# ASX Appendix 4D

Lodged with the ASX in accordance with Listing Rule 4.3A

## HGL LIMITED (ASX code HNG)

A.B.N. 25 009 657 961

## Half Year Report
## Results for announcement to the market

**Reporting period:** **6 months to 31 March 2019**

Previous corresponding period: 6 months to 31 March 2018

| | | CURRENT PERIOD 31 MAR 19 | PREVIOUS PERIOD 31 MAR 18 |
|---|---|---|---|
| Revenues from ordinary activities of Continuing Operations($000's) | UP 1% TO | 19,715 | 19,503 |
| Profit from ordinary activities of Continuing Operations after tax attributable to members ($000's) | DOWN 76% TO | 549 | 2,275 |
| Net profit for the period attributable to members ($000's) | DOWN 20% TO | 594 | 741 |
| Earnings per share from Continuing Operations (cents per share) | DOWN 77% TO | 0.92 | 3.94 |
| Net tangible assets per share (cents per share) | | 19.7 | 26.8 |

**Comments on above results**

- Interim dividend of 0.75 cents per share fully franked
- Solid contribution from Pegasus Healthcare and SPOS Group
- Results adversely impacted by revenue decline in JSB Lighting

For more detailed information please refer to Operating and Financial Review in the Director's report

| **DIVIDENDS** <br> **Ordinary shares** | Amount per security (cents) | Franked amount per security (cents) | Total amount paid / payable ($000's) | Foreign source dividend per security (cents) |
|---|---|---|---|---|
| **Proposed interim ordinary dividend (payable 23 July 2019)** | **0.75** | **0.75** | 452 | 0.0 |
| **Record date for determining entitlements to the dividend** | | | **4 JULY 2019** | |
| Previous corresponding period | 1.50 | 1.50 | 860 | 0.0 |

The existing HGL dividend reinvestment plan (DRP) remains in operation.

There is a nil discount attached to the DRP.

The last date for the receipt of an election notice for participation in the DRP is the business day following the record date, ie 5 July 2019.

This report is based on accounts which have been reviewed by the Auditors. There has been no dispute or qualification in relation to these accounts or report.

**HGL Limited**
**ABN 25 009 657 961**
Financial report for the
half-year ended 31 March 2019

# Directors' report

Your directors submit their report for the half-year ended 31 March 2019.

## Directors

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows.

Peter Miller
Kevin Eley
Julian Constable
Cheryl Hayman

Directors were in office for this entire period unless otherwise stated.

## Operating and financial review

### Trading Overview

HGL Limited (ASX: HNG) announces a Statutory Net Profit after Tax of $0.8 million for the six months ended 31 March 2019, up 9.2% from $0.7 million on the prior corresponding period. The statutory result included the discontinued businesses of Biante, Leutenegger and Nido.

Underlying Earnings Before Interest and Tax (EBIT) from Continuing Operations of $1.0 million was down from $2.2 million in the same period last year. This was significantly impacted by a slowdown in sales in JSB Lighting, arising from the loss of a number of senior sales people associated with the actions that gave rise to the legal claim which was settled in December 2018.

Revenue from Continuing Operations of $19.7 million was up 1.1% on the prior corresponding period.

**Pegasus Healthcare** sales revenue of $4.9 million is ahead of our business plan target for the six month period. The company renewed its master contract with NSW Health for 5 years and has tendered for new supply agreements in NSW, Victoria, Queensland and New Zealand.

The growth potential in Pegasus Healthcare is strong and the business is investing in IT infrastructure, strengthening its branch network and hiring additional resources across the organisation to support future growth opportunities. Pegasus Healthcare achieved an Underlying EBIT of $0.6 million.

**SPOS Group** generated sales growth and increased its profit during the six months period. Revenue was up 27.3% to $5.7 million benefitting from new shelving solution products which have been developed to deliver solid financial returns to the core SPOS customer base of large retailers.

Gross margins in the business contracted with the weakening of the AUD. SPOS recorded profit growth achieving an Underlying EBIT result of $0.5 million, up 17.1% over the corresponding period, making the business a solid contributor to Group results in 1H19.

**JSB Lighting** experienced a severe slowdown in invoiced sales with revenue in 1H19 of $6.4m compared to $12.3 million in same period last year. Market demand has remained firm, with the value of sales quotes for specified project work containing JSB products up on the prior period.

Under a strengthened management team JSB Lighting has a sharpened focus on converting sales quotes to pipeline orders, underpinning future invoiced sales, led by our company owned Intralux products and new exclusive Illus and TAL brands. Underlying EBIT in JSB Lighting was $0.2 million, significantly down from the $2.2 million in the prior corresponding period.

**BLC Cosmetics** launched several new brands, Linda Meredith, Skin Regimen and Scentered candles into the salon and spa market in Australia during the latter stages of the reporting period. Revenues of $2.7 million were consistent with the corresponding period last year, arresting the longer term revenue decline with improvement in Thalgo product sales.

BLC Cosmetics has secured the distribution rights for Comfort Zone in New Zealand and anticipates this opportunity in combination with the recently launched brands will increase revenue growth yielding profit in the second half, after recording an Underlying EBIT loss of $0.2 million in 1H19.

# Directors' report (continued)

## Operating and financial review (continued)

HGL's 50% owned joint venture company Mountcastle continues to perform strongly, generating an equity accounted profit contribution of $1.1 million, ahead of the prior corresponding periods $0.7 million, on the back of revenue growth and a particularly good contribution from the majority owned Sri Lankan manufacturing operations.

The company has appointed a new General Manager to manage its Corporate Wear business, driving new sales initiatives and expanding the corporate wear product offering. Mountcastle perceives the school wear and corporate wear segments as attractive markets with long term growth opportunities driving company profitability.

### Working Capital and Cash Flow

Working capital employed has decreased primarily reflecting the slowdown in activity in JSB Lighting, and finalisation of the discontinued businesses. Working capital across the continuing businesses remains well managed.

Net operating cash flow from Continuing Operations of $1.0 million was down slightly from $1.1 million in the prior period. Free cash flow of $0.3 million reflected the purchase of rental equipment for Pegasus to service new sales contracts. Net Cash (Cash on hand less bank borrowings) at 31 March 2019 of $1.6 million compared to the 30 September 2018 position of $2.0 million.

### Corporate Strategy and Company Portfolio Changes

HGL's key objectives are to build the scale of our existing businesses, to secure bolt-on acquisitions that will deliver operational and revenue synergies, and actively pursue stand-alone acquisitions through our equity and skills model.

The Group continues to reposition its company portfolio, expanding its representation in selected industry sectors with longer term growth prospects. JSB Lighting, SPOS Group, Pegasus Healthcare, BLC Cosmetics and Mountcastle all operate in large markets with solid growth prospects.

HGL was delighted to announce the signing of a conditional Heads of Agreement to acquire a 60 per cent interest in Rise Above Drone Solutions, partnering with the existing CEO Rafi Mehdi, who will continue to own the remaining interest in the business.

Rise Above Custom Drone Solutions was established in 2012 and is today one of the largest distributors of Unmanned Aerial Vehicles (UAVs) in Australia, specialising in custom built drone systems. The company supplies hobby and commercial products from DJI, the global leader in UAVs, focusing on professional enterprise solutions tailored for specific industry applications.

HGL's investment will be a minimum of $1.6 million over a twelve month period, subject to performance criteria over that period. Both parties continue to work towards signing binding legal agreements and achieving completion by the end of June 2019.

### Dividend

An interim dividend of 0.75 cents per share fully franked, down from 1.5 cents in the prior corresponding period, has been declared after consideration of the future capital requirements to fund growth activities and acquisitions.

The record date for the dividend will be 4 July 2019, with a payment date of 23 July 2019. The dividend reinvestment plan (DRP) will continue to be available to Australian and New Zealand shareholders holding more than 1,000 shares, with no discount.

### Outlook

The potential opportunity for HGL to enter into the attractive commercial drone sector is an exciting step in the expansion of our industry footprint and consistent with the strategy to both develop organically and to enter into new high growth markets.

HGL remain focussed on delivering growth across the entire portfolio, and with early signs of improving sales performance in BLC Cosmetics, we have the fundamentals in place to deliver improved results across these businesses.

# Directors' report (continued)

## Operating and financial review (continued)

Management is making a concerted effort to ensure the JSB business strengthens and grows over the medium to longer term, to return to the levels of profitability previously experienced. The Group financial performance for the period ended 30 September 2019 will remain impacted by the downturn in sales of JSB Lighting, although will reflect positive contributions from the other portfolio companies.

## Significant events after the balance date

On 3 May 2019 HGL Ltd signed a conditional Heads of Agreement to acquire a 60% interest in Rise Above Custom Drone Solutions, one of the largest distributors of unmanned aerial vehicles in Australia. HGL's minimum investment will be $1.632 million.

## Auditor independence declaration

The directors have received a declaration from the auditor of HGL Limited. This has been included on page 4.

## 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 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.306(3) of the Corporations Act 2001.

Peter Miller
Chairman

Kevin Eley
Director

Sydney
22 May 2019

Deloitte.

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

22 May 2019

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 review of the financial statements of HGL Limited for the half-year ended 31 March 2019, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Carlo Pasqualini
Partner
Chartered Accountants

# Consolidated income statement

## For the half-year ended 31 March 2019

| | Notes | Consolidated entity 31 March 2019 $000 | 31 March 2018 $000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales revenue | | 19,715 | 19,503 |
| Cost of sales | | (9,281) | (9,881) |
| **Gross profit** | | **10,434** | **9,622** |
| Other income | | 827 | 42 |
| Sales, marketing and advertising expenses | | (3,836) | (3,388) |
| Occupancy expenses | | (1,023) | (650) |
| Freight and distribution expenses | | (1,666) | (571) |
| Administration and other expenses | | (4,533) | (3,696) |
| Finance costs | | (106) | (65) |
| Share of profit of associates | | 1,053 | 682 |
| **Profit before tax** | | **1,150** | **1,976** |
| Income tax (expense)/benefit | | (386) | 299 |
| **Profit for the period from continuing operations** | | **764** | **2,275** |
| Profit/(loss) after tax for the period from discontinued operations | 8 | 45 | (1,534) |
| **Profit for the period** | | **809** | **741** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 594 | 741 |
| Non-controlling interests | | 215 | - |
| **Total Profit** | | **809** | **741** |
| | | **Cents** | **Cents** |
| Basic earnings per share | | | |
| Basic EPS from Continuing Operations | | 0.9 | 3.9 |
| Basic EPS from Discontinued Operations | | 0.1 | (2.7) |
| Basic EPS from Continuing and Discontinued Operations | | 1.0 | 1.3 |
| Diluted earnings per share | | | |
| Diluted EPS from Continuing Operations | | 0.9 | 3.9 |
| Diluted EPS from Discontinued Operations | | 0.1 | (2.7) |
| Diluted EPS from Continuing and Discontinued Operations | | 1.0 | 1.3 |

These statements should be read in conjunction with the accompanying notes

# Consolidated statement of comprehensive income

## For the half-year ended 31 March 2019

| | Consolidated entity | |
|---|---|---|
| | 31 March 2019 | 31 March 2018 |
| | $000 | $000 |
| **Profit for the period** | **809** | **741** |
| **Other comprehensive income** | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Exchange differences on translation of foreign operations | 30 | 20 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **30** | **20** |
| **Total comprehensive income for the half year, net of tax** | **839** | **761** |
| Total comprehensive income attributable to: | | |
| Equity holders of the Parent | 624 | 761 |
| Non-controlling interests | 215 | - |
| | **839** | **761** |

These statements should be read in conjunction with the accompanying notes

# Consolidated balance sheet

## As at 31 March 2019

| | Notes | Consolidated entity 31 March 2019 $000 | 30 September 2018 $000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 5,460 | 5,044 |
| Trade and other receivables | | 4,886 | 7,529 |
| Inventories | | 5,049 | 4,639 |
| Prepayments | | 481 | 453 |
| Other current financial assets | | - | 350 |
| Current tax receivables | | 194 | - |
| **Total current assets** | | **16,070** | **18,015** |
| **Non-current assets** | | | |
| Investment in associates | | 5,749 | 4,897 |
| Property, plant and equipment | | 3,664 | 3,284 |
| Intangible assets | 5 | 14,919 | 14,878 |
| Deferred tax assets | | 2,955 | 3,335 |
| Other financial assets | | 11 | 4 |
| **Total non current assets** | | **27,298** | **26,398** |
| **Total assets** | | **43,368** | **44,413** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 5,707 | 6,859 |
| Interest bearing loans and borrowings | | 3,981 | 3,162 |
| Provisions | | 1,523 | 2,334 |
| Income tax payable | | - | (32) |
| Other financial liabilities | | 200 | 500 |
| **Total current liabilities** | | **11,411** | **12,823** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | | 253 | 178 |
| Provisions | | 351 | 416 |
| Other financial liabilities | | 4,544 | 4,544 |
| Deferred tax liabilities | | 371 | 371 |
| **Total non current liabilities** | | **5,519** | **5,509** |
| **Total liabilities** | | **16,930** | **18,332** |
| **Net Assets** | | **26,438** | **26,081** |
| **Equity** | | | |
| Issued capital | 7 | 39,816 | 39,408 |
| Other capital reserves | | (1,049) | (1,079) |
| Accumulated losses | | (10,451) | (10,155) |
| Other components of equity | | (3,349) | (3,349) |
| Non-controlling interests | | 1,471 | 1,256 |
| **Total equity** | | **26,438** | **26,081** |

These statements should be read in conjunction with the accompanying notes

# Consolidated statement of changes in equity

## For the half-year ended 31 March 2019

| Consolidated entity | Issued capital | Foreign Currency Reserve | Other Reserve | Accumulated losses | Non-controlling interests | Other component of equity | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to the equity holders of the parent | | | | | | |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **As at 1 October 2018** | **39,408** | **(178)** | **(901)** | **(10,155)** | **1,256** | **(3,349)** | **26,081** |
| Profit for the half year | - | - | - | 594 | 215 | - | 809 |
| Translation of overseas controlled entities | - | 30 | - | - | - | - | 30 |
| Total comprehensive income for the half year | - | 30 | - | 594 | 215 | - | 839 |
| Dividend paid (Note 4) | - | - | - | (889) | - | - | (889) |
| Shares issued under a Dividend Reinvestment Plan (Note 7 ) | 466 | - | - | - | - | - | 466 |
| Shares bought back and cancelled under on-market buy-back | (54) | - | - | - | - | - | (54) |
| Costs associated with issues of shares | (4) | - | - | - | - | - | (4) |
| **At 31 March 2019** | **39,816** | **(148)** | **(901)** | **(10,451)** | **1,471** | **(3,349)** | **26,438** |

These statements should be read in conjunction with the accompanying notes

# Consolidated statement of changes in equity (continued)

## For the half-year ended 31 March 2018

| Consolidated entity | Issued capital $000 | Foreign Currency Reserve $000 | Other Reserve $000 | Accumulated losses $000 | Total equity $000 |
|---|---|---|---|---|---|
| | Attributable to the equity holders of the parent | | | | |
| **As at 1 October 2017** | **38,496** | **(176)** | **(901)** | **(9,037)** | **28,382** |
| Profit for the half year | - | - | - | 741 | 741 |
| Translation of overseas controlled entities | - | 20 | - | - | 20 |
| Total comprehensive income for the half year | - | 20 | - | 741 | 761 |
| Dividend paid (Note 4) | - | - | - | (860) | (860) |
| Shares issued under a Dividend Reinvestment Plan (Note 7) | 548 | - | - | - | 548 |
| Costs associated with issues of shares | (4) | - | - | - | (4) |
| **At 31 March 2018** | **39,040** | **(156)** | **(901)** | **(9,156)** | **28,827** |

These statements should be read in conjunction with the accompanying notes

# Consolidated statement of cash flows

## For the half-year ended 31 March 2019

| | Notes | Consolidated entity 31 March 2019 $000 | 31 March 2018 $000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash receipts in the course of operations | | 24,183 | 29,334 |
| Cash payments in the course of operations | | (23,179) | (28,471) |
| Interest received | | 22 | 36 |
| Interest paid | | (106) | (68) |
| Income tax paid | | (187) | - |
| Dividends received from associates | | 200 | 448 |
| **Net cash flows from operating activities** | | **933** | **1,279** |
| | | | |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | - | 9 |
| Purchase of property, plant and equipment | | (683) | (311) |
| Acquisition of subsidiaries, net of cash acquired | | (300) | (825) |
| Disposal of businesses within a subsidiary | 8 | 234 | 3,167 |
| Purchase of investment | | (7) | - |
| **Net cash flows (used in)/from investing activities** | | **(756)** | **2,040** |
| | | | |
| **Financing activities** | | | |
| Payment of finance lease liabilities | | (64) | - |
| Proceeds from borrowings | | 1,000 | - |
| Repayment of borrowings | | (250) | (2,250) |
| Dividends paid | | (423) | (313) |
| Buyback of shares | | (54) | - |
| **Net cash flows from/(used in) financing activities** | | **209** | **(2,563)** |
| | | | |
| Net increase in cash and cash equivalents | | 386 | 756 |
| Net foreign exchange difference | | 30 | 20 |
| Cash and cash equivalents at 1 October | | 5,044 | 4,381 |
| **Cash and cash equivalents at 31 March** | | **5,460** | **5,157** |

These statements should be read in conjunction with the accompanying notes

# Notes to the consolidated financial statements

## For the half-year ended 31 March 2019

### 1 Basis of preparation

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

The interim financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 March 2019 were authorised for issue in accordance with a resolution of the directors on 22 May 2019.

The half year financial report is a condensed general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134: Interim Financial Reporting, and other mandatory professional reporting requirements.

The condensed half year general purpose financial report does not include full disclosures of the type normally included in an annual financial report, and as such this financial report should be read in conjunction with the annual financial report for the year ended 30 September 2018, and any public announcements made by HGL Limited and its controlled entities during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

### 2. Changes in accounting policies, disclosures, standards and interpretations

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

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

**AASB 9 Financial Instruments**

This standard was applicable for the Group from 1 October 2018. IFRS 9 Financial instruments introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment of financial assets, and general hedge accounting.

On 1 October 2018 the Group assessed the business model it applies to its existing financial assets and evaluated whether the returns on those financial assets represent solely payments of principle and interest. As a result of its assessment it has classified its financial assets into appropriate AASB 9 categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The adoption of AASB 9 has not materially impacted the carrying value of financial assets but has resulted in classification changes on initial application at 1 October 2018 which is shown in the following table:

| | **Original classification under AASB 139** | **New classification under AASB 9** |
|---|---|---|
| **Trade receivables** | Loans and receivables | Amortised cost |
| **Other receivables** | Loans and receivables | Amortised cost |
| **Available for sale financial asset** | Available for sale | Fair value through profit and loss (FVTPL) |

Financial assets at amortised cost are initially recognised at fair value, plus or minus transaction costs, and subsequently at amortised cost using the effective interest rate method less any allowance under the Expected Credit Loss (ECL) model. HGL holds these financial assets in order to collect the contractual cash flows, and the contractual terms are solely payments of the outstanding principal amount.

Financial assets at fair value through profit and loss (FVTPL) are initially and subsequently measured at fair value, with changes in fair value recognised in profit or loss.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities are classified at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. Accordingly, there is no change to the classification of HGL's payables and borrowings on adoption of AASB 9.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 2. Changes in accounting policies, disclosures, standards and interpretations (continued)

AASB 9 replaces the ‘incurred loss’ impairment model in AASB 139 with an ECL impairment model for financial assets. The new impairment model applies to the group’s financial assets measured at amortised cost. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The Group recognises lifetime ECL for trade receivables. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The expected credit losses on these 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. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset

HGL has assessed the impact of the adoption of an ECL model under AASB 9 using the full retrospective method of adoption, however there have been no material changes arising from its application.

**AASB 15 Revenue from Contracts with Customers**

This standard was applicable to the Group from 1 October 2018.

The requirements of AASB 15 Revenue from contracts with customers replace AASB 118 Revenue. AASB 15 is based on the principle that revenue is recognised when control of goods is transferred to a customer. An entity will recognise revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods.

The standard introduces a 5-step model for revenue recognition which the group applies to its contracts with customers except where they are in the scope of another standard, for example: leases or financial instruments.

The standard requires contracts and their included separate performance obligations to be identified, the determination of the transaction price in the contract, and the allocation of the transaction price to the separate performance obligations identified as if each obligation was standalone. Revenue is then recognised when each performance obligation is satisfied.

Revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller’s performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

**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 subject to supply contracts beyond standard trading terms of sale. For sales of goods to customers, revenue is recognised when control of the goods has transferred, being at the point the customer takes delivery of the goods. Payment of the transaction price is usually due within 30 days from the point the customer purchases the goods.

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.

Changes in accounting policy resulting from the adoption of AASB 15 have been applied retrospectively. There has been no material impact on HGL’s previously reported financial performance as a result of the adoption AASB 15.

**AASB 16 Leases**

This standard is applicable to the Group for the reporting period commencing 1 October 2019.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 2. Changes in accounting policies, disclosures, standards and interpretations (continued)

The Group is a lessee under a number of arrangements currently classified as operating leases, mainly based around property leases. The new leasing standard requires operating leases to be brought on balance sheet, with the recognition of both assets and liabilities associated with the lease. There will also be a change to the expense pattern, with the 'rent' expense being split into depreciation and interest components, increasing both EBIT and EBITDA profit measures.

The management is currently assessing the impact of this new standard, specifically the impact on the statement of financial position for its currently held leases (as lessee). The actual impact will depend on the operating leases held by the Group and the transitional elections made on adoption.

### 3. Underlying Profit and segment Information

The following items are relevant to explaining the financial performance for the period:

### 3.1 Significant items

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

| | Consolidated entity | |
|---|---|---|
| | 31 March 2019 | 31 March 2018 |
| | $000 | $000 |
| **Underlying EBIT from continuing operations** | **956** | **2,150** |
| Non-underlying items | | |
| Other non-underlying items (1) | (130) | (109) |
| JSB settlement (net of related cost) (1) (2) | 494 | - |
| Business acquisition cost (1) | (64) | - |
| Total non-underlying items before tax | 300 | (109) |
| Interest expense | (106) | (65) |
| Net profit before tax from continuing operations | 1,150 | 1,976 |
| Tax (expense) / benefit | (386) | 299 |
| Net profit after tax from continuing operations | 764 | 2,275 |
| Net profit after tax from discontinued operations | 45 | (1,534) |
| **Statutory profit after tax** | 809 | 741 |

(1) Disclosed in "administration and other expenses" in the income statement.
(2) Disclosed in "other income" in the income statement.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 3. Underlying Profit and segment Information (continued)

### 3.2 Segment information

The following is an analysis of the Group's revenue and results by reportable operating segment for the half-years under review:

| | Revenue | | EBIT | |
|---|---|---|---|---|
| | **31 March 2019 $000** | **31 March 2018 $000** | **31 March 2019 $000** | **31 March 2018 $000** |
| **Continuing Operations** | | | | |
| Retail Marketing | 5,738 | 4,508 | 542 | 463 |
| Building Products | 6,406 | 12,312 | 165 | 2,204 |
| Health & Beauty | 2,663 | 2,683 | (209) | (23) |
| Healthcare | 4,908 | - | 601 | - |
| **Total** | **19,715** | **19,503** | **1,099** | **2,644** |

| | | |
|---|---|---|
| Continuing segment EBIT | 1,099 | 2,644 |
| Share of profit from equity accounted investments | 1,053 | 682 |
| Finance costs | (106) | (30) |
| Significant items (1) (2) | 300 | (109) |
| Other unallocated expenses | (1,196) | (1,211) |
| **Profit before tax from continuing operations** | **1,150** | **1,976** |

(1) Disclosed in "administration and other expenses" in the income statement.

(2) Disclosed in "other income" in the income statement.

| | Revenue | | EBIT | |
|---|---|---|---|---|
| | **31 March 2019 $000** | **31 March 2018 $000** | **31 March 2019 $000** | **31 March 2018 $000** |
| **Discontinued Operations (Note )** | | | | |
| Homewares | 444 | 3,124 | 133 | (581) |
| Collectables | - | 1,022 | (67) | (804) |
| **Total** | **444** | **4,146** | **66** | **(1,385)** |

| | | |
|---|---|---|
| Discontinued Segment EBIT | 66 | (1,385) |
| Finance costs | (1) | (2) |
| **Profit / (Loss) before income tax from Discontinued Operations** | **65** | **(1,387)** |
| Income tax benefit / (expense) (continuing and discontinued operations) | (406) | 152 |
| Profit after Income Tax | **809** | **741** |

The revenue reported above represents revenue generated form external customers. There is no inter-segment sales during the half-year.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 3. Underlying Profit and segment Information (continued)

### 3.2 Segment information (continued)

Revenue categories are consistent with the segments identified under AASB 8. The categorisation reflects that each business (and therefore segment) operates with distinct product ranges and associated customer base with minimal cross over between segments.

Continuing operations for the period include:

- Retail marketing segment (SPOS) provides standard and customised shelving product 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.

Discontinued operations during the period were:

- Homewares segment (Leutenegger and Nido) distributes traditional sewing and crafts supplies
- Collectables segment (Biante) distributes collectable model cars

### 4. Dividends paid and proposed

| | Consolidated entity 31 March 2019 $000 | 31 March 2018 $000 |
|---|---|---|
| Declared and paid during the year: | | |
| Dividends on ordinary shares: | | |
| Final dividend for 2018 : 1.5 cents per share (2017: 1.5 cents) | 889 | 860 |
| | **889** | **860** |
| Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan: | | |
| Paid in cash | 423 | 312 |
| Satisfied by issue of shares | 466 | 548 |
| | 889 | 860 |
| **Dividends proposed not paid** | | |
| Proposed interim dividend of 0.75 cents per share (31 March 2018: 1.50 cents) not recognised as a liability at period end | 452 | 878 |

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 4. Dividends paid and proposed (continued)

All dividends paid and proposed have been or will be fully franked at the rate of 30%.

### 5. Intangible assets

| | Consolidated entity 31 March 2019 $000 | Consolidated entity 30 September 2018 $000 |
|---|---|---|
| *Intangible Assets* | | |
| Goodwill | 13,177 | 13,125 |
| Other intangible assets | 1,606 | 1,606 |
| | | |
| Designs with definite useful life | 175 | 175 |
| Accumulated amortisation | (39) | (28) |
| **Carrying amount of patent** | **136** | **147** |
| | | |
| **Net carrying amount** | **14,919** | **14,878** |

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

| | 31 March 2019 $000 | 30 September 2018 $000 |
|---|---|---|
| *Goodwill* | | |
| At 1 October | 13,125 | 12,066 |
| Acquisition of business | 52 | 2,447 |
| Changes in goodwill | - | (1,388) |
| **Net book value at end of financial period** | **13,177** | **13,125** |
| | | |
| *Designs with definite useful life* | | |
| At 1 October | 175 | - |
| Acquisition of business | - | 175 |
| | | |
| Amoritisation At 1 October | (28) | - |
| Amortisation for the period | (11) | (28) |
| **Net book value at end of financial period** | **136** | **147** |
| | | |
| *Other intangible assets* | | |
| At 1 October | 1,606 | - |
| Acquisition of business | - | 1,606 |
| **Net book value at end of financial period** | **1,606** | **1,606** |

Other intangible assets include customer relationships and trademarks.

### Allocation of goodwill

The carrying value of goodwill is allocated to the building products ($10.7 million), retail marketing ($1.1 million) and healthcare segments ($1.3 million).

### Impairment testing

Impairment testing is conducted at Cash Generating Unit (CGU) level and considers both value in use and fair value less costs of disposal calculations. Testing is performed annually, or where the Directors assess there have been changes in the results or operating environment of a CGU which suggest a review of the carrying value of the goodwill allocated to that CGU is warranted.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 5. Intangible assets (continued)

### Impairment testing (continued)

During the period there has been a material reduction in sales revenue within JSB Lighting (Building Products CGU). As a result of these changes, testing of the carrying value of goodwill has been completed in accordance with the assumptions and sensitivities outlined below.

There have been no changes within the Retail Marketing or Healthcare CGU that indicate a review of the carrying value of goodwill in relation to those segments is necessary.

There were no impairment charges in the current or previous financial year in relation to any CGU.

### Key assumptions and sensitivities – Building Products CGU

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

The key assumptions for the value in use calculations are those regarding discount rates, long term growth rates, and expected changes in Earnings before Interest, Tax Depreciation and Amortisation (EBITDA). The assumptions regarding long term growth rates are based on past experience and expectations of changes in the market.

The value in use calculations at 31 March 2019 have used cash flow projections based on EBITDA forecasts adopted by the board for the following five years, using a combination of reasonably anticipated revenue and cost changes as the business recovers from the short term impact of the changes to the operating environment of JSB Lighting. These forecasts are extrapolated beyond five years based on estimated long term growth rates.

A pre tax discount rate, based on the pre-tax Weighted Average Cost of Capital (WACC), of 16.4% (2018: 16.0%) was applied to the cash flow projections. A long term growth rate (LTGR) of 2.5% (2018 2.0%) has been applied to the terminal value EBITDA forecast used in the calculation.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of goodwill.

If there are reasonably possible adverse changes in the key assumptions on which the recoverable amount is based, the recoverable amount calculated for the CGU may equal the carrying value. The adverse movements in these assumptions required, each considered in isolation, to result in the carrying amount being equal to the recoverable amount of the CGU are outlined in the table below.

Should profitability deteriorate further than forecast, or there be a combination of adverse changes noted below, it may cause the carrying amount of the CGU to be lower than recoverable amount at a future date, which may result in an impairment

| Assumptions | Movement |
|---|---:|
| WACC | 0.1% increase |
| LTGR | 0.1% decrease |
| EBITDA | 1.8% decrease |

### 6. Business combinations and acquisition of non-controlling interests

There were no business acquisitions during the period.

### Pegasus Healthcare

On 1 April 2018 the Group acquired 70% of the business and assets of Pegasus Healthcare.

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 6. Business combinations and acquisition of non-controlling interests (continued)

**Pegasus Healthcare (continued)**

During the current period, the acquisition accounting was finalised. There was no impact on the profit and loss account, and the only impact on the balance sheet was a reclassification within intangible assets, to reflect the final valuation report of the key customer relationships held at acquisition, which has been adjusted in the 30 September 2018 comparative information. This change resulted in the carrying value of "Other Intangibles" decreasing from $1.687 million to $1.350 million, the carrying value of "Goodwill" increasing from $0.624 million to $1.332 million and DTL increasing from Nil to $0.371 million.

### 7. Issued capital

| | 2019 31 March | | 2018 30 September | |
|---|---|---|---|---|
| ***Ordinary shares issued and fully paid*** | **Number** | **$000** | **Number** | **$000** |
| Balance at the beginning of the financial period | 59,297,458 | 39,408 | 57,359,581 | 38,496 |
| Allotted pursuant to HGL dividend reinvestment plan | 1,117,249 | 466 | 1,937,877 | 919 |
| Costs associated with shares issued and share buyback | - | (4) | - | (7) |
| Shares bought back and cancelled | (124,102) | (54) | - | - |
| **Balance at the end of the financial period** | **60,290,605** | **39,816** | **59,297,458** | **39,408** |

### 8. Discontinued operations

During the 2018 Financial Year, the group disposed of the Biante and Leutenegger businesses, and closed the Nido Interiors businesses. There were minimal business operations remaining in these businesses in the current period.

A summary of the financial performance of the two discontinued businesses for the period is shown below.

| | Consolidated entity 31 March 2019 | 31 March 2018 |
|---|---|---|
| | **$000** | **$000** |
| **Cash flows from discontinued operations** | | |
| Operating | (64) | 180 |
| Investing | 234 | 3,158 |
| Financing (1) | (148) | (3,117) |
| **Net cash inflow** | **22** | **221** |

Note 1: Financing cash flows reflect transfer of funds between wholly owned Group entities

# Notes to the consolidated financial statements (continued)

## For the half-year ended 31 March 2019

### 8. Discontinued operations (continued)

| | Consolidated entity 31 March 2019 $000 | 31 March 2018 $000 |
|---|---|---|
| **Profit / (Loss) for the year from discontinued operations** | | |
| Revenue | 441 | 4,183 |
| Expenses | (376) | (5,570) |
| **Operating profit / (loss) of discontinued operations** | **65** | **(1,387)** |
| Profit / (Loss) before tax from a discontinued operation | 65 | (1,387) |
| Tax expense related to current loss | (20) | (147) |
| **Profit / (Loss) for the year from discontinued operations** | **45** | **(1,534)** |

# Directors' declaration

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

1. In the opinion of the directors:

   (a) the interim financial statements and notes of HGL Limited for the half-year ended 31 March 2019 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 31 March 2019 and of its performance for the half-year on that date; and

      (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board

Peter Miller
Chairman

Kevin Eley
Director

Sydney
22 May 2019

Deloitte.

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

We have reviewed the accompanying half-year financial report of HGL Limited, which comprises the condensed consolidated statement of financial position as at 31 March 2019, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 March 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of HGL Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of HGL Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of HGL Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 March 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Carlo Pasqualini
Partner
Chartered Accountants
Sydney, 22 May 2019