined by the underlying profit (EBIT) from Continuing Operations of the Group. This criteria is important as it is one of the key factors used to determine dividend payments, with underlying profit being a preferred indicator to assess future earnings and therefore dividend opportunities. Amongst other matters, the Board remains focused on the reintroduction of dividends to shareholders.

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 and excluding the impact of business units which have been disposed of during the year. A reconciliation of statutory net profit after tax to underlying EBIT is included in the operating and financial review.

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

Non-financial targets forming part of the STI assessment criteria have been chosen to reward performance by KMP in building a stronger long term outlook for the Group, which may not be visible through an immediate positive contribution to Underlying EBIT.

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.

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total Revenue ($000)[(1)] | 38,526 | 40,301 | 43,393 | 39,220 | 38,095 |
| Underlying EBIT ($000)[(1)] | 3,136 | 3,587 | 3,892 | 605 | 1,934 |
| Net profit after tax ($000) | 4,313 | 2,727 | 812 | 1,461 | (12,699) |
| Return on Funds Employed (%) | 19.1 | 10.4 | 2.9 | 5.9 | (84.7) |
| Share price at year end ($) | 0.445 | 0.500 | 0.440 | 0.320 | 0.16 |
| Statutory Earnings per Share (cents) | 7.9 | 4.8 | 1.1 | 1.9 | (19.3) |
| Dividends – ordinary shares (cents) | 2.5 | 2.75 | 3.0 | 0.75 | – |

## Remuneration report (audited) (continued)

### 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 2020 was $288,031 which is within the approved amount.

On 29 July 2019 The Hon. Helen Coonan was appointed to the board, taking the role as Chair. Under the agreed package, the Chair was paid fixed director fees of $100,000 per annum. Following approval at the 2020 Annual General Meeting, the Chair received 1,000,000 options. These options subsequently lapsed following Ms Coonan's resignation from the board.

Individual non-executive directors fees have not increased since October 2007, and during 2020 in response to COVID-19 fees were temporarily reduced to $48,000 per annum, with the Chair receiving $80,000 per annum. Following the appointment of Sandy Beard as Chair in October 2020, the Chair's fee was further reduced to $50,000 per annum. Fees remain at this level at the date of this report.

There are no additional fees paid to Committee Chairs.

## 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 2020 | Opening Balance | Purchases | Incentive Scheme (5) | Disposals | Closing balance | Indirect Holding |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Helen Coonan(1) | – | – | – | – | – | – |
| Peter Miller | 15,059,331 | 5,268,220 | – | – | 20,327,551 | 20,219,976 |
| Kevin Eley | 1,144,338 | 872,606 | – | – | 2,016,944 | 2,016,944 |
| Julian Constable(1) | 6,757,770 | 198,272 | – | – | 6,956,042 | 6,601,134 |
| Cheryl Hayman | – | 140,000 | – | – | 140,000 | 140,000 |
| Joseph Constable(2) | – | – | – | – | 44,455 | – |
| **Senior executives** | | | | | | |
| Greg Timar(3) | – | – | 1,312,500 | – | 1,312,500 | – |
| Henrik Thorup(4) | – | – | – | – | – | – |
| Iain Thompson | 6,296 | 26,497 | 262,500 | – | 295,293 | 26,497 |

(1) Resigned 5/6/2020. Closing balance represents shares held as at date of resignation
(2) Appointed 30/6/2020
(3) Appinted 12/12/2019
(4) Resigned 19/12/2019
(5) Shares granted under the HGL Employee Loan Funded Share Scheme as approved at the 2020 Annual General Meeting. Includes subsequent issues provided at the board's discretion as part of the pro-rata rights issues.

## End of Audited Remuneration Report

# Directors' Report

**continued**

## 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 14.

## 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:

| | Consolidated entity $ |
|---|---|
| Tax compliance services | 10,500 |

## Options

As part of the acquisition of Pegasus Healthcare on 1 April 2018, a Put and Call option was granted to the minority shareholder. The Put option gives the right to the minority shareholder to require HGL to acquire, and the Call option gives HGL the right to acquire, the remaining 30% interest in the Pegasus Healthcare group. Neither option may be exercised before 1 April 2021. The exercise price is a multiple of 4.0 times (Put) or 4.3 times (Call) the average annual EBITDA of the preceding 24 month period to exercise. The option does not give rights to the minority shareholder to participate in any share issue or interest in any other group entity. All options remained outstanding at the date of this report.

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). The option lapsed during the 2020 financial year.

At the AGM on 29 February 2020, shareholders approved the issuance of options to the Hon. Helen Coonan with 500,000 options exercisable at 45 cents per share and 500,000 options exercisable at 50 cents per share. Following the resignation of Helen from the board of HGL Ltd, the options lapsed with no options exercised.

Subsequent to balance date but prior to the date of this report, HGL agreed to grant a Call option over the remaining 50% of the equity in Baker & McAuliffe Holdings Pty Ltd not sold to FOS Group as part of the sale of JSB Lighting. The Call option will allow FOS Group to acquire the equity for Net Tangible Asset value at the date the Call option is exercised.

Except for the above, 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' 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 and Risk | Meetings of committees: Nomination and Remuneration |
|---|---|---|---|
| **Number of meetings held:** | 34 | 3 | 2 |
| **Number of meetings attended:** | | | |
| Helen Coonan[1] | 25 | – | – |
| Peter Miller | 34 | 3 | 2 |
| Kevin Eley | 34 | 3 | – |
| Julian Constable[1] | 25 | 3 | 2 |
| Cheryl Hayman | 34 | – | 2 |
| Joseph Constable[2] | 9 | – | – |

(1) Helen Coonan and Julian Constable attended all meetings prior to their retirement.
(2) Joseph Constable attended all meetings since his appointment.

## Corporate governance

The Company's Corporate Governance Statement for the year ended 30 September 2020 is effective and was approved by the Directors on 30 November 2020. The Corporate Governance Statement is available on the HGL Ltd website at 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

Sandy Beard
**Chair**

Sydney, 30 November 2020

Kevin Eley
**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

30 November 2020

The Board of Directors
HGL Limited
Unit 4 – 17 Stanton Road
Seven Hills NSW 2147

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 2020, 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

Carlo Pasqualini
Partner
Chartered Accountants

# Consolidated Statement of Profit or Loss

**for the year ended 30 September 2020**

| | Notes | Consolidated entity 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Sales revenue | 3.1 | 31,893 | 33,791 |
| Cost of sales | | (18,014) | (18,280) |
| **Gross profit** | | **13,879** | **15,511** |
| Equipment rental revenue | | 6,202 | 5,429 |
| Other income | 3.2 | 1,170 | 851 |
| Sales, marketing and advertising expenses | | (7,680) | (7,672) |
| Occupancy expenses | | (628) | (2,032) |
| Freight and distribution expenses | | (3,553) | (3,360) |
| Depreciation and amortisation | | (2,808) | (1,131) |
| Administration and other expenses | | (8,605) | (8,392) |
| Change in fair value of financial instruments | 14.2 | 858 | 1,506 |
| Change in value of put option liability | 14.3 | 375 | – |
| Impairment of intangible assets | 8 | (11,039) | – |
| Finance Costs | 3.4 | (198) | (184) |
| Interest on Lease Liability | 3.4 | (294) | (21) |
| Share of profit of an associate | 2 | 2,303 | 1,564 |
| **(Loss)/profit before tax** | | **(10,018)** | **2,069** |
| Income tax expense | 4 | (2,681) | (610) |
| **(Loss)/profit for the year from continuing operations** | | **(12,699)** | **1,459** |
| Profit after tax for the year from discontinued operations | | – | 2 |
| **(Loss)/profit for the year** | | **(12,699)** | **1,461** |
| Attributable to: | | | |
| Equity holders of the parent | | (13,011) | 1,145 |
| Non-controlling interests | | 312 | 316 |
| **Total (Loss)/Profit** | | **(12,699)** | **1,461** |

| | Cents | Cents |
|---|---|---|
| Earnings per share | | |
| Basic EPS from Continuing Operations | (19.3) | 1.9 |
| Basic EPS from Continuing and Discontinued Operations | (19.3) | 1.9 |
| Diluted EPS from Continuing Operations | (19.3) | 1.9 |
| Diluted EPS from Continuing and Discontinued Operations | (19.3) | 1.9 |

# Consolidated Statement of Other Comprehensive Income

**for the year ended 30 September 2020**

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| **(Loss)/profit for the year** | (12,699) | 1,461 |
| **Other comprehensive income** | | |
| *Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Exchange differences on translation of foreign operations | 13 | 6 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | 13 | 6 |
| **Total comprehensive (loss)/income for the year, net of tax** | **(12,686)** | **1,467** |
| Total comprehensive income attributable to: | | |
| Equity holders of the Parent | (12,998) | 1,151 |
| Non-controlling interests | 312 | 316 |
| **Total comprehensive income** | **(12,686)** | **1,467** |

These statements should be read in conjunction with the accompanying notes

# Balance Sheet

**as at 30 September 2020**

| | | Consolidated entity | |
|---|---|---|---|
| | **Notes** | **2020 $'000** | **2019 $'000** |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 3,858 | 3,097 |
| Trade and other receivables | 12 | 4,965 | 5,587 |
| Inventories | 11 | 4,613 | 4,768 |
| Prepayments | | 348 | 297 |
| Current tax receivable | | 471 | 354 |
| **Total current assets** | | **14,255** | **14,103** |
| **Non current assets** | | | |
| Investment in associates | 2 | 8,159 | 5,961 |
| Property, plant and equipment | 9 | 4,537 | 3,740 |
| Right of use assets | 10 | 4,377 | 355 |
| Intangible assets | 8 | 3,669 | 14,869 |
| Deferred tax assets | 4 | – | 2,439 |
| Other financial assets | 14.3 | 916 | 1,019 |
| Other investments | | 11 | 11 |
| **Total non current assets** | | **21,669** | **28,394** |
| **Total assets** | | **35,924** | **42,497** |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 7,822 | 6,473 |
| Interest bearing loans and borrowings | 14.1 | 2,335 | 2,850 |
| Lease liabilities | 10.3 | 1,298 | 158 |
| Provisions | 15 | 1,366 | 1,437 |
| Other current financial liabilities | 14.2 | 2,314 | 276 |
| Income tax payable | | 224 | – |
| **Total current liabilities** | | **15,359** | **11,194** |
| **Non-current liabilities** | | | |
| Lease liabilities | 10.3 | 3,387 | 172 |
| Provisions | 15 | 312 | 494 |
| Other financial liabilities | 14.2 | 229 | 3,781 |
| Deferred tax liabilities | 4.2 | 129 | – |
| **Total non current liabilities** | | 4,057 | 4,447 |
| **Total liabilities** | | 19,416 | 15,641 |
| **Net assets** | | **16,508** | **26,856** |
| **Equity** | | | |
| Issued capital | 16 | 42,477 | 40,064 |
| Other capital reserves | 18 | (1,135) | (1,073) |
| Accumulated losses | | (23,369) | (10,358) |
| Other components of equity | | (3,349) | (3,349) |
| Non-controlling interests | 17 | 1,884 | 1,572 |
| **Total equity** | | **16,508** | **26,856** |

These statements should be read in conjunction with the accompanying notes

# Consolidated Statement of Changes in Equity

**for the year ended 30 September 2020**

| | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued capital (Note 16) $'000** | **Foreign currency reserve (Note 18) $'000** | **Employee share scheme reserve (Note 18) $'000** | **Other reserve (Note 18) $'000** | **Retained earnings / accumulated losses $'000** | **Non-controlling interests $'000** | **Other components of equity $'000** | **Total equity $'000** |
| As at 1 October 2019 | 40,064 | (172) | – | (901) | (10,358) | 1,572 | (3,349) | 26,856 |
| Profit / (loss) for the year | – | – | – | – | (13,011) | 312 | – | (12,699) |
| Translation of overseas controlled entities | – | 13 | – | – | – | – | – | 13 |
| Share of Associates movement in reserves | – | – | – | (116) | – | – | – | (116) |
| Total comprehensive income | – | 13 | – | (116) | (13,011) | 312 | – | (12,802) |
| Issue of share capital (Note 16) | 2,620 | – | – | – | – | – | – | 2,620 |
| Costs associated with issues of shares | (207) | – | – | – | – | – | – | (207) |
| Share-based payments | – | – | 41 | – | – | – | – | 41 |
| **As at 30 September 2020** | **42,477** | **(159)** | **41** | **(1,017)** | **(23,369)** | **1,884** | **(3,349)** | **16,508** |

These statements should be read in conjunction with the accompanying notes

# Consolidated Statement of Changes in Equity

**for the year ended 30 September 2019**

| | Attributable to the equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Issued capital (Note 16) $'000** | **Foreign currency reserve (Note 18) $'000** | **Other reserve (Note 18) $'000** | **Retained earnings / accumulated losses $'000** | **Non-controlling interests $'000** | **Other components of equity $'000** | **Total equity $'000** |
| As at 1 October 2018 | 39,408 | (178) | (901) | (10,155) | 1,256 | (3,349) | 26,081 |
| Shares issued under a Dividend Reinvestment Plan | 749 | – | – | – | – | – | 749 |
| Shares bought back and cancelled under on-market buy-back | (86) | – | – | – | – | – | (86) |
| Costs associated with issues of shares | (7) | – | – | – | – | – | (7) |
| Profit for the year | – | – | – | 1,145 | 316 | – | 1,461 |
| Translation of overseas controlled entities | – | 6 | – | – | – | – | 6 |
| Total comprehensive income | – | 6 | – | 1,145 | 316 | – | 1,467 |
| Dividends | – | – | – | (1,348) | – | – | (1,348) |
| **As at 30 September 2019** | **40,064** | **(172)** | **(901)** | **(10,358)** | **1,572** | **(3,349)** | **26,856** |

# Consolidated Statement of Cash Flows

**for the year ended 30 September 2020**

| | Notes | Consolidated entity 2020 $'000 | Consolidated entity 2019 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash receipts in the course of operations | | 41,842 | 44,271 |
| Cash payments in the course of operations | | (39,949) | (43,041) |
| Government assistance | | 1,010 | – |
| Interest received | | 5 | 34 |
| Interest paid | | (154) | (205) |
| Income tax paid | | (6) | (469) |
| Dividends received from associates | 2 | 448 | 500 |
| **Net cash flows from operating activities** | 7 | **3,196** | **1,090** |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 7 | – |
| Purchase of property, plant and equipment | 9 | (2,368) | (1,718) |
| Investment in Associates | 2 | (500) | – |
| Acquisition of subsidiaries, net of cash acquired | | (200) | (500) |
| Proceeds from disposal of subsidiaries | | – | 234 |
| Purchase of investment | | – | (7) |
| **Net cash flows used in investing activities** | | **(3,061)** | **(1,991)** |
| **Financing activities** | | | |
| Repayment of lease liabilities | | (1,325) | (142) |
| Proceeds from borrowings | | 1,750 | 1,500 |
| Repayment of borrowings | | (2,273) | (1,725) |
| Loans with related parties | | (200) | – |
| Buyback of shares | | – | (86) |
| Proceeds from issue of shares | 16 | 2,620 | – |
| Dividends paid | 6 | – | (599) |
| **Net cash flows from/(used in) financing activities** | | **572** | **(1,052)** |
| Net increase/(decrease) in cash and cash equivalents | | 707 | (1,953) |
| Cash and cash equivalents at 1 October | 7 | 3,097 | 5,044 |
| Effect of exchange rate changes on the balance of cash | | 54 | 6 |
| **Cash and cash equivalents at 30 September** | 7 | **3,858** | **3,097** |

# Notes to the Consolidated Financial Statements

**for the year ended 30 September 2020**

## 1. Segment information

### Segment Information

| | Revenue | | Depreciation | | EBIT | |
|---|---|---|---|---|---|---|
| | **30 September 2020 $'000** | **30 September 2019 $'000** | **30 September 2020 $'000** | **30 September 2019 $'000** | **30 September 2020 $'000** | **30 September 2019 $'000** |
| **Continuing Operations** | | | | | | |
| Retail Marketing | 9,964 | 10,264 | 411 | 51 | 744 | 568 |
| Building Products | 10,949 | 13,918 | 769 | 220 | (483) | 384 |
| Health & Beauty | 5,958 | 5,114 | 282 | 94 | 80 | (573) |
| Healthcare | 11,224 | 9,924 | 1,128 | 702 | 1,026 | 893 |
| **Total** | **38,095** | **39,220** | **2,590** | **1,067** | **1,367** | **1,272** |

| | | |
|---|---|---|
| Continuing segment EBIT | 1,367 | 1,272 |
| Share of underlying profit from equity accounted investments | 2,758 | 1,564 |
| Share of significant items from equity accounted investments | (455) | – |
| Finance costs | (492) | (205) |
| Significant items | (11,005) | 1,669 |
| Other unallocated expenses | (2,191) | (2,231) |
| **Net profit before tax from Continuing Operations** | **(10,018)** | **2,069** |

Continuing segments:

- Retail marketing segment (SPOS) provides standard and customised shelving and display solutions to brand owners and retailers
- Building product segment (JSB Lighting) distributes architectural lighting for the commercial market
- Personal care segment (BLC Cosmetics) distributes cosmetics and skincare products through salon, spa and retail markets
- Healthcare segment (Pegasus) rents and distributes medical equipment into hospitals, aged care facilities and the retail market

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 $2.8 million (2019: $4.3 million)

### 1.1 Accounting policies

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.

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.

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.

# Notes to the Consolidated Financial Statements

**continued**

## 2. Investment in associates

| | Ownership interest % | Carrying value $'000 | Profit contribution $'000 |
|---|---|---|---|
| **2020** | | | |
| Mountcastle Pty Ltd | 45 | 8,159 | 2,303 |
| | | **8,159** | **2,303** |

| | | | |
|---|---|---|---|
| **2019** | | | |
| Mountcastle Pty Ltd | 50 | 5,961 | 1,564 |
| | | **5,961** | **1,564** |

On 3 February 2020, Mountcastle issued fresh equity to new investors, with the effect of diluting HGL's investment in Mountcastle to 45%.

### 2.1 Mountcastle Pty Ltd

The principal activity of Mountcastle was headwear and uniform distribution.

| | Consolidated entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Current assets | 25,909 | 13,364 |
| Non-current assets | 22,621 | 3,101 |
| Current liabilities | (13,069) | (3,417) |
| Non-current liabilities | (16,084) | (183) |
| Non-controlling interest | (1,182) | (943) |
| **Net Assets** | **18,195** | **11,922** |
| Ownership interest | 45% | 50% |
| **Carrying amount of the investment** | **8,159** | **5,961** |

| | | |
|---|---|---|
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalent | 6,404 | 2,204 |
| Current financial liabilities | (9,428) | (1,229) |
| Non-current financial liabilities | (15,793) | – |

| | | |
|---|---|---|
| Revenues | 39,435 | 22,599 |
| Profit after income tax | 5,530 | 3,128 |
| Share of dividends paid | 448 | 500 |
| The above profit for the year includes the following: | | |
| Depreciation and amortisation | 913 | 122 |
| Interest expenses | 292 | 116 |
| Interest income | – | 6 |
| Income tax expense | 1,909 | 861 |

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

## 2. Investment in associates (continued)

### 2.2 Acquisition of LW Reid by Mountcastle

On 19 December 2019, HGL Ltd subscribed for $500,000 equity in its 50% HGL's ownership percentage in Mountcastle Pty Ltd. As a result of other shareholders also subscribing for additional equity, HGL's interest in Mountcastle remained unchanged. The investment was used by Mountcastle to partly fund the purchase of shares in LW Reid Pty Ltd, a Sydney based distributor of school uniforms. The acquisition approximately doubled the size of the Mountcastle group by revenues and will contribute significantly increased earnings to the HGL group on an annualised basis. Mountcastle and LW Reid are highly complementary businesses, with minimal overlap on customers, products and suppliers. The acquisition is expected to deliver minor product based synergies over time as the businesses become fully integrated, although the financial success of the transaction is not dependent on achieving a particular level of savings.

### 2.3 Accounting policies

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

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.

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.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income (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.

The requirements of AASB136 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB136 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB136 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

# Notes to the Consolidated Financial Statements

**continued**

## 3. Profit from operations

### 3.1 Revenue

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Sales revenue | 31,893 | 33,791 |
| **Total revenue** | **31,893** | **33,791** |

### 3.2 Other income

| | | |
|---|---|---|
| **Interest** | | |
| Financial Institutions | 5 | 34 |
| **Total Interest** | **5** | **34** |
| Equipment rental revenue | 6,202 | 5,429 |
| Other income | 1,165 | 817 |
| **Total other income** | **7,372** | **6,280** |

Other income during the year ended 30 September 2020 includes $1.062m in COVID-19 related JobKeeper receipts by JSB Lighting, SPOS Group and BLC Cosmetics, and $0.077m in New Zealand COVID-19 related Wages Subsidy receipts by JSB Lighting and SPOS Group.

### 3.3 Expenses

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| **Depreciation and amortisation** | | |
| **Expensed to profit and loss** | | |
| – Plant and equipment | 1,314 | 965 |
| – Intangibles | 162 | 61 |
| – Right of use asset | 1,332 | 105 |
| Total depreciation and amortisation | 2,808 | 1,131 |
| **Employee benefit expenses** | | |
| Salary and wages | 12,683 | 12,921 |
| Defined contribution superannuation expense | 975 | 927 |
| | 13,658 | 13,848 |
| Bad debts | 164 | 86 |
| Write (back) / down of inventories to net realisable value | 449 | (309) |
| Lease expenses | 628 | 1,703 |
| Foreign exchange gain / (loss) | (69) | 13 |

### 3.4 Finance costs

| | | |
|---|---|---|
| Finance institutions - interest expenses and line fees | 198 | 184 |
| Interest on lease liabilities | 294 | 21 |
| **Total finance costs** | **492** | **205** |

## 3. Profit from operations (continued)

### 3.5 Accounting policies

Revenue is recognised when control of the asset has passed to the buyer 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 any discounts, allowances and GST.

#### Sale of goods

The Group derives its revenue from the transfer of goods at a point in time, predominantly through repeating individual sales of goods which are not typically subject to supply contracts beyond standard trading terms of sale.

Revenue from the sale of goods is recognised when control of the goods has passed to the customer, usually on delivery of the goods. The despatch of goods to the customer reflects satisfaction of the performance obligation attached to the sale. There are no financing components incorporated within the sale terms, and payment is generally due within 30 to 60 days from delivery.

Under the Group's standard contract terms, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned.

Revenue by operating segment / Cash Generating Unit (CGU) can be found within the Segment note. The split of revenue and profit by CGU depicts categories of revenue grouped by similar economic factors, such as customers, product ranges, risks, etc.

The nature of the sales of goods means that there are no contract assets or liabilities required to be recognised on the balance sheet.

#### Rental income

Revenue from the rental of equipment is recognised daily in line with the period over which the customer has physical possession of the goods on a straight line basis.

#### Interest income

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

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants were received by the Group in the current year for employees and support in relation the impacts of COIVD-19.

#### Borrowing costs

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

#### 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; and
- 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.

# Notes to the Consolidated Financial Statements

**continued**

## 4. Income tax

### 4.1 Income tax expense

The major components of income tax expense for the years ended 30 September 2020 and 2019 are:

**Consolidated statement of profit or loss**

| | Consolidated entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| **Current tax** | | |
| In respect of the current year | (2,432) | 113 |
| Prior year under / (over) provision | 89 | 32 |
| | (2,343) | 145 |
| **Deferred tax** | | |
| In respect of the current year | 2,478 | 141 |
| Prior year under / (over) statement of DTA | – | 52 |
| Effect of change in tax rate | – | 272 |
| De-recognition of deferred tax assets | 2,546 | – |
| | **5,024** | **465** |
| **Total income tax expense recognised in the current year relating to continuing operations** | **2,681** | **610** |
| | | |
| Prima facie income tax expense on profit from ordinary activities at 27.5% (2018: 30%) | (2,755) | 568 |
| Differences in overseas tax rates | – | 2 |
| Equity accounted investments | (633) | (293) |
| De-recognition of deferred tax assets | 2,546 | – |
| Impairment of goodwill | 2,936 | – |
| De-recognition of current year temporary differences | (456) | – |
| Non allowable expenses | 58 | 157 |
| Prior year under/(over) provision | 89 | 52 |
| Non assessable items | (276) | (759) |
| Current year tax loss not recognised in DTA | 1,069 | 929 |
| Other | 103 | (46) |
| **Total Income Tax** | **2,681** | **610** |

# 4. Income tax (continued)

## 4.2 Deferred tax

Deferred tax assets comprises:

| Consolidated entity | Provisions $'000 | Plant & equipment $'000 | Leases $'000 | Other $'000 | Revenue losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Opening balance | 690 | (256) | – | 544 | 1,832 | 2,810 |
| Charged to income | (526) | (427) | 195 | (471) | (1,378) | (2,607) |
| **Total** | **164** | **(683)** | **195** | **73** | **454** | **203** |

| Consolidated entity | Provisions $'000 | Plant & equipment $'000 | Other $'000 | Revenue losses $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Opening balance | 1,160 | 22 | 418 | 1,735 | 3,335 |
| Effect of change in tax rate | (89) | (3) | (35) | (145) | (272) |
| Charged to income | (381) | (275) | 161 | 242 | (253) |
| **Total** | **690** | **(256)** | **544** | **1,832** | **2,810** |

Deferred tax liability comprises:

| Consolidated entity | Provisions $'000 | Plant & equipment $'000 | Other $'000 | Revenue losses $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Opening balance | – | – | (371) | – | (371) |
| Other | – | – | 39 | – | 39 |
| **Total** | **–** | **–** | **(332)** | **–** | **(332)** |
| **2019** | | | | | |
| Opening balance | – | – | (371) | – | (371) |
| **Total** | **–** | **–** | **(371)** | **–** | **(371)** |

## 4.3 Tax loss

The group has a further $21.9 million of gross revenue losses, and $11.1 million of gross capital losses, which have not been brought to account at 30 September 2020. These losses are subject to utilisation rules in future periods such as the Continuity of Ownership Test or Same Business Test.

# Notes to the Consolidated Financial Statements

**continued**

## 4. Income tax (continued)

### 4.4 Accounting policies

#### 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.

#### 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.

## 5. Earnings per share (EPS)

The following reflects profit and share data used in the computation of EPS.

There were no dilutive or potentially dilutive equity items during or since the financial year, hence there is no adjustments between Basic and Diluted EPS.

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Net Profit / (Loss) after tax | (12,699) | 1,461 |
| Deduct profit attributable to Non-Controlling Interests | (312) | (316) |
| Profit / (Loss) attributable to equity holders of the parent | (13,011) | 1,145 |
| Deduct profit from discontinued operations | – | (2) |
| Profit / (Loss) from continuing operations | (13,011) | 1,143 |
| Weighted average number of ordinary shares | 67,312,393 | 60,089,466 |

| | **Cents** | **Cents** |
|---|---|---|
| Basic Earnings per Share from Continuing and Discontinued Operations | (19.3) | 1.9 |
| Diluted Earnings per Share from Continuing and Discontinued Operations | (19.3) | 1.9 |

## 6. Dividends

### 6.1 Dividends paid and proposed

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| **Declared and paid during the year:** | | |
| Final dividend for 2019: Nil (2018: 1.5 cents per share) | – | 889 |
| Interim dividend for 2020: Nil (2019: 0.75c cents per share) | – | 459 |
| | **–** | **1,348** |
| Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan: | | |
| Paid in cash | – | 599 |
| Satisfied by issue of shares under DRP | – | 749 |
| **Dividends paid** | **–** | **1,348** |
| **Proposed dividends on ordinary shares:** There is no proposed final dividend for the year ended 30 September 2020 (2019: Nil) | – | – |

### 6.2 Franking account balance

| | | |
|---|---|---|
| **Franking credit balance** | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| Franking account balance as at the end of the financial year | 8,919 | 8,727 |
| | **8,919** | **8,727** |

# Notes to the Consolidated Financial Statements

**continued**

## 6. Dividends (continued)

### 6.3 Dividend reinvestment plan

Brief details of the Plan are:

- shareholders with a minimum holding requirement of 1,000 ordinary shares and a registered address in Australia or New Zealand are eligible to participate;
- participation is optional;
- full or partial participation is available;
- 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.

### 6.4 Accounting policies

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.

## 7. Cash flow information

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

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Cash at banks and on hand | 3,858 | 3,097 |
| **Cash and cash equivalents** | **3,858** | **3,097** |
| **Reconciliation of cash flow from operations with operating profit after income tax** | | |
| Profit/(loss) after tax from continuing operations | (12,699) | 1,459 |
| Profit after tax from discontinued operations | – | 2 |
| **Operating profit after income tax** | **(12,699)** | **1,461** |
| Adjustments to reconcile profit before tax to net cash flows: | | |
| Depreciation | 2,808 | 1,070 |
| Losses / (profits) on sale of property, plant and equipment | 250 | 12 |
| Amortisation and impairment of intangible assets | 11,039 | 61 |
| Non-cash loss on deemed disposal of interest in associate | 40 | – |
| Share of profits of associates not received as dividends | (1,855) | (1,064) |
| Change in fair value of financial instruments | (1,211) | (1,506) |
| Changes in assets and liabilities | | |
| (Increase) / decrease in trade and term debtors | 623 | 2,315 |
| (Increase) / decrease in inventories | 156 | (129) |
| (Increase) / decrease in prepayments | (51) | 155 |
| (Increase) / decrease in deferred taxes | 2,568 | 524 |
| Increase / (decrease) in trade creditors and accruals | 1,677 | (669) |
| Increase / (decrease) in provision for income tax | 107 | (322) |
| Increase / (decrease) in other current provisions | (73) | (896) |
| Increase / (decrease) in other non-current provisions | (183) | 78 |
| **Net cash flows from operating activities** | **3,196** | **1,090** |

## 7. Cash flow information (continued)

### 7.1 Accounting policies

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.

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.

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.

## 8. Intangible assets

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| *Intangible Assets* | | |
| Goodwill | 13,177 | 13,177 |
| Impairment | (10,678) | – |
| **Net carrying amount of Goodwill** | **2,499** | **13,177** |
| Designs | 175 | 175 |
| Accumulated amortisation | (70) | (49) |
| Impairment | (105) | – |
| **Net carrying amount of designs** | **–** | **126** |
| Other intangibles | 1,606 | 1,606 |
| Accumulated amortisation | (180) | (40) |
| Impairment | (256) | – |
| **Net carrying amount of other intangibles** | **1,170** | **1,566** |
| **Net carrying amount** | **3,669** | **14,869** |

# Notes to the Consolidated Financial Statements

**continued**

## 8. Intangible assets (continued)

### 8.1 Movements

| | Consolidated entity 2020 $'000 | Consolidated entity 2019 $'000 |
|---|---|---|
| **Reconciliation of carrying amounts at the beginning and the end of the year** | | |
| *Goodwill* | | |
| At 1 October | 13,177 | 13,125 |
| Acquisition of business | – | 52 |
| Impairment | (10,678) | – |
| **Net book value at 30 September** | **2,499** | **13,177** |
| *Designs* | | |
| At 1 October | 126 | 147 |
| Amortisation | (21) | (21) |
| Impairment | (105) | – |
| **Net book value at 30 September** | **–** | **126** |
| *Other intangibles* | | |
| At 1 October | 1,566 | 1,606 |
| Amortisation | (140) | (40) |
| Impairment | (256) | – |
| **Net book value at 30 September** | **1,170** | **1,566** |

Other intangible assets include customer contracts and trademarks.

### 8.2 Allocation of goodwill

The carrying value of goodwill is allocated to the retail marketing ($1.1 million) and healthcare CGUs ($1.3 million).

### 8.3 Impairment testing

Determining whether goodwill is impaired requires an estimation of the value in use (VIU) of the cash generating units to which goodwill has been allocated. The VIU 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.

HGL has undertaken an impairment assessment across all CGUs in the group to compare the recoverable amount of each CGU to its carrying value, using a VIU approach.

The key assumptions for the VIU calculations are those regarding discount rates, long term growth rates, and expected changes in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). Growth rates used in the calculations are consistent with forecasts from industry reports and broader inflation projections.

The VIU calculations at 30 September 2020 have used cash flow projections based on EBITDA forecasts adopted by the board for the following four years, using a combination of reasonably anticipated revenue and cost changes as the business recovers from the short to medium term impact of the changes to the operating environment as a result of COVID-19. These forecasts are extrapolated beyond four years based on estimated long term growth rates.

Key inputs to the VIU model used to undertake the impairment assessment during the year were assessed to factor in any negative impact on revenues and costs from COVID-19 and other changes in operations during the period, along with the potential future impact on industries or sectors serviced by the respective CGU's.

The VIU calculations undertaken as at 30 September 2020 support the carrying value of the operating and intangible assets within each of the CGU's as at that date, with the exception of the Building Products CGU (JSB Lighting). This CGU predominantly supplies high quality lighting solutions into commercial and high-end residential markets in both Australia and New Zealand.

# 8. Intangible assets (continued)

## 8.3 Impairment testing (continued)

### Key assumptions and sensitivities – Building Products CGU

JSB Lighting has seen a material slowdown in the construction sector subsequent to the start of COVID-19, particularly in commercial projects, a key market sector for this CGU. Other current or intended market segments such as hospitality and higher education are also expected to be impacted as a result of the pandemic.

As outlined in the 31 March 2020 half yearly report, an impairment of $7.2 million was recognised in the financial statements for that period. As stated at that time, any further adverse movements in the assumptions used at that time would be likely to lead to further impairment. JSB Lighting did not achieve the EBIT result projected for 2H20, and the business has downgraded its internal forecasts for FY21 and beyond to reflect the lower EBIT starting position. In addition, the WACC rate has been reassessed to reflect increased uncertainty not only with respect to future sector performance, but more specifically the ability of JSB Lighting to return to immediate profitability.

A pre-tax discount rate of 18.5% was used for the VIU model for the building products CGU, which is above the rate used for the previous VIU estimate at 30 September 2019 of 16.4%, reflecting greater uncertainty with respect to future sector performance. A long term growth rate of 2.0% (2019 2.5%) was applied to the terminal value EBITDA forecast used in the calculation, reflecting the RBA's long term inflation outlook, industry based forecasts and the Group's assessment of the future growth prospects of the sector.

Following these calculations, the value of intangibles associated with the building products CGU have been reduced to nil, with impairments of goodwill totalling $10.7 million for the year, and other intangibles $0.3 million.

### Other CGU's

The VIU calculations for the Retail Marketing (SPOS Group) and Healthcare (Pegasus) CGU's supported the carrying values of those operating and intangible assets.

Key variables used for the CGU's were pre-discount rates of 14.9% for Retail Marketing and 15.2% for Healthcare, and long term growth rates of 1.5% and 2.5% respectively.

## 8.4 Accounting policies

### 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.

- Customer relationships 10 years
- Patent 8 years

# Notes to the Consolidated Financial Statements

**continued**

## 8. Intangible assets (continued)

### 8.4 Accounting policies (continued)

#### 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 CGUs 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.

## 9. Property, plant and equipment

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| *Plant and equipment* | | |
| At cost | 2,719 | 4,318 |
| Accumulated depreciation | (1,614) | (2,772) |
| Transfer | – | (355) |
| **Net carrying value** | **1,105** | **1,191** |
| *Rental equipment* | | |
| At cost | 6,651 | 4,991 |
| Accumulated depreciation | (3,219) | (2,442) |
| **Net carrying value** | **3,432** | **2,549** |
| **Net carrying value** | **4,537** | **3,740** |

## 9. Property, plant and equipment (continued)

### 9.1 Movements

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| **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 | 1,191 | 1,174 |
| Additions | 709 | 881 |
| Disposals | (257) | (3) |
| Depreciation expense | (538) | (505) |
| Exchange differences | – | (1) |
| Transfer to Right of use assets | – | (355) |
| **Net book value at the end of the financial year** | **1,105** | **1,191** |
| *Rental equipment* | | |
| **Written down value** | | |
| Net book value at the beginning of the financial year | 2,549 | 2,110 |
| Additions | 1,660 | 1,013 |
| Disposals | – | (9) |
| Depreciation expense | (777) | (565) |
| **Net book value at the end of the financial year** | **3,432** | **2,549** |

### 9.2 Accounting policies

Plant and equipment and rental equipment 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 or reducing balance methods. The estimated useful lives and depreciation methods are 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
- Lessor assets 1 to 7 years

# Notes to the Consolidated Financial Statements

**continued**

## 10. Leases

| | Consolidated entity 2020 $'000 | Consolidated entity 2019 $'000 |
|---|---|---|
| ***Right of use assets*** | | |
| Property leases | 4,851 | – |
| Accumulated depreciation | (932) | – |
| **Net carrying amount of property leases** | **3,919** | **–** |
| Motor vehicle leases | 507 | 460 |
| Accumulated depreciation | (169) | (105) |
| **Net carrying amount of motor vehicle leases** | **338** | **355** |
| Equipment leases | 153 | – |
| Accumulated depreciation | (33) | – |
| **Net carrying amount of equipment leases** | **120** | **–** |
| **Net carrying amount** | **4,377** | **355** |

### 10.1 Movements

| | Consolidated entity 2020 $'000 | Consolidated entity 2019 $'000 |
|---|---|---|
| **Reconciliation of carrying amounts at the beginning and the end of the year** | | |
| *Property leases* | | |
| Written down value at the beginning of the financial year | 4,766 | – |
| Additions | 2,690 | – |
| Derecognition of right of use assets(1) | (2,315) | – |
| Depreciation expense | (1,212) | – |
| Exchange differences | (10) | – |
| **Written down value at the end of the financial year** | **3,919** | **–** |
| *Motor vehicle leases* | | |
| Written down value at the beginning of the financial year | 355 | 460 |
| Additions | 47 | – |
| Depreciation expense | (64) | (105) |
| **Written down value at the end of the financial year** | **338** | **355** |
| *Equipment leases* | | |
| Written down value at the beginning of the financial year | – | – |
| Additions | 153 | – |
| Depreciation expense | (33) | – |
| **Written down value at the end of financial year** | **120** | **–** |

(1) Derecognition of the Right of Use Assets is a result of changes in the assumption of utilising the option to extend the lease, and the surrender of the Macquarie Park Head Office lease

## 10. Leases (continued)

### 10.2 Amounts recognised in profit and loss

| Amounts recognised in profit and loss | 30/9/2020 $'000 |
|---|---|
| Depreciation expense on right-of-use assets | 1,296 |
| Interest expense on lease liabilities | 280 |
| Expense relating to short-term leases on low calue assets | 628 |

### 10.3 Lease liabilities

| Lease liabilities | 30/9/2020 $'000 |
|---|---|
| Current | 1,298 |
| Non-current | 3,387 |
| | **4,685** |

### 10.4 Adoption of AASB16: Leases

AASB 16 Leases

On 1 October 2019, the Group adopted AASB 16 Leases using the modified retrospective transition option which allows the measurement of the right-of-use asset on the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Accordingly, the comparative information in this financial report has not been restated.

The standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for new lease contracts. The Group is a lessee under a number of property lease arrangements previously classified as operating leases.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

*Nature of the effect of adoption of AASB 16*

The lease liabilities recognised upon transition at 1 October 2019 can be reconciled to the operating lease commitments as of 30 September 2019 as follows:

| | $ 000 |
|---|---|
| Operating lease commitments as 30 September 2019 | 3,548 |
| Weighted average incremental borrowing rate as at 1 October 2019 | 4.00% |
| Discounted operating lease commitments at 1 October 2019 | 3,356 |
| Add: | |
| Reasonably certain extension options | 1,799 |
| Finance leases previously recognised | 330 |
| **Lease liability as at 1 October 2019** | **5,485** |

# Notes to the Consolidated Financial Statements

**continued**

## 10. Leases (continued)

### 10.4 Adoption of AASB16: Leases (continued)

*Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

*Right-of-use-assets*

The Group recognises right-of-use assets at the commencement of the lease (i.e. the date the underlying asset is available for use). The initial measurement of right-of-use assets includes the amount of liabilities recognised and lease payments made at or before the commencement date, less any incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

Unless the Group is reasonably certain to obtain the ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessments under AASB 136 Impairments of Assets.

*Lease liabilities*

At the commencement of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include renewal periods where the Group is reasonably certain to exercise the renewal option.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. Variable lease payments include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of the COVID-19 pandemic and which relate to payments originally due on or before 30 June 2021.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has made use of the practical expedient available on transition to AASB16 not to reassess whether a contract is or contains a lease. Accordingly the definition of a lease in accordance with AASB117 and interpretation 4 will continue to be applied to those leases entered or changed before 1 October 2019.

*Short-term lease and leases of low-value assets*

The Group applies a recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies a recognition exemption to leases that are considered of low value.

Lease payments on short-term and low-value leases are recognised as expense on a straight-line basis over the lease term.

*Judgements in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After initial recognition, the Group reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew.

## 11. Inventories

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Raw materials (at cost) | 890 | 744 |
| Finished goods (at lower of cost or net realisable value) | 3,723 | 4,024 |
| | **4,613** | **4,768** |

### 11.1 Accounting policies

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.

## 12. Trade and other receivables

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Trade receivables | 4,934 | 5,143 |
| Allowance for expected credit losses | (294) | (140) |
| Net trade receivables | 4,640 | 5,003 |
| Other debtors | 325 | 584 |
| **Total receivables** | **4,965** | **5,587** |

The average credit period on sales of goods is 30 to 60 days. No interest is charged on outstanding trade receivables.

### 12.1 Allowance for expected credit losses

The group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The group has historically had immaterial levels of credit losses which have resulted in non-recovery of amounts outstanding from trade receivables. Recognition of an expected credit loss in the provision for doubtful debts is based predominantly on the estimated recoverability of specific long overdue debtor balances. A provision is raised against debtors to reflect historical loss experience on debtors with similar characteristics. The trade receivable is retained on the balance sheet net of the expected credit loss provision pending the outcome of any recovery activities.

The group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off remain subject to enforcement activities.

# Notes to the Consolidated Financial Statements

**continued**

## 12. Trade and other receivables (continued)

### 12.1 Allowance for expected credit losses (continued)

The Group has not experienced a material change in credit losses arising from COVID-19 impacts on our customers.

The aging of the receivables and allowance for expected credit losses provided for above are as follows:

| Consolidated entity | Expected credit loss rate % | Carrying amount $'000 | Allowance for expected credit losses $'000 |
|---|---|---|---|
| **30 September 2020** | | | |
| Not overdue | 0.1 | 2,508 | 2 |
| 1 to 30 days overdue | 0.1 | 948 | 1 |
| 31 to 60 days overdue | 0.2 | 686 | 1 |
| Over 60 days overdue | 36.7 | 792 | 290 |
| | | **4,934** | **294** |

| Consolidated entity | Expected credit loss rate % | Carrying amount $'000 | Allowance for expected credit losses $'000 |
|---|---|---|---|
| **30 September 2019** | | | |
| Not overdue | 0.1 | 3,277 | 3 |
| 1 to 30 days overdue | 0.1 | 1,107 | 1 |
| 31 to 60 days overdue | 0.4 | 300 | 1 |
| Over 60 days overdue | 29.4 | 459 | 135 |
| | | **5,143** | **140** |

## 13. Trade and other payables

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Trade payables and accruals | **7,822** | **6,473** |

Payables have carrying amounts that reasonably approximate fair value.

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

# 14. Financial assets and financial liabilities

## 14.1 Interest-bearing loans and borrowings

Secured bank loan

| | Consolidated entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| **Current** | | |
| **Secured at amortised cost** | | |
| Variable rate bank loans | 2,335 | 2,850 |
| **Total current** | **2,335** | **2,850** |

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

| | Consolidated entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Credit facilities | 3,873 | 4,350 |
| Amount utilised | 2,335 | 3,180 |
| Unused credit facility | **1,538** | **1,170** |

The Group has a $2.300 million (2019: $2.300 million) cash advance and trade finance facility with the Australia and New Zealand Banking Group Limited (ANZ), which is subject to an annual review, and a $0.533 million (2019: $1.050 million) reducing limit floating rate loan facility, which amortises quarterly until expiry on 5 April 2021. The facilities are subject to covenant testing at specific measurement dates.

In addition to the above, Pegasus Healthcare has a standalone $1.040 million multi-purpose facility with ANZ, which is subject to an annual review. $0.540 million of this balance amortises monthly. The Group acts as a Guarantor for the facility. At balance date this facility was drawn to $0.782 million, used to fund general working capital requirements and equipment purchases.

Pegasus Healthcare also has a Motor Vehicle Asset Finance facility of $0.300 million which is currenty drawn to $0.251 million.

Subsequent to year end HGL Ltd repaid all outstanding amounts borrowed under the parent entity facilities, using the proceeds from the share placement and accelerated entitlement offer.

The facilities are secured under a fixed and floating charge over all present and future assets, undertakings and unpaid or uncalled capital of the wholly owned 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.

# Notes to the Consolidated Financial Statements

**continued**

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

### 14.2 Other financial liabilities

Contingent and deferred consideration

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| **Contingent consideration** | | |
| **Current** | | |
| Deferred consideration | 250 | 200 |
| Contingent consideration | 31 | 76 |
| Put option liability | 2,033 | – |
| **Total current** | **2,314** | **276** |
| **Non current** | | |
| Deferred consideration | – | 250 |
| Contingent consideration | 229 | 1,123 |
| Put option liability | – | 2,408 |
| **Total non-current** | **229** | **3,781** |

#### Deferred consideration

As part of the purchase agreement with the previous owners of Pegasus Healthcare, a portion of the consideration is deferred over a 3 year period, ending on 4 April 2021. The payments are subject to any warranty claims arising under the purchase agreement. At balance date, a maximum of $250,000 remains outstanding.

#### Contingent consideration

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 following acquisition.

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 between $1,940,000 and $3,108,000 over the balance of the agreement. These values have decreased materially over the prior period due to the impact of COVID-19 and general trading conditions in the construction and commercial sectors. Reasonably foreseeable variations in the sales forecasts, and their associated probabilities used, could result in a material change in fair value.

#### Put option liability

As part of the acquisition of Pegasus Healthcare, a Put option was granted over the remaining interest not held by the Parent entity. Under the terms of the agreement, the minority shareholder has a right to require HGL to acquire the remaining 30% interest in the Pegasus Healthcare group, with an exercise price based on a multiple of 4.0 times the average annual EBITDA of the preceding 24 month period to exercise date.

The Put option may not be exercised prior to 1 April 2021, and the carrying value of the liability represents the present value of the potential purchase price of the NCI on the earliest date the option can be exercised.

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

### 14.3 Other financial assets

| | Consolidated entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| **Non-current** | | |
| Call option assets | 916 | 1,019 |
| **Total** | **916** | **1,019** |

As part of the acquisition of Pegasus Healthcare, a Call option was granted over the remaining interest not held by the Parent entity. Under the terms of the agreement, the minority shareholder has a right to require HGL to acquire the remaining 30% interest in the Pegasus Healthcare group, with an exercise price based on a multiple of 4.3 times the average annual EBITDA of the preceding 24 month period to exercise date.

The Call option may not be exercised prior to 1 April 2021, and the carrying value of the asset represents the difference between the estimated purchase price of the NCI on the earliest date the option can be exercised and the fair value of that interest.

### 14.4 Categories of financial instruments

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

| | Notes | Consolidated entity | |
|---|---|---|---|
| | | 2020 $'000 | 2019 $'000 |
| **Financial assets** | | | |
| Cash at bank and on hand | 7 | 3,858 | 3,097 |
| Trade receivables | | 4,934 | 5,143 |
| Other investments | | 11 | 11 |
| Other non current financial assets | 14.3 | 916 | 1,019 |
| | | **9,719** | **9,270** |
| **Financial liabilities** | | | |
| Creditors and accruals | 13 | 7,822 | 6,473 |
| Borrowings - variable rate loans | 14.1 | 2,335 | 2,850 |
| Lease liabilities | 10.3 | 4,685 | 330 |
| Other financial liability | 14.2 | 2,543 | 4,057 |
| | | **17,385** | **13,710** |

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

# Notes to the Consolidated Financial Statements

**continued**

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

### 14.4 Categories of financial instruments (continued)

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.

| | Creditors and accruals $'000 | Bank borrowings $'000 | Contingent consideration $'000 | Lease liabilities $'000 | Put option liability $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Financial Maturity table** | | | | | | |
| Less than 1 year | 7,822 | 2,023 | 281 | 1,298 | 2,157 | 13,458 |
| 1 - 2 year | – | 162 | 27 | 992 | – | 1,181 |
| 2 - 3 years | – | 120 | 30 | 690 | – | 842 |
| 3 - 4 years | – | 30 | 34 | 529 | – | 595 |
| 4 - 5 years | – | – | 138 | 266 | – | 412 |
| Longer than 5 years | – | – | – | 910 | – | 910 |
| **Total** | **7,822** | **2,335** | **510** | **4,685** | **2,157** | **17,398** |

| | Creditors and accruals $'000 | Bank borrowings $'000 | Contingent consideration $'000 | Finance lease liabilities $'000 | Put option liability $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Financial Maturity table** | | | | | | |
| Less than 1 year | 6,473 | 2,325 | 276 | 170 | – | 9,224 |
| 1 - 2 year | – | 525 | 361 | 163 | 2,408 | 3,457 |
| 2 - 3 years | – | – | 128 | 13 | – | 141 |
| 3 - 4 years | – | – | 144 | – | – | 144 |
| 4 - 5 years | – | – | 149 | – | – | 149 |
| Longer than 5 years | – | – | 591 | – | – | 591 |
| **Total** | **6,473** | **2,850** | **1,649** | **346** | **2,408** | **13,706** |

| | Consolidated entity | |
|---|---|---|
| | **2020 %** | **2019 %** |
| **Weighted average interest rate** | | |
| Trade payables and accruals | – | – |
| Borrowings - Variable rate loans | 3.28 | 4.12 |
| Finance lease | 4.04 | 4.75 |

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

### 14.5 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 18) 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.

#### 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.

#### 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 $1,280,414 (2019: $1,743,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has $1,325,341(2019: $1,353,000) of foreign currencies monetary assets mainly in USD and NZD.

In addition the Group has $895,339 (2019: $852,000) of foreign currency forward contracts outstanding at balance date, in a net liability fair value position of $14,409 (2019: $368) 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 2020 and 2019 net outstanding foreign currency exposure.

#### 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 $5,000 higher or lower respectively (2019: $32,000).

# Notes to the Consolidated Financial Statements

**continued**

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

### 14.6 Fair values

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

#### Fair value measurement hierarchy for assets as at 30 September 2020:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| **Consolidated Entity** | **Total $'000** | **Quoted prices in active markets (Level 1) $'000** | **Significant observable inputs (Level 2) $'000** | **Significant unobservable inputs (Level 3) $'000** |
| **Assets measured at fair value:** | | | | |
| Call option asset(1) | 916 | – | – | 916 |

There have been no transfers between Level 1 and Level 2 during the period.

(1) The call option asset is valued at the present value of the difference between the exercise price payable under the Pegasus call option and the estimated value of the minority interest if owned by the Group. This is calculated with reference to the difference between the contracted multiple for the exercise of the option, and the potential earnings multiple if the business was sold, multiplied by the EBITDA for the relevant calculation period. EBITDA projections are based on significant unobservable inputs, particularly estimated future revenues and expenses of the business. Potential earnings multiples are estimated based on observed comparable transactions. If the projected EBITDA used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the asset would increase / decrease by 10%.

The movement in these assumptions during the period resulted in a reduction in profit at 30 September 2020 of $103,000.

#### Fair value measurement hierarchy for liabilities as at 30 September 2020:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| **Consolidated Entity** | **Total $'000** | **Quoted prices in active markets (Level 1) $'000** | **Significant observable inputs (Level 2) $'000** | **Significant unobservable inputs (Level 3) $'000** |
| **Liabilities measured at fair value:** | | | | |
| Put option liability(2) | 2,033 | – | – | 2,033 |
| Contingent consideration(3) | 260 | – | – | 260 |

(2) The put option liability is valued at the present value of the redemption amount of the Pegasus put option, which is at a fixed multiple of EBITDA for the relevant calculation period. EBITDA projections are based on significant unobservable inputs, particularly estimated future revenues and expenses of the business. If the projected EBITDA used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the liability would increase / decrease by 10%.

The movement in these assumptions during the period resulted in an increase in profit at 30 September 2020 of $375,000.

(3) The Contingent Consideration is valued using a discounted cash flow of probability adjusted revenues for Intralux branded products. If the projected revenue used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the liability would increase / decrease by approximately 20%.

The movement in these assumptions during the period resulted in an increase in profit at 30 September 2020 of $939,000.

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

### 14.7 Accounting policies

#### Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through Other Comprehensive Income (FVTOCI), as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of comprehensive income within the profit and loss.

*Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Call option assets

Where the acquisition of a non-wholly owned subsidiary includes a call option enabling the Group to acquire the shares of the minority shareholder, an asset is recognised equal to the incremental fair value of those shares compared to the value payable under the call option. Movements in the value of the call option asset are taken directly to profit or loss.

*Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

# Notes to the Consolidated Financial Statements

**continued**

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

### 14.7 Accounting policies (continued)

*Financial liabilities*

#### Put option liabilities

Where the acquisition of a non-wholly owned subsidiary includes a put option for the minority shareholder to require the Group to purchase some or all of the remaining shares, a liability is recognised equal to the expected future purchase price payable under the terms of the option agreement. Subsequent movements in the estimated fair value of the liability are taken directly to profit or loss.

#### 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 is 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 level 1 financial assets or liabilities during the year. There were no transfers between category levels during the current or prior financial year.

## 15. Provisions

| | Consolidated entity 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | 1,353 | 1,428 |
| Restoration provision | 13 | 9 |
| | **1,366** | **1,437** |
| **Non current** | | |
| Employee benefits | 272 | 419 |
| Restoration provision | 40 | 75 |
| | **312** | **494** |

| Restoration provisions | 2020 $'000 |
|---|---|
| Balance at beginning of financial year | 84 |
| Additional lease provisions recognised | 40 |
| Reductions arising from payments | (71) |
| **Balance at the end of financial year** | **53** |

### 15.1 Accounting policies

#### 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.

A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

#### Restoration provision

Provisions for the costs to restore leased plant assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

#### 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.

# Notes to the Consolidated Financial Statements

**continued**

## 16. Issued capital

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Ordinary shares issued and fully paid** | **Number** | **$'000** | **Number** | **$'000** |
| Balance at the beginning of the financial year | 60,949,585 | 40,064 | 59,297,458 | 39,408 |
| Issued under ANREO announced 17 April 2020 | 13,472,996 | 2,620 | – | – |
| Allotted pursuant to HGL dividend reinvestment plan | – | – | 1,863,424 | 749 |
| Shares bought back and cancelled | – | – | (211,297) | (86) |
| Costs associated with shares issued and share buyback | – | (207) | – | (7) |
| Employee Loan Funded Share Plan | 1,200,000 | – | – | – |
| **Balance at the end of the financial year** | **75,622,581** | **42,477** | **60,949,585** | **40,064** |

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 6.3.

### 16.1 Entitlement offer

On 17 April 2020, the Company announced a 5 for 16 Accelerated Non-Renounceable Entitlement Offer (ANREO) at 20c per share. Under this capital raising, the company raised $2.62 million before costs, through the issue of 13,472,996 shares.

375,000 of the shares issued under the ANREO (and included in the above numbers) were issued under the terms of the Employee Loan Funded Share Plan as outlined below.

### 16.2 Key Management Personnel equity

At the AGM on 28 February 2020, shareholders approved the issuance of equity to HGL's Key Management Personnel.

#### Employee Loan Funded Share Plan

Under the plan, up to 3,000,000 ordinary shares in HGL may be issued to HGL's management team at the director's discretion. The shares will be issued as new shares in the company based on a 20 day VWAP prior to the issue date, with an interest free loan granted to the employee of an equal amount. The shares are held in escrow until the loan is repaid, with voluntary repayments allowed by the employee, and the after tax component of any dividends declared by the company required to be used to repay a portion of the loan. The shares are forfeited on termination by the employee, to the extent any of the employee loan remains unpaid at the termination date.

Following approval at the AGM, 1,000,000 shares were issued to Mr Greg Timar (HGL CEO), and 200,000 shares were issued to Mr Iain Thompson (HGL CFO / Company Secretary), at an issue price of 27 cents per share, with loans payable to the Company of $324,000.

A further 312,500 shares were issued to Mr Timar and 62,500 shares were issued to Mr Thompson under the 5 for 16 pro-rata entitlement offer, at the offer price of 20 cents per share, with a corresponding increase in the loans owing of $75,000.

The loans are recognised as in substance options under AASB 2 for accounting purposes.

#### Options

The Hon. Helen Coonan was granted 1,000,000 options in the company, giving her the right to subscribe for HGL ordinary shares in exchange for cash at any point within 3 years from grant date. The options were exercisable in two tranches, with 500,000 options having an exercise price of 45 cents, and 500,000 options having an exercise price of 50 cents.

The options lapsed with Ms. Coonan's retirement on 5 June 2020.

## 16. Issued capital (continued)

### 16.3 Accounting policy

Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straightline basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

## 17. Non controlling interests

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Balance at beginning of financial year | 1,572 | 1,256 |
| Profit attributable to non controlling interests | 312 | 316 |
| | **1,884** | **1,572** |

### 17.1 Accounting policies

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

# Notes to the Consolidated Financial Statements

**continued**

## 18. Reserves

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Foreign currency translation reserve | (159) | (172) |
| Other reserve | (1,017) | (901) |
| Employee share scheme reserve | 41 | – |
| | **(1,135)** | **(1,073)** |

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 Employee Share Scheme reserve represents the expense recognised in relation to shares issued under the HGL Employee Loan Funded Share Plan.

Other reserves includes 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, and HGL's share of movements in the reserves of its Equity Accounted Associates.

## 19. 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:

### Intangible assets (Note 8)

The assessment of the carrying value of indefinite useful life intangibles, including Goodwill, requires assumptions surrounding the future performance of the CGU which holds the intangible, covering up to 5 years into the future.

The inputs to the DCF valuation process used to assess the future cash flows incorporate the key assumptions made, including projected future sales, gross margins and expenses of the CGU, long term growth rates of the relevant industry, future capex requirements, and appropriate discount rates.

## 20. Corporate information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2020 were authorised for issue in accordance with a resolution of the directors on 30 November 2020.

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

The Group is principally engaged in the importation and distribution of market leading branded products. The Group's principal place of business is Unit 4, 17 Stanton Road, Seven Hills, NSW, 2147, Australia. Further information on the nature of the operations and principal activities of the Group is provided in the directors' report.

## 21. Other accounting policies

### 21.1 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.

### 21.2 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.

### 21.3 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 2020. 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; and
- 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; and
- 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.

# Notes to the Consolidated Financial Statements

**continued**

## 21. Other accounting policies (continued)

### 21.3 Significant accounting policies (continued)

#### (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.

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.

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) 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 OCI. On disposal of a foreign operation, the components of OCI relating to that particular foreign operation is recognised in Profit or Loss.

## 22. New Accounting Standards

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 2020. The directors have not early adopted any of these new or amended standards or interpretations.

The directors have not finalised their assessment of these accounting standards on the Group and its financial reports, however on initial consideration they do not consider it likely there will be a material impact on the financial statements in future periods.

On 1 October 2020 the Directors adopted AASB16: Leases. Information on the impact of this change to the financial statements can be found in Note 10.

## 23. Events after the reporting period

On 21 October 2020 the company announced a $4.1 million capital raise, comprising of a 15% private placement coupled with a 1 for 4 partially underwritten non-renounceable entitlement offer at $0.125 per share. The capital raise is directed at further strengthening the Company's balance sheet and assisting future growth of the Group.

The impact of this capital raise has not been accounted for in these financial statements.

Following his participation in the raise, Sandy Beard was invited to join the board of Directors, and he became Chair of the Company on 29 October 2020.

During November 2020, the Company received an offer from FOS Lighting to acquire 50% of its interest in JSB Lighting in exchange for 3,000,000 shares in FOS Capital Ltd. FOS Lighting is an Australian manufacturer of commercial and industrial lighting products. On 20 November 2020 the Company signed a binding terms sheet. The Company will also grant an option for FOS to acquire the remaining 50% of the shares in JSB Lighting at a future date for Net Tangible Asset value. HGL has also undertaken to underwrite $500,000 in new shares in FOS Capital Limited as part of its anticipated initial public offering on the ASX. The financial impacts of this transaction have not been recognised in the financial statements as at 30 September 2020.

There have been no other 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.

## 24. Investment in controlled entities

### Significant controlled entities

| | | Ownership Interest | |
|---|---|---|---|
| | Country of Incorporation | 2020 % | 2019 % |
| Baker & McAuliffe Holdings Pty Limited (trading as JSB Lighting) | Australia | 100 | 100 |
| BLC Cosmetics Pty Limited | Australia | 100 | 100 |
| Hamlon Pty Limited (trading as SPOS) | Australia | 100 | 100 |
| Eniax Pty Limited | Australia | 70 | 70 |
| Certitude Healthcare Trust | Australia | 70 | 70 |
| The Point-of-Sale Centre (New Zealand) Limited | New Zealand | 100 | 100 |
| JSB Lighting (New Zealand) Limited | New Zealand | 100 | 100 |
| BLC Cosmetics (NZ) 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.

# Notes to the Consolidated Financial Statements

**continued**

## 25. Commitments and contingencies

### 25.1 Operating lease commitments - Group as lessee

| | Consolidated entity | |
|---|---|---|
| | **2020 $'000** | **2019 $'000** |
| Within one year | – | 958 |
| After one year but not more than five years | – | 2,590 |
| | **–** | **3,548** |

The operating leases in 2019 are in respect of warehouses and offices occupied by Group companies. The leases expire at various future dates and a number contain option provisions.

### 25.2 Capital commitments

There are no significant capital expenditure commitments at balance date.

### 25.3 Contingent liabilities

There are no significant contingent liabilities at balance date.

## 26. Auditors' remuneration

The auditor of HGL Limited is Deloitte Touche Tohmatsu.

| | Consolidated entity | |
|---|---|---|
| | **2020 $** | **2019 $** |
| *Amounts received or due and receivable by Deloitte Touche Tohmatsu for:* | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | 150,000 | 150,000 |
| Other non-audit services in relation to the entity and any other entity in the consolidated group | 10,500 | 10,500 |

## 27. 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.

During the year a $0.2 million loan was repaid to the Non-controlling interest in Pegasus that arose from the completion of the acquisition.

There were no other loans to 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.

## 27. Related party disclosures (continued)

### Compensation of key management personnel of the Group

| | Consolidated entity | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Short-term employee benefits | 1,027,389 | 1,073,094 |
| Post-employment benefits | 86,028 | 71,630 |
| Other long-term benefits | 345,565 | 16,034 |
| **Total compensation paid to key management personnel** | **1,458,982** | **1,160,758** |

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

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

| | Parent entity | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Current assets | 397 | 476 |
| Non current assets | 13,540 | 24,577 |
| **Total assets** | **13,937** | **25,053** |
| Current liabilities | 2,219 | 3,390 |
| Loans from 100% owned subsidiaries | 5,581 | – |
| Non current liabilities | 250 | 4,351 |
| **Total liabilities** | **8,050** | **7,741** |
| **Net assets** | **5,887** | **17,312** |
| Issued capital | 42,477 | 40,064 |
| Reserves | 306 | 381 |
| Accumulated losses | (71,793) | (58,030) |
| Retained earnings | 34,897 | 34,897 |
| **Total equity** | **5,887** | **17,312** |
| **Total comprehensive income/(loss) of the Parent entity** | **(13,762)** | **(1,217)** |

There is a working capital deficiency of $1,822,000 (2019: $2,914,000). Subsequent to year end the group completed a $4.1m capital raising, as described elsewhere in this report. The funds received will be used to strengthen the parent entity balance sheet.

# 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 2020 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 2020 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 21.2; 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 2020.

On behalf of the board

Sandy Beard
**Chair**

Kevin Eley
**Director**

Sydney, 30 November 2020

# Independent Auditor's Report

**to the members of HGL Limited**

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

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## 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 balance sheet as at 30 September 2020, the consolidated statement of profit or loss, the consolidated statement of 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 2020 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 (including Independence Standards)* (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 this matter.

# Independent Auditor's Report

**to the members of HGL Limited continued**

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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Carrying value of goodwill and other intangible assets** | |
| As at 30 September 2019, the JSB Lighting cash-generating unit ("CGU") had goodwill and other intangible assets balances.<br><br>Given the ongoing challenging performance in the sector that this CGU operates and uncertainty relating to the impact of COVID-19, the Group identified indicators of impairment in the JSB Lighting CGU.<br><br>The impairment assessment performed by management identified that the recoverable amount of goodwill and other intangible assets was less than the carrying value of the CGU, resulting in the recognition of an impairment charge of $10.7 million of goodwill and $0.4 million of other intangible assets for the year.<br><br>The value-in-use model used by the Group in determining the recoverable amount of the CGU incorporates significant judgments related to the estimation of future cash flows, short term growth rates, long term growth rates and an appropriate discount rate. | In conjunction with our valuation specialists, our procedures included, but were not limited to:<br>• Understanding and evaluating management's impairment process, including understanding the design and implementation of relevant controls in respect of the preparation and review of forecasts and impairment model;<br>• Assessing how the Group factored in the possible impact of COVID-19 in setting the budget and selecting assumptions including short and long term growth rates and an appropriate discount rate;<br>• Evaluating the value-in-use model prepared by management to assess the recoverable amount of the JSB Lighting CGU. This included assessing the following key assumptions used within the model:<br>○ discount rate - through comparison with an independently calculated discount rate; and<br>○ forecast sales, with reference to historical performance and the Board approved budget.<br>• Testing the mathematical accuracy of the value in use model for the JSB Lighting CGU;<br>• Comparing the forecast EBTIDA to the Board approved budget and post year-end performance;<br>• Assessing the historical accuracy of management's cash flow forecasts;<br>• Performing sensitivity analysis on key assumptions, in particular discount rates and expected sales growth; and<br>• Assessing the appropriateness of the disclosures in the notes to the financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Director's Report included in the Group's annual report for the year ended 30 September 2020, 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.

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.
- 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

# Independent Auditor's Report

**to the members of HGL Limited continued**

Deloitte.

matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 6 to 11 of the Directors' Report for the year ended 30 September 2020.

In our opinion, the Remuneration Report of HGL Limited, for the year ended 30 September 2020, 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

Carlo Pasqualini
Partner
Chartered Accountants
Sydney, 30 November 2020

# 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 24 November 2020, following completion of the retail entitlement offer.

## (a) Distribution of equity securities

### (i) Ordinary share capital

| | Total Holders | Units |
|---|---|---|
| 1 -1,000 | 332 | 138,310 |
| 1,001 - 5,000 | 343 | 930,047 |
| 5,001 - 10,000 | 149 | 1,169,691 |
| 10.001 - 100,000 | 294 | 9,777,618 |
| 100,001 and over | 91 | 96,692,123 |
| **Total** | **1,209** | **108,707,789** |

- 108,707,789 fully paid ordinary shares are held by 1,209 individual shareholders
- Number of shareholders holding less than a marketable parcel (2,632 shares) is 513.

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 | 21,965,555 | 20.2 |
| JP Morgan Nominees Australia Pty Ltd | 11,759,238 | 10.8 |
| IJV Investments Pty Ltd | 8,172,240 | 7.5 |
| Alexander Beard & Maire Beard <AD & MP Beard Super Fund A/C> | 7,000,000 | 6.4 |
| Dr Ida Constable | 3,996,379 | 3.7 |
| HSBC Custody Nominees (Australia) Limited | 3,440,861 | 3.2 |
| Cannington Corporation Pty Ltd <Cannington Super Fund A/C> | 2,780,240 | 2.6 |
| LPO Investments Pty Ltd | 2,779,070 | 2.6 |
| KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C> | 2,521,180 | 2.3 |
| Kitwood Pty Ltd | 2,237,500 | 2.1 |
| Mr George Edward Curphey | 1,805,212 | 1.7 |
| Gregory Andrew Timar <ELFSP A/C> | 1,640,625 | 1.5 |
| Fiske PLC | 1,567,163 | 1.4 |
| Ms Jennifer Ann Drummond | 1,341,142 | 1.2 |
| Alexander Damien Harry Beard | 1,340,724 | 1.2 |
| Totem Holdings Pty Ltd | 1,200,000 | 1.1 |
| X F Investments Pty Ltd <Atkinson Discretionary A/C> | 1,194,070 | 1.1 |
| Indigoriver Pty Ltd <The Penn Family A/C> | 889,680 | 0.8 |
| Mr Robert Julian Constable & Mrs Janet Marie Constable <RJ Realty Provident Fund A/C> | 686,319 | 0.6 |
| Savoir Superannuation Pty Ltd <Locope Super Fund A/C> | 583,830 | 0.5 |
| **Total** | **78,901,028** | **72.6** |

## (c) Substantial holders

The names of the substantial shareholders as disclosed in substantial shareholder notices received by the Company:

| Ordinary shareholders | Fully paid Number |
|---|---|
| Sery Pty Limited and its associates | 27,558,157 |
| Mrs Ida Constable and her associates | 26,736,537 |
| AD & MP Beard ATF <AD & MP Beard Superannuation Fund> | 6,672,579 |

# Five Year Summary

## HGL Limited and Controlled Entities

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Revenue from Continuing Operations (a)** | **38,095** | **39,220** | **39,220** | **40,301** | **38,526** |
| **Underlying profit/(loss) from Continuing Operations ($000)** | **1,934** | **605** | **3,891** | **3,587** | **3,136** |
| Underlying earnings per share (cents) | 1.7 | 1.0 | 6.7 | 6.4 | 5.7 |
| Underlying return on shareholders' funds (%) | 12.9 | 2.3 | 13.7 | 13.6 | 13.9 |
| **Dividend per share (cents)** | | **0.75** | **3.00** | **2.75** | **2.50** |
| Shares on issue | 75,622,581 | 60,949,585 | 59,297,458 | 57,359,581 | 55,657,919 |
| Reported profit/(loss) ($'000) | (12,699) | 1,461 | 812 | 2,727 | 2,725 |
| Reported earnings per share (cents) | (19.3) | 1.9 | 1.1 | 4.8 | 7.9 |
| Return on shareholders' funds (%) | (84.7) | 5.9 | 2.9 | 10.4 | 10.4 |
| Total shareholders' equity ($000) | 16,508 | 26,856 | 26,080 | 28,380 | 26,315 |
| HGL shareholders' equity ($000) | 14,624 | 25,284 | 24,826 | 28,380 | 26,315 |
| Net cash/(debt) ($000) | 1,523 | 247 | 1,968 | 2,131 | 3,825 |

# Corporate Information

ABN 25 009 657 961

### Directors
Alexander (Sandy) Beard (appointed 29 October 2020)
Kevin Eley
Peter Miller
Cheryl Hayman
Joseph Constable (appointed 30 June 2020)
Helen Coonan (resigned 5 June 2020)
Julian Constable (resigned 5 June 2020)

### Chief Executive Officer
Gregory Timar

### Company Secretary & Chief Financial Officer
Iain Thompson

### Registered office and Principle place of business
Unit 4
17 Stanton Road
Seven Hills NSW 2147
Australia

Phone: +61 2 8667 4660

Website
www.hgl.com.au

### Share registrar
**Computershare Investor Services Pty Ltd**
Level 4, 60 Carrington St
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 Tohmatsu

**HGL Limited**

**ASX CODE: HNG**
ABN 25 009 657 961
Incorporated in Queensland

Unit 4, 17 Stanton Road, Seven Hills NSW 2147

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